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Section I
International Affairs and European Integration

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Subsection 1
International Affairs

The Influence of Quality of Life Indicators on Migration in Europe

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Abstract

The paper attempts to determine the influence of different quality of life indicators on migration in Europe based on data from Eurostat, World Bank Group, ILO, OECD and IOM and briefly deals with making classification of countries based on emigration and indicators of the ecological performance. In the first part there is made a correlation between emigration and the Gross Domestic Product, a multiple regression using the „ecological" indexes and then a cluster analysis is being implemented. In the second part it is shown the econometric model which will determine what variables are relevant in the research.

Keywords: migration, quality of life, econometric model, cluster analysis
J.E.L. Classification O15, I20, I13, J12, J13, J15, R15, C38

1. Introduction

The purpose of this study is to give a brief overview of the evolution of European migration, using indicators that are not that „worn out". [4]

The hypotheses from which we start count the fact that the evolution of migration is greatly influenced by the quality of life. Therefore, some indices that refer to the quality of life will be analyzed so we can determine how significant their influence is. [5] The main idea of this study is to take into consideration other variables that make people live their countries. [1]

Quality of life refers to the well-being of individuals and societies and it is used in many contexts that include development, healthcare, politics and so forth. This means that the indices are from a wide range of fields, including wealth, employment, built environment, physical and mental health, education, recreation and leisure time, social belonging. [3] Quality of life and migration together are rarely seen in studies, only a few papers attempting to do a comprehensive analysis of those two. Usually, those that are preoccupied with this subject come from the United States of America. In Europe, we can't find studies that are really exploring this topic. And so, this paper is trying to generate a general view over this matter. [7]

2. Data and methods

We used the econometric model in order to determine which index is more important in influencing migration in the European countries. [2] The main indicators that I took to analyze for the quality of life are from different fields like fertility, mortality, marriage and divorce, health, education and training, social protection, environment. The relationship between the variables was analyzed using simple and multiple regressions. [6] We used ten indicators that are essential in expressing the quality of life: life expectancy by age and sex, infant mortality, proportion of live births outside marriage, live births by mother's age at last birthday and legal marital status, divorces, marriages, health care expenditure (euro per inhabitant), pension, investments in education and training, foreign language learning (average number of foreign languages learned per pupil), urban population exposure to air pollution.

Most indices were obtained from the Eurostat and the countries chosen for this

study are: Belgium, Bulgaria, Czech Republic, Denmark, Germany , Estonia, Ireland, Spain, France, Italy, Cyprus. Latvia. Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania [10], Slovenia, Slovakia, Finland, Sweden, United Kingdom, Iceland, Norway, Switzerland, Croatia, Moldova [9] (most countries from the European Union). [8] [11] [12] [13]

The data was registered form 2002, 2007 and 2011. Statistical data processing was conducted using SPSS software and Statgraphics Centurion.

For the data systematization when using migration, we also took the population data, so we could balance the size of the countries, while comparing them.

3. Results and discussion

We first made a correlation between the Gross Domestic Product and emigration so we could see if the global economic crisis background had a hard influence over the migration in Europe. [6]

Figure 1.

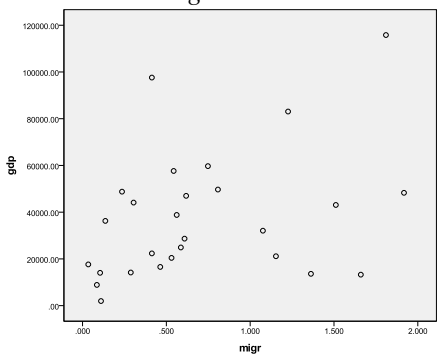


Table 1.

Correlations

		gdp	emigr
gdp	Pearson Correlation	1	.362
	Sig. (2-tailed)		.064
	N	27	27
emigr	Pearson Correlation	.362	1
	Sig. (2-tailed)	.064	
	N	27	27

The scatter plot is giving a slightly idea of how the two comparable data sets agree with each other. This table shows Pearson product moment correlations between the pair of variables. These correlation coefficients range between -1 and +1 and measure the strength of the linear relationship between the variables. The third number in each location of the table is a P-value which tests the statistical significance of the estimated correlations. So, the following pairs of variables have P-values approximately 0.05 and a medium correlation of 36%.

Next, we made a multiple regression between emigration and the 5 indicators that establishes the ecological performance of the European countries: Environmental Performance Index, Happy Planet Index, Climate Change Performance Index, Biodiversity and Renewable Energy Systems.

According to Reader's Digest the "greenest" countries in 2010 were Sweden, Switzerland and Norway. [14]

Table 2.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Err of the Estim.	Durbin Watson
1	.470[a]	.221	.016	.61275	2.083

a. Predictors: (Constant), RES, Biodiv, CCPI, HPI, EPI

b. Dependent Variable: emigr_2010

ANOVA[b]

Model		SS	df	MS	F	Sig.
1	Regression	2.020	5	.404	1.076	.405[a]
	Residual	7.134	19	.375		
	Total	9.154	24			

Coefficients[a]

Model		Unstand. Coeff. B	Unstand. Coeff. Std. Err	Stand.Coeff. Beta	t	Sig
1	(Const)	.251	.357		.704	.490
	EPI	-.032	.028	-.433	-1.168	.257

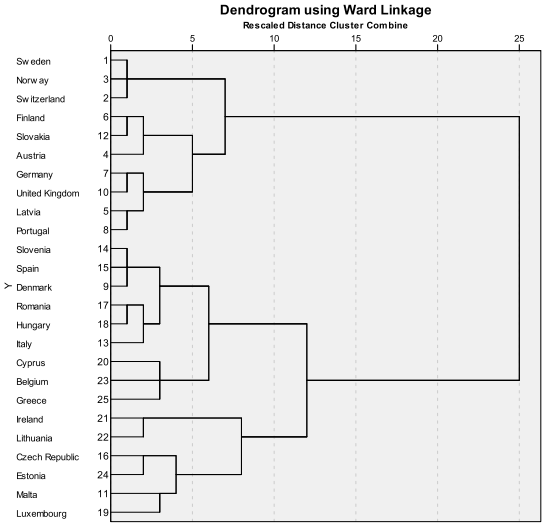
	HPI	-.01	.017	-.135	-.578	.57
	CCPI	.014	.018	.196	.800	.433
	Biodiv	.022	.021	.299	1.004	.328
	RES	.038	.018	.560	2.119	.048

a. Dependent Variable: emigr_2010

As we can see from the tables, the most relevant indicator is the Renewable Energy Systems and the value of R of 47% shows a medium link between the variables.

Then we applied the cluster analysis so we could see how those countries would form groups.

Figure 2.



Analyzing the dendrogram, if we took a distance between 10 and 15, we could group the countries into 3 clusters:

- Cluster 1: Sweden, Norway, Switzerland, Finland, Slovakia, Austria, Germany, United Kingdom, Latvia, Portugal
- Cluster 2: Slovenia, Spain, Denmark, Romania, Hungary, Italy, Cyprus, Belgium, Greece
- Cluster 3: Ireland, Lithuania, Czech Republic, Estonia, Malta, Luxembourg

For the indices that we chose for the quality of life, we made simple and multiple regressions for relevancy. And we took data sets from 2002, 2007 and 2011, so that we can see if anything changed in the meanwhile.

The first index analyzed was life expectancy by age and sex:

Table 3.

Dependent variable: EMigr_2002

Independent variable: Life_expectancy_2002
Linear model: Y = a + b*X

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	-4.85487	2.04538	-2.3735	0.0256
Slope	0.0704616	0.0269002	2.61937	0.0148

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	1.48738	1	1.48738	6.86	0.0148
Residual	5.41962	25	0.216785		
Total (Corr.)	6.907	26			

Correlation Coefficient = 0.464052
R-squared = 21.5344 percent
R-squared (adjusted for d.f.) = 18.3958 percent
Standard Error of Est. = 0.465602
Mean absolute error = 0.320366
Durbin-Watson statistic = 2.0835 (P=0.5665)
Lag 1 residual autocorrelation = -0.0485615

The output shows the results of fitting a linear model to describe the relationship between Migr_2002 and Life_expectancy. The equation of the fitted model is

Migr_2002 = -4.85487 + 0.0704616 * Life_expectancy_2002

Since the P-value in the ANOVA table is less than 0.05, there is a statistically significant relationship between Migr_2002 and Life_expectancy_2002 at the 95.0% confidence level. The R-Squared statistic indicates that the model as fitted explains 21.5344% of the variability in Migr_2002. The correlation coefficient equals 0.464052, indicating a relatively medium relationship between the variables. The Durbin-Watson (DW) statistic tests the residuals to determine if there is any significant correlation based on the order in which they occur in the data file. Since the P-value is greater than 0.05, there is no indication of serial autocorrelation in the residuals at the 95.0% confidence level.

We used the same method with the other indicators:

Infant mortality:

Table 4.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.573018	0.120855	4.74136	0.0001
Slope	-0.000101779	0.0000938226	-1.0848	0.2884

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.310507	1	0.310507	1.18	0.2884
Residual	6.5965	25	0.26386		
Total (Corr.)	6.907	26			

Migr_2002 = 0.573018 - 0.000101779 * Infant_mortality_2002

Proportion of live births outside marriage:

Table 5.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.407318	0.233266	1.74615	0.0931
Slope	0.00292597	0.00681789	0.429161	0.6715

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.0505129	1	0.0505129	0.18	0.6715
Residual	6.85649	25	0.27426		
Total (Corr.)	6.907	26			

Migr_2002 = 0.407318 + 0.00292597 * LivebirthsOM_2002

Live births by mother's age at last birthday and legal marital status:

Table 6.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.541419	0.12189	4.44185	0.0002
Slope	-3.21313E-7	5.07298E-7	-0.633381	0.5322

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.109085	1	0.109085	0.40	0.5322
Residual	6.79792	25	0.271917		
Total (Corr.)	6.907	26			

Migr_2002 = 0.541419 - 3.21313E-7 * LivebirthsLMS_2002

Divorces:

Table 7.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.503135	0.118232	4.25548	0.0003
Slope	-1.99443E-7	0.00000220659	-0.0903	0.9287

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.00225633	1	0.00225633	0.01	0.9287
Residual	6.90475	25	0.27619		
Total (Corr.)	6.907	26			

Migr_2002 = 0.503135 - 1.99443E-7*Divorces_2002

Marriages:

Table 8.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.543321	0.121604	4.46794	0.0001
Slope	-6.76641E-7	0.0000010181	-0.66461	0.5124

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.119915	1	0.119915	0.44	0.5124
Residual	6.78709	25	0.271484		
Total (Corr.)	6.907	26			

Migr_2002 = 0.543321 - 6.76641E-7*Marriages_2002

Multiple Regression - Migr_2011

Table 9.

Coefficients

		Standard	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
CONSTANT	-3.00603	3.42399	-0.8779	0.3904
Life_expectancy 2011	0.0509208	0.0441461	1.15346	0.2623
Infant_mortality 2011	-0.0000702	0.00052317	-0.134	0.89
Livebirths OM_2011	-0.0039652	0.00878547	-0.451	0.65
Livebirths LMS_2011	7.09497E-7	0.00000278	0.2543	0.80
Divorces_2011	0.00000944	0.00001067	0.8851	0.38
Marriages_2011	-0.0000075	0.000007	-1.072	0.296

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	1.5994	6	0.266567	0.82	0.5646
Residual	6.46854	20	0.323427		
Total (Corr.)	8.06794	26			

The equation of the fitted model is:
Migr_2011 = -3.00603 + 0.0509208 * Life_expectancy_2011 - 0.0000701944 * Infant_mortality_2011 - 0.00396519 * LivebirthsOM_2011 + 7.09497E-7 * LivebirthsLMS_2011 + 0.00000944697 * Divorces_2011 - 0.00000759043 * Marriages_2011

For those indicators we also took the first 5 countries with the greatest number of emigrants and the first 5 countries with the greatest number of imigrants and then compared their means, so we could check their suitability in this study.

If the indicators are relevant, then the mean of the countries with a large number of emigrants should be significantly smaler than the mean of the cuntries with a large number of imigrants.

The first 5 countries with a great proportion of emigrants were: Ireland, Luxembourg, Lithuania, Iceland and Latvia.

The first 5 countries with a great proportion of imigrants were: Luxembourg, Cyprus, Belgium, Malta and Austria.

As we suspected, in most of the cases the mean of the indicators of countries with emigrants was smaler than the other and if we would increase the number of countries compared then the difference would became more visible.

Life expectancy by age and sex:

$\bar{y}1$= 77.66 (emigrants) < $\bar{y}2$(imigrants)= 80.32

Infant mortality:

$\bar{y}1$= 110.8 (emigrants) < $\bar{y}2$(imigrants)= 157.6

Proportion of live births outside marriage:

$\bar{y}1$= 41.48 (emigrants) > $\bar{y}2$(imigrants)= 32.82

Live births by mother's age at last birthday and legal marital status:

$\bar{y}1$= 1.21 (emigrants) > $\bar{y}2$(imigrants)= 1.08

Divorces:

$\bar{y}1$= 4.74 (emigrants) < $\bar{y}2$(imigrants)= 5.02

Marriages:

$\bar{y}1$= 2.36 (emigrants) > $\bar{y}2$(imigrants)= 1.9

Health care expenditure (euro per inhabitant):

Table 10.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.0763501	0.186764	0.408805	0.6866
Slope	0.000235768	0.0000643965	3.6612	0.0014

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	3.51918	1	3.51918	13.40	0.0014
Residual	5.77588	22	0.26254		
Total (Corr.)	9.29506	23			

migr2007 = 0.0763501 + 0.000235768*expenditure

Pension:

Table 11.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	0.252406	0.18135	1.39182	0.1753
Slope	0.000169451	0.0000665029	2.54803	0.0168

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	2.02015	1	2.02015	6.49	0.0168
Residual	8.40115	27	0.311154		
Total (Corr.)	10.4213	28			

mig2007 = 0.252406 + 0.000169451*pension

Investments in education and training:

Table 12.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	-0.228636	0.560944	-0.407591	0.6870
Slope	0.161988	0.10372	1.56179	0.1309

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	0.876985	1	0.876985	2.44	0.1309
Residual	8.98852	25	0.359541		
Total (Corr.)	9.86551	26			

Migr_2007 = -0.228636 + 0.161988 * Investment_ed&training2007

Foreign language learning (average number of foreign languages learned per pupil):

Table 13.

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	-0.0712977	0.347791	-0.205001	0.8392
Slope	0.44893	0.211326	2.12435	0.0437

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	1.50855	1	1.50855	4.51	0.0437
Residual	8.35696	25	0.334278		
Total (Corr.)	9.86551	26			

Migr_2007 = -0.0712977 + 0.44893*Foreign_lang

Urban population exposure to air pollution:

Table 14.

Coefficients

	Least Squares	*Standard*	*T*	
Parameter	*Estimate*	*Error*	*Statistic*	*P-Value*
Intercept	1.24881	0.317182	3.93721	0.0006
Slope	-0.0237144	0.0110707	-2.14209	0.0417

Analysis of Variance

Source	*Sum of Squares*	*Df*	*Mean Square*	*F-Ratio*	*P-Value*
Model	1.50708	1	1.50708	4.59	0.0417
Residual	8.53953	26	0.328444		
Total (Corr.)	10.0466	27			

mig2007 = 1.24881 - 0.0237144*exposure_toairpollution

4. Conclusion

The most influential indicators that were evaluated in the study are life expectancy by age and sex, foreign language learning (average number of foreign languages learned per pupil), pension and urban population exposure to air pollution and by the evolution of the period of ten years, there weren't significant changes that could be notable. Only life expectancy by age and sex became less relevant by the passage of time. So, we can conclude that the determination of leaving a country is not purely based on the level of income or a hard economic background.

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Globalisation- Complex Network Of Socio Economic Energy Centers

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Abstract

As well known, globalization is a process that encompasses the causes, course, and consequences of transnational and transcultural human activities, within a global network of economic, social and knowledge and human capital free migration.

From the perspective of sustainable development that implies rational and holistic researches of market and society, meaning free intergovernmental global cooperation in the context of institutional complexity of nation state actors ,issues measured in the form of general and specific globalization indexes.

In this framework, as it happens in reality where the utility ,rationality and externalities are primordially to social adaptive complexity in the energy centres approach of globalization inspired from Romanian interwar researcher Constantin Rădulescu Motru, is important to understand globalisation as a complex network of energy centres, a space of interactions between rational agents that manifest conscious, character and rationality of economic, social, politic and cultural consequences.

Keywords: globality, globalism, economic rationality, social cultural complexity
JEL code : F63 , Q01

1. Introduction.

Globalization is a concept perceived differently by people in time and space.

For an ordinary informed individual globalization is seen from the perspective of global competition impact on the competitiveness of the national economy meaning either an increase or decrease in living standard, while for the uninformed people, especially those who live in isolation and poverty globalization means nothing.

For a manager, globalization is a competitive institutional regulated space of transnational practices risk management a potential tool for maximizing the economic (efficiency), financial (profit) and social (utility) excellence function, while for a politician is the struggle arena for the strategic geopolitical domination or a global institutional framework for promoting nation-state interests.

The last but not the least globalization is a scientific research topic: from the perspective of sustainable development globalization is a concept that reveals the interconnection between the real natural sciences and social humanistic disciplines within a complex network of principles, processes and values sustained by rational economic and civil society agents pursuing the efficient resource allocation and social development

In this framework, one possible approach of globalization could be emphasized as a network of energy centres inspired from the Romanian psychologist Constantin Rădulescu Motru, to affirm the importance of rational character and personality of nations states perceived as unitary rational agents in the process of promoting the national interest on the global stage.

2. Globalization - theoretical and practical approaches

Semantically speaking, the notion of globalization is closely related to notions of globality (considered a neutral formula of

international notion which defines a working method of intergovernmental cooperation) and globalism (specific definition class of ideological term of imperialism, in which a part dominates all other parties).

Thus globalization term refers to the continuous, dynamic and progressive integration of nation states from economically, financially, politically and culturally point of view because the problems facing humanity are global rather than national.

From a larger perspective, globalization is both a concept, a reality condition and an socio cultural process that encompasses the causes, course, and consequences of transnational and transcultural integration of nation states actors.

Determined by the by Christianity and Great Geographical Discoveries spillovers as well the impact of the three waves of agrarian, industrial and knowledge revolution globalization is characterized by flows of goods, services and people, meaning deepening of economic, commercial integration, transfer of policies and knowledge exchanges across borders, global political negotiation of national interest in the spirit of the fact that "interdependencies respect the independence of parts"[1]

It is a borderless world of formal and informal rules in which the free migration of economic, financial, social, technologic, knowledge and human capital generate global positive and negative spillovers in the context of a socio cultural and politic historic process of transition to risk society, illustrated by the exchange of ideas, experiences and general human aspirations in which the unique and unrepeatable national patrimony enriches the heritage of universal values[2],[3]

In this respect, the impact of globalization is vast in time space, and that reveals some economic, political, and cultural issues as such:

-the implications of global actors behaviour (World Bank, IMF and OMC) on the unequal distribution of globalization costs and benefits. [4], [5]

-the issues generated by post communism cold war politics encouraging the intergovernmental cooperation and reducing the political hegemony of supra state institutions influence[6],[7] ;

-the implications of global city culture as well as the environmental issues of the U.N. environmental global program Agenda 21. [8],[9]

All of these imply a deepening of globalization cost benefit distribution analysis in terms of the North South discrepancies and supranational -national contradiction, in the way of the necessary reform of so called Washington Consensus ,on the relationship between the global "autarchic" macroeconomic treatment and the real living consumer standard, between a global approach and a deepen reconsidering of real national specific conditions, the respect of the sovereignty of nation state constitutionality, its economic policy and national culture to diminish the costs of over indoctrination risk of the presumed free choosing human being that has duties and rights written in state constitution as well in his conscience.

The reality of globalization is sad : despite of the apparent victory of free markets ideology, and the pretention that globalization is an instrument of closeness, appear two isolated worlds, each with specific problems: on one hand it is about the globalization of richness that exploit business, travel and educational opportunities protecting its own citizens' rights and on the other hand there is another globalization of poverty and loneliness, which also deserve respect which implies the need to regulate markets and global reform of global economic, financial and democratic institutions.

In the same time globalization is a topic of scientific researches related to conceptual and applicative issues such as:

- the related concepts of centre and periphery in the historical evolution of the world as a global system global [10];

-competitive transnational practices of circumscribed aspects of economic, political and cultural management in which private agents manifests as capitalists, bureaucrats and cultural[11];

-multidimensional aspects of the network society and its technological space time compression –the perception of physical space disappearing in the context of accelerating of communication speed-[12],[13]

-the ideas of reflexive approach of globalization in the context of a social cultural adaptive historic process from traditional to industrial and risk society suggesting the risk of forgetting of traditional values in the favour of postmodern individualistic values[14].

-the implications of civilization clash and free migration of economic, financial, technologic cultural ,and human capital in the context of so called channels Ethnoscapes, Technoscapes, Financescapes, Mediascapes, Ideosccapes [15], [16]

-the last but not the least is about the applicative side of globalization by so called general and specific indexes of globalization.

On one hand is about the conceptual structure of economic, political, social and cultural globalization indexes (***A.T. Kearney/Foreign Policy Magazine Globalization Index***, ***CGSR Index*** elaborated by the Centre for the Study of Globalisation and Regionalisation, ***KOF Index*** from Zurich Swiss Economic Institute and Maastricht[17].

On the other hand, based on the general indexes of globalization some researchers constructed indexes specific aspects of rational and complexity aspects of globalization.

Thus, firstly, the complexity side of globalization reveals the some specific indexes such as ***Global index*** based on OECD human rights issues elaborated by M. Raab [18],the ***New Globalization Index of University Study Migration*** invented by P. Vujakovici[19],or the ***Excellence Managerial Performance Index*** proposed by Economist Intelligence Unit with Ernst and Young Group[20].

Secondly, the rational, economic side of globalization is presented by the so called ***G Index*** from WMRC-World Markets Research Centre[21], the ***Index of Goods and Capital Markets Integration*** elaborated by Andersen and Herbertsson.[22].

An interesting approach of practical indexing of globalization could be the essay of Kluver and Fu in the context of ***Cultural Media Exchanges***.[23]

3. Globalization – a complex network of socio economic energy centres

Given the of triple bottom line and triple top line objectives of economic, social and environmental sustainable development, the globalization illustrates both like concrete reality and a imagined idealistic,social construct as a set of principles, tools and actors involved in interactive technical economic sense and integrative socio cultural process addressing the global mankind's issues through optimizing of global market externalities in the economic, social, ecological and cultural environmental as well as considering the impact of complex adaptive system dynamics on global institutions that have established the principles and mechanisms of economic, political and cultural relations between nation states. [24], [25] []26]

From this perspective, the essence of globalization is of an environment of intensification of global interconnections between all states both in terms of quantity (volume of commercial transactions, capital flows) and quality (exchange of ideas through IT) within a complex network between a variety of players at different levels of decision (macro, micro or meso-economic) continuously or temporarily, in a rationally deductive or inductive experimental manner.

In this framework globalization means a distinction to make between two approaches pricing the of cost – benefit distribution on efficient resource allocation maximization, cultural exchange ideas integrated to global reality processes and values that governing the interactions between nature, market and society.

Thus, globalization is presented through the principles of deduction and induction researches(formal, structural, efficient and final causes versus "physicist" principles of Complex Adaptive Systems vision of world) integrated in a set of interdependencies between economic and institutional global agents(nation states, individuals, multinationals, NGOs, institutional investors, criminal organizations, media),in the natural and anthropogenic environment.

The sustainable development approach of globalization reveals two important issues.

Firstly, as it was mentioned by Martin Shaw at a scientific seminar entitled "America's Choice - Liberty Or Sustainable Development?" the sustainable globalisation raised the question of supra state institutions bad influence on national policy and politics as the case of global Agenda 21 Programme. This strategy leading to so called intelligent strategies highlights the possible conspiration between politicians and suspected unofficial multinational interested groups. .

From his point of view this global strategy is in contradiction with the spirit of national constitutional base of nation state the only one that can defend the presumed free people that has obligations and rights written in the fundamental supreme law as well in the national values and conscience.

Secondly is the impact of so called energy centre concept mentioned by the Romanian psychologist Constantin Radulescu Motru in his book "The Christian Power of the Soul "[27]

From this perspective, the history of mankind was long time dominated by the conquer obsession of exterior material world by through experimental inductive methods, an illusion marked by the influence of physics on other sciences in so called entropic time scale and adaptive metabolism of human personality.

But in the opinion of author, the real necessary environment needed to be conquered is the soul character and conscience-that special laboratory of Christian faith metaphysical intuitions, intentions, hypothesis, thoughts and aspirations that help the adaptive personality actions into a direction of utility maximisation and realising the externalities spill-over consequences, in the context of general relations between people in the social economic and natural environment.

In this framework, as it happens in the global reality where the utility rationality and externalities are however primordially to social adaptive complexity, in the energy centres approach is important to understand globalization not only in the way of globalism but also in the form of intergovernmental global partnership of nation states – energy centres- not only the spirit of apparent cybernetics time compression of informational speed but also its reason d'être of what is happen in time - that space of interactions between rational agents that manifest conscious, character and rationality of economic, social, politic and cultural spill-overs consequences.

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Aspects of International Banking Globalization

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Abstract

Affected by changes in the global economic climate, the banking industry adapts, increasing its possibilities of acces to funds by entering the capital markets, in direct competition with securities companies, insurance companies, mutual funds, pension funds and also, diversifying its portofolio of products and services using specific tools adapted to new markets, increasing its profitability and reducing their risks as a result of activities like financial markets transactions and generating revenue through commissions.

The main objective of this paper is to highlight the recent evolution and the major consequences of banking globalization, the growth of banking mergers and acquisitions, the major contributing factors to international banking sector consolidation , the role of banks in the international transmission of shocks and how the banking markets are affected by the recent financial crisis .

Key words: banking globalization, financial group, mergers, acquisitions, crisis
J.E.L. Classification: F6, G21

1. Introduction

Speaking about the economic dimension of globalization, we can say, that is the catalyst of globalization process in the other fields, using trade, manufacturing, financial markets and technology as major instruments.

The term „globalization" indicates besides spreading significance, that of interdependence, the states are no longer isolated or autonomous, but interconnected.

Economically speaking, Meghnad Desai defines globalization as "…an increased interdependence and integration of different economies in the world", emphasizing the central role of mutual dependence between states.[1]. The high degree of integration of financial markets, coupled with the liberalization of capital flows, has led to increased interdependence between developed and developing economies in all world regions, with widespread effects, including a pronounced state of instability, accompanied by volatility and uncertainty in the most markets(capital markets, oil markets, money and foreign exchange markets, labor markets).

2.Global integration in the banking industry.

Affected by changes in the global economic climate, the banking industry adapts, increasing its possibilities of acces to funds by entering the capital markets, in direct competition with securities companies, insurance companies, mutual funds, pension funds and also, diversifying its portofolio of products and services using specific tools adapted to new markets, increasing its profitability and reducing their risks as a result of activities like financial markets transactions and generating revenue through commissions.

Banking globalization is perceived: by the formation of large international financial groups, within which the banking activity is highly diversified, internationalized, competition becomes global and changes in this segment determined banks to act far beyond the traditional activity restricted to the establishment of bank deposits and granting loans: by the involvement of foreign capital in banking and credit sector in different world regions, leading to a spatial reconfiguration and a national banking markets expansion: by industrial-scale reorganization of banking activity as a whole: by unprecedent diversification and internationalization of banking products and services portofolio.

To be competitive, beginning with the 1990s, banks proceed to a reconsideration of the applied strategies by passing a profound reorganization process, consisting in the internalization of banking system on the one hand, and in the high concentration of banking activity on the other hand.

The internalization of banking systems, has been achieved through aggressive policy, part of the development policy of banks, a policy of subsidiaries implantation (banks, leasing companies and other financial services providers), branches, private banking centers, in the world financial new items.

On 1 January 2011, 630 branches of credit institutes were resident in the euro area. These branches accounted for 9,9% of all euro area credit institutions. The largest share of these branches was located in Germany (17,5%), Estonia (61,1%) and Belgium (54,7%), having the largest proportion of foreign branches in the relation to the total number of credit institutions. The head offices of the majority of the foreign branches in euro area countries were located either in another euro area country (64,4%), or in the United Kingdom (14,6%).[2]

At the same time, on 1 January 2011, there were 263 branches of foreign credit institutions resident in non-euro area EU Member States. Of these, the largest proportion (51,7%), was located in the United Kingdom. The head offices of the majority of the foreign branches in non-euro area EU Member States were located either in euro area countries (52,2%), or either non-euro area EU Member States (20,2%).[2]

The most recent example coming from Industrial & Commercial Bank of China(ICBC), the third largest bank in the world ranked by total assets. ICBC moved up to third place in the new world ranking in September 2012. In December 2011, ICBC occupied only the sixth position.[3] In 2013 ICBC is the largest bank in term of market capitalization (market cap., US$b237.97, at January 25, 2013), profitability and customer deposits, with over 286 million individual and corporate customers, about 409.000 employees and 18.000 outlets including 239 overseas branches. Four of the largest banks are Chinese financial institutions: ICBC, China Construction Bank, Agricultural Bank of China, Bank of China.[4]

ICBC expansion in emerging markets was achived by opening new subsidiaries in Eastern Europe, Latin America and Middle East.

Thus, in Laltin America opened in December 2012, a subsidiary in Peru, being in November 2012, the first Chinese bank who enter on the banking market in Argentina.

In Europe opens branch in Warsaw(2012) and Barcelona, a „private banking" Centre in Paris, in November 2012.

In the Middle East, opens subsidiaries in Saudi Arabia and Kuweit, in January 2012.

As of the end of June 2012, 252 overseas institutions had been set up in 34 economies and continues to expand with the rapid growth of emerging markets, with China's massive investments in oil and mining companies assets from Latin America, South America and Africa, in countries such as Argentina (oil producing), Peru (iron ore reserves), Brazil (petroleum), in an effort to ensure enormous amount of raw materials needed to sustain economic growth in China.

China now equals US in having four banks in the top 10 by Tier 1 capital, and ICBC has entered the top three worldwilde for the first time.[5]

3. Mergers and acquisitions in the international banking sector

The term „mergers and acquisitions", or simply M&A, denotes a broad range of formally distinct transactions.

An „acquisition" is defined as a transaction, when a company (acquirer) gains ownership control over another company (target), but both remain legally independent entities.

On contrary, after a „merger", one or both merging entities legally cease to exist; the shareholders of the merged companies obtain agreed stakes in a single successor entity.

It is a distinction without a real difference because mergers and acquisitions both result in combined entities. M&A usualy require shareholder and regulatory approvals.The factors influencing M&A, include strategic fit, cost and revenue synergies and acces to talented employees, occupying a dominant place in the international financial exchange market.[6]

The banking activity is dominated by

monopolies, consortia, trade unions and other banking alliances, resulting from the unification of banks, thus forming new power centres.[7]

Table 1. Regions by total tier 1/total assets/total pre-tax profits 2011

Country	Tier 1 ($bn)	Assets ($bn)	Pre-tax profits ($bn)
US	1059.9	13,341.0	131.5
Eurozone	1721.6	40,895.0	2.1
China	781.5	13,533.2	206.3
Japan	600.9	13,075.5	60.0
UK	440.8	9999.5	32.9
Brazil	123.8	1729.2	33.1

Source: www.thebankerdatabase.com

According to the Lisbon Group, the international banking sector is following the trend of the economy, which means that integration processes, technological, economic, capital concentration, are more intense in most developed three regions, North America, Western Europe, Japan and newly industrialized countries of South an Southeast Asia.

Industrialised Europe has been the primary destination for cross-border lending activity for the past three decades. The US is the second destination, followed in the past decade, by entire regions like Asia and Pacific Countries, emerging Europe and Latin America.

The major factors contributing to European banking sector consolidation, through a large number of mergers and acquisitions, were technological advances, the globalization of financial markets, enhanced supervision of credit system, the creation of a single financial market in the European Union and the introduction of the euro, market liberalization, economic reforms, even banks' desire to increase in size.

The result was a constant growth of mergers and acquisitions in the EU banking sector. In the same time the number of credit institutions in the euro area and in the EU decreases further, from approximately 12.000 at the end of 1990 to 7.000 at the end of 2004, to 5.998 in February 2013 in EU banking.[2]

The table shows the number of credit institutions by country.

Table 2. The number of credit institutions by country in 2013

Country	Credit institutions
BE Belgium	104
DE Germany	1.866
EE Estonia	34
IE Ireland	469
GR Greece	52
Es Spain	302
FR France	633
IT Italy	710
CY Cyprus	135
LU Luxemburg	140
MT Malta	27
NL Netherlands	262
AT Austria	749
PT Portugal	150
SI Slovenia	23
SK Slovakia	28
FI Finland	323
Euro area	5998

Source: ECB-Number of monetary financial institutions(MFIs): February 2013 www.statistics@ecb.europa.eu

The first merger in EU took place in June 2005 when UniCredit merget with German Group HVB, which is itself formed by the combination of Bavarian banks Bayerische Hypotheken-und Wechsel-Bank and Bayerische Vereinsbank in 1998. Integration with the HVB Group was reinforced by the merger with Bank Austria Creditanstalt in the year 2000 and enable further growth for the UniCredit Group. The company has its registered office in Rome, with approximately 40 million customers and operations in 22 countries. UniCredit's core markets are Italy, Austria, Russia and Southern Germany, being the largest financial group in Eastern Europe. The company has investment banking divisions in London, Milan, Munich, Vienna, Moscow, Budapest and Warsaw.[8]

Deutsche Bank (DB) is currently the largest bank in the world with assets of EUR2.186 trillion (US$2.810 trillion). In 2012 was awarded the title of Best Foreign Global Investment Bank by Euromoney magazine and won six awards from Global Finance including Best Corporate Bank, Best Foreign Exchange Bank and Best Credit Derivates Provider. Mitsubishi UFJ Financial Group (MUFG) is the second largest

financial institution in the world with assets of US$2.803 trillion. The Bank of Tokyo-Mitsubishi UFJ is the main banking arm of MUFG.[3]

American banking transformation become possible after the changes in the banking and financial law. Introducing in the 1990s the following legislations, Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, played the big role in the acceleraration of the mergers and acquisitions process in the USA, allowed buying interstate companies possessing a bank, banking mergers in different states, opening new branches in the other states and running bank activity in a form of the agent of the other bank.

The American banking industry has experienced an unprecedented number of mergers and acquisitions on a belief that gains can accrue through expense reduction (Wells Fargo estimated an annual cost savings of $1billion from its acquisition of First Interstate), increased market power, reduced earnings volatility, during the banking consolidation process of the 90s.

More than 1500 mergers took place in the

US banking sector between 1993-1996 years.

But the banking consolidation process was procceding with different intensity, as a part of restructurating and the reform of commercial banking and the increase of the banks size and the value of mergers and acquisitions. At the end of 90s, each of nationwide banks had less a hundred branches, while the liders in the group had a chain of seversl thousand branches.

Despite this tendency, the number of bank mergers and acquisitions in the USA was growing very slowly in the next few years. The number of banks M&A transactions between 2000-2004, increased only from 213 in 2000, to 215 in 2004.[9]

The financial crisis spawned bankruptcies, restructuring of companies and financial institutions, mergers and takeovers, direct financial support significant funding from the US government, and approved $700 billion to be used only in order to save American financial institutions from the crisis effects. In 2012, Citigroup received, along with Bank of America, the largest state support of $7,5 billion, down 32,5% from 2011.[5]

Many of these institutions are or were publicly traded, their exit from the market not only affects the credibility of the US capital market but also the stock trading volume, the price volatility.

Table 3. The major banking company merged in the last fife years

Year merger closed	Acquirer	Acquired bank	Name of merged entity	Transaction value	Ultimate succesor
2008	TD Banknorth	Commerce Bancorp	TD Bank	$8,5 billion	TD Bank
2008	JPMorgan Chase	Bear Steams	JPMorgan Chase	$1,1 billion	JPMorgan Chase&Co
2008	Bank of America	Merrill Lynch	Bank of America	$50 billion	Bank of America
2008	Wells Fargo	Wachovia	Wells Fargo	$15,1 billion	Wells Fargo
2008	JPMorgan Chase	Washington Mutual	Jpmorgan Chase	$1,9 billion	JPMorgan Chase&Co
2008	Fifth Third Bank	First Charter Bank	Fifth Third Bank	$1,1 billion	Fifth Third Bank
2008	PNC Financial Services	National City Corp.	PNC Financial Services	$5,08 billion	PNC Financial Services
2008	U.S.Bancorp	Downey Savings and Loan	U.S.Bancorp		U.S.Bancorp
2009	M&T Bank	Bradford Bank	M&T Bank		M&T Bank

2009	M&T Bank	Provident Bank of Maryland	M&T Bank		M&T Bank
2011	M&T Bank	Wilmington Trust	M&T Bank		M&T Bank
2011	Capital One	ING Direct USA	Capital One	$9 billion	Capital One
2012	PNC Financial Services	RBC Bank	PNC Financial Services	$3,45 billion	PNC Financial Services

Source: Institute of Mergers, Acquisitions and Alliance(IMAA) www.imaa-institute.org

In Central and Eastern Europe, the foreign subsisiaries do not always bring profits, even the banking markets remaind stable in 2011.

CEE banking markets continue to be dominated by foreign investors with: UniCredit, Erste, Reiffeisen, KBC and SG controlling a combined 35% of total banking assets in the region. Although the number of banks making losses (34 out of Top 200 banks in CEE) increased slightly against the year before the profitability ratios remained stable with combined return on equity (ROE) close to 7,6%, and return on assets (ROA) exceeding 0,8%.[10]

Poland remained the single largest banking market in the region, with assets worth EUR 293 billion and holding the 30% share.[10]

In the present, the foreign acquisitions are not an option for the international banking groups hited by the financial crisis, the trend is to sell subsidiaries as part of restructuring plans.

The prime beneficiary of the restructuring plans in Europe, was Russia's Sberbank, the largest bank in Russia, buying the Central and Eastern European network of Austria's Volksbank in 2011.[11]

For example, branch in Romania of Citigroup, the banking group with the largest network, during the restructuring program, has identified 21 global markets, including Romania, where there will be restructuring, cuts or even closing their activity, in the perspective of profit targets for 2015.

In Romania, Citigroup following a repositioning plan, involving business efficiency and reduce costs, restructured the consumer banking sector, positioning itself in the segment of companies.

Raiffeisen Bank Romania will acquire the retail portofolio of Citigroup Romania. The transaction will be completed in the third quarter of 2013. The agreement signed between the two banks, provides the assumption by Raiffeisen Bank Romania(part of Austrian RaiffeisenBank International), a portofolio of over 100.000 clients, with assets of RON460 million (over EUR90 million) and over RON770 million (over EUR175 million), in deposits according to data from December 31, 2012, and all employees of CitiBank retail banking division.[12]

4. Conclusions

International banking activity is an important component of a broader process of financial globalization and integration.

More radical steps are nedeed in reforming the structure, ownership and incentives for banks to make them more attractive long-term investment.

Globalization of banking and other forms of financial services may influence regulatory and macroeconomic challenges for the countries involved.

Mergers and acquisitions in banking sector become familiar in the majority of all the countries in the world. A large number of international and domestic banks all over the world, are engaged in mergers and acquisitions activities.[13]

In the present, the foreign acquisitions are not an option for the banks, the trend is heading the other way, as selling subsidiaries as part of restructuring plans.

World economy in recent decades has been characterized by a decrease in the exchange of goods between rich economies with high growth rates in North America, Western Europe, Asia and rest of the world, especially Africa.

Acording to estimates, this trend will increase in the future. Thus, participation of regions like Africa, Middle East, Latin

America and Eastern Europe, will decrease from 39,2% in 1970 to 6,4% in 1990 and reach 5% in 2020.[5]

The financial crisis has led to a number of institutional responses that have resulted in a series of measures to enhace control over the remaining areas outside the jurisdiction of central banks and supervisory committees capitalmarkets. In the same time, the requirements for financing and risk and rating methodologies used in the financial decision rules, had revised.

The ten largest banks in the world, hold over $25,6 trillion in combined assets (the exchange rate on December 7, 2012) .[14]

Table 4.Top 10 banks in world ranked by total assets 2012

Rank	Bank	Total assets(US$b)
1	Deutsche Bank	2,809.89
2	Mitsubishi UFJ Financial Goup	2,803.42
3	Industrial&Commercial Bank of China	2,763.59
4	HSBC Holding	2,721.06
5	Barclays PLC	2,584.30
6	BNP Paribas	2,562.99
7	Japan Post Bank	2,513.21
8	JPMorgan Chase & Co	2,321.28
9	Credit Agricole SA	2,317.12
10	Royal Bank of Scotland Group	2,225.14

Source: Top Banks in the World 2012

The banks with large derivates businesses such as Deutche Bank, the three largest French banks, have all seen sharp rises in market risk-weighted assets.

Restructured banks, such as Royal Bank of Scotland, have reduced market risk exposure substantially, but the internalization of banking influences cross-border risk-sharing.[5]

The recent crisis has revealed the major deficiencies in the manner in which international banks have conducted their bussines and have managed financial risks.

For the world economy and the international banking industry, globalization is both a beneficial and a challenging process, inevitable and irreversible in the same time, with benefits only for the countries that best manage their economies.

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Analysis of Romania's Foreign Trade Policy

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Abstract

In this article we intend to identify the evolution of our country's foreign trade and the trials by which Romania can diversify its commercial relations with partner countries. This article aims Romania's commercial reality in the new global economic context. Methodologically we pursued the evolution of Romania's external trade at global level, extra-EU and intra-EU, volume of commercial flows between Romania and its main partners.

The research finally proposes a modality of approach targeted to finding solutions to diversify Romania's commercial relations with possible target countries. Regarding the risks of this methodology, taking into account that there is no clear model of selection for the analyzed countries, and the final proposals can only have a general character. Thus, we show a few possible improvements that can be made, such as identifying criteria for selecting target countries, external and internal analysis of selected countries.

Keywords: foreign trade, economic growth, global development, trade policy.
JEL Classification: F13; Q56; O47; R11.

Introduction

In the 21st century in the context of globalization that entered in all the aspects of life, trade is an activity with a central role. Trade relations between countries are a key point in evolution and development of the world.

Entry into the European Union has brought important changes in Romania's foreign trade policy. Of course, adoption of EU trade policy and alignment to the single market means significant advantages, but also considerable costs [3].

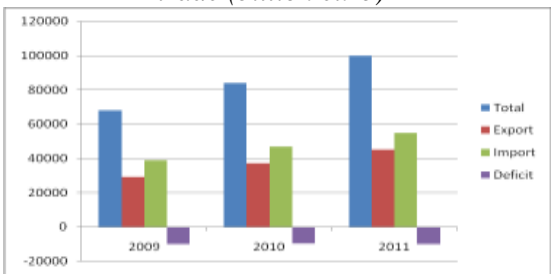
After joining the European Union in 2007, Romania adopted the common commercial policy, losing its sovereignty in this plan. Although Romania's trade relations with the EU are obviously based on foreign trade, the key to sustainable development leading to significant increases in exports is finding non-EU partners that Romania could have successful relationships with.

Access to products on the Community market, consistent technical and financial assistance to Romania, application of EU regulations and standards in all areas are on the one hand considerable pluses, but the risk of suppression of domestic production, price levels, loss of sovereignty of trade policies bring unavoidable drawbacks [7].

Evolution of external trade of Romania

For an overview of the evolution of Romanian foreign trade and its structure, we analyzed for the period 2009-2011 amounts exports, imports, the overall economy, intra- and extra-EU. During the analyzed period, the evolution of the total value of international trade recorded a decrease of about 25% in 2009 over the previous year and an increase by almost 24% and 19% respectively in 2010 and 2011 (see figure 1).

Figure 1 – The total value of international trade (billion euro)

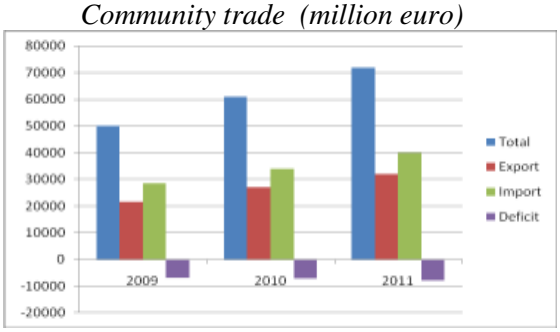


Source: authors based on data taken from www.eurostat.ro

Followed the same trend was evident in the evolution of exports and imports. Thus, a decrease of 14% in 2009 compared to 2008 exports was followed by successive increases of nearly 30% and 20% for subsequent years. Imports showed a significant decrease in 2009 over 30%, but were followed by two increases in 2010 and 2011, with 20% and 17%. Referring to the deficit, there was a big increase in 2009, almost 60%, following a decrease and an increase in percentage of under 5%. According to data that could be allowed to access, the total value of international trade of Romania was 7,402.7 million euros, up 5.1% from the same period last year, while exports registered an increase to 3472,1 million euros (+1.6%), and imports to 3930.6 million euros (+8.3%). In these circumstances, Romania's trade deficit increased by 117.0% from the level of -211.3 million (31 January 2011), at -458.5 million (31 January 2012) [9].

Following the same trend as the total value of foreign trade of Romania, the values of total intra-EU trade in 2009 decreased compared to 2008 and successive increases in 2010 and 2011 (see figure 2).

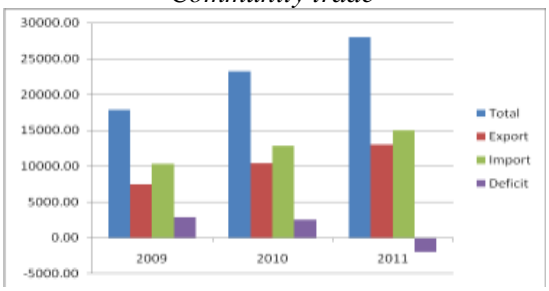
Figure 2 – The total value of intra-Community trade (million euro)



Source: authors based on data taken from www.eurostat.ro

The total value of intra-Community trade in 2009 dropped by over 20% and increased in 2010 and 2011 by 21% and 17.9%. Exports declined in 2009 by almost 9% and had increases of 25% and 19% in the next 2 years. Imports registered a sharp decline in 2009, nearly 30% and successive increases of 19% and 17% in 2010 and 2011. The latest data which could access, in January 2012, total intra-EU trade of Romania went up by 7.4% to 5414.1 million, of which exports has increased by 4.2%, being of 2559.3 million and imports by 10.4%, amounting to 2854.8 million. Romania's negative trade balance in the relationship with partners from European Union (EU) increased by 128.5% in January 2012 compared to the corresponding period of the previous year from EUR -129.3 million to -295, 5 million euros [4]. For the period analyzed, 2009-2011, international trade had an extra-similar evolution, as shown in the table below (see figure 3).

Figure 3 – The total value of extra-Community trade

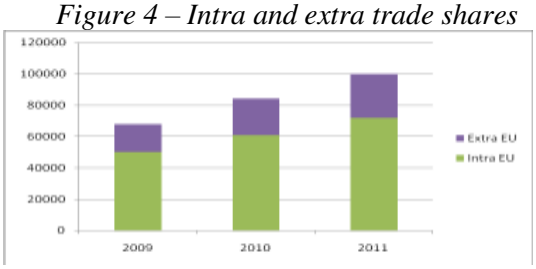


Source: authors based on data taken from www.eurostat.ro

The total amount of extra trade fell by 35% in 2009 over the previous year, increasing by 30% in 2010 and in 2011 by 20%. Exports decreased by 25% in the first analyzed year and increased sequentially by nearly 40% in 2010 and 25% in 2011. Extra-EU trade deficit decreased continuously with 60%, 17% and 20% in the three years analyzed. The latest data which could be accessed, in January 2012, total extra-EU trade amounted to 1988.6 million euros, 0.8% less than the same period of 2011, of which exports 912.8 million (-5.1%) and imports 1075.8 million euros (+3.1%). For the same two periods of analysis, the trade deficit Romania-non EU countries increased from -82.0 million to the level of -163.0 million (98.8%).[8] The table presented below (see figure 4) reflects the evolution of

intra and extra trade shares, from both the total volume of foreign trade of Romania, and the exports and imports.

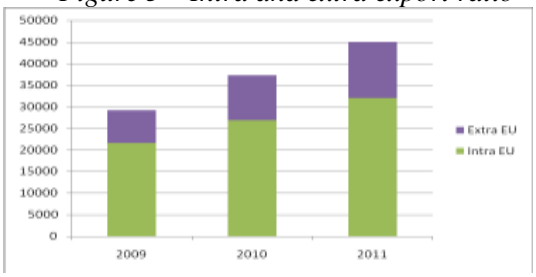
Figure 4 – Intra and extra trade shares



Source: authors based on data taken from www.eurostat.ro

In the total volume of foreign trade of Romania, intra-Community trade has a higher share, slightly down from 73.76% in 2009 to 71.95% in 2011. If exports are largely maintained at the same proportions, the same declining trend continues, from 74.33% as intra exports represented in 2009, to 71.12% for the last analyzed year (see figure 5).

Figure 5 – Intra and extra export ratio



Source: authors based on data taken from www.eurostat.ro

Import structure keeps the same coordinates, with a slightly attenuated decline in the share of intra-Community trade, from 73.34% to 72.64% (see figure 6).

Figure 6 – Intra and extra import ratio



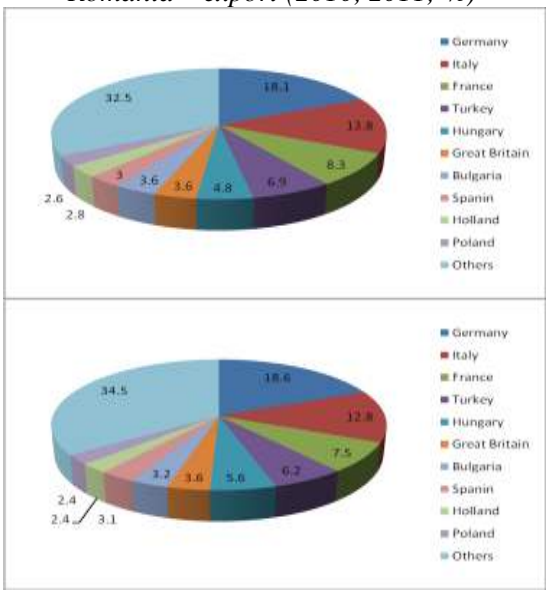
Source: authors based on data taken from www.eurostat.ro

However, variations in the structure of imports are relatively lower than for exports.

Main foreign trade partners of Romania

In this part we aimed to identify what are the main countries in which Romania exports, which are key partners from which it imports, where there are shortages and where the trade balance surplus. In the year 2011, Romania's exports and imports with European states had a rate of 87.6% and 88.1% for imports, percentages similar to those in 2010 to 88.8% of total exports, respectively 87.2 % of total imports.

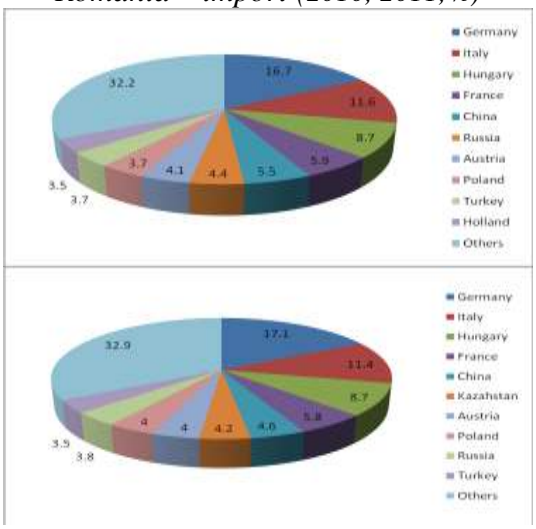
Figure 7 – Main trade partners of Romania – export (2010, 2011, %)



Source: authors based on data taken from www.eurostat.ro

According to data presented above (see figure 7) we can see that there is no change from one year to another between the 10 European partner countries; there is a decline in exports to Italy, France and Turkey, and an increase in exports to Germany, Hungary and the Netherlands; outside the European Union is only Turkey, in fourth position, with exports declining, share of total Romanian exports in the first 10 partners fell by 2.1%.

Figure 8 - Main trade partners of Romania – import (2010, 2011,%)



Source: authors based on data taken from www.eurostat.ro

Analyzing the situation of Romania's main partners (see figure 8) we can see that nine of the ten states are top in both years, with an outstanding good share of imports from Kazakhstan with 4.2% (position 6) in 2011, pushing Netherlands out of the top 10 partner countries. It also shows increasing share of imports from Germany or Poland, while imports from China or Russia are declining.

China, Russia and Turkey appear as top partners in 2010 and in 2011 and Kazakhstan appear to countries outside the European Union and the total weight of the top 10 partners decreased from 67.8% to 67.1%.

Conclusions

Adoption by Romania of EU trade policy has clearly led to significant changes in Romania's foreign trade policy in the following areas: full liberalization of trade between Romania and other EU countries, customs duties alignment of our country, against third countries, to the EU, which generally involves a lower level, particularly for industrial products.

Harmonization with the EU's WTO commitments on trade in goods and services and accession to the WTO Agreement on public procurement in the country turned Romania from beneficiary of GSP (generalized system of preferences) to customs preferences donor country. Withdrawal of Global System of Trade Preferences (GSTP) among developing countries by abolishing preferential trade agreements with third countries and other agreements with these countries has led to a major national commercial chance. Suspension of the status of developing country and, consequently, the advantages enjoyed by Romania in commercial policy measures, under this statute, Romania withdrawal from agreements with CEFTA, EFTA free trade agreements with Turkey, Israel, free trade agreements with the Western Balkan countries, the extent to which the EU has concluded agreements with these countries are just some elements that distinguish our country in international trade agreements. Since the EU has no free trade agreement with Moldova until the date of Romania's accession to the EU, free trade regime between Romania and Republic of Moldova was canceled; Romania's participation to preferential and non-preferential trade agreements of the EU, participation agreements to preferred the euro-Mediterranean partnership; the partnership between the EU and African, Caribbean and Pacific (ACP); Romania's access to EU free trade agreements with Latin American countries, the Persian Gulf and other countries with which the EU will conclude such agreements will determine Romania to be more vigilant when dealing with external trade.

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China and her Influence on the New World Order in the Context of the Nuclear Threats of North Coreea

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Abstract

The end of the Cold War has put the world in a new stage of reevaluation. A new world order is needed, mostly because everyone wants to identify on which side he is going to be. The main actors of this are United States of America and China. But European Union, Japan and Rusia have their own part of the deal, not to mention many other Arabic countries like Iran or Soudit Arabia. In this paper we want to analyze China`s main reasons to ask for such a position, to see what can sustain that and what will be her strong points as well as her point of view in the recent nuclear crisis.

Key words: China, Cold War, New World Order, nuclear crisis, superpower.
J.E.L. Clasification: F02, F51.

1. Introduction

The extension of Asian communism (China and North Korea in 1949) was aimed to turn it into an alternative world system. It was unsuccessful due to increased polycentrism of communist centers, by leaving the Soviet bloc countries like Yugoslavia and Albania, by aceelerating Chinese-Soviet dispute in the '60s, Kennedy's government policies (1960-1963) and also Johnson's (1963-1968) to support Hungary, Czechoslovakia and Romania in a different manner from the Soviet matrix [1].

Quite important Cold War are important in the relaxation periods of the historical era, but we have to distinguish between a state initiatives (initiatives of U.S. President Richard Nixon and Henry Kissinger in 1972-1973, by the "Chinese card") and "thaw" in Eastern relations to the West, led by the superpowers USA and U.R.S.S.

By U.R.S.S. unparticipating in UNO meetings, because of Western legal non-recognition of China as a legitimate power, U.S. send a combatant body under the United Nations mandate.

UNO contingents (actually American) rejected North Korean troops to Chinese border, where Mao Zedong intervenos because of the "imperialist aggression". General McArthur, American military leader on the Korean front, who wanted to use nuclear weapons against Communist China, was withdrawn from operational command by President Harry S. Truman.

Gradually, China is not a satellite of Moscow, Khrushchev's de-Stalinization more is rejected by Mao who is committed to economic growth through the "Great Leap Forward" and later will establish communist society through cultural revolution.

Communist victory in China (1949) and late U.S. recognition of communist Beijing (1979) is a key equation in the dynamics of the Cold War. In Asia there are models of communist revolution in the nationalist patterns represented by antijaponese Maoism, by Ho Chi Minh's fight against the French in Indochina (1945-1954) and during the 60's by US-Vietnamese confrontation.

To discourage the extension of the Soviet communism and Asian power, U.S. signed network pacts, as said in reference literature) with Japan, South Korea, Taiwan and the Philippines. Thus, ANZUS was the Security Treaty between Australia and New Zealand and the USA (San Francisco, March 1, 1951) which said that an attack against one member of the pact was an aggression against all.

It is important to note that the relaxation in communism/capitalism dispute is not a unitary process, consistent, quite often this phenomenon is caused by the threat of mutual destruction, economic development issues and the emergence of new power centers in the structure of the two blocks, such as RP China or France and Germany.

2. Reasons that sustain China's global influence

China put in an impass again the world order, requiring rearranging of global influences. One reason is that a quarter of Earth's population lives in China, hence arose all sorts of debates on the future of China as a world power. Its economy has had an impressive momentum over the past 30 years, this being undoubtedly a significant force. However, can an increase of 30 years mean development forever?

In order to get an idea about the importance that 1.3 billion people suddenly enter into the world capitalist there are enough some data and some logic: the new colossus economic growth is 10% per year, It thus doubling their GDP every seven years [2].

From where did she go? 500 years ago China was the most advanced civilization on Earth, then froze. Marx described it as rotten, semicivilisation, that vegetates stuck in jaws time. Now at the age of 60 years of communism, China revives a staggering pace, and the world shuddered under the threat of its rule. Largest urban construction program ever seen, the biggest foreign investment and sustained the highest growth rate, the largest coal, steel and cement production in the world, and superlatives can continue[3].

Dozens of cities megalopolis (each of which can accommodate a population greater than that of England) are growing, with highways, magnetic levitation trains, huge malls and thousands of stylish skyscrapers.

Three hundred million mobile phones in use and two hundred million Internet users. Here are produced almost all the toys of the world, two thirds of copiers and microwaves, DVDs and shoes.

Over half of the world's existing cranes are working in China, building cities for migrants from rural largest zones in history.

Consumption also increases to un unprecedented scale, savings too, forming a middle class increasingly receiving free market opportunities to meet individual aspirations.

Economic freedom increases, although many people live in China without an elected government than the rest of the world. Country remains communist, but provides great business opportunities, and that on the long term. Economic freedom creates political freedom, so many Western analysts expect an advance of democracy in the next decade, for example the organization of free elections in the regions.

3. A new cold war or a new alliance against North Coreea?

The world is overwhelmed by the economic strength of China, very difficult to compete with. By using simple products, Asian dragon dominates the world market. Despite numerous predictions, the Chinese economy does not seem to be affected by the crisis. On the contrary, it lends intelligently the Americans so that they continue to consume their products.

Some announces a new Cold War in which China to replace Russia, recalling that the New Empire Middle possesses sophisticated nuclear facilities, that has the largest army in the world and its budget for defense increases by 10% per year. Then, China is still, despite recently discovered relative freedom, a totalitarian power such a threatening one. In addition, China has serious problems with human rights, pointing out the many repressive actions, internal large cleavages (about 800 million poor), a severely altered natural environment and an early social security system.

At the moment, China is one of the largest oil consumer in the world, although annual consumption per capita is one and a half barrel, much lower than ten barrels which consumes a Spanish for example. On the other hand, the number of cars will increase tenfold over the next fifteen years, which implies an unprecedented increase in oil imports.

Besides this mentioned above, plus increased industrialization taking place in China, create opportunities for it to become in a few years the crude oil-importing country, which worries the West because, according to current calculations, there will not be enough oil to cover future needs of this colossus. This will generate serious strategic conflicts with the Western powers, particularly the United States, aiming control of the „black gold".

There was no wonder the Chinese strategy aimed at signing agreements last year and

achieving considerable investment in Central Asia, an area that the United States is trying to dominate, and if Americans fail to gain control of energy reserves that China needs in the coming years, this will provide world leadership in the twenty-first century. In the light of this, the president of China declared on 7 april, 2013, that „no country has the right to throw Asia in to chaos"[4].

On the other hand, the events from the beginning of the millennium, that is taking over anti-terrorist operations in Afghanistan in 2001 already says a lot. Once the U.S. is proposing Hamid Karzai the country's President, a former adviser to the "Unocal" oil company signed with the presidents of Turkmenistan and Pakistan the agreement for the construction of coveted pipeline. In short, the United States won in this area largely crucial battle in the fight with China.

Another aspect deals with China's coal needs, which are also considerable. So far no electricity was the main brake on development of the country, but this began to change with the opening of hundreds of power plants and thermal performance of which coal consumption increased to 1.4 billion tons annually. China is the main importer of steel, nickel and aluminum. Domestic consumption of raw materials coming from outside the state is so great that the question is because there are not enough ships.

4. A few of the China's little problems

China bets now, at the beginning of the new decade, that can keep balance forever. It relies on being able to gradually shift resources from coastal regions into the country, without encountering resistance from the coastal area and without facing internal unrest.

The problem is that even though China seems to be a country with capitalistic private property, banks and all that entails capitalism, is not a real capitalism in the sense that capital markets do not determine distribution. What matters are the relationships and not necessarily good business plans.

China has grown extraordinarily in the last 30 years. The idea that such growth rates can last indefinitely violates the basic principles of economics. At one time, business cycles, letting poor business aside, it will throw off. Then, the smallest performance gap will stop the growth momentum. There are structural limits growth and China is close to them.

Future progress of China, and its development as a major power will depend so largely, and the skill with which the ruling elites will solve two related problems that the current generation of leaders shift power to a younger team and that of meeting the growing tension between economic and political system of the country. Even a tripling of GDP would leave China's population still in last place in terms of per capita income, not to mention the real poverty as a significant part of the Chinese population.

Even under the most favorable circumstances, it is highly unlikely that this country is becoming truly competitive in terms of the key dimensions of world power.

Yet China is really about to become the dominant regional power in East Asia, already the dominant geopolitical mainland. Military and economic power makes its immediate neighbors, except India, seem even smaller. Therefore, China's continued assertion is very natural in accordance with its historical, geographical and economic headquarters.

However, divergent interests between the U.S. and China in the Pacific could lead to military confrontation, a second Cold War it could be imminent, with the geostrategic center of gravity moving from Europe and the Middle East to Asia. Strong arguments are China's investments of 30 billion dollars in 2006, in the defense industry and military capacity development-oriented to design strength away: missiles, submarines and fighter jets[5].

Is it an evidence of a belligerent spirit the allocation of 10% more each year to defense budget? China realizes that if he wants to be credible politically it must be military strong, not just economically. A reason that the European Union does not seem to share as long as most member countries face the strategic problem of investing in defense industry, research and the creation of a joint military force.

It is true, China is ranked fourth in the world in the defense budget and has the largest army in the world - 2.5 million

people. But even in these circumstances, China spends on defense than 10% of what the U.S. Congress allocated annually for Pentagon.

Chinese wisdom says to postpone battles which are not sure he can win. China must focus on a strategy for further growth. Once created economic foundation, China could move to another stage to have a more offensive stance in international politics. At present China can not afford to scare current economic partners, depending on foreign investment, particularly the U.S., Europe, Japan and the Asian "tigers", Chinese movements are carefully watched and would immediately amend any hazardous military policy or policy accompanied by imperialist flavor.

Despite alarmist voices, it is most likely that competition between China and the U.S. will not be military but economically expressed. A rivalry likely to be cut, as in the economic war between the U.S. and the European Union on the export of cheese, bananas, steel or subsidies for Boeing or Airbus, by means of negotiation and compromise in the WTO, to which China belongs and since 2001 as well as Chinese officials, ordinary Chinese seem to be rather oriented towards a better life and success in business, although recent antijaponese events in China, showed that there is a full tank of nationalism that can escape from communist control.

5. Conclusions

Various estimations from internal collapse and bank implosion to economic and military strengthen will inevitably lead to a conflict with the current global superpower, the U.S., feeding the strategies and visions for the future of China and the configuration of international relations in the century which just begun[5].

Some analysts already foresee a decline of U.S. and Chinese triumph. Some of them were quick to announce that after Europe world domination since the seventeenth century and of America since the twentieth century, we are witnessing the next great global paradigm shift by moving the center of power in Asia with representatives of China, India and Japan.

Perhaps the most honest would be to admit that it is more likely to develop power centers competing U.S. at regional level like China and India in Asia, or the European Union on the old continent being possible and reemergence of Russia. These power centers will not be autonomous but connected by networks that interconnect them by common interests.

U.S. does not seem to be prepared and animated by the desire to hand over to China. Among the 500 largest companies in the world, only 15 are Chinese, most of them American and European. Despite globalization, the U.S. is still the world's largest producer, covering 75% of its own consumption needs. Other countries and regions of the world can take the place of China, if they manage to produce cheaper and better quality. Indian Bangalore region has a second Silicon Valley, the location of all the major companies that produce and offers leading technology.

Arnold Toynbee, in his study compared to the 26 civilizations that have marked human history, captures the causes that led to the genesis, growth and decline of great empires and civilizations dominant throughout history. We are aware that a dominant source of lifting power in the world, but also their decline was acquired or that the loss of internal cohesion and a great creativity and vitality. U.S. still seem to lack them, while China can not claim that is very high in all these chapters. However, the U.S. budget deficit and the presence of 500,000 foreign U.S. military warns dissipation of resources, expansion and unbridled ambitions, are causes that led to the collapse of other great powers[5].

Undoubtedly, China is a great power. The question is how much. Currently, no country can develop outside reality of globalization and international networks. Conflict as a conventional war is not inevitable, especially when interdependence is so great. The total level of U.S. investment in China is now 48 billion dollars. China not only benefit from American investments, investing itself in 2009, one billion U.S. dollars. U.S. exports to China increased by 1600 times in the last 15 years. China has in its reserve banks 600 billion dollars. Most American and global corporation, Wal-Mart, imported annually goods worth $ 18 billion produced in China. EU exports to China increased by 600% in 15

years.

Strained political relations between Japan and China have prevented 28,000 Japanese companies to invest in Dalian region in south-western China, opening its branch of production. Similarly, Taiwanese investment in mainland China and mutual profits do not seem to take into account political frictions.

Despite all this, in this moment the powers of the world are forced to allie for stopping one cause, stopping the mad North Coreean leader. The threats to the world peace can not be left without response, the nuclear crisis cannot be left to degenarate and all we need right now is to have the necesary peace to fight with the ongoing economic crisis. This is dispute of high vain and the leaders of the world should have the maturity to stop it.

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Characteristics of Labor Supply in Shipping

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Abstract

With critical phase overcoming the economic crisis of 2008, maritime trade is back on the rise, materializing a favorable labor market in shipping.

Worldwide, the study by BIMCO (Baltic and International Maritime Council) shows that in the year 2010, the supply of seafarers now provides a total of 624,062 officers and 747,000 of ratings.

Considering an annual growth of global fleet by 2.3%, a prediction was made of the number of seafarers in the world for 2015 showing that compared with 2010, supply will rise by 6%.

Knowing that labor market in the shipping market is open and highly competitive and has some features that surround other areas is very important to analyze the factors influencing labor supply in shipping sector.

This paper are trying to present some characteristics of labor supply which should take into account all stakeholders in the business of shipping.

Key words: supply, seafarer, labor market.
J.E.L.classification: J21, J22

1. Introduction

Under all conditions of time and space, the shipping activity involves like any economic activity, the labor factor, designed to take advantage on his interest resources. Careful analysis of the evolution of the global economy in recent decades shows that among the major problems that should receive attention include imbalances in the labor market. Discrepancies between supply and demand for labor is manifested in every sector, especially in the field of shipping, taking into account the current conditions of the external environment dominated by globalization processes.

Globalization of national economies has produced important changes in shipping: appeared new types of ships, importing or exporting new areas, new sea routes as a result of embargoes imposed by certain countries, new policies on training of seafarers [1]. But all these changes together with the use in an increasing proportion of new technologies in all activities of the shipping sector led to the importance of studying the supply-demand ratio of labor market.

Knowing that labor market in the shipping market is open and highly competitive and has some features that surround other areas is very important to analyze the factors that led to the deficit or surplus on labor market.

Analysis of labor supply is essential in providing dynamic economic interdependence. Knowledge of supply can help identify means to ensure labor market equilibrium. The advantage is that achieving this balance can lead to the development of shipping sector and promoting employment policies.

2. Characteristics of labor supply

Labor supply is the ability to work on which an individual or group of people is

disposed to use under the existing social and economic conditions at a time. [2]

Supply of seafarers is tightly associated with the scale of the world fleets which is linked with world economy's climates.

At the microeconomic level, the emergence of labor supply is shaped by real wage (in the classical theory) or the nominal wage (in Keynesian theory).

Labor supply is strongly influenced by the institutional framework and in particular the extent of the services of social benefits (pension, health, unemployment-compensation system).

Specificity labor supply in shipping resulting from:

a) Seafarers has a high degree of specialization

In order to perform a specific function shipboard personnel must have certain specialization courses of training conducted to ensure knowledge and skills. Specialization courses are organized and run by training centers, except those organized by the university for preparing maritime officer or naval engineering.

The high degree of specialization of labor which operates in the naval sector represent an obstacle to labor market supply which to fulfill this requirement must sacrifice financial resources and time.

b) Working conditions onboard ships

Maritime work differs from other diverse activities by unity in diversity - meaning that a crew of a vessel may be composed of sailors whose nationality often differ. In shipping, sometimes prevails the interest owner who seeks to hire crew vessels, in compliance with the minimum international law in this field, seafarers willing to accept toughest working conditions.

Because of the specific working conditions existing in shipping, labor supply is less numerous than in other areas. The factors that determine this specific working conditions are: long period at sea away from family, conditions onboard a ship, workload, with shorter turns that repeated etc.

Working conditions in the naval sector require guaranteeing minimum employment and decent life on board. Factors that causes specificity of work of seafarers determine that working staff in shipping need to have inclination to pursue this profession.

c) Risks taben by seafarers

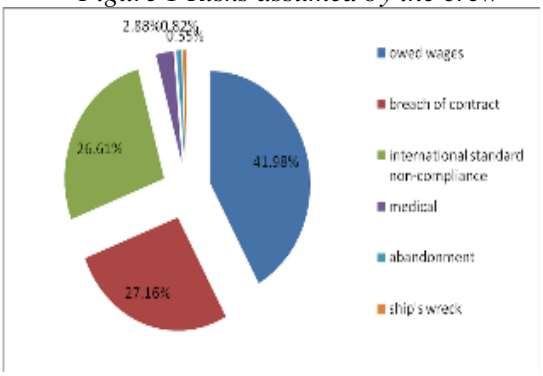
In recent years, one of the causes of decrease labor supply is the risk in shipping and this mainly due to accidents at sea followed by criminalizing seafarers guilty obligation to pay damages or even deprivation of liberty. Approximately 80-85% of accidents at sea are due to human factors.

Errors due to:

- lack of adaptation to conditions at sea (40% of accidents occur in the first 10-12 hours of departure). In the first 3 to 4 days or 7 to 8 days increases number of accidents;
- prejudice of lack of danger in known areas (10% of accidents);
- lack of attention (due to the first two cases), stress, burnout;
- abusive use of radar navigation in areas of input, output, channels, straits;
- objective risk factors - weather conditions, technical failures, erroneous maneuver of other ships.

Following the completion of a study by the International Transport Workers'Federation in the Black Sea, between 01.012012-31.05.2012, were identified the major problems faced crews, on the first place being situated wages paid by employers.

Figure 1 Risks assumed by the crew



Source: ITF study, *Black Sea of Shame*, 2012, p.5

Another risk factor is breach of contract signed by the crew with crewing agency, a factor which may be removed by affiliation of seafarers to a union that can protect their rights. The main risks arising in case of abandonment ship or ship's wreck when can result even loss of life. All these elements can be translated into risks that have an impact on labor supply in the maritime sector.

d) Age structure is a barrier to entry for seafarers

An important feature of the labor supply in shipping sector is age of seafarer. Thus, the crew, in particular, the largest supply is from people under 35 who otherwise are most sought by employers. For those over 45 years age represents a serious barrier to entry on the labor market, especially for ratings and auxiliary staff. It is noted, that in the 2010 in the Eastern European countries, 43% of officers and 54% of ratings has over 40 years.

Table 1 Age structure for seafarers from Eastern Europe

Year / Age	Officers			
	< 31	31-40	41-50	> 50
2000	29%	34%	30%	7%
2005	25%	34%	31%	5%
2010	21%	30%	27%	16%
Year / Age	Ratings			
	< 31	31-40	41-50	> 50
2000	25%	20%	32%	22%
2005	20%	20%	34%	20%
2010	17%	22%	39%	15%

Source: Organisation for Economic Co-operation and Development, *Availability and Training of Seafarers,* Precious Associates Limited, 2003, p.49 and Baltic and International Maritime Council, *Study on Eu Seafarers Employment,* London, 2010, p.42

Shortening the time of service at sea mean, for the company, increasing crew costs and training costs. Another consequence represents significant reduction of personnel with great experience that can lead to increased instability in the management of staff and managerial level knowledge loss resulting from early retirements. All these are costs that cannot be recovered and unfortunately all these factors contribute to negative perceptions of work in shipping, making it increasingly difficult recruiting specialists.

On the other hand, employees too old to be re-oriented and other population groups unable to occupy skilled positions will be seen in a position to appeal to unemployment compensation or social welfare if they do not find to work in areas of low or medium skilled or not accept such jobs.

In circumstances where countries of the second "circle" [3] develops a base of skilled and highly skilled workforce, cheap, they become attractive for large transnational companies will not hesitate take advantage of this opportunity.

In the long term, these changes can lead to divisions based on ethnicity, gender, age, depending on the ability of segments of the population to integrate in the new scenery of the labor market in shipping.

e) Different study period

Educational institutions along with specialized training centers of seafarers determines many of the characteristics of labor supply and acts as a basic condition of economic performance. Education proves to be one of the main factors determining the supply of labor to behave as a "reverse demand".

In Romania there are four institutions which train officers, ratings and personnel for related activities in shipping industries. In other states, institutions forming officers do not take the form of a higher education but of maritime colleges (offering vocational education). The advantage of the colleges is the time lag between the entry and the graduation, while the higher education institution advantage is the bachelor's degree that can be used on other labor markets.

In the EU there are 551 institutions providing training of personnel involved in the shipping industry.

Given the characteristics of labor supply in shipping sector described above, we can determine the default external and internal factors of naval industry that can influence labor supply development:

- inability of governments to take concrete measures for young graduates marine institutes to carry out practical training on board ships (Cadet) and thus to enter to the labor market in shipping. There is a large gap between numbers of employed cadets and graduates from maritime institutes;
- standardization of skills and implicitly of the educational environment or background, as a result of the STCW 95 Convention;
- heterogeneous social policies, with direct consequences on personal development through retirement withdrawals for certain officers and ratings;
- free movement of labor in the shipping sector is still affected by the policies of the ship's flag, cultural and social differences or other factors likely to affect the functionality of the crews on ships;

- inability of the seafarers to work in other areas than shipping through acquired knowledge that cannot be used in competitively on other labor market.

3. Conclusion

With critical phase overcoming the economic crisis of 2008, maritime trade is back on the rise, materializing a favorable labor market in shipping.

In order to secure a quantity of quality seafarers stably for future, it is expected that greater people than before will enter and work for shipping sector.

In conclusion, it can be said that there is a need to make further attempts in support seafaring life and shipping among young people. Motives are not only to get a living, but also to receive good working conditions and the high status of the shipping sector. So it is said that the attraction to become a seafarer as a vocation is high. Looks that improvement in working mode and conditions could result to reduction in the ratio of drop outs from the seafaring vocation.

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The Contemporary Crisis and its Determinative Factors within Globalization Framework

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Abstract

In actual context of crisis prolongation becomes very important to find the triggering elements for economic and financial incentive on global scale. In present globalization framework, as authors have asserted, the optimum model for economic incentive is not the credit rebound but the prices diminishing attitude in order to equilibrate the power purchasing of real demand with the real values of aggregate incomes on markets. Afterwards, as the incomes are contracting in crisis phases and the normal attitude regarding the consumption recovery should not the credit incentive but the prices general deflation based on real production restructuring policies.

Key words: globalization, financial system, crisis, economic system.
J.E.L. Classification Code : F62

1. Induction in globalization framework theory

The globalization process is no longer a static frame assessed as being positive or negative only by the quality of perception at glance, but this phenomenon should be seen as a dynamic process irreversible, but mainly described by its dynamic factors and features [3]. Thus, the most coherent picture of economic globalization as process should be assured by a long term tendencies approach, compared in parameters only to a statistic picture of an economic, financial and social stage of global economy. These tendencies compound in its structure not only the statistic references but all that theories, politics and applicable strategies in economic, monetary or financial dimensions on global level. Starting with the new perspective regarding the relevance on nations in global economic and financial frame as being complementary to OECD classification, we can consider as being relevant for an integrative perspective to distinguish between: *supply-side economics* (those economies based on export strategies), *demand-side economics* (those economies based on domestic demand, capital export and technological export strategies) and *resource supporting countries* (those economics based on resource scarcity strategies) [7]. This classification is meant to split global economy as global system in interdependent components from functional perspective, getting thus the possibility to think about proper policies and strategies worldwide as a response for a global network of economic and financial connection and interactions [7].

Therefore, the national economies are in functional perspective global system components interacting toward similar targets, so it should been considered and evaluated only in connection with global network, coming together with other components to define in dynamic manner the economic, financial and social parameters. Moreover, when are debating the crisis fundamentals we should treat as we systemic components all economies in a global

network, because as we have seen in last decade, the causal chain have a complex determination, as a result of a interaction of many parameters imperative to be considered together on a global scale.

2. The contemporary crisis and its determinative factors

Analyzing the recent crisis example started on 2007, it can be stated that the first stage countries that have faced the crisis direct effects in financial and economic terms were the demand-side countries, which have based their position on global network mostly on domestic demand and on the capital and technological export. In their case the gap resulted from comparing the real values (as on mortgage values example) with the market bubbled values have first triggered a major financial crisis, and further a collapse of investment system as a corrective response to over appraisal tendencies on the estates market. [6]

The demand increasing based on credit behavior enhancement, have conducted to an inappropriate credit maturities (comparing the borrowers and lenders aspirations) tied to banking risk dilution and derivates excessive usage. From that point on the bank competition became hard and the response was the inappropriate increase of mortgages providing as bubble the decreasing potential related to real values of aggregate income on domestic market. When the market values bubble blown up the investment system attached to the financial intermediation system, dominated by the demand-side economies capital export, have triggered the negative effects toward supply-side economics, hungry for capital, affecting in chain also the companies and house holdings. The next stage of crisis mechanism was the demand breakage, the values diminishing on markets together with credit guarantee system, this attitude affecting on a long time the revision of risk factors and the credit default swap rates, coming not to incentive the real economy but to block it. Thinking in this manner is proper to consider that the first stage of a financial syncope is triggered by the investment sluggish tendency, as it has been induced by the demand-side economics. Thus, the first crises stage the demand crisis, which is based on capital movement sluggish, as a crisis stimulus transmitted from financial side to real economy [6].

In the next stage, after the liquidity deficit is installed on markets as investments changing behavior, the production crisis is coming to face a supply contraction, in this phase becoming clear and vivid the organic connection between financial system and real economy. There will be affected the supply-side countries delaying in their reaction as a reactive behavior to the market. The demand diminishing attitude installed in developed countries, which are the best consumers for developing countries as pricing competitive advantage beneficiary, will trigger significant gaps in exports for this type of economies, and further the sluggish trends in GDP increases. But this is not fair because the cheap demand from developed countries is supported throughout the good consuming times, as a „competitive advantage", by the lower living standards for labor market in developing countries, so this could be considered as an „elitist" behavior. The capital export is not looking for higher profits but finally will subsidy indirectly the cheapest consumption in developed countries. The output contraction moment will launch a supply crisis, depicted by more severe effects as economic decreasing and social disturbance (as unemployment or living standards dropping), the production restrictions determining the trade parameters assessment and a new bargain on international level, but on unequal positions as always. [8]

In this regard, considering the entire framework, it seems that in a period of a profound crisis as systemic one either in financial or economic side of global economy, any try to launch back the consumption based on credit enhancement should be a wrong and unsustainable decision. This is inapplicable first because the developed countries will draw back their investment to protect as instinctively the internal demand, and second because entering into a diminishing demand spiral the developing countries will face hard landing positions in stocks due to their sluggish export. At least on short time horizon this intention to support the demand through credit will stimulate but unsustainable the economy recovery [4].

This theory is sustained by the lack of market or production system reaction in 2009, when the monetary policies in almost of the countries had been relaxed till where the interest rates went so down close to negative earnings, but without any significant result on medium on long term as the time passing has proved. The simultaneously increasing of risk premium rates (as *Credit Default Swap* rates) suggest more the lack of trust on markets and its connection with the demand and consumption appetite than a lack of liquidity of financial system. From this perspective a solution but radical for crisis overcome is a general deflation as an option for a new assessment wave on market values in order to rebuild the fundamentals for real economy and its financing sources. But the deflation of course will affect the production system which will be forced not only to restructure their outcome system but the go deeper in structure of costs despite on the investment politics on medium and long terms which will generate an un-investment position from financial markets. This should trigger the real consumption values in order to reduce the panic in investors' opinion. Additional to these desiderata should be imperative to bargain new dues for long term credits together with a real restructuring of production sector.

For a country like USA the optimum model for economic incentive is not the credit rebound but the prices diminishing attitude in order to equilibrate the power purchasing of real demand with the real value of aggregate incomes on markets. Afterwards, as the incomes are contracting in crisis phases and the normal attitude regarding the consumption recovery should not the credit incentive but the prices general deflation based on real production restructuring policies. The capital injection into an overheated production system debated from real demand on market, especially on long term investment goods will not get to a sustainable effect but will just enlarge the lack of trust in real market values, defying the economic cycles (see the Kitchin cycles).

According to Frederick W. Taylor theory the real solution for economic efficiency should be find not in the financial direction but in a production organization policy, as the main economic fundamental in order to take advantages from technological advance [11].

Following this ration the technological advance should produce efficiency in cost terms not like today when the new technologies were irrelevant to market prices. When the spiral of credit is getting faster the real consumption curve will be affected by an artificial appetite for demand, and further will trigger an artificial inflation not correlated with the economic efficiency rations. As example we should remember the Opel corporation case where the most modern cars plant built at the begging of 2008 have a strange effect on final cars prices getting higher than before up to 10%, in contradiction with Taylor efficiency principles. Implementing new technologies we should get lower prices, good for demand burst and spending incentive attitude not on credit but based on real incomes of house holdings.

In conclusion the globalization phenomenon is defined by the interactions recorded between nations and economic and financial entities, being moved by two driving forces as: (1) the world trade and (2) the financial market integration tendency. The economies are connected into a global network, on regions levels, first through goods fluxes and second through capital flows. However, when the positive results from economic side are used in speculative manner the fragile equilibrium between those three main types of economies as it has been described above, will be affected on a long term in the disruption of real values facing induced market values. First the capital oriented countries are directing their excessive capital flows toward developing countries but mainly on speculative ways neglecting the economic reasons. Throughout the period when the artificial demand is supported and stimulated by the credit expansion the developing countries evolving profitable on a positive market perception, getting earnings from this situation. But when the aggregate income will not cover anymore the capital promised interests and the mortgage markets becomes pessimistic, the capital flows are retracted being suddenly drawn back by investors in spite of economic efficiency. And here comes the problem, when the developing countries have not the

same resilience to the capital drawing back generalized attitude.

3. Conclusions

When the capacity of economies to react is so heterogeneous the crisis forms and further evolutions are different. The strong capital countries will suffer in first crisis stage on a short time in lack of capital returning from investment places. Their policy will support the capital drawing back, desiring a domestic proper liquidity. The next effect will be the upper price for capital export toward developing countries trying thus to recover the losses from financial system together with different speculative attacks on young markets or currencies. The supply side economics will be further affected by this attitude of demand side economics, getting an expensive access to financial resources in order to sustain the production stocks and economy overheating, just to avoid hard landings. So we can see even a spiral here, triggered by capital flows, coming from supply side economics as more expensive resources and lower demand and going toward supply side economics, facing the stock increasing and lack of liquidity on economic input. That spiral should be disrupted not based on credit recovery or on capital injections in bail out economies, but should take under consideration the real equilibrium between market values and real values determined by real incomes and spoiled by long term financed consumption. [10]. The solutions for crisis disruption in a global context could find appropriate first the production restructuring policies and second the technological insertions in order to recover the economic efficiency. The world should start to learn how to work together in a viable economic and financial network, understanding the deep connections established already between economies, regions and world trade components.

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Reducing Public Debt in the Aftermath of the Financial Crisis: Renewing with Financial Repression

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Abstract

Since the 2008 financial crisis burst, public finance accounts in developed economies have been continuously deteriorating; both fiscal and monetary policies are reaching their limits, while unemployment rates are soaring and GDP growth is fragile, if not inexistent. The aim of this article is to consider the options at the hand of developed economies for reducing the public debt burden.

Section 1 draws a picture on the general economic outlook in the developed economies and emerging countries. Section 2 considers the different ways in which a country's debt burden can be diminished. Section 3 defines the concept of debt financial repression and its main features. Section 4 focuses on researchers' work on historical data, to measure the debt erosion after WW2 and section 5 analyses the current economic situation and tries to assess whether the outlook is similar and whether a similar eroding process is worth considering. Section 6 concludes.

Key Words: debt liquidation, financial repression, public debt, macro prudential policies, real interest rates
JEL Classification: E4, E6, F4, H6, N10

1. Introduction

Since the burst of the financial crisis in 2008, public finance accounts in developed economies have been continuously deteriorating, while central banks' interest rates have been moving closer and closer to the zero bound.

Both fiscal and monetary policies are reaching their limits, while unemployment rates are still high and GDP growth is fragile, if not inexistent. Moreover, these economies face an even more difficult challenge, an ageing population, which makes them vulnerable in case of a negative shock. The Euro Zone is the political and economical area the most pointed out for its serious public debt problems and obstacles met in the financial stability target. Indeed, public debt accumulation is starting to weigh on the monetary policy, whose main role is to ensure price stability on a medium and long term. Concerns about public and private debt sustainability arise in many economies of the world and political pressure is rising, as austerity policies, used on a large scale since 2010, are proving inefficient and people rebels against harsh measures such as expense cuts and increased taxation [8].

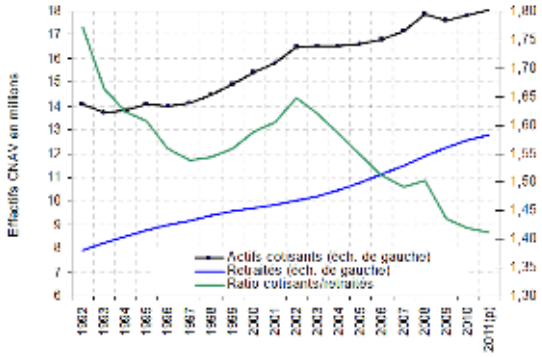
This article aims to analyse the different ways in which a nation's debt can be diminished and more specifically, analyses the concept of financial repression and its relevance in the current state of the developed world.

2. General economic outlook in the developed world

Before the crisis, the main features of the developed economies were a record climb of the private debt, notably that of households and of financial institutions. Once the crisis burst, public deficits accumulated rapidly, as governments embarked in banks and other financial institutions rescue plans, unemployment benefits soared and fiscal revenues dropped as profits disappeared and the basis for social charges taxation contracted. Notwithstanding, the population ageing phenomenon is gaining field, worsening the already gloomy economic outlook by increasing health care and retirement benefits for an ageing population. For instance, in France, the tax payer/retired

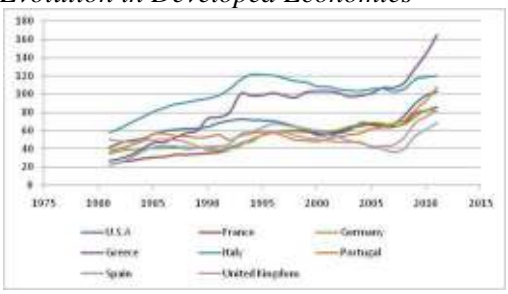
persons ratio decreased from 1,75 in 1992 to 1,4 in 2010. And still, France has one of the highest birth rates in the developed world. The following chart testifies for the ageing population trend.

Chart no 1: Tax payers/retired persons ratio evolution



Source : www.securite-sociale.fr/

Chart no 2: Public debt/GDP Ratio Evolution in Developed Economies



Source: author's calculations, IMF public debt database

Factors having enabled public debt development.

The accumulation of public debt necessitates sustained government bonds emission. This was made possible by various factors:

A. an important demand coming from the private sector, less keen to invest in risky projects, therefore interested in state bonds, perceived as safe assets.

B.The bias of banking and insurance regulation towards government bond detention. Indeed, capital stock requirements in Basel II and Basel III regulation support public bonds, as they are considered very liquid and are supposed to carry an almost zero default risk.

C. Quantitative easing policies lead by central banks help encouraging public bonds demand. Central banks buy public bonds or accept them as guaranties when financing financial institutions. Therefore, in the context of inexistent growth in the aftermath of a financial bubble crash, possessing public debt in their assets enables banks to get access to central banks financing resources.

3. Possible theoretical measures available for reducing debt/GDP ratio

In order to reduce the debt/GDP ratio, various methods are available, but their acceptance is variable across time and considering the economic context. Among these means, the most common are: a.Significant fiscal adjustment/austerity policies; b. Economic growth; c. General increase in the inflation rate; d. Financial repression and some inflation; e. Explicit default or private/public debt restructuring (i.e. partial default)[5].

These methods may be combined, but it is generally accepted that fiscal adjustment is particularly painful in the short term and very difficult to implement from a political point of view. Examples are abundant for Greece, Spain and Portugal, where strikes and public discontentment are becoming usual. Romania also had to put up with a severe expense cut after the crisis, but protests are less virulent than in other developed economies in Europe.

Explicit default and/or public debt restructuration are also possible, it has been tested on Greece recently, but consequences were harmful for the peripheral European countries, suffering from general European Contagion. Generally, default or restructuring is not a viable solution, as, for a developed country, defaulting is stigmatizing. In this context, the debt burden will have to be contained in one way or another. Moreover, the situation is being complicated by an important indebtedness of the private sector as well, notably banks, creating a vicious circle between the latest and national governments.

4. Financial repression definition and main features

Financial repression is composed by a set of measures aimed at taxing savings indirectly and transferring value from savers to borrowers.

Among the main features, Reinhart C. [5] notes:

a. Explicit or implicit ceilings on government debts, made possible by regulation, preferential borrowing rates for credits granted to governments or local authorities and a low interest rate target monetary policy
b. The creation of a captive domestic audience, by restricting capital account movements, requiring high non remunerated reserves by the central bank or, prudential regulatory measures requiring domestic institutions to hold public debt in their portfolios.

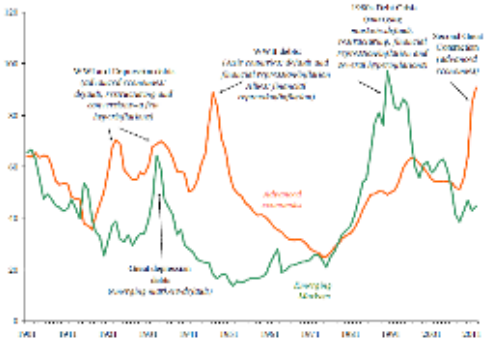
The result is negative real interest rates, which allow public debt erosion.

5. Debt liquidation process in recent history

Reinhart and Sbrancia[6] analyzed public debt patterns in recent history and found the following:

In normal times, public debt/GDP rations evolutions are uncorrelated between countries, unless a major even, such ar war of major financial distress, disturbs the individual pattern of a country's debt.

Chart no 3: Surges in Public Debts, 1900-2011



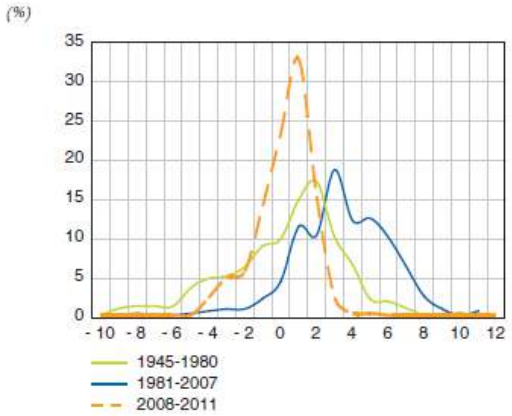
Source: Reinhardt, C., Sbrancia, B., "The liquidation of government debt", NBER WP 16893 march 2011,

In this chart we notice 5 peaks. Three episodes (World War I, World War II, and the Second Great Contraction, 2008-present) are almost exclusively advanced economy debt peaks; one is unique to emerging markets (1980s debt crisis followed by the transition economies' collapses); and the Great Depression of the 1930s is common to both groups. While WW1 and the 1930 Great Depression debts were mainly reduced by widespread default and explicit restructurings, as well as rampant inflation, the World War II debt overhang was importantly liquidated via the combination of financial repression and inflation, as shall be documented subsequently. This was possible because debts were mainly domestic and denominated in domestic currencies.

When analysing that period it is usefull to recall that the "laissez faire" policy that predominated until WW1 was far gone and the Era of the Bretton Woods Arrangements of fixed exchange rates and tightly controlled domestic and international capital markets was in place. In that context, and considering major economic dislocations, scarcities, etc. which prevailed in the aftermath of the WWII, we witness a combination of very low nominal interest rates and inflationary spurts of varying degrees across the advanced economies. The results were negative interest rates, which made possible a rapid debt/GDP ratio reduction.

Indeed, low nominal interest rates reduce governement expenses whit interests related to public debt. Moreover, negative real interes rates alow government debt reduction in real terms, by transfering value from creditors to debtors, herenafter the state.

Chart no 4 : Real interest rates frequency distribution in advanced economies, 1945 - 2011



Source:, Reinhardt, C., Sbrancia, B., "The liquidation of government debt, NBER WP 16893 march 2011, http://www.nber.org/papers/w16893

Unlike fiscal adjustment, highly unpopular and costly for politicians, financial repression is more opaque to the general public and, therefore, it is far easier to implement and to be accepted, it is therefore much alike an indirect tax.

Between, 1945 and 1980, for about 30 years, real interest rates were on average negative, in both developed and developing countries (see chart no 4).

If financial repression operated through public debt detention, it was mainly supported by even lower returns on savings, capital account moves restrictions and, particularly, generalized negative returns on government bonds almost all over the world.

The liquidation effect is calculated by applying the negative real interest rates to the public debt portfolio basis, for the years characterized by negative real interest rates [6]. Results are presented in the following table. For instance, for the UK and the U.S, the annual liquidation rate is around 3,4%. In a decade, it accounts for 34% of the public debt, not taking into account the cumulative effects [6].

Table1. Magnitude of the liquidation of public debt effect, 1945 – 1980, selected countries

Country	Period	Reference measure of revenues coming from a liquidation effect	
		In GDP %	In Fiscal revenues %
Australia	1945-1968, 1971, 1978	5,1	20,3
Belgium	1945 -1974	2,5	18,6
Ireland	1965-1990	2,0	10,3
Italy	1945-1970	5,3	127,5
South Africa	1945-1974	1,2	8,9
UK	1945-1980	3,6	0,3
USA	1945-1980	3,2	18,9

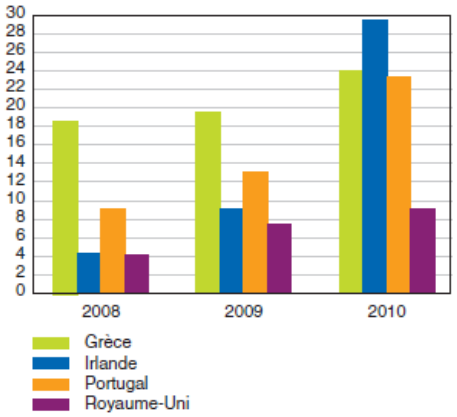
Source: Reinhardt, C., Sbrancia, B., "The liquidation of government debt, NBER WP 16893 march 2011, http://www.nber.org/papers/w16893

6. Debt liquidation in current developed world.

This section analyzes the after 2008 world outlook and develops an investigation to consider whether today's situation presents the characteristics of a financial repression era.

Firstly, banks and national individuals are more and more encouraged to hold national public debt, similar to a creation of a captive public. For instance, some peripheral European countries' banks, but not only, have in recent years liquidated foreign assets and replaced them with public government bonds, as it is proved to be the case for Spain, Portugal, Ireland and, to a less extent, UK.

Chart no 5 : Public debt portfolio hold by local banks, 2008-2010, in GDP %



Source:Reinhardt, « Le retour de la répression financière », *Dette publique, politique monétaire et stabilité financière,* Banque de France, Revue de la stabilité financière, N° 16, April 2012

Examples are abundant, both in the developed and in the developing world. In Japan, 2010 saw the cancelling of the National Post Office privatization, as well as the raising of deposits' ceilings [5]. The new in place government cancelled the 2007 privatization project. Japan Post Office manages a huge deposits system; it is the first financial conglomerate in the world. Considering that, traditionally, Japanese Post invest 75% of its assets in national government bonds and that depositors prefer holding their economies in guaranteed State establishments, cancelling the privatization of this institution makes it a beautiful prey to being captive to government public debt.

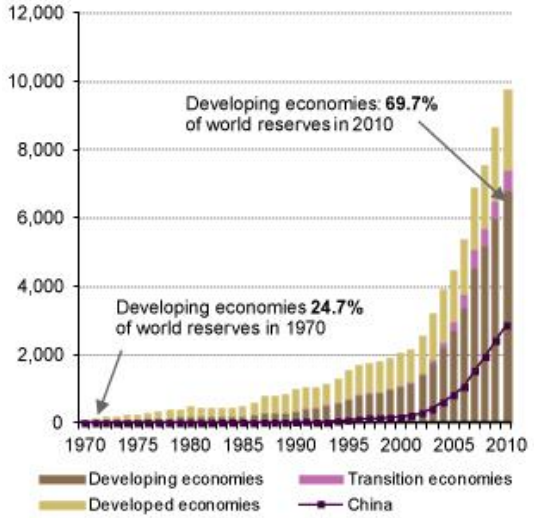
This is particularly true in Japan, where most public debt is hold by Japanese households or institutions.

Thirdly, interest rates are maintained particularly low, by massive bonds purchase and monetary easing policies by major central banks around the world, at that point that it is becoming doubtful whether the information contained in the bond prices reflects real risk [4].

Fourthly, macro-prudential policies encourage banks and insurers to hold very liquid, non risky assets, which are, surprisingly, public domestic bonds. Basel III is particularly biased toward government bond detention and reinforces the vicious dependence between governments and financial institutions.

Finally, it is worth noticing a considerable change in the emerging markets capital account management policies, which is not neutral for the current situation in developed countries. Emerging markets are export oriented and low stable exchange rates allow them to maintain their price competitiveness. Classically, when high return expectations from foreign investors appear, foreign short term portfolio investments climb up, putting a pressure on exchange rates, which eventually appreciate, thus damaging the exports activities. Central banks intervene by buying massive quantities of foreign government bonds, and therefore indirectly contributing to maintain high demand on developed countries government bonds.[3]

Chart no 6. Reserves of developing developed and transition economies and China



Source :World Economic Outlook 2011 database

But these massive interventions of emerging economies' central banks are costly and only have a short term effect, so, usually, emerging economies combine foreign treasury bonds purchase with some capital account control measures. While the IMF historically prohibited capital account controls, it recently softened its view, allowing capital account management policies under certain circumstances [1,2]. What is certain is that it's the first time, since the Bretton Woods arrangement broke up, that international community is so permissive towards emerging markets' capital account measures. This time, the context makes these measures acceptable for developed countries as well, because they keep investors from developed countries captive in the developed markets, where real interest rates are very low, and even negative.

7. Conclusions

Since 2008, potential growth has been continuously diminishing and economies don't turn at their full capacities.

Public and private debts in developed economies are situated at historical heights and pressure is rising on central banks and governments to contain public debt interest expenses, but also to start reducing the Debt/GDP ratio. Fiscal adjustments in Europe have proved very painful for population, costly from a political point of view and inefficient, considering the poor achievements of these countries and their suffering economies.

In this context, financial repression appears to be a viable and acceptable solution in order to start reducing the debt burden weighing on developed economies. Recent measures adopted in different parts of the world, and namely in Europe, testify for financial repression coming-back. In the recent Cyprus crisis [7], financial repression goes even further and takes the form of a deposits freeze, followed by deposits taxation. Indeed, when the European Union granted Cyprus a rescue plan of €10 billion on March 17h it asked Cyprus to partly finance the deal. Cyprus achieved this by seizing deposits and taxing them at 6,75% up to 100 000€ and at 9,90% for the exceeding surplus. We could

judge that Cyprus' case is marginal, considering the fact that banking deposits, for the most part held by Russian investors, account for four times its' annual GDP and were probably subject to fiscal fraud. However, the Cyprus case opens the way to moral hazard . How can the European Union justify in front of its citizens the rescue of Cyprus, considering the deposits composition and property? While this crisis is far from closed, it represents an interesting path to understand financial repression forms in today's world.

As Carmen Reinhardt expressed it in her research paper, what we are experiencing today is maybe only the visible part of a huge iceberg.

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Monetary Policy Efficiency and Challenges Lying Ahead in the Aftermath of the Financial Crisis

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Abstract

Since the 2008 financial crisis burst, central banks have had an increasing role in ensuring liquidity on financial markets, acting as lender of last resort and maintaining a general, though still fragile equilibrium. Once the interest rate cuts were no more enough to ease monetary policy, unconventional measured replaced them, generally known under the name of "quantitative easing". Monetary policy increased in importance as governments' latitude to conduct public and fiscal policies to sustain general demand are very limited in a context of generally high deficits and public indebtedness.

This study assesses the limits and eventual risks of prolonged accommodative monetary policies deployed in developed and emerging economies throughout the world. Among the main risks, we analyse: the implications for effective balance sheet repair in advanced economies; the consequences of global monetary policy spillovers to emerging market economies; and the resulting longer-term risks for central banks, namely inflation risks.

Key Words: monetary policies, central banks, quantitative easing, inflation, balance sheets
JEL Classification: E41, E44, E51, E52, E58,

1. Introduction

Since the burst of the 2008 financial crisis, public finance accounts in developed economies have been continuously deteriorating, while central banks' interest rates have been moving closer and closer to the zero bound.

Fiscal policies feasibility in developed countries is very limited, as public deficits are being banned, public and private indebtedness reach historical heights and GDP growth is fragile, if not inexistent. In this context, monetary policy remains the only available tool to redress economy.

The next sections analyse what monetary policy can do and cannot do, according to the economic and political context, and asses the main risks associated with prolonged accommodative monetary policy.

2. Accommodative monetary policy benefits in the short term

Accommodating monetary policy definitely has some benefits in the short term. Undeniably, without decisive and repeated central banks' intervention, a financial meltdown would have probably occurred after the Lehman Brothers episode in late 2008. Easing monetary policy enables private and public sector balance sheet repair in the short term, by preventing disorderly deleveraging and bankruptcies. Furthermore, it reduces debt servicing costs, may support asset prices, output and employment. It was completely true in the aftermath of the 2008 events.

However, the reasoning weakens in the long term, when it comes to suffering, depressed economies, having undergone an important financial crisis and economic slowdown..

Over indebted economic agents do not wish to borrow in order to spend, and an impaired financial system is less effective in transmitting the policy stance to the rest of the economy. This means that, in order to have the same short-term effect on aggregate demand, monetary accommodation will naturally be pushed further. But this cannot substitute for direct corrective action to address debt burdens and impaired balance sheets. Ultimately, this means that monetary

policy, while undeniably helped preventing a financial and economic meltdown of the size of what we have known during the Great Depression, it alone cannot solve solvency problems, fiscal policies and structural reforms must be implemented.

3. Conventional and unconventional monetary policy instruments

Traditionally, three main instruments are generally used to conduct monetary policy: Reserve Requirements, Open Market Operations (OMO) and Standing Facilities.

Reserve requirements take the form of a minimum reserve deposit requirement held at the National Central Bank. They generally take the form of a percentage applied to the previous period's average level of commercial banks' deposits/liabilities base. In practice, this instrument is not really used.

OMOs are the primary instrument used to maintain the policy rate, while at the same time ensuring that there is sufficient liquidity in the banking system to satisfy banks' demand for required reserves and settlement balances. Among the main OMO, we note: Bilateral Repurchase Operations, Foreign Exchange Swaps, Outright Purchase/Sale of Debt Securities.

Standing facilities are aimed at providing and absorbing overnight liquidity, signal the general stance of monetary policy and bound overnight market interest rates. In the Euro Zone, standing facilities take two forms, marginal lending facility in order to obtain overnight liquidity from the central bank, against the presentation of sufficient eligible assets and deposit facilities in order to make overnight deposits with the central bank.

Since July 2012, the ECB doesn't remunerate deposit facilities anymore.

These three instruments are included in the conventional monetary policy instruments. However, once the zero bound has been reached, and in the context of a high risk aversion and fragile economic recovery, central banks had to deploy some "unconventional measures".

Graphic no° 1: Central banks' interest rates in developed and emerging economies.



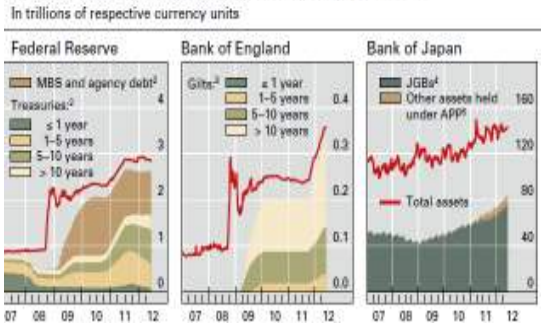
Source: BIS Annual Report 2012

All major advanced economies' central banks embarked in large scale asset purchase programs, aimed at lowering long-term interest rates and financial risk premia, especially in the Euro Zone. The Bank of England and the Bank of Japan increased their asset purchase programs over the period, by £125 billion and ¥30 trillion, respectively (see graphic no° 1).

The large-scale asset purchases implemented from late 2008 considerably increased central banks' outright holdings of longer-term securities, in particular of government bonds, contributing to the drop of long-term interest rates to very low levels;

The graphic below illustrates United States, UK, and Japan's central banks' balance sheet increase starting from 2008.

Graphic no° 2 : Central banks' balance sheet size and composition

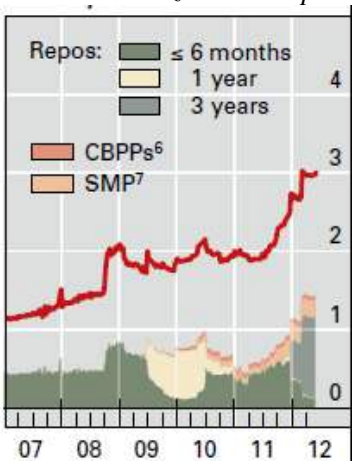


Source: Datastream

In the Euro Area, the problem was intensified by rapid increases in bold yields for some euro area sovereigns, pushing the ECB to take decisive measures: i)conducting two three-year longer-term refinancing operations (LTROs), one in December 2011 and one in February 2012, with full allotment, ii)widening the range of collateral assets accepted in refinancing operations and iii) lowering the required reserve ratio. As a consequence of these measures, the net increase observed in the size of the assets on

the Euro System's balance sheet of roughly 500 billion €. The maturity also increased with these two LTRO, as the scale of other, shorter-term refinancing operations was reduced at the same time.

Graphic no° 3.: Euro System's balance sheet size and composition



6 Covered bonds held under the Covered Bond Purchase Program (CBPP) and the CBPP 2.
7 Securities held under the Securities Markets Program (SMP).
In red: total Assets
Source: BIS Annual Report, 2012

However, ECB balance sheet started to go down beginning of 2013, as banks started reimbursing the LTRO programs, as shown in graphic no. 4.

Graphic no°4 : Euro Zone balance sheet evolution



Source: goldsilverworlds.com

4. Limits and risks associated with over – accommodating monetary policies

The main risks associated with prolonged over-accommodating monetary policies concern implications for balance sheet repair, global financial and price stability as well as central bank's credibility and autonomy.

i) Monetary policy and effects on balance sheet repair

Prolonged accommodative monetary policy may postpone balance sheet repair and the return to sustained growth, by hiding balance sheet problems and the urgent need to address them, and even reducing the opportunity cost of holding non-performing loans, leading to a credit misallocation. Moreover, observed loss provisions are very low in major developed countries' banks, despite the poor macro-economic conditions.

Secondly, low short term and long term interest rates may sustain excessive risk-taking. While counteracting widespread risk aversion was one important motivation for the exceptional monetary accommodation provided by central banks in response to the global financial crisis, low interest rates can over time promote the build-up of financial vulnerabilities by triggering a search for yield in unwelcome segments. This is particularly true today as real interest rates are close to zero, and mostly negative in advanced economies [1].

Thirdly, lax monetary policy may distort financial markets' operating, by changing the dynamics of overnight money markets, which may complicate the exit from monetary accommodation. Large-scale asset purchases, intended to lower long-term interest rates and financial market risk spreads, ultimately also weakens market signals, as long term yields on government bonds are a key benchmark for financial intermediation. We can indeed start doubting on the capacity of bond prices in reflecting private agents' decisions and anticipations, as central banks become major operators in these markets and influence bonds' yields [6].

ii) Accommodative monetary policy and emerging economies

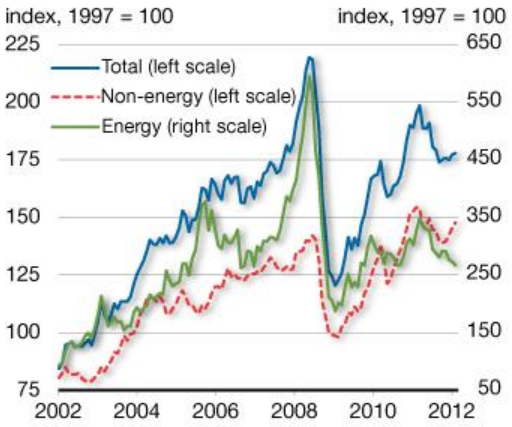
While prolonged monetary easing probably has only limited potency to revive growth in the advanced economies, its global spillover effects may be substantial. Unceasingly large interest rate differentials (Graphic no.1) sustain capital and credit flows to fast-growing emerging market economies and put upward pressures on their exchange rates. This makes it more difficult for emerging market central banks to pursue

their domestic stabilisation objectives. Interest rates have been raised only hesitantly in response to overheating domestic macroeconomic and financial conditions out of concerns that this would widen interest rate differentials and further boost capital inflows. As a result, monetary policy in emerging market economies may be systematically too permissive, though a new wave of capital account control measures has shown up in the past few years, and, for the first time, both the IMF and developed countries are more permissive than in the past, because measures in developing countries keep investors from developed countries captive in the developed markets, where real interest rates are very low, and even negative [4,5].

The prevailing loose global monetary conditions have been fuelling credit and asset price booms in some emerging market economies, creating risks of rising financial imbalances similar to those seen in advanced economies in the years immediately preceding the crisis. Their unwinding would have significant negative repercussions, also globally as a result of the increased weight of emerging market economies in the world economy and in investment portfolios.

Loose global monetary policy has probably also contributed to the strength of commodity prices since 2009, as illustrated in graphic no.5.

Graphic no° 5: Commodity prices, 1997 - 2012



Source:http://www.budget.gc.ca/2012/plan/chap2-eng.html

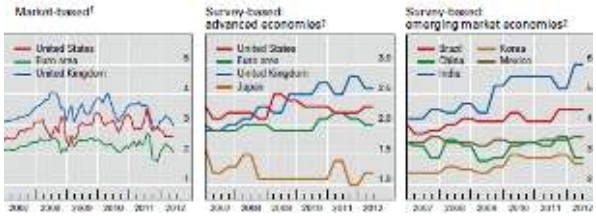
Commodity prices are set in global auction markets and are very sensitive to global demand conditions, which are in turn shaped by the global monetary policy stance. The growing role of financial investors in commodity markets may have further raised the sensitivity of prices to monetary conditions [2].

The growing relevance of monetary policy spill-overs suggests that central banks need to take better account of the global implications of their actions. In a highly globalised world, a more global monetary policy perspective is also called for to ensure lasting price and financial stability called for to ensure lasting price and financial stability

iii) Monetary policy and long term risks for central banks

Currently, long term anticipations do not point out raising inflation risks, in both advanced and emerging economies, as suggested by market indicators and consumer surveys.

Graphic no° 6: Inflation expectations in developed and emerging markets



1 Five-year inflation expectations five years ahead; monthly averages
2 Six- to 10-year-ahead mean consensus forecasts of consumer price inflation.
Source: Bloomberg

In the long run, central banks' credibility and autonomy may be affected as monetary policy interferes with fiscal policy, the separation between them becoming blurry[1]. However, one must understand why recent quantitative easing as well as loose monetary policy did not alter inflation anticipations, and we shall make a point on the Euro Zone's case, though other economies are eligible to the same reasoning. It is mainly because an increase in the money base does not necessarily increases money supply in the economy.

While the monetary base is highly liquid money that consists of coins, paper money (both as bank vault cash and as currency circulating in the public),

and commercial banks' reserves with the central bank, the money supply is formed by the aggregation of banks and central banks balance sheets. It is compound of demand deposits and currency in circulation. Bank's reserves with the central bank are not included in the money supply, as they are the asset of the bank and the liability of the central bank, thus compensating themselves.

Thus, money supply does not fully depend on central bank's actions, but also on commercial banks' behaviour and the demand prevailing in the economy. If banks decide to grant few credits to the economy, or if the demand is poor, money supply will not increase, irrespective of central bank's monetary policy, because the commercial banks liquidity surplus will transform in central banks reserves.it is exactly was is currently happening in the Euro Zone, where investment is suffering and global demand morose. Capacities are not used at their full potential, firms are deleveraging and households postpone their consumption decisions and increase their savings[3].

That being said, banks do hold reserves in their assets, and, theoretically, these assets could be poured into the economy, generating a money supply increase and, subsequently inflation or financial bubbles.

Therefore, despite current low inflation rate risks, central banks must conduct sterilization policies, i.e. absorbing surplus liquidities by selling bonds and securities held in their balance sheets.

5. Conclusions

The global monetary policy position is unusually accommodative. Interest rates are well below traditional benchmark measures. At the same time, central bank balance sheets have reached an unprecedented size.

As fiscal policies become useless as economies embark in austerity policies in order to return to equilibrium, sustained monetary easing is is the last weapon at governments' disposal. However, there are things that monetary policy can do and cannot do. While it can ensure market liquidity, prevent disorderly deleveraging and bankruptcies deleveraging, monetary policy does not tackle solvency, nor structural problems. It cannot be uses as a substitute for those policy measures that can address the root causes of financial fragility and economic weakness.

The combination of fragile growth and exceptionally low interest rates in advanced economies, and efforts to manage the spillovers in emerging market economies, has helped to extend monetary easing globally.

The resulting risks of a build-up of financial imbalances and increasing inflationary pressures in emerging market economies might have significant negative repercussions on the global economy. Therefore, there is an urgent need for central banks to take better account of the global spillovers from their domestic monetary policies to ensure lasting financial and price stability.

Moreover, central banks need to take into account longer-term risks influencing their credibility and operational independence. This would complicate the eventual exit from monetary accommodation and may even threaten central banks' credibility and operational autonomy. This concern is reinforced by political economy risks arising from the combination of balance sheet policies that have blurred the line between monetary and fiscal policies, on the one hand, and the risk of unsustainable fiscal positions, on the other.

Finally, central banks need to take into account inflation risks carried by their unconventional policies, despite current low expectations of inflation.

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The Regionalism – Challenges on the Multilateral Trading System

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Abstract

The regionalism has changed into a real phenomenon with incidents impossible to be ignored, as regards the wide-world economy configuration; such phenomenon cannot be overlooked, not even under estimated, since it significantly influences both the type of trade relationships, as well as the economic policy options. Within the after war period, as especially starting with the nineties, a significant inflow has occurred as regards the regional trade agreements, which carry out various shapes, determined by the "mosaic" of relationships that are established between the states that focus all their efforts towards the direction on reaching the common objectives. In such circumstances, the relationship between regionalism and the multilateral trade system has determined significant debates and controversies on the international level.

Keywords: preferential liberalization, multilateralism, regionalization
JEL Classification: F13

1. Introductive regards

The non-discriminating multilateral trade represented the major goal of GATT, goal that was "inherited" by its successor, meaning WTO; as matter of fact, such goal was far away of being "universal"; many countries have yet maintained different levels of protection, giving treatments more favorable to certain trading partners, upon basis of some preferential trade agreements, and less favorable to others. The preferential trade is not a new concept; the colonial imperials have been extended starting with XIXth century and the beginning of XXth century, and can be assimilated to some preferential trading blocks, since they applied various facilities to the exports towards or from colonies; otherwise, one of the faculties of reasoning that determined the high powers to reach new territories consisted in ensuring the outlets for the own merchandise on one hand, and in ensuring some supply sources with raw materials or merchandise that they haven't disposed until that time, on the other hand [1].

The regionalism, seen as up-to-date, doesn't mean "an invention" exclusively post-war; the first episode occurred in the second half of the XIXth century, having the origins in Europe, as well. During that time, the intra-European trade has significantly been increased, owning an essential weight within the world trade. Until the beginning of XXth century, Europe has already functioned as a unique market in some aspects; the industrial revolution and the technological progress have made easier the inter-states trade development and the trend towards the free regions formation and the customs unions.

The First World War interrupted the trend previously invoked; the customs duties, quantitative restrictions, prohibitions and checks of changes were quickly established in the entire Europe, in the view of protecting the industries related to the national security. After ending the conflict, the confederate states, especially Great Britain and France, have refused to extend the MFN over Germany and combatant countries, thus blocking the possibility to restore the pre-war "liberal economy order".

The occurrence of the second episode of regionalization, carried out during the inter-war period of time, has been frequently related directly to the impossibility of re-enjoining the liberal order at multilateral level; in such circumstances, the efforts on regional level have been seasonable. [2]

After the Second World War, although emphasizing a well-organized frame for the non-discriminating multilateral trade, many of the world states have continued to be

interested of the preferential or discriminating trade, issue proven by the statistical data that revealed an increase upon the trade flows concentration, on the regional or trans-regional level, tendency that have been more emphasized starting with the eighties.

2. The waves of regionalization

This phenomenon has known various phases over the time, known in the specialty literature under the name of *values of the regionalization.* [3]

The first "wave" of the "early" regionalism during the fifties – seventies, was launched by the creation of European Economic Community, by means of the Treaty of Rome (1957), and followed by a series of cooperation initiatives at the regional level between countries in progress of development. At that time, the United States of America militated in favor of the multilateralism; notwithstanding, they have supported the integrationist process in West Europe, thus seeing a counter-weight to the USSR ascension and what it signified on one hand; on the other hand, this was seen as instrument in multilateralism promotion, considering that a united Europe might facilitate the progress of negotiations within GATT. Under the momentum of European Common Market, the regionalism has been disseminated in Africa, Latin America and other regions; the countries in progress of development, which implemented the policy of imports substitution, have aimed towards the reduction of costs generated by this type of industrialization, by exploiting the scale economies achieved after the preferential opening of market. Nevertheless, by the end of the 60s, their attempts have failed, especially because the industries allotment was intended to be carried out by bureaucratic negotiations. [4]

At the end of the 80s, the regionalism came out on the world arena, forcefully imposing in the nineties; this type of "new regionalism" represented the solution of the structural changes that have been carried out on the world economy, as consequence of the globalization process. In parallel to the gradual liberalization of the trade, the part of direct foreign investments in the global economy was amplified: the investment flows have outmatched the trade flows, and the extended size of the market made easier such progress [5]. "The engine" was represented by the entrance of United States in "the field", this time in quality of essential "player". The decision of USA on preferential exploring and approaching the trade relationships was significant, considering that in the previous decades, this was a fervent supporter of the multilateralism. Diverting from the principle of non-discrimination, promoted by the Most Favored Nation Provision, USA negotiated free-exchange agreements with Israel and Canada (CUSTA - Canada - US Free Trade Area), after which this launched the proposal for a free exchange hemispheric region (*Enterprise for the Americas Initiative*); subsequently, an agreement was signed together with Canada and Mexico in order to establish NAFTA. It is appreciated that "this conversion" of USA to regionalism does not represent just the catalyzer, but also the factor that involves steadiness and lastingness for *the second wave* of the regionalism [6]. The most underlying situation of "transition" in the American politics actually relies in the USA concern towards the erosion of its hegemony within the economic and politics world sphere. [7]

As regards Europe, the integrationist process has continued in both the successive enlargement, as well in the deepness; the European "preferentialism" was also extended. Regarding Asia, Latin America and Africa, the old preferential agreements have been restarted, as well as the new established ones [8]. By means of "Europe 1992" programme, and the integrationist scheme, of which protagonist was USA, the idea according to which the regionalism was "a must have" was agreed. In this way, a new opinion current appeared in Asia, current that supported the need of creating a new trade block, of whose epicenter should be Japan, as a counterweight to those blocks created around the United States; on the other hand, the old preferential schemes were emphasized at the level of all continents, and the new preferential schemes occurred [9]. Notwithstanding, the success of negotiations carried out within Uruguay Round and creating the WTO, as successor of GATT, have represented a reaffirmation of the employment of most states, towards the

principle of non-discrimination, within the international trade. [10]

The second wave of regionalism proves some qualitative changes towards the previous. The first consists in the transition to a "closed regionalism" to an opened one. Most of the trade blocks established in the sixties – seventies were underlying on the policy of imports substitution and imposing some high external barriers; the new wave is though characterized by a higher opening towards the external part, and a higher availability on supporting, as comparing to control, specific to the international trade. Most of the trade blocks are directed moreover to exterior, rather than interior; exception is related to European Union, which manifests an obvious orientation towards interior. This natural trend of EU as regards the intra-Community relationships can also be explained in relationship to the integrationist process intensity; being the customs union, this will involve, besides the trade regime within the preferential inter-regional feature, a common external trade politics; all the other blocks are carrying out activities under the shape of the free trade aria, fact that offers to the members the possibility on applying the own trade politics towards the third parties. One should not ignore either the fact that the trade policy of EU have had a protectionist character more pronounced as comparing to other states, especially other developed states; moreover, the economies within the West Europe have had levels of development and economic structures relatively similar, issue that gave favored the occurrence and intensification of the intra-branch trade.[11]

Such trend of opening has continued in the situation of the most important trade blocks, thus removing the fear of a potential changing of them into "trade fortress".

Another significant feature consists in the trade blocks occurrence, where the partners are both the developed countries, as well as the states in progress of development (NAFTA, UE).

In the last decade and a half, the attraction for the preferential trade has been high, as regards the great majority of the world countries, no matter their level of development of their economic potential. In this way, if over the long existence of GATT, this received only 123 notifications of regional trade agreements, starting with 1995, from the creation of WTO, over 300 regional preferential trade agreements were notified, as covering the trade of assets and services. Almost all the WTO member states have notified the participation in at least one integrationist scheme. [12]

R. Pomfret spokes about *the third wave of regionalization,* "born" at the beginning of 2000 and that continues many of the trends registered in those previous. For this time, "the leader" is represented by the East Asia, stimulated on one hand by the economic growth power of China, and on the other hand, by the perception according to which during the crisis of 1997, the international economic institutions "have abandoned" this region. The failure marked by WTO in Seattle in 1999 and the reduction of APEC significance have stimulated new initiatives in the direction of trade liberalization in the Asia-Pacific region. A series of countries included in the region negotiated mutual bilateral agreements (Japan – Singapore, China – ASEAN etc.), example followed by USA, which on its turn, negotiated the bilateral trade agreements, with countries that are friend, as Jordan, Morocco or Australia. As regards Europe, the integrationist process has been extended by the adherence of twelve new states to European Union (2004, 2007). Although sometimes the third wave was regarded as the recrudescence of regionalism, one might notice that many of these bilateral agreements have been not concluded underlying on the geographical proximity criterion. Besides the trade issues, the third wave will include the liberalization measures of the financial sector, fact that denotes a trend on deepening the integrationist processes. [13]

3. The preferential liberalization and the multilateral liberalization – antagonism or complementarity?

Within the post-was time, the multilateral trade system was represented by Most Favored Nations Provisions, by means of which the GATT, and then WTO, promoted the non-discrimination as regards the international trade relationships, thus establishing the basis of a new world trade order. As previously mentioned, the development of the trade relationships upon

basis of the non-discriminating aspects was doubled by a process of trade regionalization, usually to the regional level. In other words, the multilateral trade system that was emphasized under the GATT or WTO "patronage" and the regional agreements have in a way the same objective, meaning the liberalization of the trade, with the difference that the first wishes to be a non-discriminating, while the regional trade agreements are known, by their type, as discriminating. GATT has accepted these preferential agreements, respectively the free exchange regions and the customs unions, as a derogation of Most Favored Nations Provisions, with the condition of respecting the provisions foreseen in the Article XXIV (with the previous completions). The motivation, as results in the Agreement text, might be given by the idea that "the contracting parts" admit the necessity of the free trade development, by volunteer agreements, of more emphasized integration between the partner economies or countries to such agreements, with the conditions that the customs unions and the free exchange regions to aim towards facilitation of trade between the member states, and not on the creation of "the fortress", by the growth of the protection level as related to the third parties states. [14]

The relationship between regionalism and the multilateral trade system has determined debates and controversies on international level, for both the economists and politicians, as well.

The analysis of regionalism evolution on world scale during the post-war time has revealed two essential aspects that lead towards the conclusion that the free global exchange has needed "the regionalism multi-lateralization" already existing or potentially existing in the future [15]:

- The regionalism has remained here; the architecture of the world trade is directly influenced by the existence of unilateral, bilateral or multilateral mosaic agreements – *a spaghetti bowl* of trade transactions. It is less probable that such fact might change; contrariwise, it is quite possible that such mosaic might become "more and more colored".
- None can precisely argue that fact that such "clue" of trade flows is the most efficient way on organizing the world trade.

In generally, the preferential trade agreements are regarded as some "exclusivist clubs" [16] that promote a discriminating treatment towards the third parties, and which might affect in a negative way the countries "excluded" (defalcation of trade, deterioration of exchange terms etc.), as previously mentioned. The enlargement of the negative effects depended upon the level of extension of the trade defalcation and upon the structure of the economies excluded in the sectors, where the trade pattern modification can take place. As a rule, the negative effects over the third parties are less significant, in the situation of the trade blocks that produced a trade defalcation of low amplitude, a liberalization of the trade by the rest of the world, and have tried to face the external competition, by means of the members' efficiency improvement. [16]

Although owning older origins, and after the Second World War, the regionalism has been existing in its prosperity period of time; as regards the post-war decades, the international trade system has known a proliferation of the preferential trade agreements. In the same period of time, an accentuated trend occurred at world level, as regards the economies opening directions, trend promoted and supported by GATT and its successor, WTO, by the most favored nation's provision. The six decades of tax reductions, as almost two decades of negotiations on issues of non-taxing barriers, have determined significant results in the direction of "conversion" of most world countries, to the idea of multilateral trade liberalism. Notwithstanding, the discrimination materialized in various types of integrationist schemes is still persisting; the preferential treatments that the member states enjoy, even if apparently non-significant, might generate distortions and costs, especially for those remained outside these schemes. It is surprisingly that most of the WTO member states are partners within at least one preferential trade agreements.

The strength that such phenomenon reached has naturally generated the questions related to the effects over the multilateral trade system; as regards the literature dedicate to this topic, the syntagms *building blocks* and *stumbling blocks* are already well known; by these, one has tried to emphasize "the relationships" with the multilateralism.

Over the time, many theoretical models were built, by which solving a issue was carried out, issue related to the effect of discriminating trade policy effect over the progress of multilateral trade system. The issues has remained yet opened, especially that there are quite few "consecrated" integrationist schemes, most of them being of relatively recent calendar data. Alan Winters started a study dedicated to this topic (published in 1996, under the aegis of World Bank), by the same question: "Will the forces that the preferential trades agreements launch encourage or not the trend towards a more free global trade? We haven't achieved yet an answer at this question". [17]

4. Conclusions

The regionalism has become a challenge for the future; it is outlined as result of the most WTO member states for the preferential liberalization of the trade exchanges; during the post-war period of time, the successive waves of regionalization have transformed "the pattern" of the world trade.

The antagonist or complementarily relationship between regionalism and multilateralism has determined many debates occurrence; the integrationist schemes represent a reality of the world landscape and their part within the world economy design, which cannot be ignored. The reality has proven that demarches of liberalization upon preferential basis have been increased, in a rhythm more accentuated rather than the multilateral level; a great part of the world trade flows intensification consists in the direct consequence of the agreements negotiated at the regional and trans-regional level. The dual nature of the preferential trade schemes or the mixture between the free exchange and protectionism will offer them a specific feature, of potential trade "fortresses". At first sight, one might be tempted to believe that the people will be divided in the future into a low number of trade blocks, polarized around the high powers. Actually, *regarded as stricto senso,* only the European Union might be classified as "trade block"; the other integrationist groups will enjoy of a higher flexibility as regards the external policy options. Moreover, it seems that after "the consumption" of all cooperation resources at the regional level, most of countries, as especially of the existing groups, have directed towards the trans-regional cooperation, usually on world scale; in the context, it is not difficult to imagine the "magnets" that might polarize, though it is difficult to imagine how the polarization regions might be delimited; this is done how much more so each country is member within at least one preferential agreement. Moreover, during the history, the world power balance has known changes; currently, one might speak about that "Triad" and the economic progress of China and of all other countries within the Asian region might reconfigure this *status quo.* One should not ignore that all countries related, from various reasons, to the preferential liberalization have also assumed agreements within the WTO, thus registering on the multilateralism line. The value of the indicators that quantify the level of market opening does not suggest a closing trend, but contrary, a trend more and more emphasized over the trade blocks existing within the world trade.

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Public and Private Sector Involvement in Medical Tourism Developing and Support

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Abstract

The development of medical tourism has been encouraged by travel agencies and mass-media, which describe the practice of traveling across international borders to receive healthcare services in an original way, where, due to availability and modern medical techniques, the necessity harmoniously blends with relaxation.

More and more public persons state that they undergo medical treatments in foreign countries and then they become the image of the clinics which treated them.

All these elements have succeeded to add so much credibility to this phenomenon that the future of medical tourism looks ever more promising today, some countries posting an annual increase of this kind of tourism of 30%; this means that medical tourism is, for sure, a part of the next level of globalization.

Key words: niche tourism, medical tourism, management, sustainable development, promotion, marketing.
J.E.L. Classification: I13, I15, M37, R11

1. Introduction

Tourism has long been recognized as an economic development strategy which generates incomes and is regarded as one of the fastest growing industries in the world. For this reason, all countries are looking for ways of establishing business relations and of attracting tourists.

Much like in other areas of social life, the right to health of the individual constitutes a national priority and therefore the medical tourism phenomenon stands out. This has a great impact not only on patients, but also on the society due to socio-economic implications on the business environment and healthcare sectors as well.

The diseases are a part of everyone's existence nowadays; however, the human being has yet to accept defeat and removed barriers to a healthy life and, in this existence seeking, the distance is a minor hurdle, especially when modernity makes available so many facilities.

Medical tourism is thousands years old and those who travelled for healthcare or for treating certain illnesses were the reach people.

Currently however, due the development of transport, to communication swiftness and to information access increase, the financial barriers have been lifted. There are many people who accept being treated in a foreign country as the medical services from which they benefit are cheaper than in their own country.

2. The medical tourism

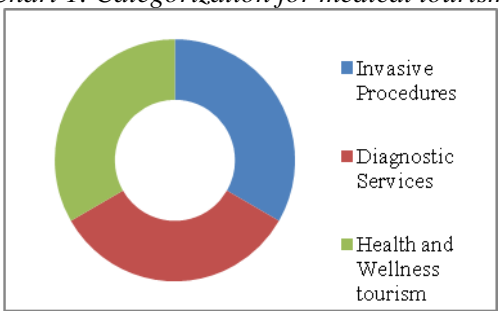
Because they pay a great attention to social and economic development, people living in present-day society lead a stressful and unbalanced life [1]. This phenomenon is reflected into tourism and hospitality business by the increase of tourists' interest for heath and wellbeing improvement during the holidays. The time dedicated to health is

increasing as a percentage as well, people investing more and more money to maintain their health [2].

The increasing trend of travelling abroad for medical services, known as "medical tourism", is expected to further grow exponentially over the next decade. This fact is due to the easiness of people getting information and the specialized medical websites come to their help. Those practicing such tourism are interested in the following services: dental treatment, cosmetic surgery, cardiac surgery, organ transplantation, orthopedic surgery, fertilization, and various tests to maintain or improve their health [3].

Medical tourism is practiced by people travelling outside their city of residence, with the aim of regaining or maintaining their health, as a result of certain medical treatments. Researchers have tried to distinguish between "health tourism", "medical tourism" and "wellness tourism"[4].

Chart 1. Categorization for medical tourism



Source: Bookman & Bookman, 2007[5]

The most popular reasons why people prefer treatments outside Romania are:

- Access to treatment which they cannot have in their home country;
- Treatments are often 60% cheaper abroad;
- Due to the endowments of hospitals and specializations that foreign doctors have, the recovery period is much shorter;
- Tourists have greater confidence in the reputation that some clinics or certain foreign doctors have gained (e.g. they prefer plastic surgery to the doctor who had operated their favourite celebrity, regardless of costs);
- In some countries, the time spent on the waiting list for a particular type of surgery is very high, while the disease can progress. Therefore the patients prefer to undergo surgery abroad.

Table 1: The most famous medical tourism destinations worldwide

Asia & Africa	Europe	South America
Thailand	Hungary	Columbia
India	Turkey	Cuba
Malaysia	Romania	Brasil
Jordan	Czech Republic	Mexico
United Arab Emirates	Portugal	Costa Rica
Israel	Ukraine	Argentina
Singapore	Cyprus	Peru
South Africa	Germany	Guatemala
Hong Kong	Austria	Uruguay

Source: www.mymed.ro, accessed 01.03.2013

Besides the above mentioned advantages, it is necessary to have in mind the potential "risks" that tourists have. The main reasons for which some people refuse to travel abroad for treatment are:

- Lack of money - when the state or NGOs do not finance the surgery (in this case, the person in question opens a bank account and begins to make public his/hers problem, waiting for donations)
- Medical services may not be of the highest quality;
- Inability to remain under the post operatory supervision of doctors who carried out the therapy;
- The compensation in case of medical malpractice is difficult to obtain;
- The language barrier - most of the times, the patient needs an attendant and a translator in order to understand the doctor's message, and this implies new costs;
- The risk of choosing a particular clinic or a particular doctor just because he has partnerships with specialized travel agencies or because he had invested in advertising, and not only because he provides the best services;

- The risk of acquiring infections with particular to a certain area diseases.

When they choose the more expensive health care services, tourists expect a high quality of medical services, superior care from doctors, hotel-like accommodation, good quality food, last generation equipments, continuous monitoring of the evolution of therapy.

3. The needs of a tourist who travels to another country in order to improve his health

In tourism there are plenty of services and facilities involving a wide range of development agents. They are divided into two main categories: public sector and private sector.

The private sector is directly involved in meeting the needs of tourists [6], especially looking for profit. The cooperation between small units and operators and the large ones is mainly determined by different opportunities that exist between various tourism sectors.

Besides direct involvement in tourism operations, the private sector can provide the necessary capital for development process (market research, the study of travel preferences etc.).

Quoting Vellas [7], the main ways of marketing tourism products by travel agencies are: editing advertising materials and making advertising campaigns.

In order for a person to travel for medical purposes, he needs the support of several companies.

First, in order to move a severe case, the services of a *particular carrier* are being used. Some examples of air ambulance services are [8]:

1. **Alpha Medical**: Air ambulance services in the UK and worldwide. They provide a 24/7 air ambulance service throughout the UK and abroad – supported by a fleet of road ambulances to ensure that every patient benefits from an appropriate level of professional medical care from the beginning of the journey to the end..
2. **European Air Ambulance (EAA)** is one of the largest specialized air ambulance service providers in Europe, offering worldwide air ambulance repatriation with outstanding end-to-end patient care.
3. **ADAC-Ambulance Service**: Worldwide air ambulance service. The ADAC-Ambulance Service (ADAC) offers a worldwide ambulance service on ground and in the air and operates its own fleet of ambulance aircraft equipped with the most advanced IC equipment.

Another important service is *accommodation*, which often takes place in the hospital where the surgery occurs. The patient's attendant can also stay here.

Diet is specific to the disease the tourist is suffering from, being included in the treatment package and provided by the hospital / clinic.

All the necessary arrangements can be handled by *specialized agencies* practicing this type of niche tourism. They provide information about hospitals / private clinics / doctors: fees, location, specializations. Since each patient is a special case, they adapt their packages to the needs of the tourist (the country that will perform the treatment varies, for a longer or a shorter period, the need to return to the clinic for post operatory control, the type of treatment).

Other companies provide, control or limit development such as providing basic infrastructure, planning or legislation. All these activities are responsibilities of the public sector, the government being required to pursue the public interest and to provide the goods and services whose cost cannot be borne by individuals.

Also, an important role in tourism growth and development is played by international and intergovernmental organizations.

To facilitate the access of Romanian citizens to treatments in European Union countries, CNAS (Romanian National Social Insurance House) has adopted E-type standard forms Regulation. These are: E 104, E 106, E107, E 108, E109, E 112 , E 115, E 116, E 117, E 118, E 120, E 121, E 123, E 124, E 125, E 126, E 127 and can be downloaded for free from the official website of CNAS. Out of these, the most important are [9]:

- E 104 - an attestation concerning the aggregate periods of insurance, employment or residence realized on the territory of an EU Member State.
- E 106 - providing medical services for persons residing in another state than the competent State; it is useful to those who need treatment in a country other than that in which they pay their insurance.
- E 107 - request for the European Health Insurance card / temporary certificate to replace the card.
- The E 109 form is used for registration of the worker's family members who do not reside together with him.
- E 115 for working inability.
- E 112 - certifies that, for objective reasons, the insured cannot receive treatment in due time in hospitals in Romania and has the right to call upon the services of a clinic in the EU area.
- E 117 for granting cash benefits in case of maternity and working inability.
- E 120 generates invoice based refunds.
- E 126 establishes the rates for reimbursement of medical benefits.

Another document that gives the holder the right to medical services in the European Union [10] is the *European card of social health insurance*. It can be used by a person in need of medical services during a temporary stay in a EU / EEA Member State and could replace a health insurance for travelling abroad[11].

4. Conclusions

Travel and tourism currently represent a global market of huge dimensions, where there is consumer demand for a vast range of products and services.

Since tourism as an activity, has become increasingly diversified, we focus on niche tourism, its challenges and trends.

Branch of the niche tourism, the medical tourism registers the highest and fastest grow, being a win-win situation both for economic agents involved (which boost their profits) and for tourists-patients (who improve their health and further on, their lifestyle). It is also important to note that unlike other forms of tourism, the medical one is not always practiced for fun, but driven by need.

Fortunately, international barriers are gradually removed, so anyone can have access to quality medical treatment at low costs, creating competition among institutions providing medical services.

Acknowledgment

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In the Spotlight of the Financial Globalization

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Abstract

The financial globalization, driven by different forces, brings some potential benefits, and at the same time may generate important risks. The main actors - financial markets, international financial organizations and states have been concerned about the development of globalization in the recent decades. The innovations and the technological changes in the financial system have encouraged the financial integration of markets in a globalized context. Although the exposure of the national financial markets to crises and contagion increases, the studies show that the net effect of the financial globalization remains positive. The challenge is to accomplish the integration process into the international financial system so as to obtain the maximum amount of benefits and opportunities, while the risk is minimized, being that the instruments available for the governments become more limited.

Keywords: financial globalization, crisis, financial markets
JEL codes: F30, F65

1. Introduction

Financial globalization is a present-day topic, both in academic and business sectors. In this era, when finance is reigning and dictates the behavior of business leaders, where businesses close their doors even if their business are going well, where investors are robbed by unscrupulous financial operators, the world is more uncertain than ever.

Generally, the financial globalization is defined as the integration of the national financial markets in the international financial markets and institutions system. This process requires the government to liberalize the country's national financial sector and the capital account. The financial globalization is characterized by a process of integration of the international financial markets under the double impact of the international financial liberalization and of the increased international capital mobility.

Financial globalization is a process with two dimensions. On the one hand, the financial globalization is characterized by an increasing volume of cross-border financial transactions. On the other hand, it is characterized by a succession of institutional and legislative reforms that have been made for the liberalization and deregulation of the international capital markets and hence of the national financial systems.

The international financial integration is one of the major trends of the contemporary economic movement. The traditional vision on the financial integration advantages is described in the Figure no. 1. However, it should be noted that this trend is far from being a historical novelty.

Figure no. 1 – Traditional vision on the financial integration advantages

Financial globalization	→	Efficient allocation of capital Increase of the ratio capital to labor International risk sharing	→	GDP growth Consumption volatility	↑ ↓

Source: authors' adaptation

The recent wave of financial globalization

has really begun since the mid of 1980s, due to the relaxation of restrictions on capital movements decided by many countries, supposing that international financial flows would stimulate economic growth and smooth consumption. The expected benefits were substantial, especially for the developing countries, which in general, are more capital-poor than others and have their income growth more volatile.

2. The facts' interpretation

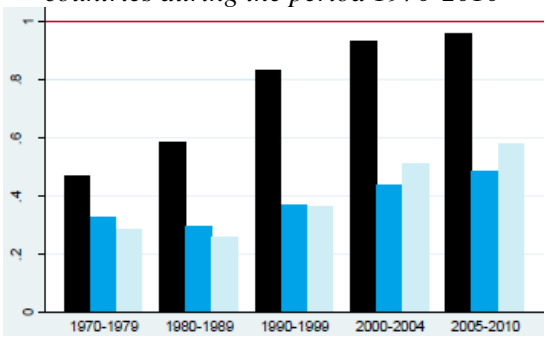
The financial globalization's effects have not been established in a probative way. There are no formal empirical evidence, as we often hear, that the financial globalization is at the origin of the financial crises that world has experienced over the past thirty years, but it is equally difficult to find strong evidence of the macroeconomic benefits it would bring.

The idea that the financial globalization affects growth mostly in an indirect way has important implications for the empirical analysis of its benefits. Strengthening of the institutions, improving the market discipline and enhancement of the financial circuits takes time and it is also to see the growth results. Certainly, on relatively short periods, it seems easier to identify the costs than the benefits of the financial globalization. More fundamentally, even over long enough periods, it can be difficult to empirically identify such productivity gains associated with the financial globalization if structural and institutional variables and also the macroeconomic policies are included in the regressions that attempt to explain the international growth.

The measurements made in the recent years, emphasize that the financial openness has increased lately. Chinn and Ito index [2, 1] - KAOPEN - is based on the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)* and is considered the most representative index, while the other existing indices are closely correlated with it.

The latest version of the KAOPEN index, published in March 2012, covers 182 countries for the period 1970-2010. According to this index, the financial openness has increased steadily over time, recording higher values in the industrialized countries (see Figure no. 2).

Figure no. 2 – Chinn and Ito financial openness index - evolution by groups of countries during the period 1970-2010



Legend: first column - industrialized countries, second column - less developed countries, third column – emerging countries
Note: For easier comparison, the index was indexed to 1.
Source: Note on financial openness index Chinn and Ito, March 2012

3. The financial globalization and the crises

The financial globalization is driven by different forces (governments, lenders, investors, financial institutions) and potential benefits (for developing countries - more liquid, more stable, and better governed financial markets), and at the same time may result in important risks (contagion, crisis).

The financial globalization has been accompanied by the development of new markets and new practices. These developments are causing failures of the financial systems and financial instability.

The main actors - financial markets, international financial organizations and states have been concerned about the development of globalization in the recent decades. For countries from Asia and Latin America (especially Mexico) it has been observed a difference between the productive economic performance and the national financial system that did not correspond to an integrated and globalized financial system, oriented towards stability and economic development. The innovations and the technological changes in the financial system have encouraged the financial integration of markets in a globalized context.

The low cost of capital and the possibility

of increasing the borrowed capital were obvious advantages for the developing countries, due to the fast pace of liberalization in the emerging markets from Latin America, East Asia and Eastern Europe.

The introduction of the euro in 1999 has contributed to the internationalization of financial markets in developed countries, being the most important event before the current crisis.

When a country's financial system is liberalized, it becomes subject to a financial discipline imposed by the foreign and local investors. Given the ability of the foreign capital to move more quickly between different countries, their role in establishing the financial discipline is more efficient. The national capital tends to have more restrictions on international investments.

The main reason why foreign investors are interested to hold assets in emerging countries is their high performance. However, the amount of foreign capital flowing from the rich countries to the emerging countries is still below the expectations predicted by theory, especially due to the institutional and political risks specific to emerging markets.

When we have a massive impact of the foreign capital into the country, by increasing the dependence on this capital, the economy becomes more fragile and exposed to the crisis by creating funding difficulties, especially if the economic situation is not a solid one.

Globalization can lead to crises and for countries with good economic situation, largely because of the international financial system imperfections.

If the crises are often associated with the financial liberalization, studies show that they are complex and are not only a consequence of globalization, but also an aftermath of various local factors. Statistics show that for a long time, the financial markets are characterized by crisis, both in times of economic integration and disintegration periods.

In addition to crises generated in one country, the financial globalization can lead to financial crisis through the contagion phenomenon. Thus, the main feature of the crisis that occurred during 1990s, in the transition countries, is that they passed over and affected several countries (crises in East Asia, Mexico, Russia and so on).

The economic literature in the field of financial globalization is quite extensive and began to be visible in the early 1990s, drawing attention to the risk associated with the international financial integration. Historical overviews of the main examples of how crises affected the developed countries are presented in [3] and [4].

The crises that affected the emerging markets in the 1990s have led to less optimistic remarks on the financial integration of these countries - [5], [6], [7].

An analysis of the current crisis, with a foray into the pre-crisis period (1999-2007) and an analysis of the financial globalization after the crisis are well made in [8]. In the author's view, the financial globalization has contributed to an increasing asymmetry on credit growth and external position of the country, which has played an important role in propagating the crisis. Once appeared, the financial globalization has played a buffer role for some countries, while for others it has amplified the crisis. Another conclusion of the study is that the global crisis has shown that the international financial integration increases the costs of the economic policies' and regulations' failure, both in prevention and crisis management.

A new opinion appeared in UNCTAD report in 2012 *Development-led Globalization: Towards Sustainable and Inclusive Development Paths*: the globalization driven by the financial sector has led to uneven results, unstable and unfair, therefore is proposed a new path - globalization driven by development [9].

A new agenda based on three levels has emerged.

- The first tier requires enabling the developing countries to mobilize their domestic resources, strengthening their productive capacities and thus enjoying gains in a fair manner.
- A second level involves creating more robust multilateral structures that generate collective responses to the challenges ahead.
- A final tier involves strengthening regional links, including South-South cooperation to consolidate the stability and open new opportunities for growth.

4. A final remark

The crisis or the wave of crises in recent years can be seen as an opportunity for testing the financial globalization model. If the panic created by the crisis triggered in 2007 has known peak intensity between august 2008 and spring 2009, the next stage of the crisis is still ongoing, and Europe is the center of the current phase.

Although the exposure of the national financial markets to the crises and contagion increases, the studies show that the net effect of the financial globalization remains positive.

The challenge is to accomplish the integration process into the international financial system so as to obtain the maximum amount of benefits and opportunities, while the risk is minimized, being that the instruments available for the governments become more limited.

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LSP and Communication Skills for Economics Students

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Abstract

The professional profile of a modern qualified economist should include well-developed communication skills and high foreign language proficiency to help him achieve success in the modern highly competitive global work arena. In the process of educating future economists special emphasis on Language for Business becomes necessary. Economic graduates require an ever-increasing range of skills to maintain relevance with the global environment of the new millennium. Communication skills are a vital component of this, recognized by academia and economic environment alike. Multilingual skills are considered a salient element in the make-up of the new global economist. Language for specific purposes focuses the learner's attention on the particular terminology and communication skills required in the international professional field. Communication skills development is discussed in the paper, with examples given of different methods of teaching and assessment.

Keywords: language for specific purposes, communication skills, economics education.
J.E.L. Classification: Z00

1. Introduction

Teaching a foreign language to non-linguistic students means achieving a variety of objectives: acquiring knowledge about the language, developing and practicing all four language skills, getting language and cultural awareness, integrating specialist knowledge and communicative skills and even enriching overall knowledge.

The importance of this issue can be proved by needs analysis showing that employers put skills in making prompt decisions in changing situations, deductive thinking, application and evaluation among the most essential requirements while recruiting economists, managers, etc. Unfortunately, in the secondary schools thought processes are not developed to an extent to make logical reasoning. So developing creative thinking university teachers can help students to make a success in the employment market.

2. The Global Economist and Language for Specific Purpose

Globalization of the world economy requires professionals and specialists in various areas to communicate effectively in foreign languages. The success is conditional on their ability to manage language and cultural barriers, i.e. on the language skills and competences with respect to their professional areas. Teaching foreign languages to non-linguist students is a difficult but challenging task. There is hardly any branch where students would not need foreign languages (L2) for understanding of professional texts and where they would do without the skills to communicate effectively in the tasks connected with their study or work situations.[1] The study of languages for specific purposes (LSP) is highly students-centred, focused on learners' professional linguistic needs, as well as teaching materials production. In general, it puts great emphasis on the practical outputs of language learning. LSP have to deal with a number of "sub-languages", i.e. language of business, science and technology, humanities etc., which makes it complicated

to outline a methodology that would apply to all disciplines and professional activities the learners are involved in. As a result, the LSP methodology always integrates the language learning and subject learning approaches.

Globalization directly influences economy's needs; a global economist must be able to easily cross national and cultural boundaries. This in turn directly affects economic education. A common code for communication is required. Those education institutions, which meet the language requirements for the new global economist, will be ready to face the new millennium.

H.P. Jensen states that employers want:

a number of new competencies, with an emphasis on an increased ability to communicate…and good foreign language skills [2].

There is a clear necessity for effective foreign language communication skills for economists in the current globalised environment. A course in Languages for Specific Purposes (LSP) will enhance foreign language training and an economics student's communication skills. It will also aid in the globalization of education and the internationalisation of practicing economists. The foreign language (especially English) has become a major medium for communication across borders globally; a deficiency in this area may result in barriers for graduates' personal and professional development. LSP focuses the learner's attention on the language and communication requirements in a particular professional field. The concept of LSP achieves more in the education of economics students by focusing the learner's attention on the particular terminology and communication skills required in the professional field. Various examples in the economics field can be found, including **corporate speak**, **business speak**, **management speak**, **workplace jargon**, or **commercialese.**

3. Communication Skills

Teaching foreign languages to economists is a delicate and demanding matter in terms of content, methods and techniques, and deciding which are appropriate for this particular area of economics and a foreign language. That is, the aim in such an interdisciplinary course is to develop and master relevant communication and professional skills, using a foreign language as a means and a kind of mediator in shaping future economists.

To achieve this goal, LSP teachers have to plan the course they teach and provide the materials for it. Rarely is it possible to use a particular textbook without the need for supplementary material, and sometimes no really suitable published materials exist for certain learners' needs. The role of LSP teachers thus involves choosing suitable published materials from a variety of reliable and valid sources, adapting materials when published ones are not suitable, and even writing new materials if nothing suitable exists.

An analysis of literature shows that oral communication has been identified as a *learnable skill* [3]. Furthermore, communication skills development has been demonstrated through the use of various methods, such as class discussions and others. While the study of famous speeches, learning oral communication theories and techniques from textbooks will still be beneficial, it should be noted that the literature has indicated that experiential methods have generally yielded better results than purely didactic means.

Presentations

The student's knowledge base is amplified by allocating class projects for presentations. However, students will not place any great emphasis on presentation, and with it oral communication skills, if presentation and communication is not allocated a significant share for the exercise's marks. Furthermore, as much as many students dislike giving presentations, it is better that they experience a *dry run* in their education than to be suddenly confronted in the workplace. Group projects and presentations encourage and enhance the interpersonal skills of the student members and should be emphasised early in the education curricula. This should be considered in particular as teamwork is recognised as a core skill in economy, and communication with team members needs to be effective.

Role-play

It is very important for the students to be immersed in simulated work environments. Students' attention can be focused by means

of context-specific enactments or role-play, in possible future work situations, thus engaging them in active learning just *by doing*.

It is important to use pseudo environments to simulate meetings with clients/developers/peers/etc, as this will also allow students to interact with different levels of business communication, as well as engaging in non-verbal communication. Oral communication skills are needed not just for internal company matters, but also when dealing with external issues.

Video

Video/audio grading dramatically improves presentation skills in students. For example, student presentations can be filmed and then graded with dubbing from the teacher and a feedback sheet [6]. Importantly, this provides pertinent educational feedback to the student so that he/she can actually see and hear the positives and negatives of his/her presentation. Additionally, it is not momentary as the student can revisit his/her performance.

According to an Irish study, instructors in communications need to review and update methods due to the rapid advances in communications technology [4].

International Elements

Communication skills training, while focused on the dominant culture of the host university's country, should also take into consideration variations in intercultural communication. With globalisation becoming commonplace, graduates need to have an understanding of international communication. This includes aspects such as implicit language and cross-cultural idiosyncrasies, or risk being isolated, and is particularly relevant in dealings between native English speakers and non-native English speakers.

Active Involvement of the Learner

Littlewood expalined several elements that help the learner reinforce learning. These four parts are:

• The classroom must be conducive to communication and learning.

• Learning has to be relevant to learners' interests and needs.

• Both processes and products are important in the classroom.

• Learners must engage in active roles in the classroom [5].

Engaging learners will help assist and stimulate successful and purposeful learning by the students. Involving the learners directly, in particular, will bring about a stronger sense of responsibility in the future graduates that they can take beyond the university and into the work arena. This is especially important in engaging learners of a foreign language as a Second Language (ESL) and Languages for Specific Purposes (ESP) as it involves new vocabulary.

The Fun Part in Education

Economics education involves a great deal of stress rather than fun. Many students fail to turn up to classes because they ultimately become displeased with the manner of the lectures, strongly suggesting that the students fail to see the relevance of attendance and, at times, the relevance of the topic being taught. Many economics students are not especially motivated to learn certain subjects, primarily because they have no real idea why they may need all this information. They also do not know whether all of the material is actually required for their career.

Team-teaching Co operations

Team-teaching cooperation between a subject expert and a foreign language teacher can be employed for the benefit of learners who will make the most of this integration. Overseas experience already indicates that the synergy from team-teaching can significantly improve the written and communication skills of most students, particularly oral presentations and report writing, and that it generated a positive experience for all with a focus on students' needs and interests.

4. Communication Skills Assessment

Nowadays, the didactics of foreign languages is completely modified by new fundamental factors: the multilinguistic competence as well as the cultural aspects of the linguistic competences. We are actually present at the *unavoidable re- composition of the evaluation background*. The scientific researches of the evaluation go through this meaningful and promising development. We take into account three orientations and this competence which represent a real challenge as well as a new aspect which the new type of evaluation should highlight: the actual

linguistic aspect, the multilinguistic and social cultural aspects.

Due to this new type of portfolio, we can experiment *an evaluation based on positive criteria*, thus allowing being evaluated what the student is able to do at the levels of understanding, production, interaction, cultural mediation. This first change is the *indispensable key of the new evaluation of competences*. All these criteria are strongly related to the cognitive capacities and thus, to the complexity of the attitude adopted by the student.

The second point of view is related to the notion of obligation and in this respect refers to *an evaluation of scenarios*. It is not a question of evaluating only the language but also the originality of the attitude towards the language and personal resources, i.e. the strategies used by teachers for the success of the didactical act.

The third point of view is related to the evaluation of the multilinguistic repertoire as well as the aspects of cultural mediation.

The types of written papers, the consigns, the questions will be thus oriented so that each of them should have its own subject individualizing the exam in its technical profile. An entire multitude of questions addressed to the economics student is taken into consideration, so that he/she could evaluate himself/herself. In this respect, there is a series of common questions which can be asked either by the teacher or by the student:

- What is being evaluated?
- Which are the communication competences which are taken into account in the first year of studies for the specialized languages?
- Which is the bilingual repertoire?
- What should the competences of the cultural communication contain?

At the common questions we could add those which regard only the student and in this case we only deal with two categories of students:

- the first category is formed by students who study foreign languages for two years in order to learn the specialized terminology and to obtain a certificate of linguistic competence necessary for the final degree exam.
- the second category, of course less numerous, is formed by students who want to go abroad for a time of probation through ERASMUS/SOCRATES scholarships and who are interested in a pragmatic vocabulary: How to find a place to live in? How to open an account? How to choose courses?

For the socio-linguistic aspect it is necessary that the teacher should take into consideration these *markers* of social relations which regard the different situational aspects (introducing oneself, a personal CV, a letter of intention or candidateship). We will take into consideration three domains:

1. the concrete domain of the daily life, in which students should know the everyday language (in the subway station, the secretarial office of the University, student hostel, etc.).
2. the specialized domain: each authentic situation in different contexts, in a bank, a telephone conversation, expressions which can represent real obstacles. There is a specific vocabulary for each situation (Le Rip for the banking domain, RU for college).
3. the familiar domain is strongly related to the socio-linguistic competence cited above and these words are enough present in the French ad English vocabularies and their acknowledgment can represent an obstacle for the comprehension of the language.

That is why the training of these students will take into consideration their orientation towards the completion of complex vocabulary for an oral examination, in which we can use multiple audio-visual ways such as recording cassettes, didactical films, as well as self-recordings as a way of self-correction of their own mistakes and self evaluation.

The attestation

The questions which can be put to candidates will refer to their own status, studies, fields of interests, and their future profession. The evaluation will be done according to the evaluation chart with a mark schedule. The examiner writes on this evaluation chart the final mark which corresponds to the different criteria.

The first test

Examples of questions:

-Have you ever worked in a firm in the domain of your study? (Are you working at present?)

-Where and in what kind of a firm?

-What is/was your job about? What do you actually do?

-Which are the fields of interest?

-Are you a member of an association?

- Do you practice sports? Do you like music? How do you spend your free time?

-What kind of a future job do you wish to have? Which are the main reasons? Is/Will be your job difficult? Why?

-What skills are necessary for this specific job?

-What skills do you possess?

-What kind of advice would you give to someone who wants to work in this field?

-Are foreign languages useful in your job?

-Do you think it's important to know one or two foreign languages in order to succeed in the professional life?

-Do you like to work alone or as a part of a team?

-Which one of the following do you prefer: a small of a big firm?

-Which place do you prefer: office, house, abroad, your own country?

-What about the work program: regular hours, variable hours, weekend hours?

-Give a reason for your motivation!

-Which is your main interest in a job?

-Remuneration?

-The interest and the use of work?

The second test

This can be related to a **simulation interview** in which the candidate meets bilingual collocutor, the examiner who wants to know an aspect of his/her country, starting from a document *written in the mother tongue*. The candidate should offer information about his/her country, region, town, and answer a few questions, give suggestions about the social and economic aspect and be able to speak about the social climate.

The climate for the objectives of the foreign languages study has risen in the past twenty years and we can also notice an intensification of the didactics and Methodists studies over evaluation. Indeed, in order to evaluate each teacher we should compare the objectives with the results. At the end of the 87s Sibylle Bolton publishes a book on evaluation. According to this study, the learning objectives must be defined as *behavior objectives* which mean that the tests must take into consideration the factors which influence the language behavior. Even though they could not be named by this generic term, these objectives can only be communicative.

In her book Evaluation, published in 2001, Christine Tagliante highlights these objectives underlying the specific importance of the general objectives "they are centered on the *learner* and they indicate in the ability terms, the final results of the course of a single unit of a course of a map shot."

Communication skills have been identified as multidimensional and so it becomes crucial to classify how they will be assessed in the students' work. Furthermore, the particular communication skills required in a profession are usually poorly defined. One study identified that communication skills assessment must:

• Be formal so that it occurs at specific times and contributes to a student's marks.

• Provide feedback to be educational.

• Involve active participation by students in actual communication situations.

• Tackle student insights so that skills are identified and developed [6].

Individual feedback is important for improving the education of students. However, there needs to be prudent identification and clear operational definitions of the rating dimensions so that the same standards are applied to all students: consistency and accuracy. It is vital that the student understands what is expected and what will be assessed ahead of time to facilitate education, learning and the generation of desirable characteristics, thereby delivering formative (feed-back) and summative (evaluation) assessment [6]. The oral communication element also needs to fit in well with the subject at hand.

5. Conclusions

Language and communication skills are recognised as important elements in the education of the modern economists,

including language for specific purposes. Yet, there seems to be limited implementation of foreign languages courses globally, despite its current *lingua franca* status. Those institutions that have already implemented multilingual and communication elements will be at the forefront of providing the demands of economy and society.

The incorporation of several components of the fundamentals of emotional intelligence in education will facilitate advanced communication skills.

The incorporation of language and communication improvement courses is an important element of continuous learning, and will ultimately contribute to the process of life-long learning.

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The Evolution Of Romania' Foreign Direct Investment During The Current Crisis Period

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Abstract

In a world of increasing globalization, where political, economic and technological barriers are rapidly disappearing, the ability of a country to participate in global economic activity is an important indicator of its performance and competitiveness. In order to remain competitive, modern business relationships extend well beyond the traditional foreign exchange of goods and services, increasing reliance of enterprises on mergers, partnerships, joint ventures, licensing agreements, and other forms of business cooperation realized through foreign direct investments.

Because of the globalization phenomenon the foreign direct investments flows can vary considerably from one year to another, as they are often influenced by large mergers and acquisitions and also by economic development of each country.

In this paper is presented the evolution of foreign direct investment in Romania during the current crisis period, which started in 2008 and their impact over the exports and imports of foreign direct investments enterprises.

Key words: foreign direct investment, crisis, trade, economic activity
J.E.L. classification: F21.

1. Introduction

Foreign Direct Investments (FDI) may be seen by the economists as an alternative economic strategy, adopted by those enterprises that invest to establish a new plant, or alternatively, purchase existing assets of a foreign enterprise. These enterprises seek to complement or substitute external trade, by producing goods and services in countries other than where the enterprise was first established.

There are two kinds of FDI: namely, the creation of productive assets by foreigners, or the purchase of existing assets by foreigners (for example, through acquisitions, mergers, takeovers). FDI differs from portfolio investments because it is made with the purpose of having control, or an effective voice, in the management of the enterprise concerned and a lasting interest in the enterprise. Direct investment not only includes the initial acquisition of equity capital, but also subsequent capital transactions between the foreign investor and domestic and affiliated enterprises. [Eurostat]

2. The situation of the Foreign Direct Investment on European Union (EU)

Due to the statiscs, provided by Eurostat, the foreign direct investment for the European Union - 27 in relation to year-end stocks, annual flows and income results that foreign direct investment flows experience recovery in 2011 after a downturn in 2008-2010. (see below table 1 and table 2).

Table 1. Outward FDI flows of EU-27

-eur 1.000 milion-

Year / Region:	2008	2009	2010	2011
Extra EU-27	**383,5**	**316,5**	**145,6**	**369,9**

Source: Eurostat (online data code: bop_fdi_main)

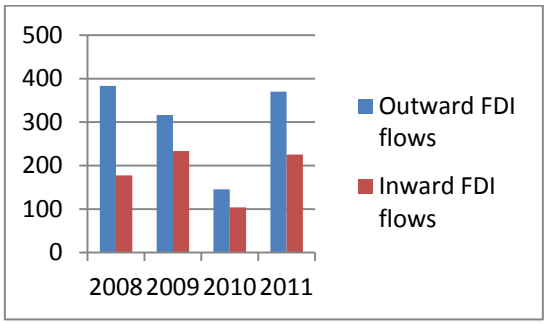
Table 2. Inward FDI flows of EU-27

-eur 1.000 milion-

Year / Region:	2008	2009	2010	2011
Extra EU-27	**177,7**	**233,6**	**103,9**	**225,3**

Source: Eurostat (online data code: bop_fdi_main

Figure 1 The evolution of FDI flows on EU – 27 between 2008 and 2011



Due to a Eurostat research covering the period from 2008 to 2010, EU-27 foreign direct investments flows were largely affected by the global financial and economic crisis. The peak of the negative impact of crisis was in 2010, when both outward and inward flows of foreign direct investments halved when compared with the previous year.

In 2011, EU-27 foreign direct investments flows showed signs of recovery following the recent financial and economic crisis started in 2008, both on outward and inward flows.

Outward flows of foreign direct investments increased in 2011 for the first time in four years, rising by 154 % when compared with 2010, which may reflect the start of a global economic recovery.

At the same time, *inward flows* of foreign direct investments also more than doubled compared with the previous year up 117 %.

But, despite the large increases in EU-27 foreign direct investments flows in 2011, these gains only partially compensated the considerable declines that were recorded during the crisis (2008 to 2010). As a result, EU-27 foreign direct investments flows with the rest of the world still remained, in 2011, well below their record peaks of 2007 for both inward and outward flows.

3. The situation of the Foreign Direct Investments in Romania between 2008 and 2011

3.1. The evolution on Foreign Direct Investments stock in period 2008 - 2011

The National Bank of Romania published, on regularly basis, the FDI statistical survey, which was compiled based on the International Monetary Fund Balance of Payments Manual, 5th edition.

The value of total FDI stock at the end of the year is calculated by adding to the initial net FDI stock the positive/negative value differences arising from both revaluations – following the change in the exchange rate and some asset prices – and accounting restatements of the initial stocks of some reporting enterprises and equity stakes, reinvested earnings/net loss and net credit from investors by FDI enterprises' activity.

The evolution of FDI stock between 2008 and 2011 is presented in Table 3 and Figure 2.

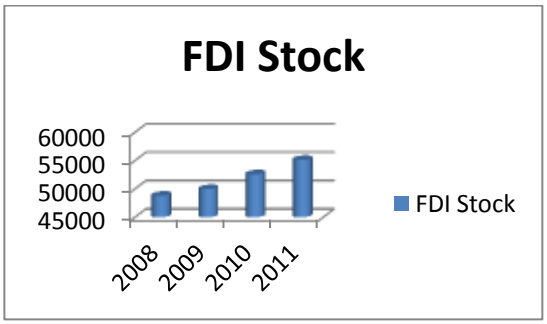
Table 3. The evolution of FDI stock between 2008 - 2011

EUR million

Year	2008	2009	2010	2011
TOTAL	48.798	49.984	52.585	55.139

Source: www.bnr.ro

Figure 2 The evolution of Romania's FDI flows between 2008 and 2011



Source:www.bnr.ro

In Romania, the evolution of FDI flows was ascendent, in period 2009 – 2011, after the downfall from the beginning of 2008. As of year-end 2011, final FDI stock came in at EUR 55.139 million, up with 4,90 percent from end-2010, up with 10,31% from end 2009 and with 13,00% from end 2008, what show a certain recurrence in investments flows.

3.2. Foreign direct investments stock by country of origin

Another important statistics made by the National Bank of Romania' surveys is the distribution of FDI took into account the country of origin of the direct holder of at least 10 percent in the resident direct

investment enterprises' share capital on an "immediate country basis".[1]

Top 10 countries by the share of total FDI stock as at 31 December is presented for every year in the analised period (end 2008 – end 2011), in Table nr. 4.

Table 4. Foreign direct investment in Romania by country of origin end 2008 - end 2011

EUR million

Year / Country	2008		Year / Country	2009	
	Value	**% of total FDI**		**Value**	**% of total FDI**
TOTAL, of which:	**48.798**	**100**	**TOTAL, of which:**	**49.984**	**100**
Austria	9.186	18,8	The Netherlands	10.907	21,8
The Netherlands	8.402	17,2	Austria	9.037	18,1
Germany	7.509	15,4	Germany	6.718	13,4
France	4.294	8,8	France	4.259	8,5
Italy	3.585	7,3	Greece	3.281	6,6
Greece	3.154	6,5	Italy	2.528	5,1
Switzerland	2.298	4,7	Cyprus	2.344	4,7
Cyprus	1.896	3,9	Switzerland	2.115	4,2
Luxembourg	1.107	2,3	Belgium	1.115	2,2
Hungary	878	1,8	USA	1.054	2,1
Others	6.489	13,3	Others	6.626	13,3

Source: www.bnr.ro

EUR million

Year / Country	2010		Year / Country	2011	
	Value	**% of total FDI**		**Value**	**% of total FDI**
TOTAL, of which:	**52.585**	**100**	**TOTAL, of which:**	**55.139**	**100**
The Netherlands	10.903	20,7	The Netherlands	11.982	21,7
Austria	9.346	17,8	Austria	9.667	17,5
Germany	6.398	12,2	Germany	6.272	11,4
France	4.384	8,3	France	5.042	9,1
Greece	3.016	5,7	Italy	3.341	6,1
Italy	2.808	5,3	Greece	2.934	5,3
Cyprus	2.550	4,9	Cyprus	2.536	4,6
Switzerland	2.021	3,8	Switzerland	1.839	3,3
USA	1.349	2,6	USA	1.420	2,6
Spain	1.064	2,0	Luxembourg	1.274	2,3
Others	8.746	16,7	Others	8.832	16,1

Source: www.bnr.ro

In this top 10 range it could be observed the importance of The Netherlands, who took the first place in period 2009 – 2011, replacing Austria, who kept the first place in 2008, (respectively 21,7 percent in 2011, up from 20,7 % at the end of 2010, nearly equal to the percentage from 2009 when grew with 3 percent from the quota held at the end of 2008).

Top 6 countries by the share (at least 5%) of total FDI stock in almost all examined period are: the Netherlands (21,7% in 2011, 20,7% in 2010, 21,8% in 2009 and, respectively, 17,2% in 2008), Austria (17,5% in 2011, 17,8% in 2010, 18,1% in 2009 and, respectively, 18,8% in 2008), Germany (11,4% in 2011, 12,2% in 2010, 13,4% in 2009 and, respectively, 15,4% in 2008), France (9,1% in 2011, 8,3% in 2010, 8,5% in 2009 and, respectively, 8,8% in 2008), Italy (6,1% in 2011, 5,3% in 2010, 5,1% in 2009 and, respectively, 6,5% in 2008) and Greece (5,3% in 2011, 5,7% in 2010, 6,6% in 2009 and, respectively, 8,8% in 2008).

3.3. Foreign direct investment stock distribution by development region

Another important distribution of FDI made by National Bank of Romania is by development region (evolution for the period 2008 – 2011 is presented in Table nr. 5), but, the analysis of regional FDI dispersion should also take into consideration that the statistical research located FDI by registered office, which is not always the same as the business place.

From a territorial point of view, FDI went mainly to Bucharest-Ilfov region (over 61 percent in all years), other development regions benefiting from significant FDI inflows being CENTER region (over 7,4% in all period, and 8,5 percent in 2011), SOUTH-EAST region (more that 5,4% percent), SOUTH-MUNTENIA region (over 7 percent) and WEST region (over 5,4 percent).

NORTH-EAST region is the least attractive to foreign investors, having only 2,9 percent of foreign direct investment in 2011.

Table 5. Foreign direct investment in Romania in period 2008 – 2011. Stock distribution by development region

EUR million

Year / Region	2008		2009		2010		2011	
	Value	**% of total FDI**	**Value**	**% of total FDI**	**Value**	**% of total FDI**	**Value**	**% of total FDI**
TOTAL, of which:	**48.798**	**100**	**49.984**	**100**	**52.585**	**100**	**55.139**	**100**
BUCHAREST-ILFOV	30.594	62,7	31.699	63,4	37.720	62,2	34.021	61,7
CENTRE	4.146	8,5	3.703	7.4	3.909	7,4	4.215	7,6
SOUTH-MUNTENIA	3.411	7,0	3.576	7,2	3.816	7,3	4.059	7,4
WEST	2.626	5,4	3.095	6,2	3.446	6,5	3.987	7,2
SOUTH-EAST	3.551	7,3	2.938	5,9	3.290	6,3	2.970	5,4
NORTH-WEST	2.108	4,3	1.940	3,9	2.232	4,2	2.454	4,5
SOUTH-WEST-OLTENIA	1.226	2,5	2.058	4,1	1.928	3,7	1.806	3,3
NORTH-EAST	1.136	2,3	975	1,9	1.244	2,4	1.627	2,9

Source: www.bnr.ro

3.5. FDI stock by main economic activity

By economic activity, the majority of FDI went to industry (over 41% of total FDI in all years and in 2011 – 44,4 percent of total). Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, which include banks, non-banks and insurance companies and account around 20 percent of total FDI stock in period 2008 - 2011, construction and real estate (more than 10 percent), trade (over 12 percent) and IT and communications (more than 5 percent).

Tabel 6. Foreign direct investment in Romania in period 2008 – 2011 Distribution by main economic activity

EUR million

Year / Activity	2008		2009		2010		2011	
	Value	% of total FDI	Value	% of total FDI	Value	% of total FDI	Value	% of total FDI
TOTAL, of which:	**48.798**	**100**	**49.984**	**100**	**52.585**	**100**	**55.139**	**100**
Industry	20.138	41,3	20.680	41,4	23.093	43,9	24.487	44,4
Administrative and support service activities	1.617	3,3	2.299	4,6	2.560	4,9	2.679	4,8
Agriculture, forestry and fishing	707	1,4	552	1,1	1.068	2,0	1.316	2,4
Trade	6.060	12,4	6.164	12,3	6.519	12,4	6.282	11,4
Construction and real estate	6.155	12,6	6.453	12,9	4.746	9,0	5.897	10,7
Hotels and restaurants	181	0,4	213	0,4	417	0,8	431	0,8
IT and communications	3.283	6,7	3.235	6,5	3.081	5.9	2.967	5,4
Financial intermediation and insurance	10.026	20,5	9.510	19,0	10.055	19,1	10.026	18,2
Transports	500	1,0	684	1,4	788	1,5	787	1,4
Others	131	0,4	194	0,4	258	0,5	267	0,5

Source: www.bnr.ro

3.6. Exports and imports of FDI enterprises

The overall activity of foreign direct investment enterprises had a positive impact on Romania's trade balance, contributing, every year, with more than 69 percent to total exports and with more 60,1 percent to total imports.

The export/import activities of FDI enterprises refer to companies investigated exhaustively (over 20 employees) by the National Bank of Romania. Export/import data economy-wide, taken into consideration in determining the relative size, are reported by operators having exceeded the reporting thresholds for 2008 - 2011 set for Intrastat declarations.[1]

Tabel 7. Exports and imports of FDI enterprises in period 2008 – 2011

EUR million

Activity	2008			
	Exports (FOB)		Imports (CIF)	
	Value (Mil. EUR)	FDI enterprises % of total sector *	Value (Mil. EUR)	FDI enterprises % of total sector *
TOTAL, of which:	**21.127**	**73,0**	**32.715**	**62,6**
Industry	18.560	83,4	20.493	83,2
Trade	1.986	53,8	10.358	48,8
Other	581	19,3	1.864	32,9

(continue)

Activity	2009			
	Exports (FOB)		Imports (CIF)	
	Value (Mil. EUR)	FDI enterprises % of total sector *	Value (Mil. EUR)	FDI enterprises % of total sector *
TOTAL, of which:	**19,643**	**69,8**	**22.525**	**60,1**
Industry	17,264	79,3	15.155	76,5
Trade	1,827	51,7	6.214	45,4
Other	552	19,3	1.156	29,0

(continue)

Activity	2010			
	Exports (FOB)		Imports (CIF)	
	Value (Mil. EUR)	FDI enterprises % of total sector *	Value (Mil. EUR)	FDI enterprises % of total sector *
TOTAL, of which:	**25.950**	**72,4**	**28.181**	**62,5**
Industry	22.887	63,8	19.923	44,2
Trade	2.495	7,0	7.138	15,8
Other	568	1,6	1.120	4,5

(continue)

Activity	2011			
	Exports (FOB)		Imports (CIF)	
	Value (Mil. EUR)	FDI enterprises % of total sector *	Value (Mil. EUR)	FDI enterprises % of total sector *
TOTAL, of which:	**31.418**	**71,4**	**33.358**	**62,6**
Industry	27.257	61,9	23.262	43,6
Trade	3.338	7,6	8.883	16,7
Other	823	1,9	1.213	2,3

Source: www.bnr.ro

*) excluding exports and imports of NACE divisions: 84 – Public administration, 97/98 – Household activities and 99 – Extraterritorial activities

Note: Exports and imports are aggregated by the activity of companies, according to NACE Rev. 2.

4. Conclusions

During the period 2008 to 2010, EU-27 foreign direct investments flows were largely affected by the global financial and economic crisis. In 2010, both outward and inward flows of foreign direct investments halved when compared with the previous year.

In Romania the foreign direct investments flows, were, also, affected by the current crisis, the recovery was a more rapidly than the recovery of the foreign direct investments flows of EU-27.

All the figures for 2011, presented in Table 1. to Table 6 show signs of a recovery of foreign direct investment in EU-27 (both outward and inward) and in Romania (inward).

The overall activity of foreign direct investment enterprises had a positive impact on Romania's economy after the beginning of crisis in 2008, and especially over Romania's trade balance (industry and trade having an important role), contributing, every year, with more than 69 percent to total exports and with more 60,1 percent to total imports.

In my opinion, taking into account, that the country of origin of the direct holder of Romania' Foreign Direct Investments are members of European Union and that the European Union economy starded to recover from the current financial crisis, the volume of foreign direct investments made by European Union member states in Romania will increase in the next period, with positive impact on the future Romania's trade balance.

The increasing of foreign direct investments stocks in Romania will have, also, a positive impact over the development of Romanian economy taking into account that in the past the foreign direct investments flows were made, mainly, in industry (with over 41% of total volume of foreign direct investments made in Romania), in trade (with over 12% of total volume of foreign direct investments made in Romania) and in financial intermediation and insurance (with over 18% of total volume of foreign direct investments made in Romania).

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Figures of Speech in Legal Rhetoric

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Abstract

Rhetoric is a complex science that headlines in social sciences system for over two thousand years. Conceptual reflections and practices in the field of "rhetoric" with obvious multi and interdisciplinary character existed from the beginning of the law and politics. We could start the analysis of the definition of the rhetoric with the famous ancient thinker Aristotle who, in his famous work "The Rhetoric" shows that rhetoric is "the faculty of discovering the specific procedures (rhetorical ones) which in each case is unique, in order to convince the listeners.

Key words: rhetoric, figure of speech, orator, listeners;
JEL Classification: Law and Economics General; K 19;

1. Introduction.

Each speech, in order to be convincing and to have persuasive power must include a set of norms, rules and techniques that will be found in all eras of humanity. A special place in this system has the reasoning techniques. Action argument is to show (prove) and its outcome. Using other words, action argument consists of all the arguments made in order to support a claim. Argument is obviously a part of rhetoric, but throughout history the two elements - rhetoric and argumentation - were often separated and studied by specialists. This theoretical separation was due for a long time (since antiquity to modern times) and the fact that rhetorical theorists have been concerned with the formal aspects of oratory. Classical period brought significant changes in this area. Another important issue in this respect is the problem of the audience. The people which is addressed the speech of the speaker is a crucial element. Rhetoric, according to the specialists in this domain, is addressed to people having high education but also to people without training. In this regard, it is a huge difference between juridical rhetoric and scientific discourse. For juridical rhetoric the best audience is average audience. But even it may be ideal audience, the argument would be in principle just as rigorous as a scientific demonstration. Exact sciences exclude speech figures, pathos and other language strategies. In fact, in most many cases, the speaker is forced to take account of subjective character of his audience, to persuade. Therefore have to separate the concepts of argument and demonstration. The concept is a chain of reasoning, linked necessarily by its author (see demonstrations of math etc). It is very rarely possible to prove something in mathematics or exact sciences than to implement these elements to rhetoric. In reality, very often the orator chooses to stage their arguments based on a strategy to captivate and persuade the public.

Speech is always largely subjective. While is not necessarily manipulative, he is always rhetorical, tending to persuasion, either because want to educate the public (if pedagogy), or because there is an antagonism within the dialogue (if it is judiciary rhetoric), or at least some divergence of opinions. It is hard to measure the effectiveness of a speech when recipients are numerous. In this respect, sometime are used polls. Rhetoric as science was controversial since antique Greek. For example, the rhetoric has been banned in the Greek city of Sparta. Even in the city of Athens hadn't the best situation. The practice of rhetoric was allowed but not exhaustively. There have been many theories and against the science of rhetoric. Rhetoric is sometimes underrated as a science. This situation exists because it is considered that it adds nothing new to the

process of knowledge. Furthermore, some theorists consider that rhetoric distorts reality. Thinking is a proper attribute of each human being. Human communication has a subjective character and distorts sometime the reality. Therefore according to some theory, rhetoric and rationality should be totally separate. This theory, however, is not currently total supported by everybody. This is because there are many specialists who appreciate the rhetorical functions. Often, during a presentation or a good speech, speaker led to the clarification of ideas and viewpoints explanation using rhetorical techniques. Often the rhetoric has been criticized because it is a tool that can in any way distort fair presentation of the facts. A speaker can distort reality through deliberate selection of details that serve to a point. Moreover, the speaker may omit some important issues in order to achieve their own goals at the expense of truth. Undoubtedly, if a speaker has an intentionally false view, we are dealing with an ethical issue and for that exists the personal responsibility. An interpretation takes place in any discourse, public speaking or presentation. This interpretation is inevitable. It is primarily the personality of the speaker involved in the discourse. It will have a preference regarding the selection of topics that are discussed. During the speech will proceed to a certain arrangement and will address in a particular style. This style is unique to each speaker due to the personality. In addition, each speaker has a tendency to explain certain phenomena or words in his way. This is because every man has his own baggage of knowledge or system of values. Evaluation criteria surrounding world differs from person to person. Therefore, rhetoric can sometimes be deeply subjective and can warp reality.

2. Rhetorical figures and their importance in the art of oratory.

Rhetoric art, including legal rhetoric to achieve their goals uses several types of techniques and specific methods (own methods). The figure of speech used in rhetoric begins to be appreciated as an ornament of language, though often this ornament is part of a well-structured speech. Among these techniques stands out the most important techniques, so-called "rhetorical figures". Even if it is a formal and brief analysis we find out the existence of three types of figures:

a. Construction figures are different from all different figures and refer especially to syntax and word location. Among numerous existing figures from dictionaries and treatises, is important to refer to the most important.

b. Figures of meaning, some of which are called "tropes" have as main purposes to multiply and amplify the meanings of a word using it in a different context than in usual situations.

c. Figures of thinking carry their wider elements of enunciation and professionally using of the complex phenomena of thinking in composing a well-structured argumentation.

3. Figures of words as part of figures of meaning.

In the analysis, even if it is a summary figure, there are figures of meaning, refers to the replacement of words in semantic purposes. Neologisms are words in a language borrowed recently from another language or recently created in that that language by its own means. Creations serve to fill some of the gaps in dictionaries of different areas. To talk about neologism, word must have clear novelty elements otherwise we cannot discuss about a neologism. Neologisms are designed to impress people who are part of the auditor. Sort of the antithesis, archaisms are words or phrases with no usage at the time being. The use of archaisms and neologisms in speech involves the use of old or new words or phrases that are not used every day. The intention is clearly to impress and surprise audiences with terms or phrases with medieval or classical "color". Using of these kinds of words is dedicated to the people with a great culture. Used by a speaker in excess may create a snobbery impression.

4. Figures of meaning (so called tropes).

The term "trop" comes from the Greek word "tropos", which has the meaning of conversion, change the meaning of a term [1]. Basically, this conversion is aimed at reversing, changing the meaning of a certain

word. In other words, tropes are procedures to replace a word or a set of words, with another term or another expression. The main form that appears "trop" within a speech is metaphor (figure of speech which arises by implied comparison by replacing the word object of comparison). In fact, the comparison is often used by orators and lawyers in their efforts to convince the auditors. This is a figure of meaning without being considered the most important figure. Meaningful comparison is not very sharp and full subjectivity as in the metaphor itself. Statements in the front of judges such as "under the influence of extreme emotion defendant acted like a robot" or "the evidence presented by the prosecution is like a sand castle" provides images that can be easily identified by their color and which may influence the judges and the crowd and can lead to desired results by speakers.

Metaphor is more subtle and more powerful and lead to strong emotions that can be exploited for the benefit of speakers. The same effect occurs when the prosecution lawyer said in court about the accused person charged with the crime of family abandonment that "Mr. Smith, who was in front of you, has a heart of ice." In this case, the lawyer starts from the fact that ice is cold and by this analogy judges who compose the jury must perceive a lack of sensitivity and humanity of Mr. Smith, who has no feelings for the family that he left.

Although not directly related to classical rhetoric, the image or the symbol may be used for rhetorical purposes. Symbol or emblem is often used to achieve different goals. Use of the symbol and emblem consist in metaphorical representation of an object or a sign. Justice is often represented by a balance, metaphor with direct reference to the notion of justice. Similarly, a heart pierced by an arrow showing love, while a hand with two fingers rose in the form of the letter "V" stands for victory.

5. Figures of intensity – amplification and euphemism.

Amplification - very often, the orators tend to increase different adjectives in their speeches [2]. They are using, hyperboles (exaggerations and emphasis), both to glorify, as well as to depreciate a person or a situation. Hyperbole is a figure generally considered a bit difficult and exist a real fear in using it. Hyperbole particularly characterizes language of the snobs, using precious speeches of past centuries. Thus, adjectives such as "formidable", "great", "awesome" or "fantastic" or even exasperating repetition of "super" are now considered unbearable. To qualify somebody as "brilliant" or "total zero" highlight real limited spirit and a real poor vocabulary rather than a figure of speech having success among listeners. A student asking "Sir, please help me to pass this exam, because I am dead cold, the cold makes me suffer like a martyr and drove me crazy in the last week" will lead to the opposite result. There are a plenty of hyperboles that go up to impossible and the unreal situations and will be useless in the effort of a lawyer to win "the heart of judges". So, phrases such as "my client is an Angel and her husband is the Devil himself" or "is not the fault of my client that the car accident happened because maybe he consumed some alcohol but the fog that night you could cut it with a knife", will definitely lead to opposite results.

Euphemism or significant attenuation is other figures distinguished by the fact that dilutes the shocking elements, crude or ridiculous of an idea. According to most dictionaries, euphemism is a word or expression in speech or in writing, replacing a word or phrase unpleasant, offensive, indecent or obscene, respecting the parallelism of meaning. Function of euphemism is to avoid contradiction, taboos and conflicts. For experienced lawyers, there is never a situation "extremely damaged", but a "serious" no "strikes", but "social conflicts", no "prison" but "places of detention" nor "thief" but "person convicted for theft", "trafficking of influence" but "lobby". Euphemism is used to eliminates fear or unnecessary conflicts and generally to remain courteous and cautious.

6. Conclusions.

Beyond these means and methods, rhetoric must be understood in its true scientifically sense. In all social orders, all ages and all political regimes, power of the word inspired respect and very often fear for dictators and tyrants. Activities of the

speakers' endowed with the gift of speech was carefully monitored by rulers of the times. In all regimes without democracy and respect for universally recognized values, gifted orators actions were sometimes appreciated as subversive and dangerous [3]. However, even if often been blamed or illegal, the rhetoric has been and will continue to exist in various forms. It will be used to achieve the various goals - to win the political battle to persuade and manipulate the masses or to disseminate the values of humanity.

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Local Police in Romania

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Abstract

Safety and public order in each country from Eastern Europe has suffered, after the collapse of communism significant changes, specific to the transition to a democratic society where the rule of law, citizen rights and freedoms are guaranteed. Romania took part at this international process after 1989. In the context of globalization effects, the present world faces a pronounced mobility of people, capital flows, trade and information. All these processes have led to benefits and positive developments, but also the emergence of new threats to the rule of law and human rights. In this context, the appearance of the local police is an important step forward. It is important that in future, the Romanian state more clearly define the tasks of institutions and agencies with responsibilities in the field of public order and safety. This process would essentially help to remove duplication and double competences in the case of many institutions.

Key words: local police, law, order, public safety; law enforcement bodies;
JEL Classification: Law and Economics General; K 19;

1. Introduction.

Romania suffered multiple changes and modernization in the legislative domain, harmonization with the EU legal system after the collapse of the communist system. Sometime the modernization of the system brought few inconveniences and shortcomings. Often, civil society, the media and even ordinary citizens observed multiple controls carried out by the state agencies have conducted at one and the same company, not necessarily in malicious way. In this context the "gaps" in existing Romanian legislation and often changing the law on public order and safety bring serious disservice to the state institutions and the ways perform their tasks. There are few cases in which, within a few years, basic laws in daily activities of state institutions urged to ensure public order and security have undergone significant changes.

2. Purposes, tasks and principles of the local police in Romania

Local police are established in order to protect the fundamental rights and freedoms of individuals, private and public property, prevention and detection of crimes and other antisocial acts (petty offenses). According to local police Act, this police force is operating in the following areas [1]:

a) ensure public order and safety and security of public and private property;

b) monitoring the traffic on public roads;

c) control of the construction discipline and control over the outdoor advertising;

d) environmental protection in the area of responsibility;

e) the manner in which street commerce is carried out in the area of responsibility;

f) the registration of the citizens;

g) any other fields determined by law.

Activity carried on by local police on a daily basis is conducted on the basis of well-established principles of law:

• the principle of legality, is the principle that all activities are conducted by the local police based on law.

• the principles of trust, is the principle that in everyday life, as a provider of public safety, local police should attract the sympathy and confidence of the citizens.

• the principles of predictability, is the principle that local police activity can be anticipated by the community. As well, the activity is conducted based on public

expectations and requirements, depending on the evolution of the operational situation in an area.

• the principles of proximity and proportionality is the principle that compel local police activity to be located in the "vicinity" of the citizen having as main goal meeting of the public request. Proportionality refers to the need, the volume and intensity of activity to be harmonized with existing operational situation at a given time in a given area.

• the principle of openness and transparency, and quality refers to actions taken by local police to be easily known to the general public either directly or through the media.

• the principle of efficiency and effectiveness, requires that local police actions have maximum results, desired by the community, in terms of volume, limited only by human and material resources.

• the principle of responsibility and accountability, requires a high sense of civic attitude. Local police should perform their duties considering permanent legal and social effects of his actions, which must be in compliance with the law.

• the principles of impartiality and non-discrimination refers to impartiality, objectivity and equal treatment of all who come in contact with local police [2].

Local Police operates daily in the interest of the local community, and based solely on legal provisions of the Romanian law. Moreover, regulation of the executive authority of the local public administration is the main "sources" of actions and measures undertaken by the local police in performing its tasks set by law. Moreover, each local police must operate in accordance with the regulations specific to each domain. Local police actions are set by administrative actions in local and central public administration authorities.

To fulfill the duties specific, it is preferable that each local police to be established by each city hall taking in account the establishment of an adequate number of general directions, directions, services, offices and departments. All the organization way is determined by the number of citizens, the existed problems of and not last taking into account the financial possibilities of each city hall. It is essential the opinion of the local Public Order Commission - the entity that directly manages issues related to maintaining public order and safety in each administrative area. In the course of their daily activity the local police may face situations beyond their legal competence. In this case, the local police officers are obliged to communicate immediately to authorized institutions the identified situation (the report will be addressed to Romanian police, prosecutors' offices, etc.) The report of the local police officer will refer to data and information related to the violation of law which acknowledged while performing daily tasks and activities. Act no. 155 from 2010 concerning the local police, expressly states that "in the exercise of its duties, local police cooperates with national police units, respectively territorial structures of Romanian Police, the Romanian Gendarmerie, the Border Police and the General Inspectorate for Emergency Situations". Local police cooperates with other central public administration authorities and local governmental organizations and with individuals and companies under the provisions of law". Moreover, in special circumstances, local police may expressly request the intervention of the competent territorial units of national police or Romanian Gendarmerie (county police inspectorates, mobile gendarmerie or brigades of gendarmes etc.) For any situation that is beyond the jurisdiction or responsibility of local police this force might "call" for the help of appropriate law enforcement body. According to the needs and peculiarities of each area, local police can conclude with other authorities and institutions protocols of cooperation or collaboration (e.g. county school inspectorates, environmental state units, the State Inspectorate in Construction etc.). These protocols come to support the institutions and obviously bring benefits for the community. Signed protocols will be established and will create concrete ways of cooperation with national police and other institutions that is offering support to local police in performing specific tasks or activities. Moreover, the continuous exchange of information between abovementioned institutions, continuously providing of the specialized assistance in

specific cases and supporting each other in certain situations, substantially increase efficiency of the activities of these institutions under conditions of decreasing costs.

3. Organization and function way of the local police.

According to Law no. 155 of 2010, local police are organized and function through local authority decision as a functional compartment within specialized apparatus of the Mayor or General Mayor (in the case of the General Mayor of Bucharest) or public institution local interest, with legal personality. Romanian legislator agreed to let the local authorities to organize local police as the entity with its own legal personality or as a specialized compartment within the apparatus of the Mayor.

If we are speaking about the capital of the country, the law stipulates that local police will be organized by a decision of the General Council of Bucharest (in terms of the local police of Bucharest) and the decision of each territorial sector of the capital (local police to be set up in each sector).

A local police officer can be detached from one unit to another. Posting can be done under the conditions mentioned in the resolutions adopted by the respective councils, taking into account the agreements between the administrative-territorial units. By law, administrative-territorial unit that supports local police officer will conclude written agreements with each administrative-territorial unit receiving these local police services. To avoid any interruptions of a financial nature, administrative and territorial unit that detaches police must specify clearly in the local budget funding sources for these police officers detachment. In this way, will be avoided any financial inconvenience for the local police officer and for the local police unit.

Specific powers to local police

1. His duties in the field of public order and safety, and the guard movable and immovable state property or private property. Local police have powers in commercial and recreational areas (shopping malls, large shopping centers, holiday villages, amusement parks, etc.), In parks, squares, cemeteries, and also other public places. These responsibilities are set out in the plan of public order and safety, according to the Romanian law. This document is a key element in organization and function way of each local police unit. Normally, this plan should be thinking out annually taking in account the opinion of each local authority.

2. In the field of traffic on public roads, local police have a number of responsibilities. The local police control the conditions and integrity of the traffic signs (signs, traffic lights, road markings). Immediately inform the local authorities about irregularities on the proper functioning of traffic lights, signs and road markings situation.

3. In the area of building discipline and billboards. Local police carried out checks and controls to identify unauthorized constructions or buildings under construction or under demolition process. Local police should monitor permanently the situation of provisional or temporary buildings.

4. In the field of environmental protection, local police have a number of responsibilities [3]. Local police will check how the legal provisions in force regarding procedures for lifting, transporting and storage of household and industrial waste are followed in the area of competence.

5. In the field of street commerce, local police has a number of attributes control concerning how marketing activities are conducted by individuals and companies.

6. In the area of records of people, local police have power to establish contraventions and apply sanctions (fines or warnings) to the persons who do not comply with the legal domicile, residence and identity documents.

4. Other specific function way of the local police in Romania.

Local police which is structured in functional departments with responsibilities in the field of road traffic concluded protocols with the database administrator [4]. In this way is provided necessary technical and personnel training for this work, in order to bring the database imposed penalty points due to the detection of road to driving offenses. The local police implements the measures specified in Romanian law. Minutes of the contravention of the police officers with responsibilities in traffic

offenses involving the application of penalty points shall be notified within 24 hours. But the duties of local police will not end here. The copy of the minutes will be communicated to regional structures of the Romanian Police to be entered in the database. This process will take place based on the protocol signed between the parties. In Bucharest, all the records that include complementary contravention sanctions, imposing penalty points under the legislation on public roads will be communicated to the traffic police brigade. These minutes might be communicated, as well to the competent territorial police stations to be placed in the data bases. The local police structures designate staff responsible for the introduction of penalty points in the database that will work for one year together with nominees from the traffic police, in order to specialize. The local police specializing in road traffic exercise their powers with specialized structures of Romanian Police, for a period of one year (no less) from the date of setting up local police unit within administrative-territorial subdivision. Local police and employees of local police with responsibilities in the security of goods and goals of local interest will be provided with free uniform and appropriate personal protective equipment specific for the tasks they perform. In specific situations where, as a result of the exercise of duties service, were damaged or destroyed clothing or other personal property, the police officers are entitled to appropriate compensation.

Staff Uniform is provided by the local authority. The specific form and content of markings, and its legitimation document are those stipulated in the Framework Regulation for organizing and functioning of the local police. As well, the specific signs to be used for the local police cars should be established by Framework Regulation. Upon termination of service or employment, the local police staff is required to submit, as soon as is possible, the uniform, the insignia, the protective equipment and the documents of identification. Termination of service of local police for reasons attributable to themself, within 5 years after completion of the initial training program referred to the Romanian law it shall entail the payment of tuition fee costs in proportion to the remainder.

5. Conclusions.

To improve the quality of the public service offered by the local police in Romania is an urgent need to improve the technical means available to local police units and widespread use of effective technological items (cameras, alarms and warning elements, embedded devices patrol police and gendarmerie novel local police, etc.).

Last but not least, the local police must achieve a quantum leap in terms of improving the quality of services provided to citizens. Satisfactions of the citizens should be the main criterion of evaluation for each local police officer. Reducing bureaucracy and improving working conditions for all units involved in ensuring public order and safety, contribute decisively to achieving a quality public service. Then time to time the public opinion may be evaluated using polls or questioners. This goal, of high quality of public service can be achieved by taking into account the need to permanently improve the speed of reaction of the local police and by increasing the transparency of the activities to ensure public order and safety. Partnership based on correct principles with the media, can provide much-needed transparency, given accurate and timely information for citizens and companies.

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The Cybernetic System of National Economy and Foreign Investment

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Abstract

The cybernetic approach of the national economy system requires an analysis from the systemic point of view of its structure and function, of its interaction with the other systems from our environment, in this way emphasizing the component systems, their functions , as well as the purposes of the respective subsystems.

Key words: national economy, systemic approach, cybernetic system, macroeconomic sectors, foreign investment.
JEL Classification: E10, E22, O11

Introduction

According to a classification of the most valuable concepts that emerged in our century, the concept of system and systemic thinking could occupy one of the first places. The systemic approach has, undoubtedly, great practical and theoretical valences. In the strict sense of the word, it can not be considered a science, but more a scientific methodology focused on the idea of system or systemic thinking and that originally includes methods and concepts deriving from different scientific domains.

The concept of system lies in the centre of the systemic approach and of the system analysis, and it can be defined as a mixture of interconnected elements having a common goal. The system features are different from those of the component elements (subsystems), thus, any system has a series of properties which can not be inferred directly from the study of its component subsystems.

The cybernetic approach

Cybernetics, defined as the managing science of the complex systems, studies the managing processes inside the complex and dynamic systems. More exactly, the economic cybernetics analyses the economy, as well as the structure and function of its component parts as systems where management processes are unfolded, the transmission and the information transformation are achieved. It studies the function and the economic development as a managing system and, more precisely, the decision and computational mechanisms / techniques needed to manage the economic processes.

The economic cybernetics proposes both the unitary representation of the economy as a complex and dynamic system, and the approach of its component subsystems, of the technical, economical and organizational structures, common to the function and development of these subsystems. The economic cybernetics studies the processes that are carried out at the economic agents level (elementary entities or aggregated entities of the economic system), with a view to promote these management methods and to create some decision systems that take into account the requirements of the economic legislation and to determine their presence within the economic reality[1].

As a branch of the economic cybernetics, the cybernetics of macroeconomic systems studies the economic systems at the macroeconomic level, the mechanisms used for the function of aggregate markets, the role and functions of these markets when it is about the regulation or self- regulation of the respective systems[2]. In order to emphasize the specificity of the processes and phenomena which are carried out at the macro level, the economy is analised and structured in sectors according to some features. At the level of these sectors, there can be formed connections and bonds between the components that are directed and guided through the market mechanisms. Such a structure of the economy gives the possibility of using the circular flow models

in order to underline the quantitative relationships that can be established between the different parts of the national economy systems in the complex process of achieving the macroeconomic balance.

The macroeconomic sectors

The economy may be regarded, at the macroeconomic level, as a dynamic system, made up of a multitude of systems linked together by direct and indirect connections of different types, every subsystem having its own evolution and objectives which are conditioned by the accomplishment of social welfare. Taking into account a very aggregate variant, the general structure of the cybernetic system of the national economy have the following sectors[3]:

1. The accommodations sector

The accommodations sector is formed by the totality of the cybernetic systems of the individual accommodations (the consumers) from the microeconomic level. The simultaneous treatment of individual accommodations leads to an aggregate behavior of the accommodations sector, as a result of the interconnected function between millions of accommodations that exist within the national economy. The private propriety is dominating, and certain factors such as work, are either in the direct propriety of the individuals within the accommodations, or belong to them indirectly through the shares that they hold and that give them the quality of owners. The incomes of the accommodations sector, together with the possible loans taken from the financial market (consumer credits) are spent by the accommodations sector to purchase goods and services. A part of these total incomes is used by the sector in order to pay the taxes.

The savings represent that part of the total incomes of the accommodation sector which is used neither for purchasing goods and services nor for paying the taxes. The accommodations are inclined to save from a lot of reasons. From the income saved, they can increase the consumption during the periods when lower total incomes are achieved, they can offer education to their children or increase their accumulated wealth.

2.The companies sector (private, productive)

The firms sector, called the real productive sector, is made up of a multitude of enterprises of the economy which belong to the individuals either directly (they own them) or indirectly (hold shares to the respective firms). The main economic activity of the firms sector is based on the production of goods and services, achieved through the consumption of capital goods and of work (production factors). The goods and services designed to the consumption are those that the firms send them to the goods and services market in order to be purchased and then consumed by the accommodations sector. The capital goods refer to cars, equipments, installations, means of transportation etc., that are not completely consumed in the production sector, but they are used in a variety of manufacturing cycles in order to market goods and services designed to consumption.

The firms can produce, besides goods and services designed to the personal consumption (final) also capital goods designed to the productive consumption, thus, contributing to the growth of total stock of capital existent in the economy.

3. The public sector

The public, also called governmental sector, consists of the totality of central and local institutions, as well as of the enterprises (administrations, national societies, etc.) found under the state ownership that achieve public goods and services, such as defense, education, health, administration etc., and also goods and services designed to the consumption of other sectors of the economy (highways, communication networks, schools, etc.) and that are too costly to be accomplished by the firms sector.

The public sector purchases from the private sector goods and services that are used in order to achieve public goods. For instance, the public sector can buy from firms stationary for administration, tanks and bombproof machines for defense, computers for education etc. Although, these goods and services coming from the firms sector are considered, at the level of the public sector, resources which are used to produce goods and ,,public" services. Some other time, the public sector itself can realize goods and services through the enterprises found under the state propriety, using for this hired

resources from the production factors market (including work).

4. The external sector

The material flows (such as imports and exports) and the financial flows between the national economy and the rest of the world are realized through the external sector. If one neglects this sector within the economy, one can say that it is a closed economy; on the contrary, one can speak about an open economy.

Any economy needs some goods and services that the internal productive sector does not accomplish them or accomplish them in insufficient quantities, so these goods and services are to be imported; at the same time, any economy can produce additional goods and services which can sell them on the world market, so they are exported. It is noticed that the respective flows input and output mainly from the firms sector, but the public sector ca also make imports and exports.

In order to make imports, both sectors should pay a part of their incomes, while for exports they receive incomes from the exterior.

A certain difficulty is represented by the currency used to make these mutual payments. The national economies have different currency, a fact which weights the trade exchanges (e.g. one of the main reasons of introducing the euro in some of the European Union countries is given by the facilities it creates when it is about the payments of the export and import flows).

In order to solve the transformation of foreign currency into internal currency and vice versa, there are currency intermediaries within the financial sector (banks or exchange offices) that, on the financial market (more precisely on one of its components called currency market), they make exchanges between different currency. Thus, the external sector uses the currency market only to make currency transformations needed to the right course of the exports and imports.

In addition to these trade flows, any economy has inputs and outputs of capital flows. These are generally formed by foreign investments made by the residents of other states in the internal economy or on the international financial markets. These capital flows are also transformed; the inputs are transformed into internal currency, and the outputs into an international recognized currency or into the respective country currency.

5.The financial sector

Generally, all the sectors lend and save funds. The important thing is that these processes determine a balance: if certain sectors save more than they spend, a funds surplus can be created; this surplus is used to cover the funds deficit from the other sectors. On the other hand, other sectors, which spend more than they save, have a funds deficit, they borrow these funds from those which have a surplus.

The financial sector is the one that achieves the funds transfer from the sectors which have a funds surplus to those which have a deficit. At the same time, the financial sector insures the interest payment deserved to those who lend funds from the received incomes from those who borrow funds.

The financial sector is made up of the multitude of different types of banks and of other financial intermediaries (insurance companies, investments funds, retirement funds etc.) that exist within an economy. The annual savings accumulation of the sectors which have additional funds allows the realization of investments funds used by the sectors which they have a funds deficit to develop the productive activities.

Usually, the sectors that save most are the accommodation sector and the public sector. The accommodation sector constitutes the most important sector which creates a funds surplus. The savings achieved by this sector go to the other sectors and bring to the accommodations sector a redundant income due to the interest paid by these sectors. The most frequently used forms of saving are: the formation of savings accounts, the purchase of firms and corporations bonds, the purchase of insurance policies, contributions to the pension scheme etc.

The sectors which lend the biggest funds are the public and private sectors. The funds transfer between these sectors is made, as a rule, on the financial market. On this market, the funds offer of those who save is equal to the funds demand of those who lend for a given level of the interest rate. If the funds demand is temporarily higher than the funds offer, the competition between sectors to obtain funds from a rather limited offer will

raise the price of funds, that is, the interest rates. Generally, higher interest rates will encourage savings, and they will discourage the borrowers until the demand and offer are again balanced for a new level of interest rates.

Foreign investment and the sustainable development of each cybernetic system called national economy

This paper addresses, in a complex manner, the system of domestic economy. This approach is simultaneously economic in content and cybernetic through the systemic vision of the structure and its operation, its interaction with other systems in the environment. The economic system is in a period dominated by the principle of managerial pragmatism, a period graphically called by John Kenneth Galbraith "the age of practical judgment", whose new features, values and principles are changing almost entirely and continuously, no less than the resources, products and services of the new economy.

From Adam Smith's "predictors and squanderers", to the under-consumption balanced by excess investment, by overestimating the ubiquitous Malthusian investor, to the detriment of a normal consumer, from Ricardo's compensation of labour demand by reinvesting capital to the Keynesian type of inverse correlation of interest rates and investment levels, an economic concept linked to economic growth centering on material and financial resources was shaped, and so it has become more and more necessary with every innovative approach; thus, investment occupied a more extensive area, in economic thought and theory. Over the last two centuries, the theories of foreign investment have shifted to the center of economic growth analyses, and in the last half-century, the explanatory models have multiplied exponentially, but the structural impact has permanently been under the dynamics and the avalanche of an increasing number of novel exogenous or factorial variables, which were nevertheless rejected by the statistical tests of stability of modelled and parametric correlations.

In parallel with the quantitative evolution, there have also been deep qualitative changes, stemming from the desire of exhaustively know the investment phenomenon, exacerbated by the unsuccessful attempts to find universal, complex, comprehensive unifying models, either systematic or formal logical and causal. The type of modeling which sought to synthetically express investment phenomena, initially statistical, and later econometric, has gradually been replaced by smaller, pragmatic solutions, with an obvious impact in simulation and forecasting, as embodied by parsimonious models, relatively unstable compared with the rapid changes in global economy[4]. The investments triggered off by the entrepreneur, a key player of the economy, have been and still remain linked, over the past century as well, with economic growth and recession.

If an enterprise is defined as a practical manner of organizing a business, where products and services are performed and provided, jobs are generated, contributing to gross or net domestic product and import, to export and especially to sustainable economic development, a foreign or international investment implies the existence of at least two economic agents, an issuing agent and a receptor one, located in different national economic spaces, and the existence of an investment flow from the issuer to the recipient. The investments flows can be directed towards a receiver or destination economy (inflow), conceptually representing investment inputs, or can be generated by an issuing economy, or an investment source (outflow), meaning investment outflows.

Closely related to the connection between the issuer and the receiver of the investment flow, one can distinguish between foreign portfolio investment (FPI) and foreign direct investment (FDI), where the former possess a high migration potential, a completely unstable character, redefining itself as "hot money", while the latter category involves a long-term relationship and implies a lasting interest and control performed by a resident entity of one economy in an enterprise resident in another economy, thus bringing the host country a great deal of advantages and benefits (from the chain effects of growth, development and optimization, to stable financial resources, from the transfer of managerial skills and improved technical expertise to greater adaptability, from better targeting the export to the markets of goods

and services, to financing local research and development capabilities, etc.).

Conclusions

Knowing the cybernetic system called national or domestic economy, or macroeconomic knowledge involves a continuous, rigorous and coherent insight system.

The onset of theoretical investigation consists in looking for characteristic variables, to be found in the system of national accounts (SNA), renamed the European System of Accounts (ESA) in the area of the same name. To understand the role and importance of each topic and economic sector of the SNA, as a cybernetic system or subsystem, viewed separately or within the framework of national economy, its interdependencies with other topics or sectors, and the functions of the various markets that form at this level as elements of the regulation and self-regulation processes, as well as in controlling, directing and guiding those systems towards achieving its own ends, and the general economic objective, it is necessary to first study and summarize the models of circular flows in economy, the model of the representative agent, those based on genetic algorithms, or, more simply, on agents. Then, a conceptual and functional reference is in order, even a limited one, concerning the investment multiplier, which designates a selected factor, which indicates to what extent an initial economic impulse (a separate and independent variable) influences an explanatory value (investment as a dependent variable), at the same time as a necessary reference to the investment accelerator, equally defined by a selected factor, which this time quantifies the rate at which investments fluctuate in relation to another explanatory variable, the two concepts then coming together as the multiplier-accelerator to merge the regulation/control and stabilization mechanisms, as well as the advantages of the two previous models, which have become, in practice, the most often invoked and applied models. The modelling of an economic cybernetic system is synthesized by means of three main classes of models, namely the balance between aggregate demand and aggregate supply, economic growth models, and models of economic cycles and fluctuations. A systemic understanding of the economy has been possible by deepening the study of the classical factors, and the neo-factors, as well as the entrepreneurial paradigm. The originality of the theoretical synthesis, with a role in the in-depth understanding of the investment phenomenon, lies in this approach centered on the entrepreneur and entrepreneurship [5].

This systematic conceptual approach was intended to restructure and continuously reshape the hierarchy of the factors or explanatory variables of the economic phenomenon of investment in general. The major conclusion of this extended theoretical approach was that Romania's transition to a new cybernetic system of real economy (a modern market economy, integrated into the EU), should seek to adjust all the subsystems to the requirements of the external environment in which they operate, respectively by:

- the partial or total sustainable transformation of the *production subsystem* (clean and sustainable technologies),
- the gradual technological and informational transformation of *the subsystem generated by the balance of demand and supply* (products from another category of resources),
- ensuring better coverage of *the labour market subsystem*,
- setting up and applying a new ethical system to *the subsystem of profitability*,
- applying a new morality to the processes of *the subsystem of forming and distribution of income, and even of the profits of foreign direct investment*.

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The Theories of the Comparative and the Competitive Advantages in the International Trade

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Abstract

The traditional theories – the classic and the neo-classic ones – are based on certain hypotheses, which simplify the analysis of causes and effects of international trade. Some of them are specific to the classic theory, some to the neo-classic theory and others can be found to both models.

Although the international trade based on staples still reflects the abundance of natural resources in the partener countries, the trade based on manufactured products put into practice even less the principles of neo-classic theory. More often the nature of commercial flows is even contrary to that recommanded by this one. It has been noticed that many countries export and import at the same time products for which they hold comparative advantage.

Key words: international trade, the theory of comparative advantage, the theory of competitive advantage
JEL Classification: F1, F4

Introduction

The intensification of intra-industrial trade led to confusion among the followers of neoclasic theory and made them analyse the characteristics of the world market, the differentiation of products and the way of manifestation to world demands.

In the vast body of literature on this issue, there are a lot of approaches of the notion **competitivity**. Generally, the notion of competitivity encompases all the elements that give to an economic entity a superior position on the market in relation to the competitive entities. [1]

The Theory of the Comparative Advantage

Adam Smith, the classic of the political economy, realized that a nation's wealth is based on its productive capacity. Starting from this general conception, the English economist created the theory of the absolute comparative advantage regarding the international trade. „ If a foreign country can provide us cheaper goods than those produced by us - as Adam Smith said – it is better for us to buy them from that country, as part of the product of our activity, used in a way of which we can take certain advantage"[2]. This theme conveys the idea of shifting the role of work division from that of a productive unity to that of a nation. The international work division contributes to a significant production surpass under autarchy conditions (if this exists). From the surplus obtained due to the work division, all the participants in the exchange benefit, thus they have an absolute comparative advantage.

The commercial relations between countries have found a new theoretical approach in David Ricardo's work. Taking over from Smith's theory the idea of the essential role of the work international division, Ricardo lays the foundations of his theory about foreign trade with the help of some concepts, such as: comparative cost, relative value, relative price, relative advantage. Therefore, the Ricardians' theory is known as the theory of relative comparative advantage.

„The same rule that regulates the relative value of goods within a country –Ricardo says- regulates at the same time the relative value of the goods exchanged between two or more countries. In a system of perfect freedom of trade every country naturally dedicates its capital and work to those types of activities which are the most advantageous for it. This aim of pushing the individual advantage is admirably related to the universal good of everyone." [3]

The theory of the relative comparative advantage, foundamented by D.Ricardo, preserves its theoretical-methodological value. Reformulating the Ricardian's principle concerning the relative comparative advantage, the economist Paul A. Samuelson, laureate of the Nobel Prize in 1970, stated: ,, Even if one out of two regions is absolutely more efficient in producing all the goods comparing to the other region, if every one of them specializes itself to produce all the goods for which they have a comparative advantage, then the trade will be mutually profitable, for both regions. This simple principle constitutes the real basis of international trade." [4]

The Theory of the Competitive Advantage

Almost half a century later, in order to delimit the terms of competitiveness and comparative advantage, Michael Porter introduces the notion of **competitive advantage**[5]. Porter offers to the competitive advantage a larger sphere of comprehension than that of the **comparative advantage**, the former being determined by the factors and demands'conditions, by the existance of connected industries and by commun support as well as by the firms'strategies and markets'structure. Porter's approach is situated between the traditional approach regarding competitiveness and the attempts of improving the classical theory of the comparative advantage. Despite of being innovating, Porter's conception is simply a systematization of the positive theories regarding the markets'structure and the international trade in a speech obviously normative. The notion of competitive advantage denotes nothing else but the competitiveness from the normative perspective. By reuniting the rates of nominal and effective assistance as well as the domestic costs of the factors known as indicators of sectorial competitivity, it is implicitly admitted the fact that the comparative advantage represents an element of competitivity.

In 1989, Porter proposed a model that expained the countries'role in identifying and maintaining the competitive advantages of the firms on international markets. The model starts from the following premises[5]:

- a country can influence the competitive advantages within an industrial sector, where a certain number of firms compete;
- even for the transnational societies, a country can provide different competitive advantages, as natural country or host country;
- competitivity has a dynamic character (*Schumpeter*). The innovations represent the motive force in such a continuous change and determine the firms to abandon the inertia they are used to.

A country's capacity to progress from the economic point of view depends largely on the enterprises' position in the respective economic section exposed to the international competition. This represents the part of the economy where there is the potential of attaining high levels and production increase. The capacity to export from these high industrial branches that permits imports in the less productive branches is essential to the economic growth.

The national economies pass through a number of development levels that reflect the characteristic sources of a country's advantage in the international competition as well as the nature and the measure of successful industrial branches[6]. Porter identifies four distinct levels:

- the level of advantages based on the factorial endowment;
- the level of advantages based on investments;
- the level of advantages based on innovation;
- the level of advantages based on national wealth.

The Comparative Analysis of the Two Theories

One of the most ambitious claims made by Porter's theory was that it constituted a more relevant theory by replacing the simplist perceptions of the classical and neoclassical theories. It was explicitly launched the idea according to which a ,, new paradigm" had been created by replacing the ,, old" concept of comparative advantage with the more dynamic concept of competitive advantage.

The comparative advantage has been described as offering a static approach of the international trade based on the relative endowment with production factors. The notion of comparative advantage is a fundamental concept of economy that made Paul Samuelson, the laureate of th Nobel prize, declare as being the only statement from all social sciences which is evidently true and never devoid of importance.

The competitive advantage is a more complex and more dynamic concept which is based on innovation and new technologies.

In this context one can underline four of the most important elements that derive from Porter's theory:

- the first one, a misunderstanding of the comparative advantage within his theory and a return to an old point of view and to a long rejected explanation of trade;
- the second element refers to the statement according to which his theory introduces new elements in analysing the theory of international trade, but this one is not deeply founded because the economists had previously seen these elements;
- the third element refers to the omission that appears from Porter's position as a ,, competitive" defender against the comparative advantage, makes the others misunderstand his position regarding the governmental involvement;
- finally, it is evident that, by rejecting the comparative advantage, Porter relies on the weight of his logic in creating the elements for the proposed model of development.

Porter's "attack" to the comparative advantage demonstrates, perhaps, to a certain extent (according to his critics) a fundamental misunderstanding, encountered in the confusion which is made between the role of the absolute and relative productivity as to the trade determination. Porter states that , wishing to counterattack the external competition and to export, an industry must attain the standards of an ,,**absolute productivity**".

Probably, due to a (deliberately) less exact understanding of the comparative advantage, Porter considers that his theory represents a new paradigm in the field of international trade. As a matter of fact, as we have already shown, the modern theories realised from the comparative advantage perspective, largely approached the elements analysed by the ACN theory. The trade based on the technological disparity has been debated by Posner[7] and Vernon[8] offering a dynamic extension of the comparative advantage theory in the model of the product life cycle at the international level.The importance of the production factors mobility was recognized by Mundell [9] ever since 1957. Deardoff, Ethier and Krueger (1984) elaborated different articles showing the great economists' concern for this field, long before Porter. Cosequently, his statement according to which he invented (discovered) a new paradigm of international trade can not be sustained. The theory of the comparative advantage does not provide a revealing explanation as to the intra-industrial trade, between countries having the same level of endowment from the production factors'point of view , according to Porter's statements. Although, this idea had also been declared long ago by other economists concerned with this domain, who explained this type of trade as a result to the scale economy. [10]

A series of analysts consider that Porter appears in rather surprising positions by the statements made within his theory. Thus, Warr[11] shows that this theory refers to the importance of differentiated goods production and especially of those belonging to the high-tech industry and it shows the decrease in importance of the comparative costs, fact which apparently justifies the waste of public expenditures or/ and of protectionist policies in the attempt of promoting the early development of top industries. This interpretation of competitive advantage menaces to encourage policies which will waste the resources already limited of the developing countries. Nowhere within his theory, Porter does not embrace the idea that governments can use mindlessly the public expenditures, the protection and administrative measures instead of elaborating more efficient policies in the field of different industries. Generally, Porter was known as a well-known opponent of the governmental intervention [12].

Porter denies the fact that a superior competitivity can be obtained through the comparative advantage and insists on the fact

that firms must produce superior products in order to compete at the global level.

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The Effects of Risk Events on the Efficiency of Financial Market

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Abstract

Starting from the network of relationships between the participants on the financial market and the need to match the offer with the demand, the financial mechamism must work efficiently. Nowadays the concept of efficiency is a central issue of market research. Taking into account the real economy , this paper tries to reveal the effects of risk on the efficiency of financial market. The aproach of the subject has a double perspective: the negative effects of risk on the efficiency of the financial market and the positive ones.

Key words: efficiency, risk, financial market
J.E.L. Classification: G14, G32, E44 .

1. Introduction

The current financial context is definitely one of the best examples to illustrate the effects of financial market's risk events.

According to the Financial Stability Report for 2012 [1] issued by the National Bank of Romania, the financial environment has become more strained, the financial markets' volatility has increased and the investors perception has worsened amid the sovereign debt crisis and the persistent uncertainties about global growth prospects. Rating agencies have downgraded the marks for many EU countries. All these facts lead us to the conclusion that the financial risk has negative implications as direct effects. It also has positive effects and they are represented by all the solutions and tools developed and implemented in order to counter the negative effects.

2. The negative effects of risk events

The manifestation of risk on financial market does not mean that it can be exactly located and framed in a certain typology, but involves assessing its impact and its contagion effect that leads to systemic risk.

Risk is actually the manifestation of systemic financial instability. This state of financial instability reaches systemic dimensions through different mechanisms: contagion, slow accumulation of financial imbalances and the occurrence of systemic shocks [2]. Under these circumstances, the failure of a market through the collapse of economic agents generates other markets collapse, even if the risks taken were different, leading to a phenomenon called "blocking chain". Such imbalances generate systemic risk because they are not corrected at the right time and become generalized. Once they become generalized they become global shocks, affecting a large number of financial markets, being impossible to restore the balance on the basis of market self-regulation mechanisms.

There are certain characteristics of markets and financial systems that generate a higher probability of developing systemic risk: externalities and asymmetric information.

Externalities are significant due to the fact that they are more important on financial market than in other sectors, because of the complex and dynamic network of mutual exposures of major financial intermediaries [2], meaning that in normal times, the multiple interconnections between market participants is an effective mechanism in the process of risk division, and in times of tension, turns into an instability transmission channel, generating consequences on third parties, thus systemic risk being greater than the sum of the various risks taken individually.

Information asymmetry occurs because financial systems mobilize funds from businesses which do not know or are not

fully informed about investment opportunities. They enter into relationships with agents who know the possibilities of doing business and are willing to work but do not have the required capital, between them occurring phenomena such as agency problem and adverse selection.

The state of instability of the financial system in the economy can be measured by using macroeconomic indicators that reflects the tensions between the main components of the financial system: financial intermediaries, money market, stocks and bonds, foreign exchange etc.. To study the instability condition is used the "composite indicator of systemic stress" (Composite Indicator of Systemic Stress CISS), built by D. Hollo, K. Kremer and M. Lo Duca [3]. Based on this indicator was concluded that systemic crisis began in September 2008, particularly through bankruptcy of "Lehman Brothers".

Financial crises occur amid a state of widespread financial instability. Financial stability itself is defined in terms of appearance or crisis.

If the financial system does not fulfill its role, the real economy suffers losses. Financial crises as a result of risk events are actually those economic conditions characterized by widespread failures of businesses, lower incomes and prices. Due to economic interdependence these effects are widely transmitted by the contagion and are generally accompanied by financial disturbances, both at micro and macro level.

A financial crisis usually includes a currency crisis, a banking crisis and a debt crisis.

There are several economic theories on the causes of financial crises [4]. The first category identifies as causes predictable events due to inconsistent policies. A second category refers to the interaction between private sector behavior and compromises made by governments, and the third generation of theories brings the idea that crises were generated by the banking system. The crisis we face today is part of the third generation, being classified as a twin crises of banking and currency type.

Financial crises have significant implications on the economy and can be summarized as follows [4]:

- additional budget expenditure due to recapitalization of financial institutions affected by systemic shock and of the deposit guarantee schemes;
- damage on the effectiveness of monetary policy, the transmission mechanism being severely altered;
- slow growth or even loss of gross domestic product by: restricting production, rising cost of financial intermediation, which can fuel the development of the phenomenon of adverse selection;
- reducing the wealth and/or income through impairment of financial investments (partial loss of bank deposits and reduction of the value of stock portfolios) and the loss of disposable income (by reducing wages as a result of reduced demand for labor and tax increases to achieve budgetary resources covering government spending shock occasioned by limiting systemic spread of the financial sector).

3. The Benefits and positive effects of risk events

Besides negative effects, financial crisis caused a mobilization phenomenon in order to create and develop the necessary analytical tools to formulate and apply policy to ensure financial stability.

The first aspect [2] was the understanding of all aspects concerning the organization and functioning of modern financial systems (elements, function, efficiency parameters, etc..) and of the risks that they generate. This fact imposed the understanding of the essence of some major changes - financial innovation - and the prediction of how these modern financial products may occur in credit process of (credit default swaps or CDS).

Crises have shown the need and importance of timely referral tension and imbalances and the importance of analytical tools necessary to evaluate new financial products, and risk involved.

Second, the crisis demonstrated the need for models, not only the ones that reflects emerging systemic risks in the banking sector, but also models that allow to explain how non-bank financial intermediaries contribute to the transmission of the financial instability.

Third, the postulate of efficiency of financial markets was reviewed. Economic research has shown that the assessment and accounting of assets, financing arrangements of firms and the brokerage process have some major shortcomings that diminish the efficiency of financial markets - contrary to the widespread belief in market efficiency.

The crises have increased the importance of the macroeconomic stress tests (stress tests), tests based on an extreme but plausible macroeconomic scenario, which examine its punctual effect on banks.

Meanwhile, the financial crisis led to systemic risk regulation.

There have been developed five models for systemic risk assessment [5]:

- aggregate indicators of imbalances, which are either macroeconomic data, or monetary data sheet and which are used to signal the strengthening of risk in the financial sector or the economy as a whole;
- indicators of financial markets based on risk appetite and liquidity conditions;
- indicators of risk concentration in the financial system, considered very important because they bring into question contagion;
- macroeconomic stress tests, for each national and international economies which are focused on two risk factors for the financial system: economies of scale on the demand side (network effect) and the fact that poor development of the economy and financial conditions influence each other (adverse feedback effect);
- integrated monitoring systems, which are in fact models of exposure of all elements presented above, through a certain representation (such as risk maps [6]) or through a set of compounds.

Complex systems theory deals with the impossibility of directind risks. Therefore, instead of trying to eliminate or directly limiting risk, a more effective solution may be to create, within the system, some safety nets that allow the survival of financial institutions even in case of strong shocks. And in fact, this is the philosophy of Basel III concerning funds and liquidity of financial institutions. It is also desired to create a rapid procedure for adjudicating bankruptcies, improving recovery plans and creating ad hoc reserve funds.

At the same time in order to solve the problems of contagion, it is expected that financial transactions will be concentrated in central clearing houses. This way, the counterparty risk can be managed more efficiently and recovery operations can be faster.

Crisis phenomena as effects of increased risk events have increased the importance of the macroprudentiality concept.

Macroprudential policies consist of measures to ensure the health of the financial system or prevent out-of-control problem from one part of the financial system [7]. G20 recommendations on macro-prudential policy, take into account three activities [5]: identification and monitoring of systemic risk, building a set of indicators for the macroprudential policy, institutional arrangements for policy coordination.

In the same category we can include awareness of the beneficial effects that have quality, quantity and speed of information, this fact involving the submission of efforts to improve data collection, stress tests quality and harmonization of accounting rules to better reflect the economic value of assets in the portfolio.

The current crisis has also revealed the dangers of excessive debt and debt multiplication phenomena. For example, lending to a wide range of economic agents (households of sophisticated financial intermediaries) that do not have sufficient income, own funds or guarantees, was a major cause of instability. Consequently, it became necessary to use administrative tools such as loan-to-value ratio (loan amount to the value of goods purchased) and capping debt relative to income.

Basically, the financial crisis has generated a process of reform. New rules on economic governance in the EU entered into force in late 2011, continuing the process begun in 2010 to strengthen the monitoring and prevention of macroeconomic imbalances, fiscal and competitiveness gaps between EU countries.

The new framework focuses on two components (NBR report on financial stability, 2012): fiscal and macroeconomic surveillance. It also strengthens the Stability and Growth Pact (SGP), this new regulatory

framework targeting multiple components of the financial stability [1]:

A. Strengthening the existing framework for monitoring and correcting fiscal slippages:

- preventive side of the SGP: Member States must ensure the achievement of medium-term budgetary objectives in order to ensure fiscal sustainability, in this sense being envisaged a maximum level for the annual increase in public spending;
- corrective side of the SGP: the start of the excessive deficit procedure (EDP) may result in overrunning the limit of budgetary deficit and public debt.
- minimum requirements concerning budgetary frameworks: Member States must ensure the existence of minimum fiscal standards.

B. the introduction of macroeconomic imbalances procedure aimed to monitor and correct the macroeconomic imbalances:

- a monitoring and early warning system (a set of indicators established in order to highlight the possible macroeconomic slippage). European Commission (EC) analyzes the set of indicators and prepares The report on the alert mechanism based on their analysis. EC may decide to deepen the analysis for specific risk areas and may propose measures for member States;
- the preventive role of the EC is to decide the issue of recommendations in the early stages of formation imbalances;
- the corrective side is represented by the excessive imbalance procedure which can be opened for Member States where there is a severe macroeconomic slippage.

C. Introducing measures to strengthen the new framework by applying penalties for breach of the EC European Council decisions.

According to Governor Isarescu a viable financial system reform should address market failures sources on two levels.

The first level refers to the coverage of financial institutions activity in order to preclude involvement in certain risky activities and to protect their essential functions; reintroduction of the separation of commercial banking activity from investment activity (according to the original version of the Glass-Steagall Act) and introducing Volcker Rule severe restrictions on operations on their own;

The second level refers to the size of the financial institutions. Starting from the issue of "too big to fail" it is found that bankruptcy law is inadequate and requires a special frame building solutions, which do not cause unacceptable risks to the economy;

At the same time it is envisaged the creation of a banking union. This process involves the simultaneous implementation of four pillars:

- harmonization of the regulatory framework and banking supervision in terms of a single set of regulations;
- transferred from the national to the European level of the main responsibilities of supervision in terms of a single mechanism of supervision;
- harmonization and centralization of deposit insurance by a single scheme for the guarantee of bank deposits;
- introduction of common provisions to ensure legal support necessary to manage bank failures problems through a single bank crisis resolution mechanism.

4. Conclusions

Risk effects and the present financial crisis lessons have been and will be a landmark for the future development of financial stability.

Financial reform measures should not seek to circumvent the market, but to ensure its proper functioning.

A higher degree of certainty should not be achieved at the expense of lower efficiency and a lower capacity of the financial system to support robust economic growth in terms of financial globalization.

Consequently, transnational cooperation is essential through mechanisms and new techniques for achieving information exchange and harmonization of approaches to solve the problems of the banks in dificulty.

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From Tulips to Black Swans – Have the Financial Rules Changed?

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Abstract

From the tulip mania back in the 17th century in Holland up to the US subprime crisis considered by many a "black swan" – the unpredictable and improbable event that had such a great impact, the financial world has been hit by many crises. This paper emphasizes the idea that although most of the economists did not predict the crises coming, the signs that eventually led to the dramatic outcomes were present and one should learn from these unfortunate events in order to better prevent and manage any future financial disasters.

Key words: financial crisis, subprime market, asymmetric information
JEL classification: F30, F65, G01

1. Introduction

Ever since the births of the financial world, there have been diverse developments that changed the landscape and brought turmoil among the participants. As the role, the interconnections and the magnitude of the financial architecture increased over time, more parties with a lesser involvement got linked to the system and started sharing both benefits but also the risks a off a crisis. Nowadays most of the world is connected through the capital flows and problems affecting one country are spreading to the entire region and even to a global scale.

Financial crises have appeared since the 17th century, the first recorded one being the tulip mania in the Nederland in 1637, when speculators bid up the prices of rare tulip bulbs to stratospheric levels [8]. While historians continue to debate the consequences of this bit of speculative fever (and some economists even deny it was a bubble, arguing that all bubbles are driven by fundamentals), it set the stage for larger bubbles whose destructive effects are not in doubt.

During the 19th century, both U.S. and England suffered several economic recessions with bank failures and financial markets in distress. The first part of the 20th century was no different, and once could emphasize the Great Depression or the '73 oil crises that led to the stock market crash.

Starting with the last 2 decades, the crises intensified and increased significantly in magnitude. Since the Mexican crisis in 1994 and 1995 the financial markets have frequently been hit by severe crises. Since 1945 there has been no decade with as many financial crises as the 1990s and beginning of the 2000s [2]. Adding to this the latest US subprime crisis, which some considered to be a "black swan" event and the European sovereign debt crisis, makes it more obvious that the turmoil can affect anyone, even countries which were prior to the crises considered to be models.

2. Structuring the causes

All the crises that have appeared, although different in nature have very many similarities and the pattern seems to repeat itself over the course of history. From the inexplicable increase of the prices of tulip bulbs back in the 17th century to the unrealistic increase in home prices in the US up to 2006 (the European crisis that followed is considered to be a spill-over from the one in US), neither people around the globe, nor economists (with very few notable exceptions), have managed to identify the signs that let the build up of bubbles, which

eventually burst into crises with huge economic impacts.

By performing an analysis of the previously enumerated crises, one can outline certain behaviours in respect to the causes that led to the events. The particular "assets" that were the starting basis of the crises are of particular importance as they can suggest what was the origin in each cases.

The bulbs in the "tulip mania", stocks in the Great Depression, oil in the 73' oil crisis, currencies in the Asian crisis from 97', home prices in the US subprime turmoil were all "assets" that either were overvalued or rose unsustainably in price and led to the build up of bubbles that produced important effects when they burst.

Therefore, the causes that led to the crises can be split into two main categories: the particular ones, specific to each of the crises and the common ones, which we can identify in most crises and which can provide a solution to the prevention and better management of future financial issues.

Focusing on the common causes that let to the crises throughout history, one can highlight the unsustainable increase in the prices for a particular asset - a feature that applies to both advanced countries and also to emerging economies. For the EMEs, the structural weaknesses are also to be taken into account. Among these we can stress the limited financial development, the faulty governance structures, over-regulated markets, external liabilities denominated extensively into a foreign stronger currency or the fear of floating the exchange rate [3].

The increase in prices for that particular asset should trigger some flags for the regulators and authorities in that particular market in order to include some additional supervision and countercyclical measures in that area, so that a full scale event can be prevented.

Also, speculative actions without economic sustainability should be discouraged through specific measures as they exacerbate the booms, while creating panic by initiating the capital flight.

3. Issues to be addressed

By an analysis of the development in the crises that have occurred one can identify several common issues that should be addressed in order to prevent future failures in the financial system. Namely, the following can be stressed out.

3.1. Asymmetric Information

This can be defined as the existence of more or superior information for one party in comparison to another, related to a particular transaction. This can lead to a harmful situation as one party can take advantage of the other party's lack of information.

As per Mishkin [6], the asymmetric information view of financial crises, defines a financial crisis to be a nonlinear disruption to financial markets in which the asymmetric information problems of adverse selection and moral hazard become much worse, so that financial markets are no longer able to efficiently channel funds to those who have the most productive investment opportunities.

Adverse selection is an immoral behaviour that takes place before a transaction based on a surplus of information that one party has. A buyer does not know if a seller is selling the security because of a sudden need for liquidity, or because the seller is trying to get rid of the toxic assets, which can lead to market illiquidity [5].

Moral hazard occurs when a party protected from risk behaves differently than it would behave if it were fully exposed to the risk. Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and thus, has a tendency to act less carefully than it otherwise would, leaving another party (usually the government) to hold some responsibility for the consequences of those actions. The 'too big to fail' is a very good example in the US subprime crisis.

3.2 Sudden stops

A sudden stop is an event in which local economies lose access to international capital markets, as foreign creditors become panicked due to financial turmoil (e.g. financial crises), thus stopping lending to local economies. Sudden stops are usually described as periods that include at least one observation where the year-on-year fall in capital flows is at least two standard

deviations below its sample mean as per Calvo et al [1].

3.3 Capital flight

Capital flight occurs when assets or money rapidly flow out of a particular country, due to an event that has some economic consequences. Such events could be either an increase in taxes on capital or the government defaulting on its debt that alarms investors and causes them to decrease the value of the assets they posses in that country, or just to lose confidence in its economic strength.

The main effect is wealth disappearance, together with a sharp reduction in the exchange rate of the affected country (for variable exchange rate regimes this takes the form of depreciation, for fixed exchange rate regimes this leads to a forced devaluation from the original peg rate). Another consequence of capital flight is the sharp decreases in the purchasing power of the country's assets which creates problems for importing goods and for paying foreign debt.

3.4 Free rider problem

A free rider is someone who benefits from resources, goods, or services and does not pay the costs associated however can still take advantage (free ride off) of them. The investors acquiring a piece of information will not be able to benefit from the entire increase in value of their assets as other will also benefit, without having paid [4].

3.5 Global Imbalances

In the current globalised world, the current account imbalances that may appear seem to be less and less taken accountable for the macroeconomic and financial stress, as the gross financial flows have started to outweigh in importance the net ones.

The factors that emphasise the global imbalances also imply that the gross international financial flows are at the heart of any assessment of risks related to the financial stability [7]

An important view, especially related to the US Financial Crisis is that the excess of savings versus investments in the emerging markets (and one could outline the Asian countries, especially China) which was echoed in corresponding current account surpluses was a very important pressure factor on the world interest rates, which were driven down.

This was considered by some of the economists to be the main factor encouraging the credit boom, lowering the risk premia and increasing the prices of assets in the US, in the years preceding the crisis.

Still, the most import part of inflows coming into the United States came from Europe, while surplus countries (China, Japan, OPEC Countries) accounted for a much smaller portion. Furthermore, the latter group invested mostly in US bonds and other similar safe assets.

From this perspective, one could say that the global imbalances were not one of the main causes preceding the crisis; however they did fuel it by an important amount.

3.6 Deregulation

Most of the new financial instruments that are being "invented" do not fall under the regulations in place. This is one of the exact reasons why the new instruments are created, so that they can avoid certain regulatory requirements or prohibitions that would normally apply. Furthermore, in the boom period, one could notice a tendency towards deregulation and a pressure to relax the financial constraints, as the private sector is taking advantage of the momentum.

Still, most of the crises have shown that there is always a shortfall in this domain, and especially during a boom period, in order to lower the magnitude of cycles, the governments and regulatory bodies should impose additional controls in order to increase the prevention and decrease the potential risks.

4. Conclusions

Financial crises have occurred in many instances throughout history, still no actual solution has been found in order to prevent them. Most crises have taken the economic environment by surprise, although the built up of events and facts, together with a similar unfolding that have amplified the impact and effects can be traced in most of them.

One cannot anticipate the particular event, area or industry that may lead to the crises, however, by determining which were the common causes and the common developments that added to the creation and amplification of these financial turbulences can assist in a better anticipation and management and further help identifying solution in diminishing the effects.

Regulations imposed by national governments or rules created by international bodies that everybody should obey are the final act in order to prevent future financial disasters. As the world is moving towards a more globalized stage, with ever more increased interconnections between regions, states and companies, any disruption in a particular area is very likely to rapidly spread to a larger scale. However, in order to implement this, a very important role is to identify the main features of pre-crises, during the crises and after the crises events that have the most important influence and that create the negative effects which need to be eluded. These effects have shown that the financial turbulences can also have an important social impact which should not be disregarded.

By analyzing the history of crises, one can see that many of the fundamental principles remain the same, still the occurrence has not changed, and moreover the crises seem to appear more frequently and with a greater impact within the last decades. Therefore all common causes should be addressed in order to minimise the potential appearance and effects that a full scale financial crisis could have on the economic environment.

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Strategy of Competitive Forces in the Air Transport

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Abstract

The aviation industry plays an important role for their customers and for the economy in general. However, the value created by the airline companies does not reflect in the company's profitability.

Nevertheless, the demand for airline transport services will continue to increase, especially in the developing economies. This will require the substitution and the extension of the existing capacity.

Keywords: airline industry, profitability
J.E.L. Classification: L93, M20

1. Introduction

The aviation is a vital part of the world economy which is increasingly globalized, helping the growth of the international commerce, tourism and international investments, as well as connection people among different continent.

Airlines all worldwide transport over 2.6 million passages every year and 48 million tons of goods. Providing these services creates 8.4 million jobs directly in the airline industry and contributes with 539 milliard dollars to the world GDP. Comparing it with other industries, the contribution of air transport to the world GDP is bigger than the one of pharmaceutical industry (445 milliard dollars), of the textile industry (236 milliard dollars), or of the automotive industry (484 milliard dollars), and it is about half compared with the chemical industry (977 milliard dollars) and smaller than the contribution of the food and beverage industry (1.162 milliard dollars).

If we would compare a country's GDP, the air transport would be on the 19th place in the world, approximately equal with Switzerland or Poland.

From the 8.4 million jobs created by the airline industry:

- 0.8 million people are working in the civil airline industry, in manufacturing of aircrafts and engines.
- 2.2 million people are working for the airline companies and handling agents, including the flight and maintenance crew.
- 0.5 million are employed by the airport operators, working in airport management, maintenance and security.
- 4.9 million have other job at the airport – for example in shops, restaurants, hotels and governmental border patrol agents.

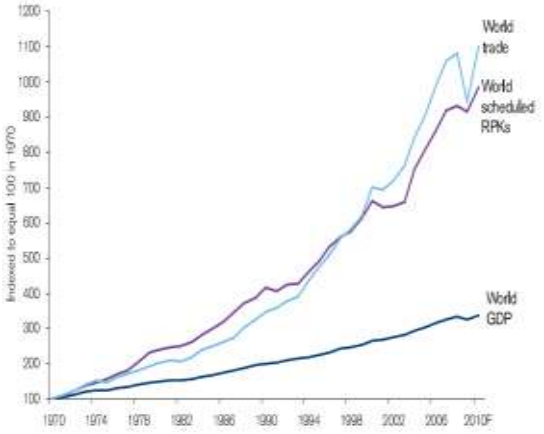
In Europe, air transport offers 7.8 million jobs and 475 billion euro to the European Union's GDP, which is equivalent to 3.9% of the GDP of EU. But more important is the fact that it ensures Europe's connection to the rest of the world.

The airports from EU serve approximately 12314 routes. Almost 23% from the EU trade with other parts of the world is done by air.

2. The Background of the Aviation Industry

In the last 40 years the air transport activity, as measured by RPKs (revenue passenger kilometers), increased 10 times worldwide. This is an expansion which is three time bigger than the world savings, which partially reflects the high elasticity of air traffic income. This also facilitated the globalization. The air transport followed the same trend as the worldwide trade. This was one of the economic fields with the most rapid increase.

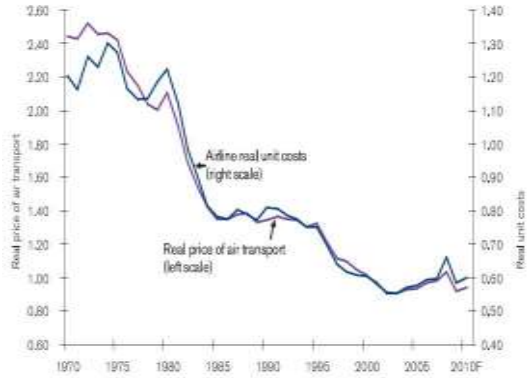
Figure 1 The expend of the air traffic over the past 40 years



Source: IATA Report – Vision 2050

The cost of the air transport services decrease with more than 60%. The inflation adjusted price for the consumers dropped in a similar manner. This drop has been caused by better technologies and more complex operational management. The degree of utilization of the aircraft increased (with 20%), also the transport distance, the average number of daily flight hours increased.

Figure 2 The real cost of air transport



Source: IATA – Vision 2050

Despite this fact, the majority of the airline companies did only succeed to recover their capital spending in 8-10 years. This does not mean that they did not try to increase the operational efficiency (externalizing the ground maintenance and handling activities), they introduced more sophisticated management methods, the aircraft utilization degree increased, they added additional income (from charges of the previously included services; sells of additional products and services to the passages), they introduced a larger range of fidelity programs for their clients and established alliances with worldwide coverage.

3. "Porter's five forces" in the Airline Industry

The success of the competitive strategy of a company depends on the environment in which it operates and on the way in which it connects with its environment. Even if the relevant environment is very large, containing social and economic forces, the key aspect of the environment of a company is the industry in which it operates. The industry's structure has a strong influence on defining the rules of the competitive game and the strategy of the company.

The situation of the competition in an industry depends on five basic competitive forces.

The Five Forces model, introduced by Michael Porter, shows the reasons for which the company's profitability is so low: because of the competition, the new entrants, the clients and the negotiation power with the provider, but also the threat of substitution.

Profitability is influenced by the collective power of the five forces, also by their interaction. These forces model the actors' behavior and determine the total value created in the industry, but also the way in which this created value is spread among them.

Intensity of rivalry

The specific economic characteristics of the airline industry which determine rivalry are:

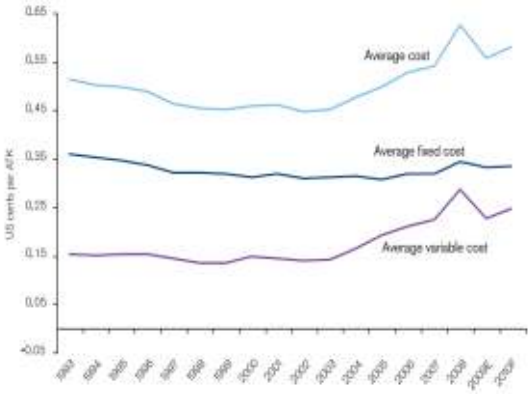
Product Perishability – the transport capacity is available only for a period of time regardless of it being used or not. The costs for assuring the capacity create pressure upon the price.

Similar Products – the products offered by airline companies are very similar. Other industries managed to offer product differentiation through branding, different quality, or technical specifications. In the airline industry this did not happen in a significant amount because of the safety standards.

Low marginal cost structure – is the fixed cost of the aircrafts. The average cost per available seat kilometer (ASK) decreases if

the aircraft capacity increases. The marginal costs for additional transported passages are very low, which strengthens the update of the prices. The variable costs per aircraft are also significant and have been increasing (e.g. fuel price).

Figure 3 Relative high proportion of fixed costs over short term



Source: IATA Report – Vision 2050

Restriction for Market Exit – reducing the transport capacity and the market exit of some companies are two key mechanisms for adjustment. In the airline industry none of these two regulation mechanisms is used.

There are a series of restriction which limit the capacity of airline companies to reduce the global capacity on some routes.

The airline companies are obliged to take responsibility for a capital loss in the case in which they sell aircrafts in a recession period. The leasing contract clauses are as expensive in decline period. Keeping unutilized units is also expensive, but avoids capital loss.

Capacity – can only be gradually increased (the size or the number of aircrafts, flight hours, gates or airstrips number).

Industry Increase – it was generally rapid, but volatile and very heterogeneous on geographical regions. Its volatility caused short repetitive periods of profitability, even when the average yield was reduced.

Heterogeneity of companies - rivals tend to compete more aggressively, partially because they perceive differently the impact of their competitive moves.

On the individual markets, the airline companies can be on different positions. Operating flights between two cities can be the primary market for a certain airline company which offers direct flight, but the same market can be only a marginal market for another airline which provides services through a transit connection. Between these kind of competitors, heterogeneous, the ability to avoid competition through the price is less likely.

The airline companies operate in the political context specific to their origin market. Operating on an international market, they compete with companies which operate under different conditions. This fact can affect the competitive interaction between them in a way which is not related to their efficiency.

The Threat of New Entrants

The restriction on entering the air transport market plays an important role for the new comers, but they are very low for the existing operators. The restrictions on entering this industry are very small.

Entering the market happens periodically, especially through existing airline companies extending their services on new markets.

The scale economies are the result of the demand, meaning it is easier for an existing company with a powerful brand, a high number of flight direction and a lot of connections to generate demand.

Accessing the distribution channels is easier now than it used to be in the past. GDSs (Global Distribution Systems) and the internet allow now the new companies to make their flight offers known and to sell them on a high number of websites and tourist agents. This is a big changed compared to the past, when the reservation systems and the tourism agents were controlled by the already existing operators.

Some preexisting rights related to movement, which benefit the existing operators, also exist in the governmental agreements in the international air transportation sector.

The Customers Negotiation Power

The negotiation power of the customers of an airline company is big and it is still increasing. This is influenced by a number of factors: the channels power, the power of the final consumers.

The tourism agents, traditionally, were the dominant channel for airline companies. Their role has changed. For individual,

recreation and some business traveler, websites took the place of the tourism agents. For corporate clients the tourism agents are still important, but they have changed their strategy in order to reduce the costs for their customers.

Recreation website became the dominant sells channel, mostly for flight tickets with low price. They allow easy comparison of the price for different airline companies and they increased the transparency of the prices.

Global distribution systems (GDS) collect data from airline companies and provide it to the tourism agents and recreation websites. Some of them also have their own aggregation websites through which they directly sell tickets to final customers.

The Suppliers' Negotiation Power

The negotiation power of the supplier is big. Some of them can record capital yield bigger than the biggest airline companies.

The aircraft manufacturers – In the last decades there has been a strong consolidation of the market for the aircraft manufacturers. If in 1992 there were 15 aircraft manufacturers in USA, today there are only three left. Regarding the production of commercial aircrafts, the two giants – Boeing and Airbus – allocate very big fonds for research and development, this fact is impossible for small manufacturers.

The work force – Airline companies are dependent of their skilled employees, especially pilots and tehnical personal. Network airlines are sensitive at activities interuptions in their hubs. In companies usually exists different unions for different types of personal (sindicates), each of them having the capability of disrupting the activity.

Airports – thier primary impact on the structure of the airline industry was through constraining the capacity imposed by the existing infrastructure and by the operational practices.

The Threat of Substitutes

In the past, the threat of replacing the aircraft travel (the airline transport service) with other means of transpotation played a moderat role. Now certain segments started becoming important. Thre subtitution depends on the ration cost/benefit of other means of transportation compared with the air transport.

High speed trains for short distances which run on European and Japaneese train tracks compete with the air transport. Additionally, they can offer point-to-point connections.

Private airplanes (regarding time-share programs) can compete with scheduled flights of airline companies, especially on the business and first class sector, mainly for locations with low density traffic.

Phone / Internet / Video confference tehnology – offer high quality condition, making possible communication without the need for people to travel.

4. Conclusions

This paper sugests that the capital invested is not used optimally. The airline companies invest the biggest amount of thier assets in the aviation industry, but they are not capable of generating a sufficient yield for this capital. There are airline companies that have created positive yield for their investors (network airlines and low-cost airlines). However, the aviation industry as a whole did not succeed to accomplish the level of its yeild that the investitors expected. The inefficient utilization of the existing capital will increase the cost of accumulating new capital to substitute and extend the current levels of the capacity, and maybe discourage completely new investors.

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International Investments, Comparative Analysis Romania-European Union

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Abstract

Annual preliminary estimates for 2012 confirm a slowdown in foreign direct investment activity worldwide, after a short period of strong recovery in 2011. FDI outflows have increased by more than 10%, compared to growth of 24% in 2010 and remained well below the historical high reached in 2007. Despite this slowdown, FDI outflows remained globally over the figure recorded in 2000. This trend is due in part to the growing importance of cross-border investments in several emerging economies in the last decade. In this paperwork we intend to achieve a comparative analysis Romania-European Union regarding international investment position, foreign investment flows. Thus we analyzed the flow of foreign direct investment in Romania in 2008-2012, and causes poor attractiveness for foreign investors in our country. Also, we analyzed and compared to EU countries in terms of foreign investment.

Keywords: international investment position, foreign investment, efficiency, economic growth
Jel Code: E22, E63, F21

Introduction

Investing is the process of startup money for profit and is presented in two main forms, namely: direct costs (buildings, equipment, etc.) and indirect costs (the actions and operations) and foreign direct investment is a process by which people in a country (the source country) acquire ownership of assets in order to control the production, distribution and other activities of a company in another country (host country).

There was a time when economists considered FDI as a substitute trade. By building factories in foreign countries was a way to overcome tariff barriers. Today, economists believe FDI and trade as mostly complementary in that a business can use a factory to supply a country neighboring markets.

Foreign direct investment is an important factor for economic growth in developing countries, this argues for the importance of domestic investments in the economic growth, foreign direct investment with only a potentiating role of internal efforts.

Investment Position in European Union

The new rules of governance of the European Union have focused on its corrective side, application or risk severe financial penalties (up to 0.1% of GDP) and less preventive component.

Therefore, this procedure together with its two components, preventive and corrective creates a better economic monitoring in each state, allowing timely identification and correction of adverse developments.[5]

Preventive component that has a hazard prevention system called warning mechanism, macroeconomic indicators through 10, with the main instrument a dashboard that shows external imbalances and competitiveness, as well as internal ones.

External imbalances

- Average current account balance over the last three years is not out of band maximum variation between -4% of GDP and 6% of GDP;
- Net international investment position is not less than 35% of GDP;
- Real effective exchange rate is not out of the range of between -5% and +5% for euro area respectively -11% and +11% for the rest of the EU Member States in the last 3 years;

- The share of exports in world exports of a country is not reduced by more than 6% over the past five years;
- Nominal unit cost of labor (expressed as a ratio of average pay of an employee and real GDP per number of persons employed) not increase by more than 9% for the euro area and 12% for the rest of the EU Member States the last 3 years.

Internal imbalances

- Private sector lending must not exceed 15% of GDP;
- Real housing prices should not rise more than 6% per year;
- Public debt should not exceed 60% of GDP;
- Average unemployment rate should not exceed 10% in the last 3 years.

European Commission presents an annual report to alert mechanism, published February 14, 2013, which identifies 12 EU Member States macroeconomic risks that require in-depth analysis: Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Italy, UK, Slovenia, Spain, Sweden and Hungary. States enjoying a program of financial assistance from the EU and IMF - Romania, Greece, Ireland and Portugal - is already under a reinforced economic surveillance.

Table No1 Scoreboard

2012	**I. External imbalances and competitiveness**				
	Current account balance (% GDP)	Net investment position (% GDP)	Change in real effective exchange rates (%)	Dynamics of export market shares (%)	Costs nominal unit labor (%)
Romania	**-6,6**	**-64,2**	**-10,4**	**21,4**	**22,1**
Belgium	-0,6	77,8	1,3	-15,4	8,5
Bulgaria	-11,1	-97,7	10,4	15,8	27,8
Denmark	3,9	10,3	0,9	-15,3	11
Germany	5,9	38,4	-2,9	-8,3	6,6
Ireland	-2,7	-90,9	-5	-12,8	-2,3
Greece	-12,1	-92,5	3,9	-20	12,8
Spain	-6,5	-89,5	0,6	-11,6	3,3
France	-1,7	-10	-1,4	-19,4	7,2
Italy	-2,8	-23,9	-1	-19	7,8
Hungary	-2,1	-112,5	-0,5	1,4	3,9
Finland	2,1	9,9	0,3	-18,7	12,3
Sweden	7,5	-6,7	-2,5	-11,1	6
England	-2,1	-23,8	-19,7	-24,3	11,3
2012	**II. Internal imbalances**				
	Housing price index (%)	Lending to the private sector (% GDP)	Private sector debt (% GDP)	Debt (% GDP)	Unemployment (%)
Romania	**-12,1**	**1,7**	**78**	**31**	**6,6**
Belgium	0,4	13,1	233	96	7,7

Bulgaria	-11,1	-0,2	169	16	7,5
Denmark	0,5	5,8	244	43	5,6
Germany	-1	3,1	128	83	7,5
Ireland	-10,5	-4,5	341	93	10,6
Greece	-6,8	-0,7	124	145	9,9
Spain	-3,8	1,4	227	61	16,5
France	5,1	2,4	160	82	9
Italy	-1,4	3,6	126	118	7,6
Hungary	-6,7	-18,7	155	81	9,7
Finland	6,8	6,8	178	48	7,7
Sweden	6,3	2,6	237	40	7,6
England	3,4	3,3	212	80	7

Source: World Bank Report, http://www.worldbank.org

By analyzing the 10 indicators in the year 2012 it is noted that Romania has no internal macroeconomic imbalances, but it appears three external imbalances, the indicator for "costs nominal unit labor" correcting the following developments next year.

So, Romanian imbalance is emphasized further by the net investment position in 2011 with a considerable gap to the maximum allowed, although small patches (about 63% of GDP) than the current account deficit which is slightly below the lower limit of the variation.

Net investment position, ranking first three EU countries that are seriously affected by this external imbalance is:

1. Hungary, with a correction from the year 2011 to -108.5 -112% of GDP next year;

2. Portugal, with a correction from the 2011 to -103.5 -107.5% of GDP in 2012;

3. Ireland, with a percentage of 90.9% of GDP in 2011 increased to 92.2% of GDP in 2012.

If we were to define investment position, we say it is a necessary tool in the design of macroeconomic policies for external financing. This actually reflects the indebtedness of a country foreign debt structure, the situation of FDI and portfolio's stock of external financial assets and liabilities and in calculating its count changes in exchange rates, international prices other financial adjustments.

Although the euro zone economy is delicate, investment flows to Europe has continued to grow in 2011, investment projects being at a number higher than pre-crisis period, the number of projects increased by a share of 2% in 2011 compared to previous year.

The U.S. also stay ahead in terms of investment in Europe, exceeding by 26% the total number of investment projects and projects developed by this increased 6% in 2011, reaching the highest level in 10 years.

Specialists consider that Europe will overcome current economic problems faced due to the increased level of attractiveness. After China, Western Europe is regarded as the most attractive destination for FDI and Central and Eastern Europe ranks third.

The most attractive European countries currently-Switzerland, Sweden and Germany - ranks 3, 5 and 9. These countries have an export-oriented economy and maintain fiscal discipline. Prospects for European countries with financial problems seem to be dependent on how well they are prepared to recover. Ireland (20) Iceland (26) and Italy (40) seem to be doing better in this respect than Portugal (41) Spain (39) and Greece (58), which still scares investors.

After significant declines in 2010, FDI flows from all European countries doubled in 2011. FDI flows from the EU to the rest of the world came to 370 billion in 2011, having fallen from 316 billion in 2009 to 146 billion

in 2010. Foreign direct investment in the European Union in the world (inflows) stood at 225 billion in 2011, having fallen from 234 billion in 2009 to 104 billion in 2010.

Half of EU investment in the world came from the U.S. in 2011. EU investment increased in 2011 from the point of view of all partners except Russia. In 2011, EU investment principal destinations were the United States (111 billion), offshore financial centers (59 billion), Switzerland (32 billion), Brazil (28 billion), China (18 billion), Canada and India (both 12 billion). A decrease of 2 billion investments has been with Russia in 2011.

In 2012, the main investors in the European Union were: United States (115 billion), Switzerland (34 billion), and offshore financial centers (16 billion), Canada (7 billion), Hong Kong (6 billion), Japan and Brazil (both 5 billion).

Luxembourg, with investment of 110 billion, was the largest investor outside the European Union in 2011, followed by the UK (89 billion), Germany (34 billion), France (21 billion), Spain (19 billion) and Belgium (16 billion). Luxembourg (with 86 billion) was also the largest recipient of foreign investment from outside the EU, the Swedish (16 billion), Spain (15 billion), United Kingdom (14 billion), France (12 billion) and Germany (11 billion).[9] The role of Luxembourg in EU FDI is mainly explained by the importance of financial intermediation activity.

As in previous years, the EU was a net investor in the rest of the world, FDI outflows higher than inflows of 145 billion Euros. Between Member States of the European Union, the United Kingdom was the largest net investor outside the European Union with net investment of 75 billion, followed by Luxembourg (25 billion), Germany (23 billion) and France (9 billion).

Foreign direct investment in Romania

Global economic crisis caused a significant decrease in FDI inflows, in Romania. Start of this economic crisis is felt in Romania, especially in the second half of 2008 and with it, one can feel the lack of confidence of foreign investors. [2]

In terms of government programs and strategies for economic and social reform insufficiently documented as priorities for strategic vision, effective privatization of inefficient assets or privatizations of different types of sectors, most FDI aimed at privatization of assets effective, the remains of the losers.

Study team auditing and financial consulting company Ernst & Young in the European Attractiveness Survey report 2012 states that Romania is among the top six European countries for attracting investment in the next three years. This study is based on analysis of various factors such as: the advantage of growth rates of GDP compared to the EU average promising and valuing human capital.

The study is based on a methodology that includes analyzing the number of foreign investment projects carried out in 2011 and analysis software, perceptions of the attractiveness of European countries for foreign investment

According to provisional data provided by the National Bank, foreign direct investment continued to decline in 2012, with a decrease rate of 15.61% in the first quarter of this year, net inflows of foreign direct investment reached a value of 400 million, from EUR 474 million in the first quarter of 2011.

This decrease in the flow of foreign capital actually represents a decrease of interest of foreign investors in the national economy as it is perceived as having a high degree of risk and exposure to foreign markets.[4]

An attractive market for foreign investors and foreign capital is, first, that the domestic capital market.

Romania due to political and economic instability has lost several opportunities, namely large investment companies Mercedes, Michelin, Swarovski, who have developed businesses in other EU countries. In this sense I think we should set a strategy for attracting foreign investors in Romania.

Measures stimulating foreign investment include all government actions that lead to increased profit potential and reduce investment risks it entails. Foreign investors need to give specific guarantees national trade regime, to protect their property and invested capital and to facilitate the transfer of earnings.

The institutional framework for attracting foreign investments in Romania began with

the establishment of the Romanian Agency for Investment Promotion and Economic Aid Abroad (July 25, 1990), which operated until 1991, when it was founded ARD (Romanian Development Agency).

This had a major role in promoting and attracting FDI. Currently, the promotion and attracting foreign capital deals Romanian Agency for Foreign Investments (ARIS). FDI legislation changed in 2007, by adopting a new investment law that would replace the old, thus in line with EU legislation.

The innovations of this law refers to the principles of the law, of which the most important is equality of treatment between Romanian and foreign investments and local government involvement in supporting and promoting foreign investment and creation of technical staff.

As regards foreign direct investment regime in other countries in Central and Eastern Europe, the facilities offered by these foreign investors are varied:

- an income tax varies between 18% and 40%. Hungary lies at the lower and upper limit is Bulgaria and Slovakia.
- Hungary, Slovenia and Poland provide facilities for major investment in certain areas (industrial zones, free economic zones, priority areas, disadvantaged areas).
- Hungary granted an exemption for 100% profit tax for investments in production capacity, made in priority areas (regions where unemployment is over 15%).
- In Poland, the investments between 350,000 and 2 million Euros, made in special economic zones benefit from exemptions from income tax of 100% in the first 10 years and 50% in the coming years.
- In countries like Slovakia, Slovenia and the Czech Republic to provide facilities for foreign companies that hire unemployed people, creates jobs and pays special attention to training the local workforce.
- Assets constituting a contribution to capital are exempt from customs duties - Czech Republic, Croatia, Poland, Lithuania, and Estonia.

Facilities are a key element in stimulating interest in shaping foreign investors power, according to which a particular position to obtain competitive as international investment magnet. They were originally granted by a law organic nature. The facility is much diversified as measures and instruments, all with direct and immediate impact on the behavior of foreign investors. Therefore, according to the cyclical evolution from one stage to another, the facilities are often modified to meet the interests of every moment.

Conclusions

After analysis the evolution of FDI flows in Romania during 1990-2011, we concluded that the economic, legislative and institutional stability, and various facilities provided, can greatly influence investor decisions. Size, attractiveness and clarity of presentation offer investment projects have a major role in determining the volume of foreign capital inflows. Also, a significant role in attracting foreign investors and agencies they have to promote foreign direct investment.

At present, Romania, EU member, but last position came as the country with the greatest economic and social differences from other Europeans. Gross domestic product per capita, labor productivity, exports, the average wage in Romania are among the lowest in the European Union. Hence one important conclusion: Romania's economic efforts must not fall, but rather to be amplified.

There is no goal more important than economic development in Romania, based on the most of opportunities offered by EU accession makes it a real "magnet" for foreign investors. EU accession has brought an improvement in the Romanian business environment, improvement that began to be felt in regard to a more stable legal framework and the existence of more transparent business practice.

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Section I
International Affairs and European Integration

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Subsection 2
European Integration

Challenges for ECB's Monetary Policy in the Post-Crisis Period

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Abstract

The unprecedented effects of the current global crisis have generated a broad range of complex challenges for central banks, many of them being unique. Using a qualitative approach, this paper aims to highlight the main difficulties with which central banks will face in the post-crisis period, insisting on what is specific to the European monetary authority. The main conclusions of the study are as follows: 1) the most important common challenges for major central banks and not only, include: adequate implementation of exit strategies from unconventional measures, setting up the monetary policy framework so as to ensure that both price stability and financial stability are achieved; the management of asset price bubbles; 2) in addition to those mentioned above, the ECB is faced with the urgent needs to manage the sovereign debt crisis with caution and firmness and restore confidence in the financial markets and in the economy.

Key words: EMU, monetary policy, financial crisis, sovereign debt
J.E.L Classification: E52

1. Introduction

Since the establishment of the European Monetary Union, elaboration and implementation of the single monetary policy has been a constant challenge for the European Central Bank, if we take into account at least the following two reasons: diversity of the economies from multiple perspectives or the absence of a fiscal union.

The purpose of the present study is to outline the complexity of the main challenges for the ECB in the post-crisis period, also by presenting common challenges for major central banks.

With the onset of the current crisis, the challenges for the ECB have boosted substantially. In addition to the difficulties faced by the majority of central banks in developed countries (level close to zero of monetary policy interest rate or malfunctioning of the financial markets which have made imminent the introduction of non-standard measures), the European monetary authority must face maybe the greatest challenge - the sovereign debt crisis - not just in the light of the present implications, but of the effects in the long term. In the same vein, if we consider the relationship between monetary policy and fiscal policy, it is necessary to manage it with great caution, especially in order to avoid the infringement of the independence of the European Central Bank.

Other important challenges for the ECB are the following: the implications of maintaining too long the present level (unprecedented) of the monetary policy interest rate, the need to reduce the degree of heterogeneity in the sphere of monetary policy impulses or configuring with maximum precision of all the dimensions of the withdrawal process from unconventional measures.

The rest of the paper is structured as follows: section two reviews the specialized literature in the field approached; section three outlines common challenges for central banks in the post-crisis period; section four points out some insights on the main forthcoming challenges for the European monetary authority; section five concludes and presents future research directions.

2. Literature review

Considering the fact that the current economic and financial crisis is still ongoing, the literature on the challenges for the ECB in the post-crisis period is found in an early stage of formation. However, we can observe a general consensus regarding one of the challenges with great weight and with long-term beating namely the proper management of the sovereign debt crisis together with the other 17 fiscal authorities [1, 7, 9].

If we consider the standard monetary policy framework, Stark draws attention on maintaining too long the present level of the key interest rate focusing on the potentiating of the risk channel's functionality contoured in the context of the subprime crisis [4].

On the same issue, but from another relevant perspective, Praet analyses the excess liquidity in the banking system obtained by means of very low interest rates, with reference to the so-called "instrument instability" phenomenon in policymaking: "the need to apply larger and larger doses of the same policy interventions only to see their macroeconomic influence becoming more and more tenuous. Monetary policy is a relatively blunt instrument that will not in itself change the fundamental course of economic developments, when imbalances are plural and lie outside its sphere of responsibilities" [7].

Also, the significant expansion of the ECB's balance sheet with government bonds, imposes in the post-crisis period a reconfiguration of the monetary policy - fiscal policy report, with possible implications for the central bank's independence and its credibility, specialized opinions insisting that "monetary policy is not and cannot be a substitute for sustainable fiscal policies, structural reforms and adequate governance "[6].

From a different optic, namely that of regulations, ECB's officials analyse the interaction between specific liquidity standards of Basel III and the single monetary policy, for example, by pointing out that "in jurisdictions where the set of assets eligible for central bank operations is broader than the one qualifying for the fulfilment of liqudity standards, one may witness an increased reliance on central bank refinancing using less liquid assets as collateral" [5].

Based on the foregoing, it can be seen that though the current global crisis is still under way, the range of challenges for the European Central Bank is already very large, complex and with important implications in the medium and long term.

3. Common challenges for central banks in the post-crisis period

If we consider challenges for central banks both during the recent turmoil and looming during the ex-post turbulences, the current global crisis is a very prolific one. Taking into account the fact that there is a high degree of similarity between the effects of the actual crisis and the reactions of central banks from developed economies, we believe it is useful to first sketch some common challenges for the monetary authorities and then highlight the ones specific to the European Central Bank.

In conditions in which central banks from developed economies (the United States of America, the Euro Zone, Japan, United Kingdom) and not only, have been faced with major deficiencies in financial markets and/or the impossibility of reducing the level of monetary policy interest rate beyond the threshold of 0%, they have appealed (temporary) to the unconventional monetary policy framework. Consequently, one of the major challenges facing central banks, including the ECB, is to identify with great precision the coordinates of exit strategies (time of implementation, choice of pace, duration, etc.).

Moreover, the coordinates of withdrawal strategies are difficult to identify in the absence of experience (except for Japan), but also due to the fact that central banks are trying to avoid, on the one hand, the distortion of markets' natural functioning mechanisms (in terms of maintaining too long the non-standard measures), and on the other hand, damaging a fragile economic growth (in terms of too early withdrawal of non-standard measures).

In the same vein on the very low level of monetary policy interest rates and central bank's extended balance sheets, there is the danger of confrontation with the inflationary risk with well-known negative effects. Thus, it is inevitable a reconfiguration of the relationship between monetary and fiscal policy that does not affect the independence of the central banks and their credibility.

On the other hand, the general monetary policy framework (strategy, objectives, instruments, transmission mechanism) is found within a process of transformation that will try to answer as best as possible to the need of insuring both price stability and financial stability in an optimal monetary "mix", that is why the task of central banks is one so complex and provocative.

Last but not least, the current crisis has prompted considerable controversy (without reaching a consensus) regarding the mode of action of central banks in terms of asset price bubbles in the sense of "leaning against the wind" or "cleaning up" after the bubble burst.

Therefore, in the post-crisis times, one of the most important common concerns for central banks stands in assuring both price stability and financial stability with only one instrument, which is currently not working at its normal parameters, namely the monetary policy interest rate.

4. Insights into the main forthcoming challenges for the European monetary authority

In addition to the previously mentioned challenges, the current global crisis is an important factor of amplification of what can be the greatest difficulty facing the ECB since its establishment, namely the sovereign debt crisis.

It should be noted, however, that sovereign debt issues do not constitute a reflect of some euro's weaknesses, but of the misguided policies in the past (in terms of non-compliance with the conditions enshrined in the Maastricht Treaty referring to the fiscal sustainability) implemented in certain countries in the European Monetary Union (Greece, Portugal, Spain, Italy).

Therefore, if in the period prior to the crisis, the absence of the fiscal union constituted a potentiating factor of asymmetries in the transmission of monetary policy decisions in the financial and real plan, the ECB's present task to manage the issue of sovereign debt crisis together with 17 distinct fiscal "umbrellas" is not easy at all, especially if we take into account phenomena like the ageing population.

Moreover, the restoration of euro's stability and the normal functionality of the propagation mechanism of monetary impulses depend crucially on restoring fiscal soundness and sustainability.

An important step in managing the sovereign debt crisis was made in 6 September 2012, when it was announced the concrete possibility to take Outright Monetary Transactions (OMTs) aimed to restore the normal transmission of monetary policy that has had the effect of stress diminishing in the financial markets. In the same vein, despite the officials' statements from the European Central Bank according to which Outright Monetary Transactions will not affect central bank's independence (OMTs not being a form of "disguised" financing of governments) and will not lead to inflation, concerns about the transformation of the relationship between monetary policy and fiscal policy at the expense of the first, still persist.

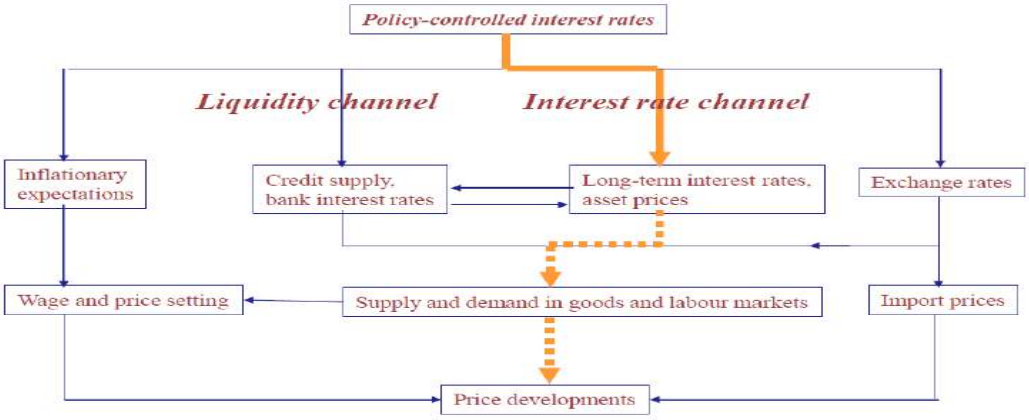
In terms of time horizon, in the short term, one of the major concerns of the ECB is carrying out successfully the European Banking Union, considering the fact that funding through banks is prevalent in the EU, on the one hand and consequences of banking crises like the one in Ireland, on the other hand. On the medium and long term, in addition to the problem of sovereign debt, the euro area enlargement is still a big challenge for the ECB, if we consider the following: the current configuration of the euro area is not included in the category of optimal currency area; the recent crisis has led to a loss of competitiveness in the countries that have recently joined the EMU; the lack of homogeneity of countries and the asymmetry in the transmission of monetary impulses still impede an optimal functioning of the euro area.

Moreover, the economic and financial characteristics of the candidate countries do not seem to relieve the burden of the ECB, on the contrary (the inflationist potential is higher, the soundness of public finances and structural reforms are still shaky and require a considerable period for curing and not only), which is why we consider that the ECB will probably be more prudent, especially given the example of the too early accession to the euro zone of countries such as Greece.

From another perspective, since the onset of the effects of the actual crisis, ECB's efforts have focused on the proper functionality of the transmission mechanism of monetary policy decisions, including the introduction of non-standard measures.

With the major malfunctions occurring at the level of the interest rate channel, the ECB was forced to open a new channel, namely the liquidity channel (with new financial effects and challenges in terms of managing it) (see Figure 1) in order to restore the normal functionality of the monetary transmission mechanism, and despite the lack of experience in using it, the results in the financial markets were favourable. However, one must have in mind that liquidity doesn't solve structural problems and can't be used infinitely.

Figure 1.Transmission channels of ECB's monetary policy



Source: [1]

Because the effects of the global crisis have influenced the evolution of GDP and inflation, it was naturally for the monetary policy transmission mechanism to know the influence of new factors with significant weight as it is the sovereign debt, making more difficult the ECB's main task. [8] Thus, in Figure 2 and Figure 3 one may remark a more powerful impact of the monetary policy shock upon the GDP compared to inflation, but also the stronger impact in states under sovereign stress (Greece, Ireland, Italy, Portugal and Spain) mainly through the credit channel, compared to other countries (Austria, Belgium, Finland, France, Germany, Luxembourg, Netherlands).

Figure 2. Countries under sovereign stress

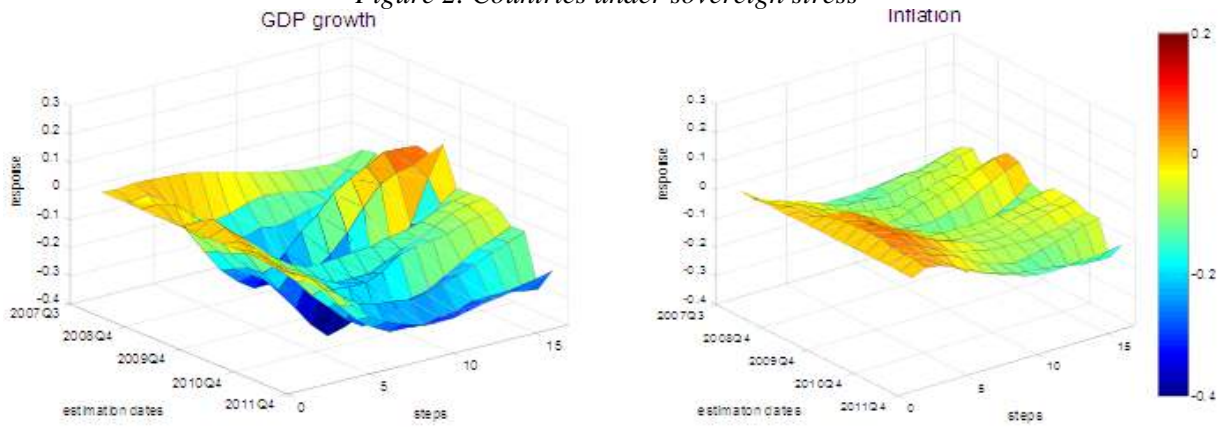
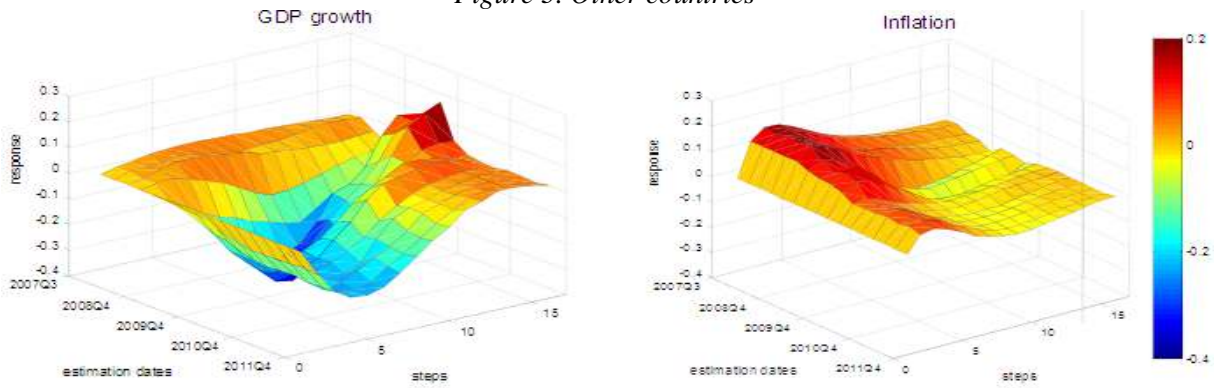


Figure 3. Other countries



Source: [8], p.35

From the perspective of trust which is so important in the transmission of monetary policy, amid increased aversion to risk (after the current crisis erupted) banks have preferred to keep liquidity at the ECB thus decreasing the volume of transactions and contributing to increased risk premiums. (See Figure 4) As a result, according to those mentioned in the specialized literature, higher risk premiums, accompanied by higher volatilities of interest rates make more difficult the work of the European Central Bank and obstruct the normal functionality of the transmission mechanism of monetary policy.

Figure 4. Evolution of the recourse to deposit facility in the euro area and 3-month Euribor over OIS, in the period 2007-2013



Source: [1]

Moreover, at trust chapter it must be underlined also the worrying evolution of the Economic Sentiment Indicator (provided by Eurostat) which is of course unfavourable to the monetary transmission. Therefore, considerable efforts are needed on the part of the European monetary authority and not only, in order to install a solid confidence in financial markets and in the economy in general, so that the evolution of interest rates to be consistent with the economic and financial fundamentals and to allow a good and symmetrical transmission of monetary impulses of the European Central Bank.

4. Conclusions

The present work outlined some major concerns for central banks from developed economies and not only, for the period after the present turmoil (very low level or close to zero of the monetary policy interest rate and the danger of maintaining it for too long, substantial expansion of central banks' balance sheets, the difficult process to implement exit strategies from unconventional measures, adequate treatment on the formation of asset price bubbles, the reconfiguration of the

monetary policy framework in order to ensure that both price stability and financial stability are achieved and others) to highlight even more the complexity of the challenges for the European monetary authority.

In essence, it is worth noting that maybe the great and specific challenge for the ECB since the launch of the euro is the adequate management of the sovereign debt crisis in the absence of a single fiscal union and under the conditions of a financial and economic environment marked by uncertainty and fragility and a generalized mistrust.

Last but not least, it is imperative the need for submission of substantial efforts to strengthen the euro (to avoid in the future the question of dismantling the euro zone or of manifesting the redenomination risk).

In terms of future research directions, we consider analysing the evolution of ECB's monetary policy framework in the post-crisis period (with special focus on the monetary policy transmission mechanism) and the implications of Eurosystem's outright transactions in the secondary markets for government bonds upon the relationship between the European Central Bank's monetary policy and fiscal policy.

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From the National Cabotage to the "Blue Belt"

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Abstract

The EU Council initiated the public debate on the "Blue Belt" pilot project which took place in 2011 and was designed to promote shipping between ports within the EU ("small distance shipping").

The purpose of the "Blue Belt" concept is to create an area of maritime transport without frontiers, for intra-EU trade by simplifying and speeding up the administrative procedures based on the use of modern monitoring technical capabilities.

Key words: Blue Belt, national cabotage, international cabotage, European Union cabotage
J.E.L. classification: K33 - International Law

1. Introduction

In the current framework, the intra-EU maritime transport, the free movement of goods and vessels from EU ports is still subject to complex administrative procedures. The council conclusions of 30 March 2009 (doc. 8079/09) expressed its support to the goal of expanding the internal market in transport by sea between EU ports in simplifying and speeding up administrative procedures.

Controls and administrative tasks do not allow intra-EU maritime transport to provide fair competition conditions in relation to other means of transport. Complex and lengthy customs procedures, which are not harmoniously applied in the EU, also lack the coordination of shipboard controls, leading not only to delays and increased costs for transport companies but also to the disruption of the free movement of goods within the EU.

In addition, from the point of view of the various authorities dealing with their ships arriving or departing from EU ports, better coordination, better information sharing and avoiding the duplication of controls for the same goods in EU ports would allow an improved use of resources and would improve the operation of ports. According to the 2011 Transport White Paper, a "Blue Belt" on the seas around Europe will simplify the formalities applied to ships moving between EU ports.

The concept of "Blue Belt" aims to monitor the shipping utilization capacity in order to create a genuine maritime transport space without barriers.

The objective of this concept is to further simplify administrative procedures through the use of new technical capabilities to further integrate intra-EU maritime transport in a global network by providing a rapid transit of goods within EU ports from and consistent monitoring of ships and goods transported international waters.

On 7 June 2012, the European transport ministers have stressed the importance of the "Blue Belt" pilot project within the Council (Transport, Telecommunications and Energy). On this occasion, all delegations supported the continuation of the implementation and further development of "Blue Belt" services in order to eliminate unnecessary administrative obstacles in the way of transport and maritime trade. The message was clear: "If we want to strengthen maritime transport, there are required fewer burdens and less bureaucracy". A debate on the "Blue Belt" pilot project began.

2. The "Blue Belt" pilot project

The pilot project was implemented by the European Maritime Safety Agency (EMSA), which has used the maritime information exchange SafeSeaNet in order to transmit customs vessel traffic data.

During the project assessment, it has been concluded that the proposed approach (i.e. the "Blue Belt") allowed the effective monitoring of ship movements. Its application also led to simplified procedures [1].

The debates that took place in this respect were, generally, in favor of the implementation and further development of the "Blue Belt" concept.

The integration of "Blue Belt" services in an appropriate legal framework had broad support. There have been views according to which:

a) it is necessary to evaluate the costs and benefits before proceeding to the legislative activity;

b) it is necessary to avoid the duplication of work and it is necessary to ensure efficiency in terms of costs;

c) it is necessary to apply more flexible customs procedures in Customs law and it is necessary to review EU customs legislation;

d) some Member States have asked for a clearer focus on the ultimate objective of creating a genuine internal shipping market.

In order to improve the collaboration between the authorities concerned, some Member States stressed that awareness on the "Blue Belt" concept should be done through proper information. In this case, there was revealed the crucial role incumbent on customs authorities.

Most delegations were in favor of broadening the scope of services through one interface beyond the communication between ships, ship operators and national authorities, including all stakeholders in the maritime transport sector, provided that sensitive data protection is ensured.

There is a difference of opinion and a warning to a very hasty enlargement before acquiring sufficient experience regarding the current rules on the single interface which will apply from the second half of 2015.

The Presidency summarized the views of Member States in a summary report [2]. The "Blue Belt" concept and the launch of a pilot project were approved by the Council in December 2010 [3].

The Commission included the "Blue Belt" initiative in the White Paper Roadmap to a Single European Transport Area [4].

3. The national cabotage

According to art. 125, paragraph (1), letter c of G.O. no. 42/1997 (R1), cabotage [5] is the carriage of goods and passengers between two or more ports, on Romanian inland waterways.

Access to maritime cabotage is dependent on flag, but different laws apply to the different types of cabotage: in the case of mainland cabotage and cruise ships, the law of the flag state applies, but if the ship is less than 650 gross tonnes the law of the host state can apply. In the case of island cabotage, the law of the host state applies. Nothing has yet been settled for offshore cabotage, i.e. for non-navigable structures erected on the continental shelf.

Coastal shipping [6] (shipping near the coast) is generally performed by:

- ships with a maximum capacity of 100 TRB, which do not bear away from their port to a distance of more than 65 miles;
- barges or other means of navigation of any tonnage, hauled;
- vessels and ships of any tonnage which usually does not leave ports and basins.

Cabotage and international tramp vessel services have been excluded from the rules implementing Articles 81 and 82 of the Treaty originally laid down in Regulation (EEC) No 4056/86 and subsequently in Regulation (EC) No 1/2003. They are currently the only remaining sectors to be excluded from the Community competition implementing rules. The lack of effective enforcement powers for these sectors is an anomaly from a regulatory point of view.

For example, for a truck registered in the RO, a course with a DE-DE load is considered cabotage; instead a DE-FR or a DE-RO course is not cabotage.

Short sea trade means the navigation executed between the national ports of the same sea (Toulou-Marseille, Constanta - Sulina). Long sea trade includes navigation between national ports located in different seas (Bordeaux, Marseilles).

4. The international cabotage

International cabotage means coastal navigation between the ports of different countries. UK divides "cabotage" in home trade and foreign trade, which is identical

with the long distance navigation. In France and Italy, "cabotage" is international and national; the latter is divided in terms of customs in small and great cabotage.

The transportation of goods by "cabotage" is based on a permit granted by the customs, subject to customs control; in case of transit, the goods transported by "cabotage" will be presented to the customs, at destination, within the deadline provided by the law. Transport and towage in national "cabotage" are usually reserved for national ships.

Vessel masters who do "small cabotage" are not required to have a patent higher than "captain of cabotage". Maritime transports in "cabotage" do not comply with the restrictions of the last paragraph of Art. 5 of the Hague Rules. Long-distance vessels are granted this right only for "determined goods" which are not part of normal commercial shipments during normal trade operations.

5. Community cabotage

Having regard to the Treaty establishing the European Economic Community, and in particular Article 84 (2) thereof, having regard to the amended proposal of the Commission [7], having regard to the opinions of the European Parliament [8], having regard to the opinion of the Economic and Social Committee [9], on 12 June 1992, the European Parliament adopted its Resolution on the liberalization of maritime cabotage and its economic and social consequences. This resolution is in accordance with Article 61 of the Treaty freedom to provide services in the field of maritime transport is to be governed by the provisions of the Title relating to transport. They had in view the fact that the abolition of restrictions on the provision of maritime transport services within Member States is necessary for the establishment of the internal market; whereas the internal market will comprise an area in which the free movement of goods, persons, services and capital is ensured; therefore freedom to provide services should be applied to maritime transport within Member States. The beneficiaries of this freedom should be Community shipowners operating vessels registered in and flying the flag of a Member State whether or not it has a coastline. By means of this resolution, this freedom is extended to vessels also registered in Euros once that register is approved. In order to avoid distortion of competition, Community shipowners exercising the freedom to provide cabotage services should comply with all the conditions for carrying out cabotage in the Member State in which their vessels are registered; whereas Community shipowners operating ships registered in a Member State who do not have the right to carry out cabotage in that State should nevertheless be beneficiaries of this Regulation during a transitional period. The implementation of this freedom should be gradual and not necessarily provided for in a uniform way for all services concerned, taking into account the nature of certain specific services and the extent of the effort that certain economies in the Community showing differences in development will have to sustain.

The introduction of public services entailing certain rights and obligations for the shipowners concerned may be justified in order to ensure the adequacy of regular transport services to, from and between islands, provided that there is no distinction on the grounds of nationality or residence. Provisions should be adopted so that safeguard measures can be taken as regards maritime transport markets affected by a serious disturbance or in the event of an emergency; whereas, for this purpose, suitable decision-making procedures should be introduced. In view of the need to ensure the proper functioning of the internal market and of possible adaptations in the light of experience, the Commission should report on the implementation of this Regulation and if necessary submit additional proposals [11].

These devices imposed (by the European Community) the adoption of a normative act on the matter, entitled Regulation (EEC) no. 3577/92 of the Council of 7 December 1992, applying the principle of freedom to provide services to maritime transport within Member States (maritime cabotage) [10].

Maritime cabotage was liberalized on 1 January 1993. In the case of France, Italy, Greece, Portugal and Spain, territorial cabotage will be liberalized gradually according to a specific program for each type of transport service. In these countries, territorial and inter-insular cabotage was not liberalized until 1999 [12].

This exception was applied until 2004 for regular passenger services and craft services with a gross tonnage less than 650 tonnes for Greece.

6. The cabbotage licence

The cabbotage licence [12] is a document issued by customs to a shipping company, which allows the loading, carriage and unloading of goods without payment of customs fees, on condition that the transport is made between national ports and the handling of goods in made in a special berth.

To avoid taxes for such goods, when loading them, a document called "transit act," which accompanies the goods to the port of discharge, is issued. This act, which replaces a customs declaration, certifies that the goods are intended for domestic consumption and that they will not be unloaded in any foreign port; in the port of unloading, this document is customs evidence that the merchandise does not come from import.

7. Conclusions

Modernizing the European transport system requires combining several initiatives at all levels. It is expected that, in the next decade, the Commission prepares appropriate legislative proposals, which will include key initiatives and proposals in this regard.

Each of these proposals must be preceded by a thorough impact assessment; the EU added value and the principle of subsidiarity will be taken into account.

An increase in transport competitiveness is expected when applying the Blue Belt concept; also, taking into account the main objectives of the EU transport policies this will help reduce the GHG emissions from transport with at least 60% by 2050.

From a legal perspective, cabotage is defined as "navigation below the limits of a long course". In terms of customs, "cabotage" is defined as the transport of native goods from a port to another port belonging to the same state, to a confederation of states or to different states, linked by customs union, using for this purpose an international maritime route or with access to such a route. "Cabotage" is divided into "national cabotage" and "international cabotage".

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Elements of Maritime Labor Law

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Abstract

Maritime labor law covers issues such as the minimum requirements for the seafarers working on board, employment conditions, accommodation, recreational facilities, food and cooking, health protection, medical care, welfare, protection through social security and compliance and enforcement of rul.

Key words: Maritime, labor, legislation, employment agreement
J.E.L. classification: K33 - International Law

1.Introduction

Maritime labor legislation, adopted by the International Labor Organization, seeks to ensure decent working and living conditions on board and limit social dumping, ensuring fair competition conditions for ship owners, conditions that respect the seafarers' rights.

2. Primary legislation

In international law, the seafarers' employment relationships are expressly provided for in the Convention no. 22 of 24th June 1926 on the seafarers' terms of employment and they are applied to all vessels registered in the Member State which has ratified this Convention and to the ship owners, commanders and seafarers of these vessels.

The Convention shall not apply to:

a) warships;

b) government vessels not engaged in commercial purposes;

c) vessels engaged in coastal trade transport;

d) pleasure yachts;

e) Indian vessels;

f) fishing vessels;

g) vessels less than 100 gross registered tons or 300 square meters or vessels engaged in domestic transport, with tonnage under the tonnage limit prescribed by the national legislation for the special status of these vessels, in force upon the adoption of this Convention.

According to article 3 of the Convention, the name and the circumstances in which the employment contract is signed should be provided for in the national legislation, so as to ensure the control of the competent authority.

The Standards of the International Labor Organization regarding sailors have a *certain originality compared* with those related to workers, generally *being adopted in special sessions - called maritime sessions* and entering into force in specific circumstances [1]. Every four years, two sessions of the International Labour Conference take place: a normal one in June and, another one, called the „maritime", takes place either in spring or in fall

3. *Maritime Labor Convention* - MLC no. 186/2006

The interest of the International Labor Organization to develop a new instrument in order to regroup all maritime conventions was materialized once with the adoption of Convention no. 186/2006 on maritime labor, signed on 23rd February 2006, at Geneva. This Convention, described by some analysts as *a charter of the seafarers' fundamental rights*, contains clear regulations, which are also flexible enough to uniformly allow Member States to establish the seafarers' rights and obligations [2].

The new Convention consolidates and updates the 68 maritime conventions and

recommendations of the International Labor Organization adopted in 1920.

The Maritime Labor Convention - MLC of 2006 was adopted by the International Labor Organization (ILO) with unanimous votes. It applies to international shipping and covers key issues such as the minimum requirements for seafarers to work on a vessels (Title I of MLC), the conditions of employment (Title II, MLC), accommodation, recreational facilities, food and catering (Title III, MLC), health protection, medical care and social services (Title IV), and its compliance and implementation (Title V) in order to ensure decent working and living conditions on board and the procedures for implementing them.

The Convention can be seen as the first maritime labor code for more than 1.2 million seafarers worldwide, as well as for ship owners and maritime nations across the globe.

The Convention will enter into force after its ratification by the 30 member countries of the International Maritime Organization representing at least 33% of the world gross tonnage. At the moment, 22 countries representing over 45% of the world's tonnage have ratified the MLC [3].

3.1. The provisions of the *Maritime Labor Convention* - MLC no. 186/2006

As ILO generally recognizes and explicitly declares, the maritime industry is "the first truly global industrial area" which "requires an international legal response, properly articulated – global standards applicable to the whole area".

The Maritime Labor Convention, adopted in 2006, contains comprehensive provisions relating to the employment protection and the rights of all seafarers, irrespective of nationality and flag.

MLC seeks the creation of decent working conditions for seafarers and ensures fair competition for quality ship owners. It sets out the seafarers' rights to decent work for a wide range of situations and it was intended to be globally applicable, easily understandable, updatable and uniformly enforced. It has been designed to become a global instrument known as "the fourth pillar" of the international regulatory regime for quality shipping, complementing the three major conventions of the International Maritime Organization (IMO):

- The International Convention for the Safety of Life at Sea (SOLAS);
- The International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW Convention);
- The International Convention for the Prevention of Pollution from Ships (MARPOL).

MLC has four titles that refer to the rights of seafarers:

- Title 1. Minimum requirements for seafarers to work on a ship;
- Title 2. Conditions of employment;
- Title 3. Accommodation, recreational facilities, food and catering;
- Title 4. Health protection, medical care, welfare and social security protection.

In addition, Title 5 of the MLC provides for mechanisms that improve the supervision at all levels, from vessel, company, flag State and port State to the State provider of workforce and the ILO system for worldwide uniform compliance and control. Indeed, in addition to a solid set of rules, it was needed a more effective system of law enforcement control and compliance in order to eliminate substandard vessels, for reasons of vessels safety and security and for environmental protection.

The task force on maritime employment and competitiveness recommended the implementation of the MLC. This task force is an independent body created by Vice President Siim Kallas, in July 2010, and it completed its work in June 2011, by publishing a report [4] containing policy recommendations on how to promote the seafaring profession in Europe.

4. The European Union's interest in maritime labor

The EU Member States and the Commission supported the ILO's work in this area since the very beginning. The European Union considers valuable the MLC contribution because this convention aims to establish several fair competition conditions in the maritime field globally, by setting common minimum standards for all flags and seafarers.

In this respect, the EU has already adopted the Council Decision 2007/431/EC of 7th June 2007, authorizing the ratification by the Member States, in the interest of the European Community, of the ILO Convention of 2006 on maritime labor [5] . Some Member States have already ratified this Convention (Spain, Bulgaria, Luxembourg, Denmark, Latvia and the Netherlands), while others are about to do it. In fact, the national laws of Member States are generally more protective and more detailed than the ILO standards. In order to maintain consistency between the international and national standards and to ratify the Convention, it is required the prior completion of a vast and long review of the national legislation.

Also, the EU adopted the Council Directive 2009/13/EC of 16th February 2009, implementing the Agreement between the European Community Shipowners Associations (ECSA) and the European Transport Workers' Federation (ETF) on the Convention of 2006 on maritime Labor and amending the Directive 1999/63/EC [6]. The Directive 2009/13/EC is a significant achievement of the sectoral social dialogue and this proposal aims to ensure that it has adequate means of ensuring its implementation throughout the Union.

To this end, it also provides for the obligation of Member States to implement the Directive 2009/13/EC, when they exercise their powers as flag States. In the current situation, through the Directive 2009/13/EC, the European legislation has been aligned with the international standards set by the MLC. This directive takes over the relevant provisions of the MLC contained in Titles I, II, III and IV (mentioned above), which establish the seafarers' rights.

4.1. European social partners

However, because the European social partners which wish to implement the agreement by a Council decision under Article 155 of TFEU do not have the power to include in their agreement the provisions to ensure the implementation contained in title V of the MLC, they addressed the Commission asking it to do so. This is precisely the goal proposed by this initiative, in connection to flag State responsibilities.

This initiative is part of the EU policy on maritime professions. In fact, as outlined in the Commission Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, entitled "Strategic goals and recommendations for the EU's maritime transport policy until 2018", the EU has a real interest in making maritime professions more attractive for Europeans through activities involving, as appropriate, the Commission, the Member States and the maritime industry. This directly affects the implementation of the MLC, which brings considerable improvement of working and living conditions on board.

This Communication stresses that the existing agreement between the European social partners on the implementation of the key elements of this Convention demonstrates the overwhelming support for this initiative by the maritime industry and, therefore, shares the actions of the European Union and of its Member States which should aim at:

- the move towards the rapid ratification of MLC by Member States and the immediate adoption of the Commission proposals by the agreement of social partners on the implementation of the Convention key elements into EU law;
- the actual enforcement of the new rules through appropriate measures, including the control requirements for the flag and the port State [7].

The White Paper "Roadmap to a Single European Transport Area - Towards a competitive and efficient transport system in terms of resources" [8] underscores the importance of the social agenda for maritime transport, both to promote employment and to increase safety; the Commission Staff working Document accompanying the White Paper anticipates launching a proposal aimed at ensuring the effective implementation of the MLC.

5. Social standards based on ILO conventions

Currently, during the controls applied by port States, there are already carried out inspections on the social standards based on the ILO conventions, particularly the *ILO Convention* no. 147/1976 concerning the

Minimum Standards in *Merchant* Ships relating to [9]:

- Convention no. 7/1920 on the minimum age (maritime employment);
- Convention no. 23/1926 on the Repatriation of Seamen;
- Convention no. 22/1926 on the terms of seafarers' employment;
- Convention no. 53/1936 on officers' Competency Certificates (Articles 3 and 4);
- Convention no. 58/1936 on the minimum age (maritime employment) (revised);
- Convention no. 68/1946 on (crew's) nutrition and dining area (on board) (Article 5);
- Convention no. 73/1946 on (seafarers') medical examination;
- Convention no. 87/1948 concerning Freedom of Association and Protection of the Right to Organize;
- Convention no. 92/1949 on the Accommodation of Crews (Revised);
- Convention no. 98/1949 on the application of the right to organize and bargain collectively;
- Convention no. 134/1970 on preventing accidents (seafarers' employment) (Articles 4 and 7);
- Convention no. 138/1973 on the minimum age (maritime employment).

These conventions have been reinforced by the MLC (2006), but they are still in force, because it would be possible for some parties to favor their continuation, without the ratification of the MLC.

6. Conclusions

Therefore, by controlling flag and port States, the EU must ensure the application of the MLC standards regarding Maritime Labor on board of all ships entering EU ports, regardless of the seafarers' nationality.

The enforcement of the MLC standards by flag and port State control should also be considered as a way to limit social dumping, which is a deterioration cause of the working conditions on board; at the same time, it penalizes ship owners not providing decent working conditions in accordance with the International Labor Organization.

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European Financial Integration and the Recent Crisis

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Abstract

Financial integration, the greatest achievement of the European Union, offer many advantages both in terms of the financial sector and also the private sector. The purpose of this article is to highlight in which way the recent crisis has affected financial integration and also the manner in which the common market influenced the triggering of financial turmoil.

Literature renders the positive effects who can be felt as a result of financial integration, but in the circumstances of the crisis were highlighted and some disadvantages of such a process. Analyzing movements in the money market, sovereign debt market and retail banking, we see that financial integration was one in development, evolution who has been affected by the recent crisis.

We conclude that liberalization was the trigger factor of recent crisis, but the reforms undertaken in this sense can ensure an sound financial integration, an sustainable economic environment and economic growth.

Keywords: financial integration, financial crisis, reform.
J.E.L classification.: F41, F51, F53.

1.Introduction

Financial integration ensures the transmission of monetary policy, the proper functioning of the payment system and ensure financial system in the European Union. Over time, various measures were taken to ensure a high level of integration and have been observed, especially after the introduction of the euro, significant developments in this plan. But the triggering of recent financial and economic crisis has reduced the increases rhythm of this process, highlighting also a series of destabilizing elements that can accompany financial integration. Reducing transaction costs, the diversification of investment portfolio, risk dissipation, increase competitiveness are just some of the benefits of financial integration, but have been identified and a series of destabilizing elements of this process such as uncontrolled liberalization of the capital, weaknesses of regulations and excessive risk taking.

The article continue to highlight he ways in which the recent international crisis has affected the money market, of bonds and banking market and the measures that have been taken by the appropriate authorities to reduce the negative effects of the crisis, ensuring financial integration and a business climate favorable to economic growth. The article ends with conclusions.

2.European financial integration and the recent crisis

Of the Eurosystem, financial integration is seen as a situation where no discrimination is made between economic agents, having free access to capital. Price convergence means not integration, it is necessary but not a sufficient condition [1].

Financial integration - seen essentially as a common capital market and financial services represent the greatest achievement the European Union of the last decade. Aiming achieve this integration were initiated several processes (including the euro) but were interrupted and resumed by the recent international financial crisis and more recently by the European sovereign debt crisis.

Creating a common financial market involves a series of significant advantages, including control of all sources of capital. This surveillance performed on capital was recovered in interest rates which have been

leveled and have become more stable, creating an environment where new opportunities are available to both companies and households. From here the harmonize financial benefits have expanded in terms of reduction of unemployment rate and economic growth.

The introduction of the euro has significantly pulsed achieving financial integration by reducing transaction costs, increasing investment resources, reducing risks and rates of exchange between currencies, but also brought market confidence, which has favored the development of direct investment and of entire investment portofolio.

All these elements, together with a central bank, focused on ensuring price stability, helps develop financial innovation useful in carry out the activities in the real market. Also, an integrated financial system ensures proper transmission of monetary policy in the euro area.

In addition to this last item, financial integration will increase the Eurosystem responsibilities in ensuring financial stability and of payment system, will determine the modernization of the financial system and contribute to the growth of non-inflationary economic climate [2].

Moreover, the stability and an adequate supervision of the market facilitate the appropriate allocation of resources, diversification of assets and an increased competition between financial institutions leading to a reduction in intermediation costs [1].

In literature is appreciated that a more integrated financial market is beneficial to an sustainable economic growth. Both financial integration and also financial innovations have beneficial effects on financial efficiency and on real market [3]. Moreover, an long-term positive impacts on economic growth is observed in the reduction of market volatility.

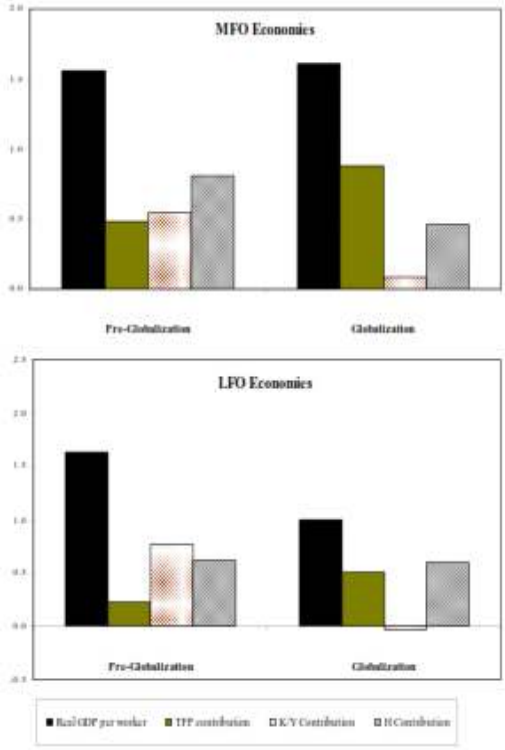
Contrary to this statement, are authors who believes that a common financial market, characterized by greater mobility of capital, leading to an increase risks, speculation in the market and macroeconomic instability [4] and [5]. Same idea compart and Papademos, which recognizes that positive effects may be accompanied by inconveniences in risk management plan and can not be independent of the business model practiced by banks or risks taken individually [3].

Contrary to these economists, the authors Abdilahi and Katsushi argue that financial integration is beneficial to economic growth, in these circumstances will be registered positive effects in terms of economic performance. They also said that accelerating the integration process will reduce the negative effects of the crisis and will avoid such situations in future [6].

Financial integration through the financial system channel the financial resources necessary for economic growth: ensures trade fluidization, portfolio diversification and risk reduction. Also, financial innovation reduces the production of information asymmetries, reduce transaction costs and increase competitiveness, all of this are possible only through an integrated market.

Studies undertaken shows that financial integration generates direct positive effects on productivity growth and the economy [7].

Figure 1. Growth Accounting for More and Less Financially Open Economies



Source: M. Ayhan Kose, Eswar S. Prasad, and Marco E. Terrones, *Does Openness to International Financial Flows Raise Productivity Growth?* 2008 International Monetary Fund, p.33

In addition to these advantages generated

by the financial integration, recent economic and financial crisis highlighted and weaknesses of a common market. Thus, it was shown how the financial integration develop volatility in market conditions through contagion effects generated by the absorption of capital flows, lack of fiscal integration, inadequacies in financial supervision plan and regulation.

Thus, the integration process can be mentioned among the **causes** of recent international financial crisis. Especially if this affirmation can be supported by the transfer of credit risk through financial innovations facilitated by liberalization of capital within the single market [3]. But, however, the contribution of financial innovation and integration was not so severe that they can be unic responsible for producing the recent financial crisis.

González-Páramo claim that the recent financial turmoil has shown that the interconnection between financial markets and the dependence by an integrated market, to which is added an under-regulation and complexity of financial instruments can contribute to decrease market efficiency, the emergence of systemic risk and the turbulence transmission to the entire financial system [4]. Even if financial integration is not a destabilizing force in itself, the risks of the underlying stability of a strong financial integration can produce economic imbalances.

Another example in emphasizing the possible destabilizing effect of integration refers to the banking integration, making direct reference to information asymmetries, assuming risks and underestimating the risk of contagion. Even though at the level of private sector, the effects of banking integration are major, an acceleration of this process causes major firms to take big risks, exacerbating the effect of financial crises on the corporate sector.

The simultaneous development and in an exaggerated manner of economic growth, of liquidity, financial integration, while is registered an relaxation in the regulatory plan may lead to crisis [2].

The global crisis has shown that international financial integration increased monetary policy costs and the failure of reglementation, both in the pre-crisis and in the management of severe financial stress situations [8].

Analyzing movements in the money market, sovereign debt market and retail banking, we can see that the process of financial integration was in development and sustainable, a trend which has been affected by recent crisis.

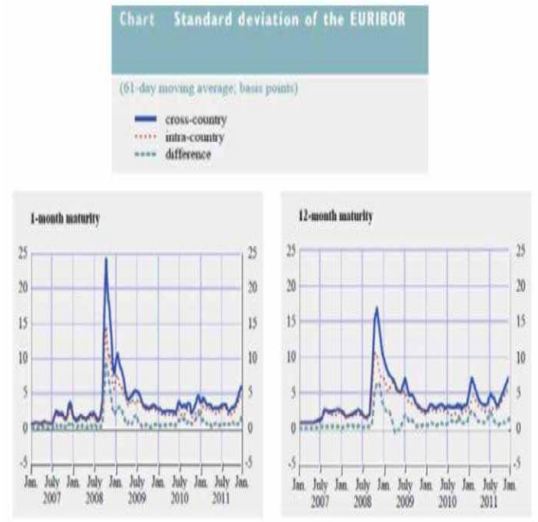
It is obvious that European financial integration has not manifested uniformly in all market sectors. For example, the integration from the retail banking remained limited in terms of legal elements, institutional and regulatory. However, the measures taken in this purpose make financial integration to progress [9].

The recent crisis has affected the level of integration of the different sectors of the economy, especially the interbanking sector, which was the most integrated in the euro area [2]. Financial integration has been affected directly by creating an inequitable institutional framework: banks in countries with fiscal problems were faced by raising financing costs, which were reflected in increasing sovereign risk. Moreover, the government financed bank bonds (an instrument widely used in crisis times) and these have different values depending on national fiscal situation. Lack of liquidity caused the call to private sector funding, concomitantly with much higher sovereign risk exposure [10].

Monetary market, the most integrated system before the crisis, was and the most affected. The differences between the standard deviation of EURIBOR rates have reached levels unimagined, while the market participans were accorded expensive loans to other participants. Mistrust in market was felt in repo market prices, price risk depending more on the geographical origin and the goods brought under warranty.

During 2011, the developments in the euro area money market were characterised by two phases: (i) a temporary moderation in the money market tensions in the first half of the year, with a gradual decrease in the excess liquidity in the system and higher money market activity; and (ii) a serious worsening of money market conditions in the second half of 2011, owing to the intensifi cation of the sovereign debt crisis.

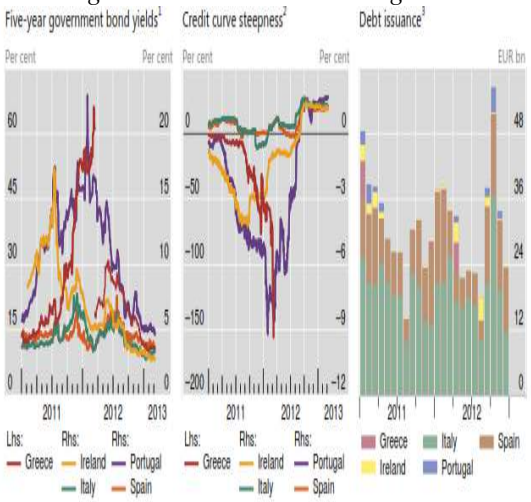
Figure 2. Money market rates: financial crisis stress and cross-border dispersion



Source: Benoît Cœuré: *The way back to financial integration*, Bank of International Settlements, 2013, p. 3.

Another market affected by the crisis, with repercussions on sovereign debt was **bonds market**, both corporate as well as public. Taking into account the credit risks, of price, to which is added the specific risks of each instrument caused the increase of country risk.

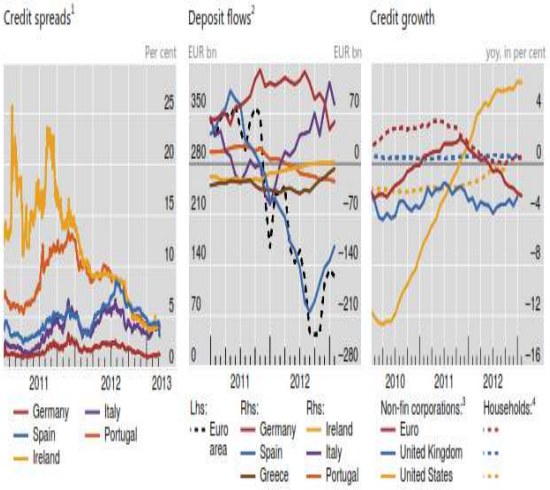
Figure 3. Euro area sovereigns



Source: *International banking and financial market development,* Bank for International Settlements 2013, p. 9

Contrary to the last market, **equiy markets** was less affected by the crisis and judging in term of integration. As about **banking market**, and it has been affected by the crisis, observing differences in the euro area in storage costs which will be transferred later in the prices of loans.

Figure 4. Indicators of bank funding and credit growth



Source: *International banking and financial market development,* Bank for International Settlements 2013, p. 10

To remedy such negative effects and to ensure the transmission of monetary policy in an appropriate manner, the Eurosystem has adopted a series of non-conventional measures. All measures have been taken to accumulate market liquidity, avoiding improper transactions of assets and to reduce long-term lending.

Stability, proper functioning of financial markets and an increase in its level of integration will depend on the success, more complete and resilient economic governance framework. This effort is ongoing; some steps have been taken, others are under way, but more will need to come.

Financial integration was seriously affected by the recent crisis and the measures to be taken to remedy this situation must be expedited. To this purpose, mobilizing capital flows of private markets and the improvements from supervision plan, regulation and crisis management at the local level are essential.

Significant changes have been made in this regard, such as the creation of the European Financial Stability Facility, the European Stability Mechanism, three European Supervisory Authorities and the European Systemic Risk Board.

In this sense, [1] believes that a banking union will be suitable for ensuring a proper

financial integration in which it holds an important place the central monetary authority. A banking union, which is based on new regulatory standards will help to reduce the risks which reverberated on financial stability, ensuring a more integrated market.

In the same plan of consolidation of euro-zone on long-term, Rodrigues consider it must be secured an fiscal solidarity to support sovereign debt, achieve an financial reform, together with the policy decisions to ensure financial stability and economic growth, ensuring nominal convergence between member states of euro-zone - all these being subordinated to democratic decision at european level [11]. According to the same researcher, the items listed should be the principles whose application can eliminate the negative effects of the recent crisis and to restore the credibility and the conditions of creating an appropriate European integration.

In his turn, European financial integration is a process that calls for increased monitoring of elements who affecting financial stability, among them mentioning the appropriate allocation of funds, risk control from the financial institutions, market discipline, concentration of investments and the effects of globalization [2]. In 2005, the same author specify that the whole process of integration is the responsibility of the ECB and the Eurosystem, these elements emphasizing very much on supervision, regulation and stability. During this process is requested the existence of interconnections between market forces and of public authorities.

However, financial integration that has occurred since the introduction of the euro has significantly increased living standards, financial stability and economic one . Knight recognized that the integration process has been affected by the recent crisis experience, but of these events can be extracted conclusions and lessons conducive to undertaking measures to remedy any inconvenience and lead to a more stable and resistant integration [9].

The first lesson extracted from recent crisis shows that in order to ensure sound financial integration in future monetary policies issued by the European Central Bank are vital, they can maintain an relevant monetary conduct, the interbank market liquidity and the control of interest rates. It is also necessary to ensure financial market transparency by reducing the complexity of products, disseminate complete information on risks taken by investors and highlight the interconnections between credit risk, the market risk and liquidity risk.

An financial integration require and an stability of the financial sector and, for this, it impose a greater communication and cooperation between market participants, both the official sector involvement as well private one.

All reforms undertaken to reduce the negative effects of the crisis and avoid such situations i future, will have the effect of ensuring financial stability, while increasing the level of financial integration. It is therefore very important, at least at the European level, to be implemented fully and quickly the regulatory and supervision reform and to ensure a stable and robust financial system.

The measures taken should aim at increasing transparency, reducing the complexity of financial products, improving corporate governance and effectiveness risk management. It should also be intensified the supervision at the micro and macroeconomic level and the revision of crisis management regime. Many of these issues have been achieved, but the process of restructuring is underway.

Mersch considers that banking union requires building an integrated financial framework to ensure financial stability [10]. In this endeavor, it is necessary to establish a Single Supervisory Mechanism (SSM) in the European Union and a Single Resolution Mechanism (SRM). These two pillars should ensure stability of the system by standardizing practices at European level for a single supervision model (SSM) and create a fair competitive environment (SRM).

As it stated and Draghi providing financial integration is part of the post-crisis harmonization, as one of the priorities of the European Union authorities [12].

3. Conclusions

Introduction of the euro, together with all the measures undertaken at European Union level have determined registering of

significant progress in term of financial integration over time. The Enhanced supervision on capital, the harmonization of interest rates, reducing transaction costs, increasing direct investment, portfolio diversification, etc. are just some of the advantages that can accompany the process of financial.

However, recent economic and financial crisis has highlighted some disadvantages of creating a single market: the interconnections between financial markets, the complexity of financial instruments, poor regulation and supervision, uncontrolled liberalization of capital, excessive risk taking, etc.-all contributing to the destabilization of financial sector and the propagation of tension situations.

The movements off the money market , the sovereign debt market and retail banking, showed that the process of financial integration was sustainable and in development, evolution which has been affected by recent crisis. The measures taken to remedy this situation aimed to mobilize capital flows, enhancements in terms of supervision and regulation, changes in organizational structure and institutional, assuming new responsibilities of the central monetary authority, but also achieve an bank union and an fiscal union . Actions should aim at to increase transparency, reducing the complexity of financial products, improving corporate governance and effectiveness risk management. Should also be intensified supervision of at micro and macroeconomic level and revised crisis management regime. Many of these issues were touched, but the process of restructuring is underway.

Since the the financial integration process is accompanied by numerous benefits and the ongoing reform aims to eliminate disadvantages of this process, ensuring financial integration is part of the post-crisis harmonizationit represents one of the priorities of the European Union authorities.

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Coordinates of a New European Banking Model

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Abstract

The new global order stands to be trapped in a spiral of change, which became increasingly complex and fast. The aim of this paper is to picture the transformation of the European banking model dictated by the experience of the last financial crisis. We note the contribution of innovation, securitization and regulation to present and future banking structural adjustments, pointing out a series of issues which captured the overwhelming implications on the "health" of the system. We also included in our study some evidence from 7 European countries (Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania). To conclude, we summarize the multiple faces of banking reconfiguration, we argue that risks are still present in this industry and we define our position in favor of traditional and safe practices.

Keywords: financial crisis, financial education, banking model, securitization.
J.E.L. Classification: G01, G21, G32.

1. Introduction

The current financial crisis has reflected mainly on the financial markets, so the propagation on emerging economies has been relatively quick, through the transmission channels, amplifying the contagion feature of risks. In the light of powerful tensions, vulnerability and losses, the banking industry suffered important transformation in order to adapt, to survive and to recover. We highlight the importance of the topic related to the significant presence of banking in Europe and its economic role. The banking model has been adjusted in terms of objective, infrastructure, activities and performance (through regulation). So, the main question is: are we trying to reinvent banking or just to bring it back to its origins?

2. Reconfiguration of the European Banking Business Model

Starting June 2007, the financial crisis hit the banking industry in the U.S. and later, all over the world. In this context, a series of questions (mainly regarding the role of regulation) have appeared. Seen as a failure of the free market, of deregulation and fragmentation, the financial crisis put to the test the stability of the banking systems.

Risk evaluation, not a priority, the lack of financial education, the ignorance and the performance-based remuneration packages generated new requirements in terms of regulation, high capital and liquidity costs and new visions associated to daily activities.

The motivation is related to efficient risk management, in order to assure stability and solidity of the national systems. Starting 2008, we are assisting to massive losses and profitability shortages, panics, and lack of confidence.

The classical business model is based on systematic development through major financing sources. But, the efficiency is influenced by an optimal combination of factors (human, financial and working capital).

Deregulation and financial innovation have contributed to an intensive transformation of the banking business model, on several dimensions, such as: financing practices, non-interest incomes preference, the size of the banking activity and corporate governance, with great impact on the real economy.

Financial innovation had a major role in banking through the permissive framework created, as the banks managed to transfer risks off-balance sheet, collecting new risks in the same time [1].

As we can see in Table no.1, the volume of securitization in Europe followed an increasing trend ex-ante the financial crisis, the maximum being reached in 2008 – a volume almost 5 times higher compared to 2001. Starting 2009, the balance sheets have been suffering an adjustment process and associated to this action, the securitization has decreased. Considered an option for extension of financing, securitization has another advantage. The possibility of risk transfer through CDSs facilitates lending activity (capital requirements reduce). As a result, financial innovation shows that the lending channel is being inefficient in normal times (before 2007). In the banking systems, speculation determines off-balance sheet flows. One author [2] argues that traditional banking business model has suffered a negative transformation through limited incentives for risk coverage. From a structural point of view, securitization transposed banking credits (illiquid assets) into tradable securities. At the individual level, the benefits referred to credit risk diversification (geographically and on activity sectors), reduced capital regulation pressures and the additional financing. Insolvency risk has decreased; capitalization and profit followed an inverse trend.

Table no.1 Securitization in Europe (€ million)

Year	Value	Year	Value
2001	152.60	**2007**	453.71
2002	157.70	**2008**	711.13
2003	217.30	**2009**	414.08
2004	243.50	**2010**	382.92
2005	327.00	**2011**	371.98
2006	481.00	**2012 T2**	126.85

*Source: *** Association for Financial Markets in Europe (AFME) (2010): Securitization Data Report: Q2 2012*

From a different point of view, we sustain that securitization has limited some risks (considered static) and generated new ones (dynamics, with high impact on the banking activity). Relaxing banking conditions creates the risk of balance sheet degradation, through debt accumulation, and contributes to the transfer of the banking institution in the systemic importance category. Paradoxically, the credit risk increases.

In some studies [3], [4], [5], [6], the phenomenon is explained The banks are not stimulated to monitor the credits once they have been sold, the effects of the new liquidity derived from these transactions, affects decisions regarding new risk-taking.

We consider that financial innovation had an important contribution in the banking systems (both in terms of progress and risks), related to diversification, time per transaction, portfolios' development. The most important aspects are the transfer of the perspective from the traditional approach to the modern view, respectively the application of a new set of motivations towards risk-taking preference.

In the last years, we assisted to an easy form of financial capitalism, relationship banking moved to transaction banking. Due to this movement, one of the solutions proposed is the clear distinction between banking activities: investments vs. retail.

The interconnectedness between banking systems and financial markets has generated an increase of non-interests incomes, announcing a new trend: diversification of income sources, destined to make the total income more stable.

Vulnerabilities rising at the international level have led to a higher volatility on the global financial market. According to data from Table no. 2, the trading income has known large fluctuations in the last years.
Some voices argue that in stress times, the variation of these income sources is normal, but the effect is double [7]. We assist to a reduction of the traditional income based on interest rates. However, analyzing the previous studies, we observe that an increase of non-interest income can't be associated with a decrease of income volatility [8], [9], [10].

A new practice implemented by credit institutions is the measurement of risk-adjusted performance.

Table no.2: Evolution of the trading income growth rate in the selected countries, during 2009-2012 (%)

	2009	2010	2011	2012
BG	43,98	21,11	-8,89	38,71
CZ	296,41	-35,58	-16,06	55,61
LV	-305,26	-17,61	-27,82	18,62
LT	251,32	-35,44	-94,95	80,54
PL	4,73	25,16	-18,99	-1,33
RO	n.a.	n.a.	n.a.	n.a.
HU	n.a.	n.a.	n.a.	n.a.

Source: own processing after IMF Data

The reason involves objective performance comparability associated to different risk levels, respectively transactions output-risk profiles [11].

Table no.3: Evolution of credit risk in the selected countries, during 2009-2012*

	2009	2010	2011	2012
BG	6,4	11,9	14,97	16,9
CZ	5,2	6,2	5,48	5,06
LV	16,4	19	15,03	9,59
LT	19,3	19,7	21,18	18,6
PL	8,0	8,8	4,8	5,09
RO	7,9	11,9	13,63	17,3
HU	6,7	9,7	12,13	16,14

**NPL/Gross loans*
Source: own processing after IMF Data

It is relevant to mention that credit risk has been the main challenge within the banking systems in the last few years, registering high growth rates and volumes. The European emerging countries have been affected by the financial crisis, through contagion channels. The banking systems experienced a deterioration of bank asset portfolios. The implication of monetary authorities in various agreements to ensure financial stability has served as an anchor of credibility and macroeconomic stabilization (See Table no.3).

The increase of systemic risk has been caused by a translation into the business banking model from *originate and hold* form to originate and distribute form. In the traditional model, banks use term deposits to support long-term lending. Mainly, the associated risks are liquidity risk, interest rate risk and credit risk. In the actual model, banks have tried to avoid the exposure to these risks, by selling assets. At the individual level, banking risks have increased based on low interest in monitoring off-balance sheets items and low credit quality. At the aggregate level, the risk combination represents a precondition for the creation of the speculative bubble. Among the reasons which have generated a new business model we mention low profitability, risk management limits and bank leverage.

Central bank supervision, applied both for banks and non-financial corporations, has the role to clean the banking business model, limiting the toxic trends (such as excessive lending). It is desirable to adopt efficient long term risk practices, in order to ensure sustainable development and responsible financial intermediation activity. Commercial banks results show their limits, the vulnerable spots and announce the new trends - high provisioning costs, financial deleveraging and low risk appetite.

Table no. 4: Evolution of ROA in the selected countries, during 2009-2012

	2009	2010	2011	2012
BG	1,10	0,86	0,85	0,80
CZ	1,50	1,30	1,50	1,38
LV	-1,6	-1,8	0,49	2,51
LT	-4,23	-0,34	1,21	0,80
PL	0,90	0,90	1,19	1,20
RO	0,30	0,20	0,025	-0,16
HU	1,70	0,59	0,25	0,26

Source: own processing after IMF Data

Thus, banks have initiated measures to control costs by scaling network outlets but also by delaying or reducing investment programs. Increasing interest margins, sales of fixed assets and the purchase of government bonds were among the most common strategies put in place by banks to improve their short-term financial position. (See Table no.4 and 5).

Table no.5: Evolution of leverage ratio in the selected countries, during 2009-2012

	2009	2010	2011	2012
BG	7,74	7,79	9,11	9,88
CZ	11,22	10,70	15,27	15,07
LV	10,68	11,12	9,71	8,82
LT	14,20	12,43	10,64	8,79
PL	10,85	9,73	12,93	12,09
RO	10,60	9,49	-3,33	1,88
HU	10,35	10,49	12,68	11,12

Source: own processing after IMF Data

The leverage ratio indicates that in the last years the additional resources were properly used, so economic profitability is still higher than the cost of new resources.

Other studies sustain that banking systems have deviated from the normality position (the financial intermediary function) through which are protected the interests of stakeholders, to an extreme one – the profit vision of banks placed on a high level creating imbalances and negative effects for other categories (shareholders, clients, authorities) [12].

We note profit vs. client dilemma, transaction vs. relationship dilemma and we position in favor of traditional resource producer.

There are some voices that militate for reconfiguration of the relationship between subsidiary and mother bank, respectively the legal transformation of subsidiary into an independent entity, in order to reduce systemic risk. The separation of financial resources, regulation and capital and liquidity requirements will increase the power of the host country.

The objective is that strategy and support areas to be the bridge between the subsidiary and the group. Similarly, Erkki Liikanen, the Governor of Central Bank of Finland analyzes the proposal of total separation of investment and retail activities. From a risk perspective, the process aims to limit contagion among banks or to put to quarantine the subsidiary which presents a higher probability of default.

We consider Schumpeter's belief about innovation very actual and applicable: the works of the (financial) system and the dynamics of innovation include a significant doze of creativity with disruptive effect in the business environment, where companies, procedures and products are being replaced by new ones. The microeconomic level is the most affected but the contagion potential is higher within the aggregate processes. Additional correlations and common movements of the economic agents facilitate the distribution of negative effects and the shifting from micro to macro.

Financial innovation has often been associated with greed, as human characteristics, prevailing in the speculative activities. Economic discipline highlights two faces of greed, as follows: seeking for profit maximizing, the competition manifested in healthy legal environment places greed as a promoter of innovation and economic growth, but, in relaxing regulation mood, greed degenerates into activities based on fake profits, fraud and financial corruption.

Recently, we have experienced the power and the effects of the precedents created in the process of risk management. The main risk is related to the confidence of the public into the banking systems.

The situation from Cyprus can be analyzed from different perspectives:

- *Reduced decisional power and high dependence on the International Monetary Fund, the European Central Bank and the European Commission transpose in a legal form of financial nationalization – deposit taxation;*
- *The banking exuberance manifested ex-ante the financial crisis directly affects financial situations of the clients, generates new risks in the national banking systems, indirectly amplifies the risk of recession in the European countries and creates panics at the global level;*
- *Determines political conflicts (based on the international profile of clients – Cyprus is a fiscal paradise which holds money from clients all over Europe);*
- *Amplifies the risk of instability in the Euro zone.*

The German Chancellor Merkel (2013) sustains that the actual banking business model of Cyprus is a failure. The whole situation increases the mistrust in the capacity of the banking systems to protect clients, through loss of control over its activities. On long term we estimate a descendent trend of savings in the context of present tensions, uncertainty and visible political influences in crisis management.

In essence, the client pays for the error of the banking system. How fair is that? Some of the proposed solutions *tailored to the clients' needs*, trying to beat the competition coming from the non-banking entities. Swedish banks transpose into practice the policy *putting customers first, promoting banking business model called back to the future* (a mixture between traditional and modern, with a good risk management orientated to all stakeholders). Even in the

recent context, Handelsbanken continues the expansion process through new units designed to bring more clients and to maintain loyalty.

A fundamental lesson that should be learned from this financial crisis involves moderation as a key coordinate for rational behavior.

The most stringent challenges of the European banking systems are related to regulation and efficient monitoring of the risk, a sustained rhythm of real convergence process and economic recovery reforms.

3. Conclusion

The recent financial crisis has changed the climate in which operates the actors of the financial markets, affecting the relationship between customers and banks, companies or individuals. Great giants of the financial markets, so-called too-big-to-fail entities (TBTF), became an obsessive concern for the government and monetary authorities, considering that business size, market power and complexity are major issues related to the management of an institution. These characteristics should be handled in a specific manner, without threatening the robustness and resilience of the banking system as a whole. Flexibility transpose into sustainability.

Summarizing, the new banking business model can be analyzed based on the following coordinates:

- Strategic reconfiguration;
- Capital reconfiguration (financial capital - costs, working capital - infrastructure, human capital– staff);
- Activity reconfiguration - (embracing the traditional activities, moderation, risk-adjusted performance);
- Management risk reconfiguration.

Changes in the financial environment are necessary due to the amplification of contagion risk in the monetary union, especially considering the latest events manifested in Europe. The sovereign debt crisis has severe implications on the banking system stability, questions the integrity of the Euro zone and generates conflicts among countries.

The unprecedented size of the current turmoil is a warning for both decision makers and participants to the financial systems, in terms of examples and lessons learned. In order to prevent imbalances and to reduce the consequences, the key aspects refer to a high level of transparency and an efficient communication between all parties.

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The Impact of the Economic Crisis on the Cohesion Policy

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Abstract

"One basic formula for understanding the Community is this: Take five broken empires, add the sixth one later, and make one big neo-colonial empire out of it all."[Professor Johan Galtung, Norwegian sociologist]

The EU represents a unique economic and political partnership, formally recognised on 1 November 1993 through the Maastricht Treaty, uniting 27 States around common political, economic, cultural and social values – a Community which evolves towards the Economic and Monetary Union, based on internal and external policy cooperation between States.

Based on these priorities, but being aware of the numerous differences between Member States/regions regarding the level of development, the EU assumes the task of reducing the existing gaps through a common regional policy, aiming to reinforce economic and social cohesion.

This paper intends to examine the effects of the economic crisis on the cohesion policy 2007-2013 and the measures adopted by the EU in order to reduce them.

Keywords: economic crisis, cohesion policy, European Social Fund, Cohesion Fund, European Union, impact
J.E.L. Classification: G 01, F 50, O 52.

1. Introduction

„The European Union is one of the most prosperous and competitive areas of the world, both from the point of view of the level of economic development, and from that of the potential for development. Nevertheless, the existence and persistence of development and productivity disparities between Member States and their regions represent a major structural weakness, which could pose a threat to the very durability of the European structure. The enlargement of 2004/2007 led to an increase of the gaps within the EU, due to the significant differences in economic development between the old and the new Member States." [1]

2. General framework of the economic and social cohesion policy

"The economic and social cohesion policy comprises all EU's actions which aim at achieving a harmonious and balanced economic development of the Union, especially by reducing the disparities between its different regions/States, by promoting equal opportunities and sustainable development. This will lead to increased competitiveness and will generate higher revenues, thus providing benefits for the economy of the entire EU." [1]

The evolution of the EU cohesion policy

1951- The establishment of the European Coal and Steel Community (ECSC), resulting in the liberalisation of the steel industry.

1957- As early as the drafting of the Treaty of Rome, the document that laid the foundations of the future European Economic Community, precise references were made to the elimination of the economic gaps between regions. The objective of the EEC was to promote "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it." (Art. 2 TEEC) [2]

Among the concrete methods for achieving these objectives, the Treaty also mentioned "the creation of a European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living." (Art. 3 TEEC)

1958- The European Social Fund and the European Agricultural Guidance and Guarantee Fund were established.

1975- After Denmark, Ireland and Great Britain joined the Community, the **European Regional Development Fund (ERDF)** was created. Thus, the concept of redistribution between the rich and the poorer areas of the Community appears for the first time. The allocated budget was 1.4 billion currency units (ECU) for the period 1975-1977 (around 4% of the budget), which was going to be distributed, by quotas, among the 9 Member States. Eligible actions: 1. investments in small enterprises which created at least 10 jobs; 2. investments in infrastructure linked to point 1; 3. investments in the infrastructure of mountainous areas.

In the period **1975-1985** the ERDF budget increased by 10 times, from ECU 258 million to ECU 2290 million, and its share in the Community budget doubled, from 4.8% to 7.5%. [3]

1986-1987- The concept of economic and social cohesion was introduced in the Treaty, with a view to helping the last States that joined the Community (Spain and Portugal) to face the challenges of the single market.

1988- **The first reform of the Structural Funds,** corresponding to the Jacques Delors package, led to redefining the objectives of the Structural Funds, i.e. of the ESF (1958), EAGGF (1962) and ERDF (1975), under the umbrella of the cohesion policy.

1989- The principle of multi-annual programming is introduced in the system of granting Structural Funds, based on establishing priority objectives and finalizing the system of partnerships between Member States.

1992- It is decided to double the budgets for disadvantaged regions: Spain received ECU 10.2 billion, Italy ECU 8.5 billion, Greece ECU 7.5 billion, Ireland ECU 4.46 billion – these funds were granted for promoting the structural development and adaptation of less developed regions (according to Priority Objective 1).

1993- This year marks the reform of the Structural Funds through the Treaty of Maastricht, **economic and social cohesion** being mentioned for the first time among the general objectives. A new financial instrument is created, named the Cohesion Fund, which is specifically dedicated to supporting less developed EU Member States.

1995- Through the accession of Sweden and Finland, sparsely populated regions started to receive funding.

1997- The Treaty of Amsterdam (signed in 1997, in force since 1999) lays the basis for the principles of the *European Employment Strategy*.

1999- Berlin- **The second reform of the Structural Funds**, with a focus on supporting disadvantaged social groups and regions. As a result, a new set of regulations for the period 2000-2006 is drawn up, and two new structural pre-accession instruments are introduced, namely the Instrument for Structural Policies for Pre-Accession (ISPA26) and the Special Accession Programme for Agriculture and Rural Development (SAPARD27).

The reform of the regional development policy for 2007-2013

The enlargement of the European Union to 27 Member States brought numerous challenges to economic competitiveness, with the existing gaps between Member States and their regions increasing strongly.

For the period 2007-2013, the cohesion policy is financed from the EU budget through 3 structural instruments: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). In addition to this, there are the following complementary actions: the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).

Objectives of the EU cohesion policy

The main objective is to **achieve convergence**, i.e. to reduce the disparities which exist between different EU regions and Member States with a GDP per capita under 75% of the Community average and the regions affected by the so-called "statistical effect".

Thus, under the current financial perspective, approximately 80% of the Structural Funds are earmarked for this objective (according to the EU Treaty).

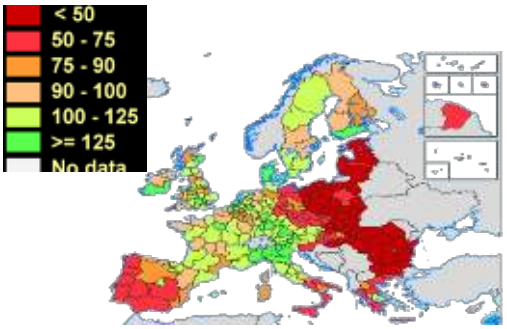
Regional competitiveness and

employment is the second objective, financed by 15% of the budget dedicated to Structural and Cohesion Funds. It covers the regions which are not eligible under the convergence objective.

The two objectives are closely connected, as improving cohesion throughout the EU depends largely on increasing competitiveness.

European territorial cooperation is the objective financed by only 5% of the budget dedicated to Structural and Cohesion Funds, and concerns transnational, cross-border and interregional cooperation.

Fig. 1. Regions covered by the Convergence Objective



Source: Eurostat

In order to achieve the 3 objectives during the period 2007-2013, EU allocated the sum of EUR 347 billion in the 27 Member States, representing 35% of the total EU budget for the same period (EUR 975 billion).

2. Cohesion policy – one step away from the end of the programming period

According to the Strategic report 2013 [4] on the implementation of the 2007-2013 cohesion policy programmes – which summarises the 27 strategic reports presented by the Member States at the end of 2012 – the following results have been recorded:

a. Employment – almost 400 000 jobs have been created to date, with the largest numbers reported in Great Britain, Italy, Germany, Spain, Poland and Hungary, including:

- more than 15 600 research jobs (9 500 since 2010);
- more than 167 000 jobs in SMEs (69 100 since 2010).

In **2011**, the Member States reported that 2.4 million people receiving assistance through the European Social Fund found a new job.

b. Research

- 53 240 research and technological development projects and 16 000 cooperation projects between enterprises and research institutions;
- nearly 1.9 million people who now have access to broadband networks (mainly in Spain, France, Ireland and Italy).

c. Transport: over 5 000 transport projects launched, 460 km of roads and 334 km of rail in the TEN network.

d. Education: over 19 000 educational infrastructure projects have been financed;

e. Renewable energy: over 2.6 million people benefiting from water supply services and another 5.7 million people targeted by waste water projects;

f. Among the **participants in ESF actions** there are 15 million young people under the age of 24, a number which increased abruptly in 2010 and 2011, as a result of the economic crisis. In countries like Germany, France and Hungary, young people account for at least 40% of the total number of participants.

g. As far as **lifelong learning** is concerned, the ESF supported around 5 million young people. So far, over 14.5 million final recipients were covered and a broad range of target groups reached in the area of social inclusion. 18% of participants were from groups which are particularly vulnerable on the labour market.

h. Based on the overall ESF goal regarding **equal opportunities and increasing the number of women on the labour market**, 52% of the participants in projects financed through this fund are women. In Cyprus, Estonia, Lithuania and Latvia they amount to more than 60%.

Although this is an interim report, offering an overview of the progress recorded in the main strategic sectors, it "provides an invaluable snapshot of a policy that is delivering across most of the EU's priorities

and investing in growth when it is most desperately needed. [...] But we also have lessons to learn: **results are sometimes patchy** and Member States need to speed up their efforts to use the EU resources. As we look ahead to the new programming period, we expect Member States and regions to focus the policy even more on results and priorities that will have the greatest impact", as the Commissioner for Regional Policy Johannes Hahn declared.

3. The impact of the global crisis on the cohesion policy

Breaking out in the USA at the end of 2007, due to the collapse of the real estate market and of the banking system, the mortgage crisis spread rapidly and became in no time a major worldwide concern.

As an important buyer of "toxic assets" from the portfolios of American banks, the European banking system initiated its decline. The main impetus factors:

- the strong increase of commodity prices (for example, oil price increased by over 100% between 2007 and 2008);
- the strong appreciation of the euro against the dollar (by 33% in the period 2006-2008);
- the delayed effect of interest rates (8 subsequent growths in the period 2006-2007, from 2% to 4%).

According to the fifth "Report on economic, social and territorial cohesion of 2010" [5], the economic crisis hit regions specialised in manufacturing, in particular, and the highest increases in unemployment were recorded in regions highly dependent on construction. Regions specialised in tourism, most of them with a GDP per capita below the EU average, have not yet been affected significantly, just as regions with large shares of public employment. In the same way, regions specialised in financial and business services, most of them situated around capital cities or developing metropolitan regions, have been affected to an average extent in terms of the impact on GDP and employment.

The estimates of the last cohesion report indicated the fact that at the level of NUTS 2 regions, 64 convergence regions (CONV) and 15 transition regions (TRANZ) faced the crisis better than the EU average, whereas many regions from Ireland (where the unemployment rate had reached 12.8%), Southern Finland, Northern and Central Italy, which had previously been in a developing stage, were particularly affected. Nevertheless, **the performance of the convergence regions varied extensively.** The recession was particularly severe in the Baltic States, Greece, Ireland, Portugal and Spain. Although the Baltic States and Ireland are recording economic growth, Portugal and Spain are still in recession in 2012, a recovery of their economic situation not being estimated until 2014, while Cyprus and Greece are still facing the decline of the GDP. [6]

Employment in the EU declined significantly in the period 2007-2012, up to 6 000 jobs being lost. Whereas in 2009 the unemployment rate is 8.1%, in January 2013 it reaches 10.8%. The lowest unemployment rate is recorded in Austria (4.9%), and the highest in Greece (27%) – November 2012.

Thus, the crisis increases the economic disparities (the role of the cohesion policy is heavily undermined); the latest data indicate differences between regions of 3.5 to 10.5 percentage points (between the States situated in the North and South of the Eurozone).

The business environment is also strongly affected by the recession, with total investments (gross fixed capital formation) dropping from 21% of GDP in 2008 to 18% in 2012.

EU's anti-crisis measures plan [4]

"With the crisis, EU cohesion policy funds have become even more important as a source of investment across the Union. The European Social Fund is delivering crucial support to our human capital, especially helping young people to maximise their chances of a successful career. The preparation of the next generation of programmes is a unique opportunity to underpin our growth and jobs strategy with significant financial support. Social and human capital investment needs to play an important role in this", declared the Commissioner for Employment, Social Affairs and Inclusion, Lázsló Andor.

As part of their response to the financial

crisis, the EU institutions agreed to a set of measures to promote simplification and improve the flow of EU funding:

- the simplification of national and regional procedures, reducing the time for paying advances to public authorities and enterprises that benefit from state aid (Bulgaria, Cyprus, Ireland, Hungary, Spain, Italy, Lithuania, Latvia, Slovenia, United Kingdom);
- the reduction of national co-financing within the limits of a regulatory ceiling (Spain, Greece, Ireland, Italy, Lithuania, Portugal and, to a lesser extent, Belgium, France and United Kingdom);
- the temporary increase of the co-financing rates – up to 95% – for Member States with the greatest budgetary difficulties (Greece, Hungary, Ireland, Latvia, Portugal and Romania);
- although the decrease of national public financing results in the reduction of the total investment volume, the goal is to keep national budgets away from the pressures of the crisis, ensuring at the same time continued investments in projects with growth and job creation potential;
- almost EUR 36 billion, or 11% of the total funds, were channelled towards innovation, research and development, general business assistance, sustainable energy, cultural and social infrastructure;
- the creation of a task force to help Greece implement the EU and IMF adjustment programme in order to speed up the absorption of EU funds.

4. Conclusions

It is undeniable that the EU has been facing serious difficulties in this period of crisis, and that the effects of the economic downturn at a global and national level had an impact on job supply and demand. However, the sums allocated for active policy measures concerning the labour market actually increased during the crisis. This may be due to the anti-crisis measures implemented by each Member State facing difficulties, to the support from IMF, but also to the European Social Fund, which contributed to longer-term structural changes on labour markets. According to the evaluation of the reaction of the ESF to the economic and financial crisis [5], for a smooth application of the programme the following measures are recommended: "phasing out crisis-related measures where they risk impeding active measures to combat long-term structural unemployment; and strengthening the ESF's focus on structural measures and vulnerable groups."

Moreover, the ESF will have to be fully in line with Europe 2020 Strategy, with a view to achieving the 5 proposed objectives on employment, research, education, the fight against poverty and energy/climate. All this will be based on the system of economic governance, which aims to coordinate policy actions carried out at EU and national level. In this way, the European vision according to which "the crisis can make us stronger" may find its application in practice.

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Freedom of Movement of Goods, Persons, Services and Capital

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Abstract

What could be more interesting in a European Union than to know our rights and freedoms and in a positive way to enjoy these privileges.?

Being European is not a random attribute; the merit belongs to European parents who named reality more than fifty years ago.

To speak of the beginning of European status include the recall of the Treaties of Paris, Rome, Maastricht, treaties that attest freedom of movement within the Community.

Keywords: European Union, fundamental rights, European citizenship
J.E.L.Classification: K32

1. Introduction

Comprehensive concept, freedom in the light of European history causes questions such as: "What is Europe? What will be its future?,,

It is true that European unity premises ideas originated back in antiquity, but we can not dispute the fact that Europe was reborn under the impression of the intellectuals of those days.

The Genesis of Europeanism shows the importance of studying this issue because to speak of freedom of movement means to question also the origin of this right. [7]

Freedom of movement is a natural given that we today's Europeans know daily and that yesterday's Europeans had won through efforts and real solidarity.

To thank Europe's parents for freedoms we enjoy is too little, but we can at least respect and not prejudice such fundamental values that we enjoy as citizens of Europe.

2. Freedom of movement of goods, persons, services and capital

The Schuman Plan was for some just a crazy dream (a collaboration between the two rival great powers) but one who has become a reality that we all live. In Europe there were the first economic regions of the world. European cooperation is linked to the name of Jean Monnet and Robert Schuman. [11]

We must not forget that the immediate goal was to maintain peace between the two rival forces. ECSC had a historical role in the the Franco-German reconciliation The political goal - joining Germany to Europe and eliminate disagreements with France on strategic areas of the Ruhr and Saar was masked by the economic objective. It is clear that the process of political unification was achieved through economic instruments. [1]

From the fact that the Community invoked economic reason to start integration one should not deduce that it was an exclusively economic process . At that time, however, the economical argument was preferred at the expense of the political one. Machiavelli's famous line: *the end justifies the means* is relatively applicable as practically it was a political goal, achieved through economic means. [12]

Compared with other international organizations at the time, the main novelty lies in the supranational character of the Community, represented by the transfer of powers to an institution - High Authority - responsible for making decisions independently of the consensus of Member States. There is a transfer of sovereignty from Member States to the Community. [6]

Based on the *Spaak Report* the Treaty establishing the European Economic Community and the Treaty establishing the European Atomic Energy Community were drafted. According to the latter, all tariffs and quantitative barriers applied between

Member States ought to have been eliminated. France was interested to impose a community project to reuse peaceful atomic energy and wanted Euratom project. Germany opined as positive in terms of achieving the EEC. The commitment that states assumed by ratifying the EEC Treaty was to create a common market based on free movement of goods, services, people and capital.

Do not forget that in European history there has never been a merger of this magnitude, the originality of this creation completes its value historically. The current European Union was the product of a conspiracy of elites with good intentions and results. The world order must be looked at both as a factual situation (achieved during centuries by people sacrifice towards peace), but also as an obligation that we contemporaries have to follow. [12]

Analyzed from both historical and present and multidisciplinary perspective as well, the study again demonstrates the topicality of the subject

The approach is not possible without a serious incursion through the ways essential elements of the freedom of movement of goods, persons, services and capital are defined internationally

Using methods of comparison, analytical, critical, objective but subjective, deductive and inductive, we focused both on theoretical implications of the study but also its influence on knowledge in the field. [2]

Objective assessment of the contents was given through the study and practice of the European Court of Justice in the field. Journal articles studied turn into a special documentary base, as human resource management issues in relation to the four freedoms are addressed.

Given that human existence is indisputably linked to the freedom of movement we can not dissociate it from its specific correlative exceptions. [5]

Topicality of the subject influences European knowledge as it brings together in a single certified material useful data and simplifies research on information subject to study.

Evolution from 6 to 27 countries and institutional improvement were not overlooked, not even developing ideas on the major stages of the formation of the European Communities. European construction is today in the process, as long as there are countries that want to join the big European family. The fact is that the European Union will remain a force in a world that is moving more rapidly towards globalization.

The action of the study focuses analytically on the presentation of the European Coal and Steel Community which today is no longer effective because states have not considered appropriate to extend the treaty since 2002. [10]

Starting from the idea that the internal market is based on the four freedoms, we considered that the work worth a foray into European paradise, is a real challenge for laymen and beyond.

To better understand what the mechanic of the freedom of movement is, which actually forms the core of the work, the emphasis is on the grand image of liberalization of the movement of goods, persons, services and capital. [11]

Through our given answers, we argued that the European Union is a free, borderless space, where freedom of movement of goods, persons, services and capital is granted

However, the liberalization of movement prone to criminal behavior and therefore measures to prevent and integration of new technologies for border control are required.

Freedom of movement offers offenders access in different EU countries so bodies such as Frontex, Europol acts as an FBI Europe.

Terrorist threats, human trafficking - organized crime – generally, are citizen safety aspects and therefore their analysis could not be avoided ..

We found that European Union is not to be confused with the Schengen area and that to Romania this became the number one target on the priority list. [3]

Although theoretically, we talk of the principle of non-discrimination, the practice challenges the values of liberty and equality of opportunity. The age, sex, qualification, are some of the requirements imposed indirectly to candidates for a job. Testimony give official documents and statistics highlighting examples of discrimination in this regard, with employers not deterred by legal sanctions.

On the list of topics are situations of unemployment, illegal labor and within the chapter on goods liberalization measures of European standardization and eco-labeling are of great interest Also, not all goods can move freely in the Union, but only those that meet the criteria set by European standards and in addition we define and specify the prohibited goods in the single market.

Restrictions on the free movement of goods, and any taxes or measures having equivalent effect to them are restricted.

Starting from the great magnitude of the phenomenon of freedom of movement, from its advantages and disadvantages, we believe that research and conclusions drawn from this study will contribute to the knowledge of field regulations both in theoretical and practical aspect.

The date of January 1st , 2007 will remain in history as the date of the accession to the EU. In connection with this last statement, however, some clarifications are necessary, Since I believe that Romania belonged to the European history, geography, traditions and culture.

Romania has been politically integrated in the new Euro-world part of the club of the most select states. [8]

It remains to be seen how the regional political and economic Europe map it will look in the near future, how it will correct cracks between large and small countries, how one can merge strong and weak states in order to reach a common goal.

We decide the answer, on the infallible land of Europe today. The question to consider is to know how to keep what Monnet proposed and we realized in the last 50 years, as the current political and economic situations require.

The EU is the successful laboratory of experiences regarding unification. We started from a collaboration between two rival countries to speak today about 27 accessions and many more in the near future.

Jean Monnet himself concluded that from an economic union, states will want to go to a political one. History has proven that union between peoples remains close only if based on common values.

The current European Union was the product of a conspiracy of elites with good intentions and results.

Basic conditions for expansion were laid down by the Treaty of Rome and later in the Treaty on European Union, Article 49: Any European State which respects the principles set out in Article 6 (1) may apply to join the European Union. Article 6 (1) provides that the Union is based on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles common to the Member States. [10]

The calendar of EU accession of each candidate country depends on the progress in the accession procedure according to the criteria defined in Copenhagen in 1993. [4]

a) stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (political criterion) .

b) a market economy and capacity to cope with competitive pressure and market forces within the single internal market (economic criterion) .

c) ability to assume the obligations of membership, in particular subscribe to the aims of political, economic and monetary policy.

Membership requires according to the European Council in Madrid -1995 - not only the adoption of the acquis communautaire, but also creating and developing legal and administrative structures necessary for the implementation of European policies. Therefore, to the Copenhagen criteria, a 4th criterion was added:

d) administrative capacity to implement the acquis communautaire.

Any citizen or EU citizen has the right to move and to reside freely within the territory of the Member States.

Freedom of movement and residence may be granted, in accordance with the Treaty establishing the European Community, to third country nationals residing legally in a Member State. (Charter of Fundamental Rights of the European Union - Article 45)

The first global consecration of the principle of free movement of persons was made by the Universal Declaration of Human Rights that states in Article 13 that everyone has the right to freedom of movement and residence within the borders of each state. In Europe this right was included in the Treaty of Rome which held abolition, as between Member States, of obstacles to the free movement of persons, services and capital.

Free movement of persons constitutes one of the fundamental freedoms guaranteed by Community law, an essential element of the internal market and European citizenship, as defined by the Single European Act. [9]

The concept of "European citizenship", introduced by the Maastricht Treaty recognized the right of free movement and residence within the EU citizens. All Member States have adopted, except Great Britain, in 1989 the Social Charter of fundamental rights of workers and have subscribed to the Social Chapter of the Maastricht Treaty, adopting the 1994 Directive on the establishment of Labour Councils in transnational firms. The chapter on free movement of persons began to be negotiated in 2002, in Brussels, at the first Conference of Accession.

3. Conclusions

The Conclusions we stopped at are few because there are some challenges in our discussion topic and themes of thought, so that I conclude with the following questions that deserve treatment in the future:

Where can I travel? Why do we need border acts? What services we can provide in the Union? May we set up a company in another European country?

I hope that this study will make a modest contribution to disseminate European law among those interested in this very important and contemporary issue.

Considering the contents recorded in the study the following recommendations are required: to clarify the meaning of concepts of freedom of movement not only through rules, but also by implementing it to the mind of citizens, developing a strategy in favor of the European citizen in the sense of bringing to their attention their Rights and freedoms in a more practical and convenient manner such as informing through the media.

It is true that treaties, conventions and many other treats and regulations govern freedoms available to European citizens, but many people who generally know them, do not know how to apply them. It is a vast range of people who either do not have access to the media or are disinterested.

I propose that theme of free movement of goods, persons, services and capital no longer be on the table of officials but to be carefully debated by citizens. And this would happen only when today's governments will facilitate access to information also in deprived areas, because in fact, the situation is worrisome. Lack of information on the other hand leads to criminal behavior. [11]

To inform the public of free movement in particular is not only sufficient but also necessary in a democratic society. "Do you want to know the European Union?" remains an invitation to all who wish to move freely in the European spirit. That is why, even for these benefits, we should thank the founders of Europe of yesterday for the Europe today.

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The Role of the Approval Procedure of Economic and Social Activities with Environmental Impact

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Abstract

Starting from the idea that it is better to prevent environmental damage than to repair the damage already caused, the state introduced the environmental impact assessment procedure of economic and social activities as the basis for their authorization and operation.

Evaluation of potential environmental consequences and, on this basis, the development of measures aimed at eliminating or reducing their allowable limits, have become compulsory for social-economic activities so that future generations can benefit from a healthy and clean environment.

Keywords: *Environmental protection, Environmental permit, Pollution*
J.E.L classification.: K32

1. Introduction

An original objective of this procedure is to contribute to, more or less effective, the public and private decision makers to integrate the environment into their strategy and avoid actions and activities that degrade the environment irreparably. [6] Therefore, the impact study has a twofold purpose corresponding to the application of two fundamental principles of environmental law:

- the principle of prevention and
- the principle of sustainable development.

To satisfy the imperative for sustainable economic development demands, imperiously, a restructuring of agriculture, energy use and industrial production according to the model of nature. Industrial processes are required to use very efficient material and energy and generate small amounts of waste. [7]

In turn agriculture will be based entirely on free services provided by ecosystems and thus give up on an almost exclusive dependence on man-made substitutes. Finally, in all systems, products and services prices should reflect the environmental costs of its provision. [12]

In order to fulfill its essential mission, public interest, public administration, its authorities should have some privileges, powers or special rights to prevale over individuals and "defeat their tendencies to ignore the laws." [13]

With that legal capacity, administrative authorities issue normative or individual administrative acts that enjoy direct execution, by default with the possibility, if necessary, to take administrative preventive, punitive, or of enforcement measures of constraint.

In a democratic state, the Administrated are able to appeal in administrative courts against the administrative acts improperly issued.

2. The role of the approval procedure of economic and social activities with environmental impact

The whole procedure of issuing regulatory acts has got an original goal that is the contribution, more or less effective of both private and public decision factors to integrate environment into their strategy in order to avoid that their work irreversibly degrade environment, in accordance with two fundamental principles, prevention and sustainable development. [9]

The Institution of their impact study expresses, in principle, the requirement that the person requesting the issuance of an administrative permit, provide an assessment

of its environmental effects of the project; it is focused on four main elements

1 - analysis of the initial state of the site and its environment (inventory of what exists) ;

2 - assessment of possible effects from the impact on site and the environment ;

3- social-economic justification

and may be supplemented by additional requirements by specific provisions of normative acts . [2]

This procedure is particularly prevalent in all countries and subject to significant administrative practice. All states have a law on the environment, that automatically integrates the EIA provisions.

Hoping to discern its purpose, the study seeks to reflect the possible issuance regime, categories, liability and settling of the administrative act issued by environmental authorities. [10]

Precisely in order to ensure sustainable development of the environment, as desired by the administrative act issued by environment agencies , Government Emergency Ordinance no.195/2005 regulates the environmental protection based on the general principles contained in its content.

In this respect, the order contains general provisions on obligations of natural and legal persons in the field of environmental protection, permits, approvals and environmental permits required for activities, system products, toxic substances and waste of any kind legal status, and sanctions for failure to comply with the law.

Environmental protection is a general obligation of all individuals and businesses that operate in Romania, according to the Constitution which enshrines "the right of everyone to a healthy and ecologically balanced environment". These are their main obligations :

a) requesting and obtaining regulatory acts, or environmental approvals, environmental agreements, environmental permits / integrated environment authorizations and abide the conditions imposed by the administrative bodies

b) ensuring their own surveillance systems of installations, processes and self-monitoring emissions and reporting to environmental authority for self-monitoring results

c) own specialized organization structures for environmental protection, for legal persons performing significant impact on the environment;

d) implementation of the measures imposed by the inspection authorities;

e) incur the cost of damages caused and elimination of the consequences they produce, according to the "polluter pays" rule.

Natural and legal persons exploring for or exploiting underground resources are required to carry out remediation of the soil, subsoil and terrestrial ecosystems that have been affected and notify the competent authorities of accidental occurrence of any events that could endanger the environment and to address these situations. [14]

Under the "polluter pays" rule, individuals or companies are held responsible for cases when pollution occurs.

Liability for environmental damage is objective. The Objective nature of the liability is determined by the fact that the polluter is held responsible whether or not there was any fault of theirs to the production of pollution.

Natural and legal persons who operate or intend to carry out an environmental impact activity are required to apply for and obtain the release of the environmental / integrated environmental authorization environmental / integrated environmental permit, according to regulations governing special procedures. [9]

Permits, authorizations, environmental agreements are acts. They are issued only if the plans, programs, projects activities to be carried out or are underway provide prevention, reduction, elimination or offset adverse environmental consequences, according to the best available techniques and legal provisions . [17]

Before starting the procedure for authorization of activities that impact the environment, for the adoption of plans and programs in the areas specifically mentioned by law, an environmental assessment aimed at "integrating the objectives and requirements of environmental protection in the preparation and adoption of certain plans and programs, taking into account the environmental report and the results of these consultations in decision making and

informing of the decision, as required by law " is required

Regulatory documents are issued by the environmental protection authorities according to differentiated procedures established by special acts, depending on the environmental impact of projects and activities subject to authorization.

Another important issue is public participation in decision-making, environmental authorities have the obligation to provide information and public participation in environmental decision-making, methods established by government decision; public consultation is mandatory for issuing regulatory acts proceedings. [1]

Regarding the enforcement regime, it is by the civil, administrative and / or criminal law, depending on the offense committed. [16]

Civilian regime covers damage caused by pollution. The damage is estimated by measurable negative effect on human health product, property, the environment as a whole and not on whether or not the fault of the operator. [14]

Injury coverage is usually through monetary compensation, in nature repairs, being, in most cases, impossible. [4]

Contravention Liability is drawn when one of the acts representing offenses, according to the ordinance is committed by the business owner

Pollution problem and therefore protecting the environment should be approached in the broader context of future economic growth model . Like any factor of production, the environment has a value and a price that must be recognized and taken into consideration as such. If the main cause of degradation of the ecosphere is related to the forms of production and consumption of the industrial type society, the solutions must be sought from economic positions, without diminishing the importance of other agents of social, moral, cultural nature and not least, the importance of resources offered by positive law. [13]

In this context come the regulations on prevention and integrated control in our country, amended by Emergency Ordinance no. 152 of 10 November 2005 concerning integrated pollution prevention and control.

The interpenetration, dependence and completion of the items in different branches of environmental law, administrative law, European law, constitutional law, civil and criminal, highlighting the complexity of the administrative act, whether normative or individual are obvious.

Given that the with the environmental protection at the moment the focus is on prevention of unwanted effects detrimental to natural and human components of the environment or the environment as a whole, the proceedings prior authorization and the obligation to conduct a study about the consequences of human actions on the environment and possible solutions to be taken to reduce or eliminate their effects, are particularly effective legal means for the achievement of immediate and long-term objectives of sustainable development. [12]

The Authorization procedure is based on the principle of precaution at the environmental decision and prevention of environmental risks and producing damage. [3]

Part of the authorization procedure, the evaluation of environmental impact is a process that identifies, describes and establishes direct and collateral, cumulative, principal and secondary effects of a project over the health of people and environment. [15]

There fore, the impact assessment procedure is a process under national environmental law that requires that public and private projects with significant environmental impact activities by their nature, size or location, undergo a process of assessing of these effects before the release of the environmental agreement. [17]

The administrative act becomes administrative regulation (environmental permit, authorization / integrated environmental permit, an environmental, etc.), It is issued by the competent authorities for environmental protection, for those interested in directly / indirectly; those it addresses to become responsible to comply with measures imposed by it, in the collaboration between the issuer and the receiver to achieve the goal "a Clean Romania".

3. Conclusions

At the end we bring out a series of de lege ferenda proposals, aimed at improving the environmental protection process in out country

1. Modifying rule 7, paragraph (l) *of O.U.G. 34/2002 on the prevention, reduction and pollution prevention and control :* although integrated environmental authorization is issued by the Regional Environmental Protection Agencies, annual reconfirmation (as OU NO. 195 of 2005) to be made by the County Environmental Protection Agencies, as they know better the conditions of the environment .

2. Setting a procedure when changing of the owner of an environmental impact activities the EO 195/2005 rules that in this case, environmental authorisation, balance environmental and compliance program are to be reexamined. Ministerial Order no. 876/2004 on approving the authorization procedure of environmental impact activities, refers to in Article 23 that the environmental permit is transferred to the new owner without incurring environmental review provided for in law.

3. Although it is intended to simplify the procedure for issuing Environmental agreements, order MAPM 860/2002 regarding the approval of the procedure of environmental impact assessment and environmental permitting, makes the procedure for issuing them to take in at best case approx. 3 months from the date of submission to the Environmental Protection Agency.

In any legal system, an important part of environmental legislation is devoted to regulating their own organizational framework of environmental protection. This legal regulation is based on the idea that the organizational system to which we refer is called to act, above all, in the public interest and for the whole society.

Thus, the state administrative bodies will work to achieve tasks set by the legal rules. This is because the protection and improvement of conditions of environment is, above all, a national problem that expresses both public and private interest.

Given these interests, the internal structure of the national organization in the field of environmental protection shall include the following elements :

- competent environmental authorities, which act primarily to satisfy the interest of the whole society, in terms of public interest
- private businesses that are potential pollutants, but also victims of pollution, thus expressing all special interests ;
- individuals already operating in their natural and artificial environment, who are the first victims of pollution but can be pollutors, thus expressing some interests.

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On the Economic Development of Romania as a Member of EU in the Frame of the Global Economic Crisis

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Abstract

Each country has its specific features and because of that, the evolutions of some indicators such as inflation, real exchange rate, current account, GDP, competitiveness, employment, and others, as well as trends determinants of real economic imbalances and improvement of divergence differs compared to other countries.

In this paper we investigate, in a retrospective analysis, how Romania reacts as a member state of the European Union on its road to European Monetary Union amid intensifying the effects of the global economic crisis, and particularly those who included euro area.

Key words: economic growth, current account deficit, export and import of goods and services, foreign direct investment, Romanian banking system
J.E.L. Code: F36, F43, G21, H62, O11

1. Introduction

Looking back the Romanian economy trends, we consider appropriate to remember the economic boom during 2003 and 2008, characterized by an average annual growth of over 6.5 per cent reaching 7 per cent in 2008. This situation combined with the Romania accession process to the EU on the 1st of January 2007, has led to an improvement in poverty reduction, its absolute level decreased from 25.1 per cent in 2003 to 13.8 per cent in 2006, and since 2007 it began to rise sharply to the level of 43.1 per cent in 2009 (*Figure 1*). A significant part of the internal absorption market boom was driven by the increased foreign direct investments (FDI) favored by low investment risk perception in Romania in the perspective of EU accession.

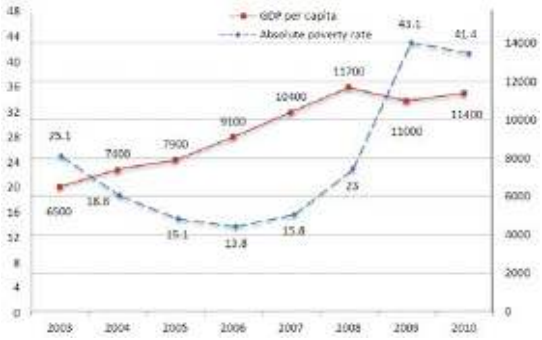


Figure 1. Economic growth and absolute poverty rate in Romania, 2003-2010
Source: *Own calculations*, using *World Bank, Eurostat and National Institute of Statistics data*

2. Current account deficit of the balance of payments trends

Strong economic growth has been accompanied by increasing current account imbalance. Since 2003, Romania has experienced a gradual increase in the current account deficit of the balance of payments (*Table 1* and *Figure 2*), which amounted to a maximum of 16,714 million euro in 2007. Widening negative balance of current account was driven mainly by the trade balance and also by the increasing scarcity of goods and services and by the income balance. Unfavorable effect of those three components on the current account was improved to some extent by the positive current transfers.

In 2008 the negative balance of the current account fell by only 1.8 per cent from the previous year and in 2009, due to significant reduction of deficits in goods and services and income, however limited by the decreasing of current transfers, we are witnesses to the lowest level since 2003, of 4,913 million euro.

Also, in 2010 Romania registered a negative balance of the current account of the balance of payments, of 5,518 million euro

and in 2011, a slightly higher one, of 5,682 million euro, situation supported by the improved trade balance due to rebound in external demand and domestic demand contraction, but limited by the reducing of the current transfers surplus. Trade deficit reduction mitigated the negative impact of Romanian workers abroad transfers on the current account in the context of deteriorating labor market in the euro area.

Table 1. The evolution of the current account deficit of the balance of payments in Romania, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Current account (net) (mil. euro)	**-3,060**	**-5,099**	**-6,888**	**-10,156**	**-16,714**	**-16,157**	**-4,913**	**-5,518**	**-5,682**
Goods and services	-3,893	-5,536	-8,155	-11,755	-17,413	-18,450	-7,165	-7,196	-7,083
Income	-1,195	-2,535	-2,326	-3,246	-4,127	-3,683	-1,902	-1,914	-2,336
Current transfers	2,028	2,972	3,593	4,845	4,826	5,976	4,154	3,592	3,737
GDP (mil. euro)	52,577	61,064	79,802	97,751	124,729	139,765	118,169	124,059	136,480
The share of current account deficit to GDP (%)	***-5.8***	***-8.4***	***-8.6***	***-10.4***	***-13.4***	***-11.6***	***-4.2***	***-4.4***	***-4.2***

Source: NBR, *Balance of payments and international investment position of Romania, Annual Reports 2004-2011*, *Eurostat available data* and *own calculations*

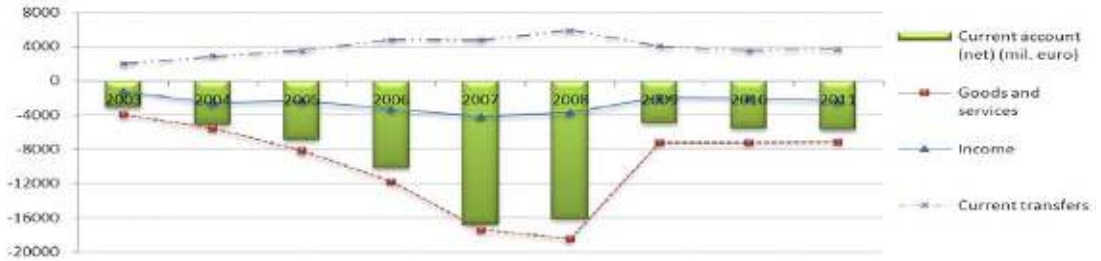


Figure 2. The evolution of the current account deficit of the balance of payments in Romania, 2003-2011

Source: *Own calculations*, using *NBR and Eurostat available data*

Although exports of goods and services in Romania have increased at a rapid pace during 2003 and 2008, domestic demand grew even faster, a situation that has pushed the current account deficit from 5.8 per cent of GDP in 2003 up to 13.4 per cent of GDP in 2008. Economic activity declined significantly since the fourth quarter of 2008. Real GDP growth raised from an average of 9 per cent (from the previous quarter) in the first three quarters of 2008 to 13 per cent in the last quarter. The decline was mainly driven by lower domestic demand and also by exports decrease.

In 2009 the sharp decline of GDP continues simultaneously with rising unemployment and sharp rise in poverty. Both import and export of goods and services decreased significantly in 2009 compared to the previous year, and later in 2010 and 2011 both indicators revert to an upward trend (*Table 2* and *Figure 3*). This has influenced the current account deficit that declined again since 2009 until present.

Table 2. The evolution of export and import of goods and services in Romania, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export of goods and services	18,284	21,883	26,401	31,553	36,547	42,532	36,170	44,043	52,332
Import of goods and services	22,215	27,372	34,512	43,297	53,874	60,757	43,310	50,466	59,358

Source: *Eurostat available data*

As a result, the share of current account deficit of balance of payments as a share of GDP of Romania in the period 2003-2011 is as follows:

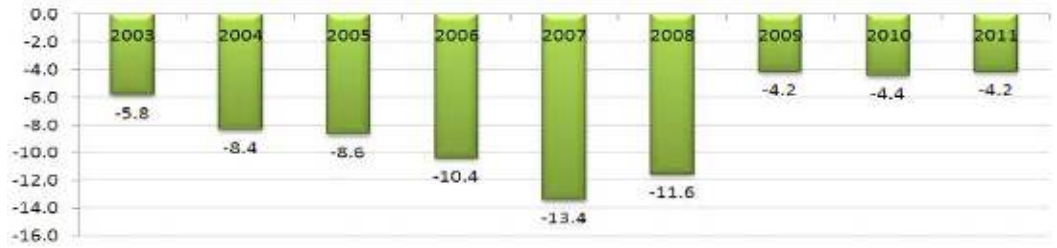


Figure 3. The evolution of the current account-to-GDP ratio in Romania, 2003-2011
Source: *Own calculations*, using *Eurostat available data*

Although significant external deficits may be partially caused by the alignment of an economy like Romania one, most of this magnitude raises questions of sustainability, especially if they persist for long periods.

A significant part of the deficit was financed by net inflows of other investments in the form of external loans of the banking and nonbanking sectors. In this context, Romania's international investment position deteriorated significantly from -24.7 per cent of GDP in 2003 to -60.5 per cent of GDP in 2011.

Table 3. The evolution of net international investment position of Romania, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net international investment position (mil. euro)	**-13,013**	**-16,454**	**-23,147**	**-36,891**	**-54,222**	**-69,006**	**-73,741**	**-77,846**	**-82,555**
GDP (mil. euro)	52,577	61,064	79,802	97,751	124,729	139,765	118,169	124,059	136,480
The share of net international investment position in GDP (%)	***-24.7***	***-27.1***	***-29.2***	***-37.7***	***-43.5***	***-49.4***	***-62.4***	***-62.7***	***-60.5***

Source: NBR, *Balance of payments and international investment position of Romania, Annual Reports 2004-2011*

Also, the net foreign direct investment recorded during 2003 and 2011 an oscillatory evolving, reaching 9,059 million euro (9.3 per cent of GDP) in 2006, the year before Romania accession to EU and in 2008 a maximum level of 9,496 million euro (6.8 per cent of GDP). Since 2008, amidst strong global and European imbalances, the trend of net FDI in Romania was a considerable reduction, as well as the share of net FDI in GDP, in 2011 their level being 1,920 million euro, about 1.4 per cent of GDP.

Table 4. The evolution of FDI flows in Romania, 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
FDI flows - total (mil. euro)	**1,946**	**5,183**	**5,213**	**9,059**	**7,250**	**9,496**	**3,488**	**2,220**	**1,920**
Variation of FDI flows over the previous year (%)	*60.6*	*166.3*	*0.6*	*73.8*	*-20.0*	*31.0*	*-63.3*	*-36.4*	*-13.5*
GDP (mil. euro)	52,577	61,064	79,802	97,751	124,729	139,765	118,169	124,059	136,480
The share of FDI flows in GDP (%)	***3.7***	***8.5***	***6.5***	***9.3***	***5.8***	***6.8***	***3.0***	***1.8***	***1.4***

Source: NBR, *Balance of payments and international investment position of Romania, Annual Reports 2004-2011*

The shock wave of the global crisis has provided certain economic imbalances and vulnerabilities increasingly large in Romanian economy, rooted in poor economic management and as a result of the unfinished agenda of governance reforms and public sector.

Overheating of internal and external imbalances was reinforced by pro-cyclical nature of fiscal policy in Romania, with no

medium-term orientation, and also by the frequent public sector wage increases combined with an increase in employment in this sector [6].

Result of fiscal consolidation efforts during 2003 and 2005 that led to a reduction in the budget deficit to 1.2 per cent of GDP in 2005, it gradually increased again and reached 9 per cent of GDP in 2009. This reflects the strong crisis of public finances and demonstrates weak link between budgetary and development planning. Public expenditure grew at a rapid pace compared to fiscal revenues whose share in GDP has gradually deteriorated after Romania joined the EU, in the frame of the global crisis, situation unaccompanied by a corresponding increase in the quantity and quality of public services.

3. The evolution of the banking system in Romania

Financial markets have been seriously affected by the global crisis and economic recession, stock market losing 65 per cent of its peak value, in august 2008. As financial market conditions worsened, fiscal deficit financing focused more on short maturities. Also the rapid deterioration of Romania macro environment created risks to financial and banking stability.

All these have brought real challenges to Romania's monetary policy relatively restrictive by raising the reserve requirement (or cash reserve ratio) by central bank (National bank of Romania) and interest rates in an attempt to alleviate inflationary pressures.

Eliminating some administrative measures to curb non-governmental credit growth led to a relaxation of credit policy, banks being encouraged to develop their own lending policies given their profile and risk strategy. Expansion of non-governmental credit to non-banking customers, amid increased income of the population and also the relative easing credit conditions, was manifested not only in 2007 but in the first half of next year, local money market situation became tense since the second half of 2008, especially in august, in the frame of U.S. problems expansion in the world economy.

Romania's financial system dominated by commercial banks played an important role in the overheating of the internal market. During 2003 and 2007, total system assets have doubled, from about 36 per cent to 74 per cent of GDP, banking sector having 83 per cent of total assets. *Dominance of foreign-owned banks in the Romanian system will increase the unfavorable situation due to further turmoil in international financial markets (Table 5).*

Table 5. Romanian banking system structure based on capital/endowment (%), 2005-2011

	dec.2005	dec.2006	dec.2007	dec.2008	dec.2009	dec.2010	dec.2011
Romanian-owned banks, which:	31.1	21.2	20.4	21.9	22.7	22.4	22.8
- *State-owned*	12.0	14.9	12.7	11.4	12.2	10.6	10.1
- *Privately-owned*	19.1	6.3	7.7	10.5	10.5	11.8	12.7
Banks with majority foreign capital	61.9	71.0	72.5	71.2	72.6	74.6	74.9
I. Commercial banks	**93.0**	**92.2**	**92.9**	**93.1**	**95.3**	**97.0**	**97.7**
II. Branches of foreign banks	**7.0**	**7.8**	**6.1**	**6.0**	**3.9**	**2.3**	**1.6**
Banks with majority private capital, including foreign bank branches	*88.0*	*85.1*	*86.3*	*87.7*	*87.0*	*89.2*	*88.7*
Banks with majority foreign capital, included foreign bank branches	*68.9*	*78.8*	*78.6*	*77.2*	*76.5*	*76.5*	*76.9*
Commercial banks and branches of foreign banks (I+II)	**100.0**	**100.0**	**99.0**	**99.1**	**99.2**	**99.3**	**99.3**
CREDITCOOP	***0.0***	***0.0***	***1.0***	***0.9***	***0.8***	***0.7***	***0.7***
TOTAL CREDIT INSTITUTIONS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *NBR*

Amid the uncertainty caused by the global crisis and risk aversion of banks, *lending to the private sector decreased in intensity, loan balance variation reaching into negative*

values, despite monetary policy measures taken by the central bank. Thus, from the second half of 2008, the lending process is restricted considerably, especially in retail, credit became less accessible and more expensive and the deposit created rate is reduced. It was, on the one hand, the Romanian banking sector response to the international financial market uncertainties at the time, leading to a limitation of funding for subsidiaries in Romania from foreign parent banks, and therefore reduce the rating of the country, and on the other hand was also due to the implementation of *new regulations imposed by the central bank on lending to individuals* [5].

Deteriorating loan portfolio quality (*Figure 4*), mainly due to economic recession and rising unemployment and to the high level of interest charged by banks, increases the vulnerability of the Romanian banking system. However, banks have sufficient own resources to cover any unexpected losses from credit risk remained uncovered by the provisions made and realization of collateral to the borrowers.

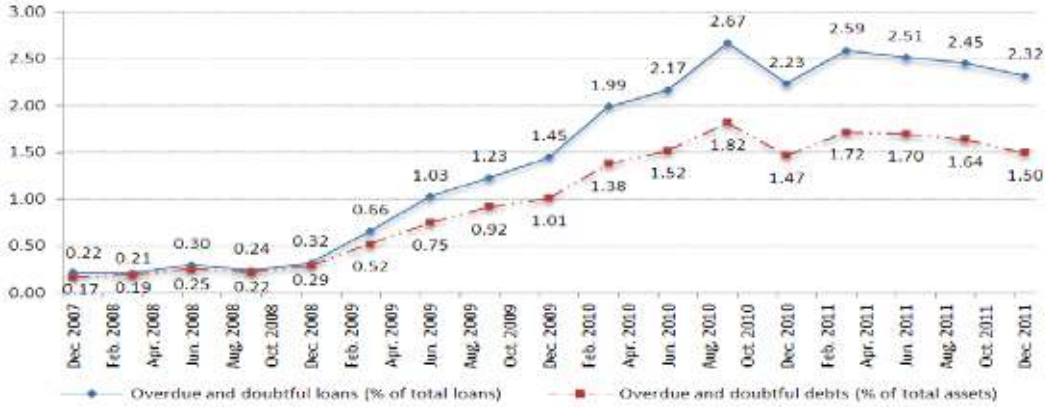


Figure 4. Overdue and doubtful loans and receivables in Romania, dec.2007-dec.2011
Source: *Own calculations,* using NBR available data

Deteriorating economic climate since 2009 strongly influenced the Romanian banking system. In the general context of the global economic crisis, manifested virulent, factors such as unemployment and uncertainties in the labor market, reduced income, restricted exports, diminishing FDIs, decrease in the market value of land and buildings, and so on, affect the performance of credit institution [3]. Romanian banking sector, "with levels of capitalization, solvency and liquidity consistent with prudential requirements" [2], absorbed the shock of crisis fairly well, but with the cost of much reduced performance, of the risk associated with particular emphasis on the dynamics and persistence of nonperforming loans, of prolonged inhibition of credit demand and of a relatively high dependence of external financing. Vienna Agreement concluded between NBR and 9 parent banks of the main credit institutions with foreign ownership in Romania, which states that they should not reduce their exposure to less than 95 per cent from baseline in March 2009, was a stabilizing factor for Romanian banking sector.

During 2010 and 2011, the Romanian economy continued to feel the effects of adverse economic and financial environment at the global level and also in the euro area. Although a number of areas which until 2008 were the engines of economic growth, such as real estate activities, financial and banking activities, imports of automobiles, metallurgy, chemical, automotive, and others, experienced declines during 2009 and 2011, there are areas such as IT, telecommunications, food and medicines, public services, and others, which were able, to some extent, to support positive economic growth at the local level [1].

4. Final remarks

Romania's macroeconomic imbalances accumulated before the onset of the global crisis and the euro area imposed certain corrections in the public sector, overlapped on the private sector ones, including the banking sector ones.

A significant role in correcting imbalances, in order to restore the public finances stability and to secure it on medium and long term, and also to stimulate public sector reform, has the financing agreement signed between Romania and the European Union, the International Monetary Fund and also other international financial institutions, signed in April 2009 and completed in Spring 2011.

Thus, efforts materialized in maintaining the current account deficit at a moderate level and reducing budget deficit have paved the resumption of economic growth since 2011.

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Migration in the EU- Between Brain Drain and Cheap Workforce Transfer

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Abstract

The migration in the European Union is an effect of the income differences between member states, but also a result of the globalization trend. Still, in the Western-European countries not all the citizens that migrate generate the brain drain phenomenon and many of them are just recognized as cheap workforce and are considered providers for jobs with the lowest level of qualifications. This paper aims to create a classification of EU-15 countries based on the level of education of the immigrants and analyse the remittances sent by Romanian immigrants. Based on data provided by OECD, Eurostat, World Bank, the paper's findings provides valuable information regarding the exchange of workforce in the EU. The main methods of refining data are Principal Component Analysis and the multiple regression. The paper's results can be considered a good start point for a wider vision over migration's social reasons in the EU.

Key words: migration, remittances, brain drain, labour market
J.E.L. classification: C01, F22, F24, J61

1. Introduction

In the European context, migration is the main source that intends to minimize the impact of the negative rate of natural increase, so even though the difference between crude rate birth and crude death birth is below 0, their population is increasing. The trend in the EU is that the Western countries, usually the members of EU before 2004 attract immigrants from the Eastern bloc, the new 12 countries that joined the EU after 2004. These countries suffer from loss of workforce and, unfortunately, there is a lack of balance between the number of people emigrating from EU-12 and the number of people immigrating in EU-12. This disequilibrium is clearly observed in the EU-12 economy and the capital invested in developing and raising the workforce to its maturity doesn't find a return on investment in the home country. Still, remittances are a way through sending countries may recuperate the financial gap created by emigrants.

2. Literature review

Migration is researched very much at the moment, being a topic of interest for many scientists, economists and countries. Given the global context facilitated by technology it is obvious why this phenomenon raises the necessity of studies. In this article, our focus is on the Western European countries which joined the European Union before 2004, namely the EU-15 versus the Eastern European countries which joined the European Union after 2004, namely the EU-12 corresponding to countries which receive immigrants versus countries which face brain drain and loss of human capital in the interior of the European Union. Our aim is to see how the high skilled and low skilled population choose the countries where to emigrate, what are the factors that determine that step and which is the impact into the country of adoption. Firstly, highly skilled migrants are defined as the number of foreign-born labour force with completed ISCED 5-6 education levels, residing in a

certain region.

Secondly, we have to mention the fact that migration generates changes in labour supply and in productivity and availability of human resources on the market. On short term, migration can lead to severe effects over the human capital of the country that provides the workers. On the medium term, migration can enhance productivity by enabling acquiring of new skills [7]. The entries in the EU 15 countries were different: asylum seekers, people form ex-colonies, illegal or unauthorised entries and, of course, Eastern European workers [8]. Migration patterns show that ¼ of the global highly skilled migrants are attracted by EU-15 countries and almost 50% of the migrants in EU 15 come from Eastern Europe, Turkey and Northern Africa. Migration is driven by many factors: income disparities, geographic proximity, and historical links [7]. According to [8] in the past 15 years, the foreign population in EU 15 has increased by 10 million people and 60% out of them are in Spain, Italy, Greece and Portugal. Regarding the relationship between native citizens and immigrants, we can outline the fact that it is tensioned by the completion on the labour market and by the concerns about the fiscal burden on public services [6].

Thirdly, [8] discuss the fact that particularly the Eastern European countries are traditionally highly educated, but still the opportunities for the immigrants coming from these countries are scant, even though there are also looked into the aspects that are relevant for the individual himself. It is also mentioned that in Spain and Italy the proportion of new immigrants who are overeducated for their jobs is much higher than in other countries and it appears there is a trade-off between the risk of unemployment and the access to highly qualified jobs. Also there is an interesting effect that may take place: if the qualified individuals do not obtain a job matching their skills, they can also compete with low qualified individuals in order to avoid unemployment. In countries like Italy and Spain, where the demand for unskilled labour is very large this is very likely to happen. On the other hand, in countries like Denmark and the Netherlands this is not so likely because the highly skilled workers can wait until there is an available position for them as the benefits are generous there [8]. Moreover, given the actual economic climate in the EU, the highly skilled workers are safer in confronting the economic crisis because of their qualification and thanks to the investments made by the employer in their training, while this is not reliable for low skilled workers. In addition, in Spain, for example, regarding the low skilled workers, we can notice a professional mobility from the areas affected by the economic crisis (e.g. constructions) to areas that are still profitable (e.g.: agriculture) [10].

Besides all these points, we have to mention the remittances. European Commission defines remittances as cross-border person-to-person payments of relatively low value. Specialists consider that migration and remittances certainly reduce the pressure on the number of workplaces available for the home workforce, generate new development opportunities and diminish poverty. At the same time, they stimulate imports and higher prices for housing for example, increasing the inequality, eventually.

3. Principal Component Analysis

First of all, we would like to check a few variables that may indicate that some of the EU-15 countries are more attractive for highly skilled workers and some for low skilled workers. Therefore, we took into consideration the Global Competitiveness Index [15] – the "Brain Drain" indicator, from the Pillar Labour Market Efficiency. Moreover, we considered the same Index for collecting the data regarding the proportion of agriculture sector in the GSP of each country. The correlation between them is 0.44, a positive correlation, showing a medium connection. So, as the brain drain ranking is growing closer to 142, the proportion of agriculture sector in the GDP is also growing. Below are the results, sorting the countries by the first indicator:

Table 1. Brain drain ranking and agriculture proportion in EU 15 countries

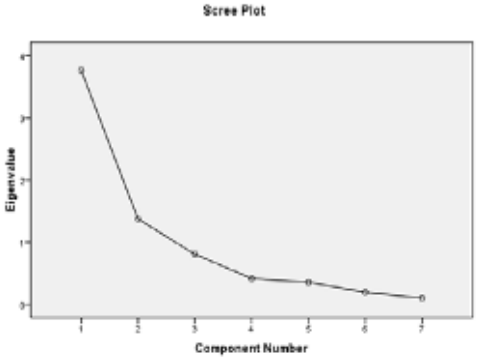
Country	Brain Drain Ranking (out of 142)	Agriculture (%GDP)
United Kingdom	4	1
Sweden	6	2
The Netherlands	11	2
Finland	13	3
Luxemburg	16	0
Belgium	17	1
Austria	27	2
Denmark	29	1
Germany	31	1
Ireland	34	1
France	43	2
Spain	54	3
Portugal	80	2
Italy	105	2
Greece	119	3

Source: World Economic Forum - Global Competitiveness Report (http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf)

Given this table, we can conclude the fact that countries like United Kingdom, Sweden, and The Netherlands will attract more highly qualified individuals, as their brain drain ranking is better and higher that the other EU15 countries. At the same time the proportion of agriculture in the GDP is quite low, which indicates a lack necessity of low qualified workforce. At the opposite pole, Spain, Portugal, Italy and Greece have a lower Brain Drain ranking and a higher proportion of agriculture in the GDP which means a higher need for low qualified individuals to work in this area. In order to validate this hypothesis we use the principal component analysis and we classify the profile of EU-15 countries after 7 variables: *average wage/person; social help in case of unemployment; employment rate* (percentage, for the population aged 15-64); *highly-skilled population* (% of population, ISCED levels 5 and 6); *GDP per capita; brain drain attractiveness* (ranking); *competitiveness level* (rank). The data is provided by EUROSTAT and Global Competitiveness Index, and refers to the year 2011.

Firstly, we registered a KMO index of 0.739, appropriate for performing a Principal Component Analysis. In the correlation matrix of the standardized variables we can notice both positive and negative correlations with some stronger than others. The Communalities table reveals the fact that 4 out of 7 are relevant for the common factors having a value over 0.782. The Scree Plot and the Total Variance Explained Table show the fact that there are only two components needed in order to explain all the variables.

Figure 1. Scree Plot



Source: Own calculations- SPSS output

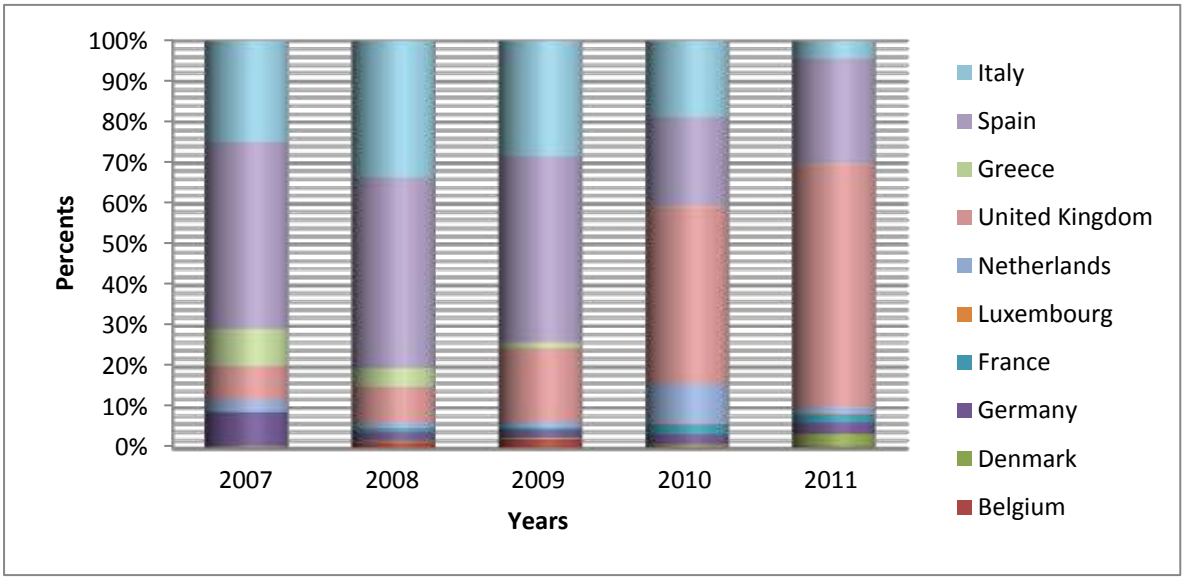
Moreover, based on the information provided by the Component Matrix, we can structure the information based on the average wage, competitiveness of the country, the brain drain rank and the percentage of highly skilled population as the first component (as they are strongly correlated with it) and the other 3 variables are to be structured in the second component as they are correlated with it. Therefore, we can name the first component as *Education and wage component* and the second component as *Economic climate of the country*. In the end, based on the cluster analysis we can classify the EU-15 countries in two main groups, considering the analysis developed: one group contains Italy, Greece, Portugal, Spain and the other group –the other countries. In conclusion, there is a polarity between these groups of countries, motivated mainly by the education and the strategy of attracting a certain type of workforce. The connection between education and competitiveness is high

because the more the population is qualified, the more competitive the country becomes.

4. Remittances from EU-15 to Romania

In the second part of the paper, we shall analyze the connection between the level of remittances (REM) sent by Romanian employees and workers living in the EU-15 countries. The following table shows the level of remittances based on Eurostat data received by Romania in the last years:

Table 2. Remittance level from EU to Romania



Source: Eurostat Database and own calculations

As we can notice from Table 2, between 2007 and 2009, Italy and Spain have been the main providers of remittances to Romania. Given the high number of Romanians living in these two countries the connection is obvious. Still, it is very important to notice the fact that since 2009, the sums of money have strongly diminished, while UK has become the leader, continuing the trend in 2011 as well. This is due to the economic crisis, the high rate of unemployment in Italy and Spain and the fact that UK, situated in the second cluster, has attracted many high skilled individuals, who earn more than the low skilled workforce in Italy and Spain. The same happens with the remittances coming from Greece, but at a lower scale. It is worth mentioning Netherlands who have reached a high scale of remittances in 2010, while the other countries have a fluctuating sum of money as remittances.

We have built an econometric model considering that the remittances depend on the medium wages in the EU-15 (WAG), the unemployment rate (UnEM), the GDP per capita for EU-15. The data is collected from Eurostat database and World Bank and the econometric model is:

$$REM= \beta 0+\beta_1*WAG+\beta_2*UnEM+\beta_3*GDP+\varepsilon$$

The set of data refers to the years 2003-2010 [13][14][16]. In addition, we consider the null hypothesis H0: remittances are not significantly influenced by the 3 other factors and do not depend on them with the contrary hypothesis H1: remittances are significantly influenced by the 3 other factors, for a confidence level of 95%.

The findings of the multiple regression model show that the dependence between the level of remittances and the 3 other factors considered is high, as the Multiple R=0.946. Moreover, 89,5% of the variation of remittances is based on these 3 factors. The model is valid as SignF=0.019< 0.05. So, we shall accept the hypothesis H1, with a probability of 95%.

As expected, the connection between

REM and the level of WAGES is positive, as when the wages are higher, the level of remittance is higher. Given that the high-skilled immigrants have better wages and the lower skilled are opposite, we can conclude the fact that the higher skilled immigrants send back to Romania a larger sum of money.

Moreover, the correlation between REM (the level of remittances) and the unemployment rate is negative. We can add the fact that the unemployment rate for the high-skilled professionals is lower than the one for low- skilled therefore, given all these information, the qualified individuals have a better remittance rate than the under qualified. Last, but not least, the connection between the remittances and the GDP per capita variation in the EU-15 countries is positively correlated to the variation of remittances. So, they vary in the same way.

Except from the model presented, our paper wanted to see if we can find a connection between the clusters we previously analyzed and the level of remittances send from that certain clusters or countries. The econometric model was the same and the period considered was 2007-2011, because of lack of previous data. Still, countries like Austria, Finland, Sweden and Portugal have had brakes in time series and data unavailable regarding the remittance sent to Romania, therefore it was impossible to consider working in the two clusters that emerged at paragraph 3. We have also tried to work only with a few countries from each cluster, but even though the correlation was strong, the model had a p-value that was not small enough to validate the alternate hypothesis.

5. Conclusions

In this paper, the authors have tried to indicate the way the EU-15 countries divide into countries that attract high skilled individuals versus low skilled individuals. Moreover, we analyzed the connection between the sums of money as remittances sent home by Romanian citizens living in the EU-15 countries. On the one hand, the international debate over the impact of remittances over the receiving countries is very vast and it is obvious that they contribute to the development of that certain countries. On the other hand, the EU-15 countries progress with the important contribution of high skilled professionals that immigrate in search for a better life. So the difference between the sums of money invested by the Eastern European countries in teaching that workforce and the remittance they receive may not be so large. Some of the countries, namely Greece, Italy, Spain and Portugal rely on low skilled immigrants, but given their country profile, this type of immigrants are suitable for enabling their advancement in agriculture and constructions, for example. All in all, it is important for the Eastern European countries, namely the EU-12, to continue to develop, to increase their economies and to provide for their workforce a suitable environment so that they remain in their home country. At the same time, the globalization trend will enable the migration to continue whatsoever and so, the remittances will continue to be a subject for research and debate.

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FDI Impact on CEECs Development under the EU Integration

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Abstract

The EU integration has had a strong impact on the degree of attractiveness for the countries situated in the Central and Eastern Europe (CEE). Foreign direct investments (FDI) are widely recognized as major catalysts of economic growth. This paper aims to emphasize the favorable impact of EU integration the former transition economies (Romania, Bulgaria, Czech Republic, Hungary and Poland) through the dynamic analysis of the macroeconomic indicators. Using a Granger causality test, the article will highlight, in the case of Romania, the existence of a strong a pozitive correlation between FDI, trade and GDP growth. Further analysis will be expanded by including in the sample both developing and developed countries. The results will allow us to draw important conclusions regarding the role of foreign investments.

Key words: FDI, integration, economic growth, Granger Causality
J.E.L Classification: F15, F21, F43

1. Introduction

The process of economic integration in the EU has determined major transformations for the CEECs. These countries have passed through significant changes and structural transformations from a centrally planned economy to a free market economic system.

The national business environment and the macroeconomic policies implemented by these economies have had a strong influence during the transition period. In consequence, some of the CEECs started ealier the transition process and involved less changes in their internal economic system, basically due their sound and stable politic environment.

The integration in the global EU market generates important advantages for these economies: access to other international markets, development of the internal economy through a significant increase of the volume of FDI and trade, internationalization of production.

EU integration involves, in the meantime, the enhancement of degree of market openness, using as fundamental channel the foreign flows, both economic and commercial. On the other side, the increase of the interdependencies among european economies highlighted the necessity of sound macroeconomic policies which ensure the protection of their economies in front of the worldwide turbulences and imbalances, like in the case of the current economic and financial crisis.

The present paper is structured in the following sections: the second part of the paper will present theoretically the most important determinants of foreign investments in the selected economies, the third is dedicated to the major challenges these economies have gone through before and after the EU integration, meanwhile the last sections of the article will focuss on the econometric model and the discussion of its results. The last two sections of the paper are dedicated to the conclusions and the relevant references for the paper.

2. Determinants of foreign investements in CEECs – literature review

The theoretical and empirical literature has focussed intensively on the analysis of the major determinants of foreign direct investments. Reference [18] has provided one of the first classifications of the determinants of FDI based on its own perspective, in exogenous and endogenous.

The endogeneous factors of FDI inflows are related to the macroeconomic environment stability, based on appropriate economic and financial politics which ensure

the suveillance and reglementation of the business environment by policy makers and the corresponding institutions.

During the transition period for CEECs and before the integration into EU market, the policy makers highlighted the necessecity of the transparency of the internal business environment. The absence of the transparency is often associated with an economic and politic framework characterized by a high level of corruption, instability and vulnerability to their economy. This represents one of the major reasons why Czech Republic, Hungary and Poland accessed the EU market before Romania and Bulgaria, the business and economic decissions stimulated the decrease of the corruption and enhanced the development of their economies. In these countries, foreign commercial (trade) and financial flows (FDI) recorded a strong increased, exerting a positive contribution to their development.

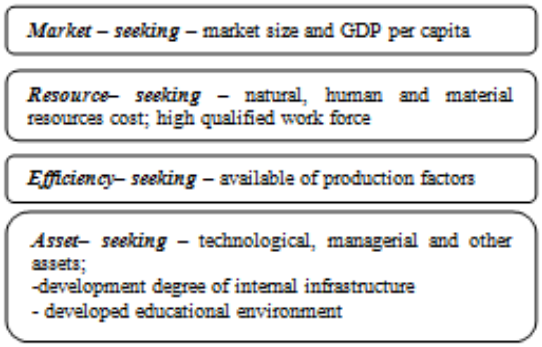
However, Romania and Bulgaria are trying to make progresses regarding the corruption system and to addopt and implement policies and strategies which will stimulate the increase of the attracted volume of FDI and trade, by offering to foreign investors comparative advantages by contrast to other markets.

The exogenous determinants of FDI are strongly related to the competition in the national market and to the authorities capacity to provide superior investment opportunities for multinationals. Reference [7] concentrated his attention on the macroeconomic and politics aspects of the beneficiary country, as key factors in the establishment of the investment decisions.

If we consider the aspects they are related to, FDI determinants can be classified into policy related factors and the gravity factors ([6]), emphasizing the importance of the regulations and laws in the labour market, employment and financial markets efficiency, in concondance with the impact of EU integration on the national economy.

The theoretical literature on the determinants of FDI allows us to present them by type of FDI as in the figure below.

Figure 1. FDI determinants by type of investment inflows



Source: made by author based on the relevant literature ([7],[1], [17])

A specific determinant for former soviet countries from Central and Eastern Europe is the privatization process of the enterprises owned by the state through the participation of strategic investors, whose acquisitions represented a significant share of the inflows of FDI in theses economies [16].This process has had a strong impact on the degree of attractiveness of CEECs for foreign investments, stimulating the economic growth by directing these flows to the economic sectors which provide the business environment to obtain higher economic growth rates.

One of the most important determinants of FDI attractiveness in this region is represented by their location (geographical proximity to the Western markets – [12]). Along with this, can be added other economic determinants like low corporate tax rates, low wages and acces to EU subsidies.

Hungary, Czech Republic and Poland were part of the first wave of EU candidate countries, due to the fact that they have achived macroeconomic stabilization and carried out economic reforms the most advanced. In CEECs, the acquisitions represented an important share in the total volume of FDI. From time to time, investment incentives have been introduced, sometimes they still seem to retain their attractiveness for individual countries compeeting for FDI. By contrast, Romania and Bulgaria suffered many years from policy immobility and periodic economic crises. However, the transformation in their policy structure has stimulated their acceptance in the second wave of candidate countries [8].

Reference [13] have shown that FDI projects in CEEC are very heterogenous, presenting different characteristics in terms

of magnitude, objectives, technology, geographical location, ownership and control structures.

Reference [1] implemented one of the most important empirical analysis of the determinants FDI in CEECs, using a gravity model, based on data for FDI from 18 market economies and 11 transition countries. They showed that FDI is highly influenced by the host country risk, size, labor costs and distance. Other authors studied the major determinants of FDI over the period 1993 – 1999, emphasizing the positive correlation between GDP per capita and trade openness of host country, among the latter and FDI inflows [9].

Regarding the determinants of FDI flows in CEECs, many authors have focussed on the institutional aspects during the transition period: infrastructure changes, legal and business environment, political risk.

On the other hand, the major importance of the economic indicators – market size, productivity, labor market, macroeconomic stability and trade openness cannot be neglected and have benefited of intensive attention from the researchers ([17]; [4]; [3]; [2]).

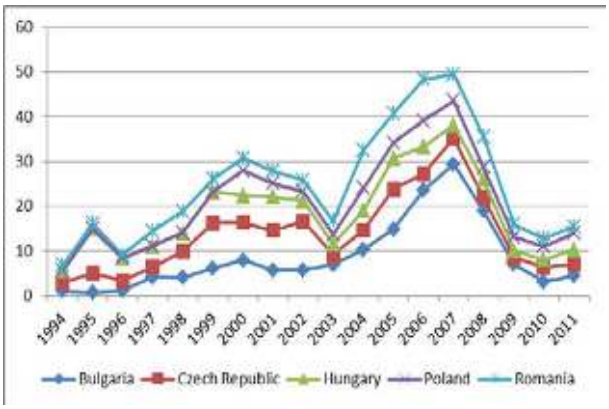
Their analysis emphasized particularly the importance of the market variables and concentrated on providing an index which includes characteristics for the transition period [17].

However, other economists like [4] developed their analysis by revealing the fact that investors are cautios when they decide to invest in the transition economy, taking into consideration the level of the political risk (corruption, stability of institutions, bureaucracy).

4. Major transformations in CEECs along with the EU integration

CEECs have been appreciated for a long time as a promising destination for the foreign capital, especially after the transition period to the market economy when these economies started to attract increased numbers of FDI inflows ([10], [15]).

Figure 2. Dynamic of FDI in CEECs during 1994 - 2011



Source: made by author based on data from World Bank Database (http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD/countries/1W?display=graph)

The dynamic of the FDI inflows in CEECs emphasizes an ascending trend during the past twenty years, transforming the foreign capital inflows during the transition period. Foreign direct investment have become one of the most important factors in the restructuring and privatization of their economies. FDI inflows registered a positive evolution in periods before and after the EU integration.

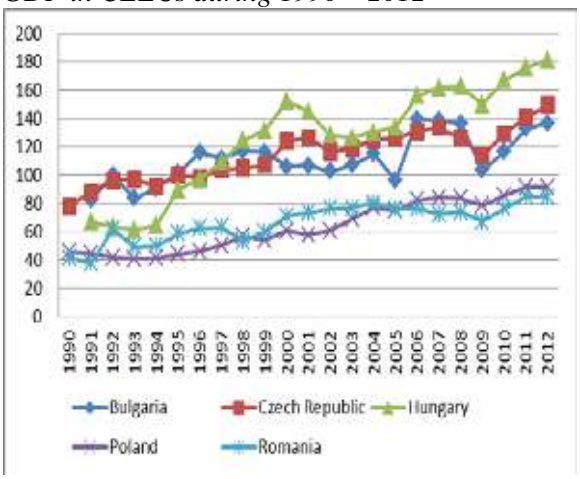
The EU integration of CEECs stimulated the development of the economy and increased the oportunities for them to achieve higher economic growth rates. EU integration implies the abolition of trade barriers and financial flows, of market entry, creating according both static and dynamic effects.

The static externalities generated by the economic integration are reflected in trade creation, as a result of free movements of goods among the member states and trade diversion, due to the involvement of other countries in the commercial relationships. On the other side, the dynamic effects are reflected in an ascending trend of the competition which will stimulate the efficient allocation of the resources. In the same time, these effects are emphazised by enlarged markets with important beneficiaries and investors who stimulate the development of the national economy through adopting and implementing equipments and techologies developed by innovations. These changes in the internal structure led the business environment to higher productivity rates and faster growth [5].

The integration into the european structures is reflected in CEECs by the free

movement of capitals – human, commercial and financial. These will led their economies to trade liberalisation between EU and CEEC, stimulating the increase of international volume of exports and imports.

Figure 3. Evolution of the share of trade in GDP in CEECs during 1990 – 2012



Source: made by author based on UNECE Database (http://w3.unece.org/pxweb/dialog/Saveshow.asp?lang=1)

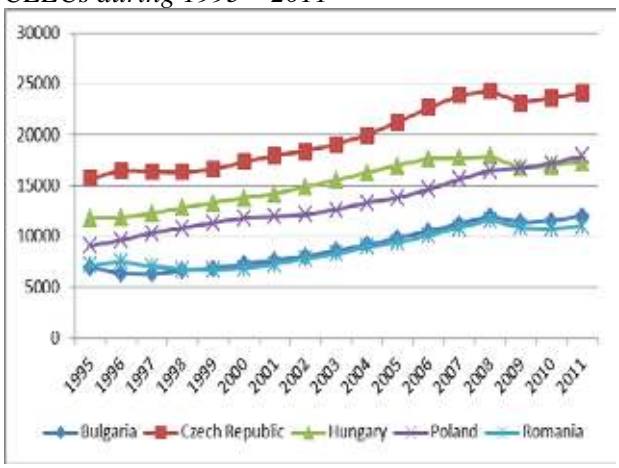
The afirmation that the EU integration generates free movements of capitals and flows, both financial and commercial is confirmed by the figure above. Since the beginning of the transition period to market economies and over the last two decades, trade recorded an increasing share in the total volume of GDP, stimulated by adopting and implementing sound and stable macroeconomic policies.

The positive implications of the EU integration of the CEECs considering FDI can be reflected in the transparency in the legal field, since these economies addopted the EU aquis communautaire. The national legal environment will be characterized by the sound and stable economic and political environment, stimulating the development of the business area and creating the appropriate conditions for foreign investors to expand their activites ([14], [15]).

During the last decades, the CEEC have know an ascending trend for FDI. At the beginning, the volume of FDI attracted was small because these countries have a week institutional framework, the economic and political environment was unstable and the internal financial and political system was not able to guarantee an active role of the authorities in guiding their economies.

The attraction of an increased volume of FDI has become one of the main objectives of national policy, the policy makers focussig on liberalizing their economies. FDI are widely recognized for their positive externalities generated in the economy, stimulating the economies to make improvements in the political stability, reflected both in higher volume of foreign flows and superior economic growth rates.

Figure 4. Dynamic of the GDP per capita in CEECs during 1995 – 2011



Source: made by author. based on UNECE Database (http://w3.unece.org/pxweb/dialog/Saveshow.asp)

GDP per capita is one of the most important indicators and has had a strong ascending trend during the transition period to market economies and accelerated under the influence of the integration into the european single market.

5. The methodology

The process of EU integration has lead in most of the european countries to their development, through foreign financial and commercial inflows. As we saw above, the selected countries have known a positive evolution regarding the dynamic of trade share in GDP and the FDI inflows.

In this paper, we carried out a Granger causality analysis, through which we aim to emphasize the existence of bidirectional or unidirectional correlation between the variables selected. The economic and

financial implications of the european integration is usually appreciated through free movements of financial and human capital, of people. We have selected variables regarding the labor market, trade and FDI for Romania, over the period 1995 – 2011, due the availability of the data from the World Bank database and UNECE statistical database:

- FDI inflows (millions USD);
- Trade share in GDP (%);
- GDP growth (%);
- Total employment (million persons).

6. Results and discussion

Granger causality test involves the stationarity of the selected variables.

The first step of the analysis carried out in this paper will be the determination of level of integration for the variables included in the analysis. For this purpose we used the Augmented Dickey – Fuller test and obtained the following levels of integration:

Tabel 1. Augmented - Dickey Fuller test results

Indicator	Level	First/ Second difference
FDI	-1.552904	-4.096155
Employment_ total	-2.015291	-3.095400/ -6.204117
GDP growth	-2.844075	-5.505772
Trade share in GDP	-1.244459	-3.428093/ -5.533140

Note: significant variables at 5 % level

The results of the ADF test show that FDI inflows and the GDP growth rate are stationary at level. Granger causality test will be implemented after we make all the other variables stationary.

The results obtained after carrying out the Granger causality test highlight the existence of a strong unidirectional causality between trade and GDP growth and the strong impact FDI have on the trade share in GDP. On the other side, the empirical analysis has revealed an unidirectional correlation between GDP growth and trade. The EU integration determined strong correlations between the european economies involved, based on the expansion of the commercial and financial relationships.

The application of the Granger causality test has led us to the bellow results:

Table 2. Granger causality test results

Null hypothesis	F – statistic	Prob.
Trade does not Granger Cause GDP growth	1.63713	0.2777
GDP growth does not Granger Cause trade	6.87572	0.0228
FDI does not Granger Cause GDP growth	1.86093	0.2370
GDP growth does not Granger CauseFDI	0.52551	0.6807
Employment_total does not Granger Cause GDP growth	0.13619	0.9342
GDP does not Granger Cause employment_total	1.58454	0.3041
FDI does not Granger Cause trade	7.71902	0.0175
Trade does not Granger Cause FDI	0.04966	0.9840
Employment_total does not Granger Cause trade	1.42882	0.3385
Trade does not Granger Cause employment_total	1.33834	0.3610
Employment_total does not Granger Cause FDI	0.07364	0.9716
FDI does not Granger Cause employment_total	0.45821	0.7234

According to the analysis we have made, in Romania, foreign capital inflows determine a strong and positive impact on the share of trade in GDP. FDI inflows and the expansion of the activities of multinationals stimulate the development of their businesses and their economies, exerting a positive contribution on the dynamic of the national trade, through the increase o the interdependencies between international markets.

Granger Causality results showed the completely absence of any type of direct connection between FDI and employment, trade and employment, GDP growth and employment.

7. Conclusion

The economic theory sustaines that EU integration stimulates the development of the countries part of the european community. The analysis implemented in the current paper has showed, that the european integration process generates an ascending trend of foreign financial and commercial flows, along with the favorable dynamic of the GDP per capita in the selected countries.

Granger Causality study has emphasized the fact that FDI inflows generates a strong and significant impact on the trade share in GDP. In the same time, the increased volume of the national trade enhaces the progress of the internal economy, reflected into the GDP growth rate. Based on the results, we can sustain the indirect relationship between GDP growth, FDI and trade.

Foreign financial and commercial capital inflows supported the Romanian economy through the transition period and in its transformation into a market economy. However, these foreign inflows helped the national economy to develop and to expand its interrelationships with the global market.

Further analysis will be implemented by including in the sample more CEECs using other advanced econometric techniques or making a comparative analysis between developed and emergent economies.

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Analysis of the Degree of Absorption of EU Funds, 2007-2013

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Abstract

European funds have not made enough progress, the sustainable absorption being thus a challenge, the absorption rates being very low with real problems in the implementation of approved projects. The internal absorption rate at the end of 2012 was 16.23% and the external absorption rate (money received the European Commission in Romania) of 6.3%.

Keywords: funds, budget, programs, absorption, payments.
J.E.L. Code.: C13, C15, F36

1. Introduction

For the period 2007-2013 there were three financial instruments known as Structural Funds including:

- The European Regional Development Fund (ERDF): support for SMEs, transport, environment, energy, education, health, tourism, research and development, territorial cooperation - aims at removing regional disparities on the principle of sustainable development.
- European Social Fund (ESF): aims to achieve the strategic objectives of employment in education and training, adaptability of workers and enterprises, social inclusion, increasing administrative efficiency.
- Cohesion Fund (CF): large infrastructure of transport and environment.

Regionalization is a solution to reducing development disparities while ensuring facilitating a better absorption of EU funds, it involves determining the number, profile, surfaces and residences of development regions.

Every seven years regional policy is reviewed by the EU institutions. Theories, concepts, models used, field specialists, procedures, participants, involved agencies, authorities, the degree of involvement in promoting programs, insufficient access to funds have created confusions leading to a decreased level regarding absorption of structural funds. Through accomplished studies, through reports, statistics, samples, case studies, questionnaires, the conclusion was - low absorption in terms of attracting structural funds in Romania.

2. European funds

The central objective of the European Union - economic and social cohesion can be achieved through Structural Funds - under the influence of continuous changes.

The European Social Fund (FSE) – is the main instrument of the European Union through which is aimed to attain the occupation strategic objectives.

European Regional Development Fund (FEDR), aims at eliminating regional disparities and is materialized in financing productive investments, infrastructure on the principle of durable development.

Specific operational programs [3]

1. Sectorial Operational Program The Increase of Economic Competitiveness (POS CCE) aims to increase companies' productivity through modernization and innovation support for existing companies and by creating new ones.

2. Regional Operational Program (POR) supports, social, territorially balanced and durable development of Romania's regions.

3. Sectorial Operational Program Human Resources Development (POS DRU) aims to develop human capital and increasing competitivity, by linking education and lifelong learning with the labor market and ensuring increased opportunities for future participation on a modern, flexible labor market.

4. Sectorial Operational Program Environment Infrastructure seeks to improve the living standards and the environment, focusing on compliance with EU environmental legislation.

5. Sectorial Operational Program Transport Infrastructure (POS T) is targeting a developed infrastructure, modern and sustainable, able to facilitate safe and efficient movement of people and goods at national and European level and to contribute positively and significantly to Romania's economic development.

6. Technical Assistance Operational Program (PO AT) supports coordination and implementation of regional funds in Romania, guarantees a reliable management and monitoring system and provides the transmission of general messaging referring to structural instruments designed to ensure the implementation of Structural Instruments in Romania.

7. Development of Administrative Capacity Operational Program (PO DCA) was designed to contribute significantly to the implementation of the thematic priority "Building an efficient administrative capacity", to address horizontal management issues at all levels of public administration, to improve the decentralization process of service delivery in certain priority sectors, improving the quality and efficiency of service delivery.

8. The National Program for Rural Development (PNDR) represents a platform for economic diversification of rural communities. Breeding animals and forestry remain crucial factors for land use and the management of natural resources in rural areas of the EU.

9. Fishing Operational Program – The European Fishing Fund is the financial instrument for the fishing sector of public financial assistance participating in the financing of projects undertaken by companies, by public authorities and organizations in all economic activities that are part of the fishing sector: catching, ports, growth, processing, marketing, heritage etc.

3. The situation of projects and payments performed during 2007 - December 31st, 2012

The measured absorption is the external one, meaning the sum of payment requests submitted by Romania to the European Commission.

Statistical units are operational programs and the variables used in the analysis of correlation are: allocated budget (mil lei), submitted projects, approved projects, contracted projects and payments to beneficiaries (mil lei).

Tabel 1Proiecte şi Programe

Progr	Buget alocat (mil lei)	Proiect depuse	Proiect aproba	Contr	Plăţi (mil lei)	Grad abs
POS T	20631	154	93	87	1884.76	9.14
POS Mediu	20391	634	363	346	4041.26	19.82
POR	16836	8221	3690	3319	6490.57	38.55
POS DRU	15707	10375	3061	2449	5485.53	34.92
POS CCE	11541	15184	3664	2499	2692.83	23.33
PO DCA	940	1371	420	416	232.45	24.73
PO AT	769	130	114	106	144.96	18.85
TOT	**86815**	**36069**	**11405**	**9222**	**20972.36**	**24.16**

Source: http://www.fonduri-ue.ro/

The methodology used is principal component analysis and the objective of this study is to analyze the correlation between the allocated budget (mil lei), submitted projects, approved projects, projects contracted and payments to beneficiaries (mil lei) on operational programs for 2007-2013.

3.1. Correlation Matrix

Modul de realizare a analizei componenetelor şi rezultatele s-au obţinut utilizând programul SPSS, prin introducerea şi prelucrarea datelor, obţinându-se următoarele rezultate: The way of achieving the components analysis and results were obtained using SPSS software through data entry and processing, yielding the following results:

Tabel 2 Correlation Matrix[a]

		Buget_ alocat	Proiecte _depuse	Proiecte _aprob	Proiecte_ contract	Plati_ben eficiari
Correlation	Buget alocat	1,000	,151	,236	,259	,702
	Proiected	,151	1,000	**,941**	,872	,513
	Proiecte aprob	,236	**,941**	1,000	**,986**	,706
	Proiecte contract	,259	,872	**,986**	1,000	,770
	Plati benef	,702	,513	,706	,770	1,000

a. Determinant = 6.72E-006

Source: Author

The correlation matrix provides information on the 'strength' of the relationship between variables. From the analysis of the correlation matrix is noted that the strongest connection, 0986 is between the variable of approved projects and that of contracted projects, followed by the strong correlation of 0.941 between projects submitted and approved projects. From the analysis of the correlation matrix we deduce the fact that in order to characterize the initial data we need about three artificial variables. Total information content of the original data, which is actually the generalized variance calculated as determinant of covariance matrix is 6.72-006.

3.2. KMO (Kaiser-Meyer-Olkin)

Tabel 3 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,482
Bartlett's Test of Sphericity	Approx. Chi-Square	41,688
	df	10
	Sig.	,000

Source: Author

Since Sig value = 0 <than 0.05, rejects the H0 hypothesis and accepts the H1 hypothesis (variables are dependent). Thus there is a probability of 0.95 to be statistically significant links between statistical variables considered. Calculation of KMO statistics very close to 0.5 shows that between statistical variables are relatively weak connections, the principal components analysis can still be applied.

3.3. Communalities Chart

Tabel 4 Communalities

	Initial	Extraction
Buget_alocat	1,000	,942
Proiecte_depuse	1,000	,911
Proiecte_aprobate	1,000	,998
Proiecte_contractate	1,000	,972
Plati_beneficiari	1,000	,918

Extraction Method: Principal Component Analysis.

Source: Author

Initial commonality is 1 being calculated before downsizing. From this chart it appears the fact that all major variables used contribute to explain artificial variables subsequently obtained with a quantity of information recovered by over 40%, as shown in column Extraction.

From its analysis it can be observed that variable 3 has a major contribution to explaining the artificial variables obtained subsequently. The amount of information recovered from this variable is of 0.998, followed closely by the 4th variable which recovers 0.972 of the information as evidenced by the extraction column in the chart above.

3.4. Total Variance Explained

It is noted that in order to recover the largest possible amount of information from the initial data we need two main components. These correspond to the largest own values, own values above 1, and the corresponding own values represent the corresponding variances of the two components retained. The two own values retained, with values above 1, are to be found in the Initial own values column and are, in descending order, 3,581 and 1,160.

Using two main components, the total amount of information recovered is 94.829% of the initial information, as shown in the Cumulative% column. Of the two main components, the first covers 71.62% of the final version, the second component 23.21%. For the given example, the first factorial axis explains 3.581 / 5 = 71.620% of the total variance of the cloud of points. The first two factorial axes together explain 94.829% of the total variance. Since in this example there are two factorial axes that match the chosen criterion with $\lambda > 2$, we are going to choose the axis 1 and 2 for the interpretation of the ACP.

Tabel 5 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,581	71,620	71,620	3,581	71,620	71,620
2	1,160	23,210	94,829	1,160	23,210	94,829
3	,230	4,606	99,435			

4	,028	,560	99,995			
5	,000	,005	100,000			

Extraction Method: Principal Component Analysis.

Source: Author

Coordonatele variabilelor pe primele două axe factoriale

Tabel 6 Component Matrix[a]

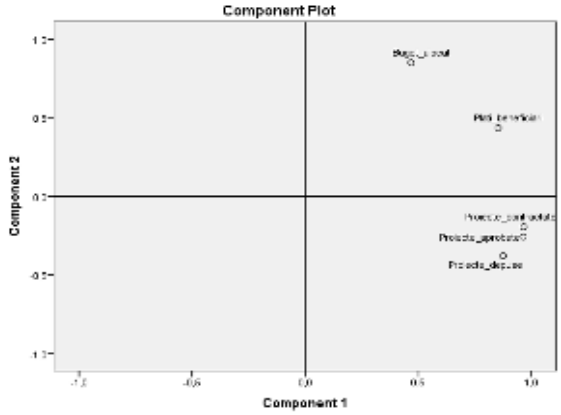
	Component	
	1	2
Buget_alocat	,469	,850
Pr depuse	,876	-,380
Pr aprobate	,965	-,259
Pr contractate	,966	-,194
Plati benefic	,854	,435

Extraction Method: Principal Component Analysis.
2 components extracted.

Source: Author

The values in the chart above show the position of variables on factorial axis. Variables "Submitted projects", "Approved projects" and "Contracted projects" have positive coordinates on the first factorial axis and a negative coordinate on the second factorial axis. Variables "Allocated budget" and " Beneficiaries payments" have positive coordinates on both factorial axes.

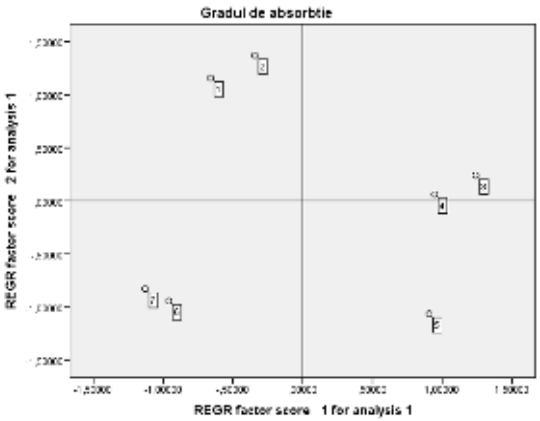
Tabel 7



Source: Author

The first factorial axis shows a positive correlation between all variables: allocated budget, submitted projects, approved projects, contracted projects, payments to beneficiaries. We do not have negative correlations. For the second factorial axis, it is shown that there is a strong link between the beneficiaries payment variables, contracted projects, approved projects. The allocated budget variable is poorly correlated both with the first factorial axis and at the second factorial axis.

Tabel 8



Source: Author

The position of the operational programs on the two factorial axes and the correlation of these results with the position of statistical variables allows the enunciation of the following conclusions:

The first factorial axis shows a differentiation of programs in terms of projects, POS, POR (3), on the one hand, and PO AT (7), on the other hand. The biggest differences between the programs in terms of the variables analyzed are highlighted by this factorial axis. Principal components analysis revealed the large differences that exist between operational programs in terms of projects submitted. The biggest differences can be found in allocated budget and the number of submitted projects. We have differences on the statistical units between POR, POS, and the other programs namely POS T, POS Environment and PO AT.

The second factorial axis shows POS Transport and POS Environment programs, which are characterized by low levels of projects submitted unlike the following: POS CCE and POD CA.

3.5. Descriptive Statistics

The descriptive Statistics chart contains information about each variable analyzed independently. From the chart we find out that the variable for the allocated budget is of 12402.1429 where we can conclude that even though we analyze the operational programs from a accessing point of view, the allocated budget is on average quite high. The average value of projects submitted is 5152.7143, 1629.2857 is that of approved projects, projects contracted with an average of 1317,

4286 and beneficiaries payments an average of 2996.0514.

Tabel 9 Descriptive Statistics

	Mean	Std. Deviation	N
Buget_alocat	12402,1429	8461,37693	7
Proiecte_depuse	5152,7143	6086,16304	7
Proiecte_aprobate	1629,2857	1739,66124	7
Proiecte_contractate	1317,4286	1379,65054	7
Plati_beneficiari	2996,0514	2469,64072	7

Source: Author

4. Conclusions

The low level of the absorption capacity of EU funds could be due to the following problems: poor information on the level of economic actors, poor management, corruption, bureaucracy, changes in documentation, of data submission on the way, "Failures to the Guidelines for Applicants ", lack of a motivation system of involved personnel in the structural funds, lack of standardized documents and procedures for the various management authorities, public procurement and project appraisal with long periods of evaluation, leading to delays. [1]

Some solutions for increasing the absorption of structural funds could be: stimulating and motivating competent experts, outsourcing evaluation and monitoring of projects, compliance and shortening the duration of the project evaluation, verification of claims for reimbursement, monitoring and controlling of projects by state institutions , simplification, standardization and transparency of procedures and regulations in various programs, speeding and use of technical assistance provisions of the Guidelines for Applicants and correlation with existing situations, publishing guidelines and annexes at least one month before launching calls for proposals, achieving consistent analysis cost-benefit for all funding programs, expanding the range of eligible expenses, identifying and unlocking the amounts allocated to unfeasible projects. [2]

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Gross Domestic Product and the Investment percent in Romania and in the European Union

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Abstract

The paper presents the evolution of two of the most important indicators for economic development.

The indicators took into consideration in this research refers to Gross Domestic Product(GDP) and the investment by institutional sector in percent of Gross Domestic Product.

The analyze was made also for Romania and for the European Union 27 countries during a period of five years, meaning from 2007 to 2011, information available on Eurostat.

There were used statistical methods to analyze those two major indicators and the data were taken from the european site of statistics Eurostat.

At the end of the paper it was presentedsome conclusions and also a point of view for the last period of 2012 from eurostat newsreales, euro indicators, published in march 2013.

Key words: Gross Domestic Product, investment, development
J.E.L.classification: F36

1. Introduction

The economic development is strictly link with the investments fond allocated for this. Investments represents the most important aspect that should take into consideration by governments in order to obtain a real development in all sectors, economic, social, education, health, and so on [3].

Allocating funds for investments is a very important problem and it must be a priority for governments in order to ensure the economic growth of their countries.

Thus the paper takes into consideration analyses of Gross Domestic Product per person (GDP/person)

The analyze was made in evolution for five years between 2007 and 2011 and refers also for the situation in Romania and in the European Union.

It was also analyze Investment by institutional sector --%- of Gross Domestic Product, also in its evolution in those years took into consideration and also in comparison Romania and the European Union.

The two indicators analyzed in the paper are defined at the European Union level as in follows [2]:

GDP (gross domestic product) is an indicator for a nation´s economic situation. It reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production.Expressing GDP in PPS (purchasing power standards) eliminates differences in price levels between countries, and calculations on a per head basis allows for the comparison of economies significantly different in absolute size.Investment by institutional sector in % of Gross Domestic Product indicator shows the investment for the total economy, government, business as well as household sectors.

The other indicator took into consideration, investment by institutional sector in percent of Gross Domestic Product, gives the share of GDP that is used for gross investment (rather than being used for e.g. consumption or exports). It is defined as gross fixed capital formation (GFCF) expressed as a percentage of GDP for the government, business and households sectors. GFCF consists of resident producers' acquisitions, less disposals of fixed assets plus certain additions to the value of non-

produced assets realised by productive activity, such as improvements to land. Fixed assets comprise, for example, dwellings, other buildings and structures (roads, bridges etc.), machinery and equipment, but also intangible assets such as computer software.

2. Analyses

The GDP/person in Romania and in the European Union evolution is presented in Table 1 [1]:

Table1: The GDP/person in Romania and in the European Union evolution

	2007	2008	2009	2010	2011
Romania	25000	25000	23500	24500	25100
EU-27 countries	5800	6500	5500	5800	7184

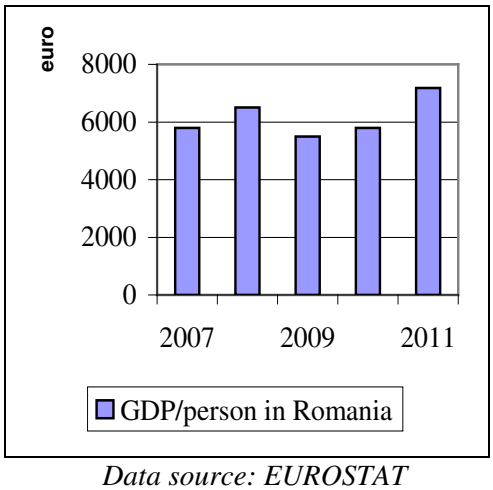
Data source: EUROSTAT

The GDP/person in Romania increase in 2008 comparison with the previous year 2007, from 5800 Euro to 6500 euro per person, meaning with 12,07%.

In the next year was registered a decrease with 1000 euro per person (with 15,38% less than in 2008).

In the following years it was an increase of GDP/person, reaching in 2011 at 7184 euro/person, meaning with 23,86% more than in 2007.

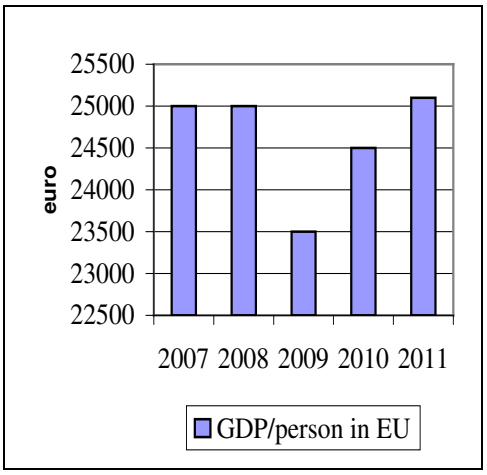
Figure 1. GDP/person in Romania



Data source: EUROSTAT

Almost the same situation registered in the European Union as shown in Figure 2:

Figure 2. GDP/person in European Union



Data source: EUROSTAT

In the European Union the evolution of GDP/person has almost the same trend but with small differences from one year to another.

Thus, in the firs two years of analyses, 2007 and 2008, The GDP/person was almost constant at 25000 Euro. In the next year 2009 was registered a decrease with 1500 Euro, meaning with 6% less than the previous year.

In the following two years the GDP/person increase with 1000Euro (4,3%) in 2010 comparison with 2009 and with 600 Euro (2,5%) in 2011 comparison with 2010.

The prediction for the next three years shows that GDP/person will decrease, both for Romania and for the European Union, reaching in 2014 at 7191 euro in Romania and 24470 in the European Union.

Investment by institutional sector %-of Gross Domestic Product in Romania an in the European Union evolution is presented in Table 2 [1]:

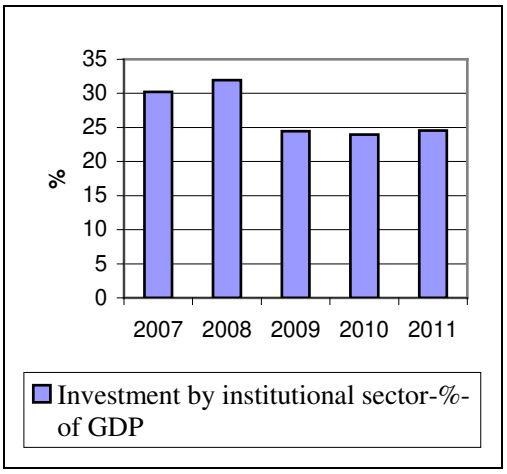
Table 2: Investment b institutional sector -%- of GDP in Romania and in the European Union

	2007	2008	2009	2010	2011
Romania	21,59	21,43	19,27	18,82	18,9
EU-27 countries	30,2	31,92	24,43	23,96	24,56

Data source: EUROSTAT

Investment by institutional sector %-of Gross Domestic Product in Romania had an evolution shown in Figure 3:

Figure 3. Investment by institutional sector -%- of GDP in Romania



Data source: EUROSTAT

We can observe that the percent of investment by institutional sector in GDP in Romania increase in 2008 comparison with 2007 with 1,72%.

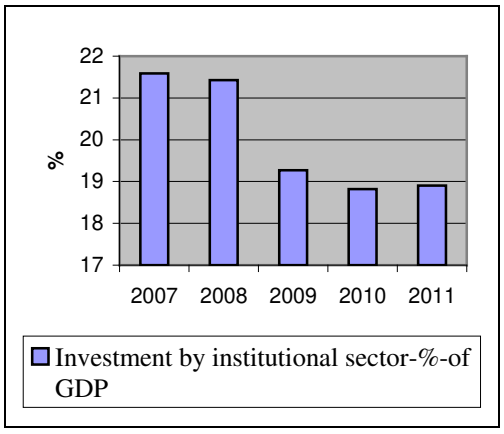
In the next two years it was registered a decrease with 7,49% in 2009 comparison with 2008 and with 0,47% in 2010 comparison with the previous year 2009.

In the last year of analyze 2011 the percent of investment by institutional sector in GDP start to increase, meaning with 0,6% comparison with the previous year 2010.

We can see also that in the last year of analyze the percent of investment by institutional sector in GDP decrease dramatically, with 5,64%.

In the European Union the situation is not necessarily the same, as we can se in Figure no 4:

Figure 4. Investment by institutional sector -%- of GDP in EU



Data source: EUROSTAT

In the European Union we can observe that the percent of investment by institutional sector in GDP decrease very few in 2008 comparison with the previous year 2007, only with 0,16%. The decrease continues during the next two years, with 2,16% in 2009 comparison with 2008 and with 0,45% in 2010 comparison with the previous year 2009.

In the last year of analyze it was a very small increase, with only 0,08%.

Also, in the last year 2011 we can observe that comparison with the first year of analyze, the percent of investment by institutional sector in GDP decrease with 2,69%.

3. Conclusion

We can observe that GDP in Romania and in the European Union had different evolution.

In Romania, the GDP/person fluctuated during the analyzed period, but, in the last year we can see that the indicator level increase comparison with the first year of analyze.

In the European Union was constant for the first two years, than registered a decrease for the following two years and in the last year of analyze increase and rich to aproximately the same value as in the firs year of analyze.

The other indicator took into consideration, investment by institutional sector -%- of gross domestic product had almost the same trend also in Romania and in the European Union, meaning that the indicator decrease for the firs years but registered an increase in the last year.

We have to specify that the indicator did not reach the first year level.

In the same time we have to specify also, that even if the level of investment by institutional sector -%- of gross domestic product was higher in Romenia than in the European Union as a percent, it was determined to a different level of GDP.

In the eurostat newsreales[2],euro indicators published on 6 of march 2013 it is specify thatt the EU 27 external current account recorded a surplus of 34.1 billion euro (1.0% of GDP) in the fourth quarter of 2012 compared with a surplus of 24.7 bn(0.8% of GDP) in the fourth quarter of

2011, according to first estimates from Eurostat, the statistical office of the European Union.In the fourth quarter of 2012, compared with the fourth quarter of 2011, the deficit of the goods account turned into a surplus (+5.1bn euro compared with -15.6bn),while the surplus of the services account slightly increased(+36.9 bn compared with +35.7bn)and the deficit of the current transfers account dropped (-19.1 bn compared with-22.8 bn). The surplus of the income account fell (+11.2bn compared with +27.4bn). On 6-th of march the same year 2013 in the same publication it was specify that GDP fell by 0.6% in the euro area (EU17) and by 0.5% in the EU27 during the fourth quarter of 2012, compared with the previous quarter, according to second estimates published by Eurostat, the statistical office of the European Union. In the third quarter of 2012, growth rates were -0.1% and +0.1% respectively.

Compared with the same quarter of the previous year, GDP fell by 0.9% in the euro area and by 0.6% in the EU27in the fourth quarter of 2012, after -0.6% and -0.4% respectively in the previous quarter. During the fourth quarter of 2012, GDP in the United States was stable compared with the previous quarter (after +0.8% in the third quarter of 2012). Compared with the same quarter of the previous year, GDP rose by 1.6% in the United States (after +2.6% in the previous quarter). Over the whole year 2012, GDP fell by 0.6% in the euro areaand by 0.3% in the EU27.

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The European Project beyond the Financial Crisis

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Abstract

The financial crisis that has broken out in 2007, and spread throughout Europe since 2008, has been reflecting on the economic activity and employment, generating economic downturn. Gradually, the European crisis has turned into a social one, by transferring the financial problems into the social field. The objective of this article is to highlight some important effects arising from the financial crisis developments and have social and political implications across European countries. The view that the solution to the European crisis would be the application of the austerity policies has proved to be unsustainable, given that such measures have strained the relations between countries and also within countries. In the future, it remains the risk that the imbalances accumulation in the euro area, and more extended, in the European Union, would generate a polarization phenomenon in Europe by increasing the political dissensions between countries, and thereby would affect the default implementation of the European project.

Keywords: austerity policies, unemployment, economic downturn, European governance, political crisis.
J.E.L. Classification: E 24, F 15.

1. Introduction

During the last few years, since 2008, the European countries have been going through difficult moments as the financial turbulences and the vulnerabilities of the European project have turned into a sovereign debt crisis in some European countries. At the beginning of the crisis there was the fearing of bankruptcy, and therefore the financial and political authorities have gone towards eliminating the risk factors of the banking system. The crisis has gradually turned from a financial crisis to an economic crisis, and Europe has moved into economic recession, with unemployment rising at higher levels than before.

The consequences of this recession are complex, but the social and political ones are crucial. In this paper we present some important social and political implications generated by the European sovereign debts as well as by the austerity policies applied in order to exit from crisis. The view that the solution to the European crisis would be the application of the austerity policies has proved to be unsustainable, given that such measures have strained the relations between countries and also within countries.

In the future, it remains the risk that the imbalances accumulation in the European Union, would generate a polarization phenomenon in the continent, more specifically between the German block and the other European countries, by increasing the political dissensions between countries, and thereby would affect the default implementation of the European project.

2. From the euro sovereign debts crisis to the political crisis

The sovereign debts and the austerity programmes imposed to peripheral euro zone's countries have induced and protracted the economic recession which was reflected by the decreasing of the economic activity and massive unemployment in some countries.

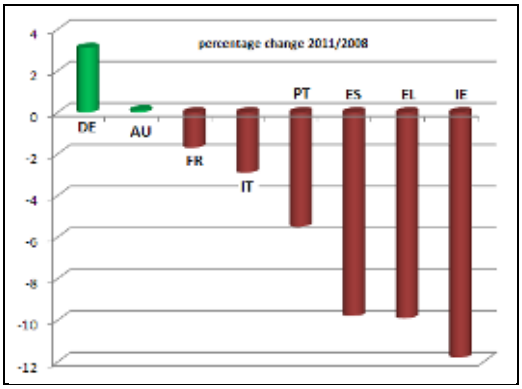
The general macroeconomic "picture" of the economic recession and of the austerity programs implementing effects is rendered

by the developments concerning several relevant macroeconomic indicators, taking into account the nominal GDP growth rate, the general government balance, the employment rate, and also the unemployment rate. The analysis is performed based on Eurostat and Ameco data, for several countries from the euro area: Germany, France, Austria, Italy, Spain, Greece, Ireland, and Portugal.

The uncertainty shock and the persistent sovereign debt crisis, which reflect the high deleveraging needs in the public and private sector, have engendered a decrease of the economic activity in most of the European countries, cutting back on spending, investment and employment for households and corporations.

In Figure No. 1, we illustrate the differences between euro area countries, concerning the dynamics of employment rate, measured as the percentage change for 2011 against 2008. Admittedly, the peripheral countries have been the most affected, while Germany and Austria recorded positive changes.

Figure No. 1. Employment rate in several euro area countries



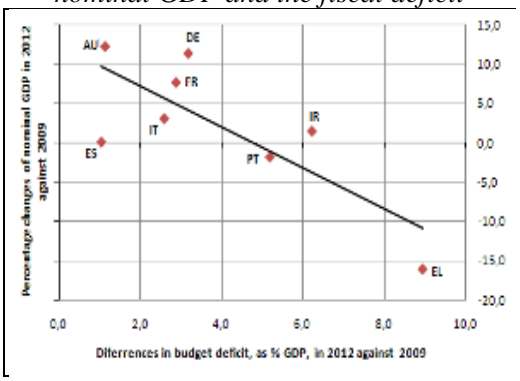
Source: Eurostat Data; authors' calculations

Note: DE – Germany; AU – Austria; FR – France; IT – Italy; PT – Portugal; ES - Spain; EL - Greece; IE - Ireland

This picture strengthens the idea that the German solution regarding the euro debt crisis, based on the application of the austerity measures has failed. Even the European Commission noticed that such a policy has deepened the economic recession, mainly in the peripheral countries [6].

De Grauwe and Ji argue that there is a strong negative correlation between the austerity programmes and the GDP growth: the countries which have implemented the strongest austerity measures have also recorded the strongest declines of economic activity reflected by GDP [5]. This idea is sustained by empirical evidence.

Figure No. 2.The relation between the nominal GDP and the fiscal deficit



Source: Authors' calculations based on Eurostat Data; Ameco Data, for 2012 concerning the fiscal deficit

Note: DE – Germany; AU – Austria; FR – France; IT – Italy; PT – Portugal; ES - Spain; EL - Greece; IE - Ireland

As it turned out (Figure No. 2), Greece, Portugal, and Ireland have substantially reduced their deficits since 2009, despite the fact that their economies were stagnant or contracting. The data shows that there is a negative correlation between the intensity of the austerity measures (considered here as a reflection of the differences between the budget deficit level in 2012 and those corresponding for the 2009) and the economic performance, because the austerity measures implemented in these countries have depressed their economies: the more is decreasing the budget deficit, the more is decreasing the economic activity.

Paul Krugman said that the austerity is a bad policy when the interest rate is near zero lower bound, the economy enters in a liquidity trap and thus the narrowing effects of the fiscal consolidation on the demand can't be offset by a monetary expansion [8]. The large fiscal consolidation didn't increase the confidence and economic growth, but has deepened the recession in the peripheral countries.

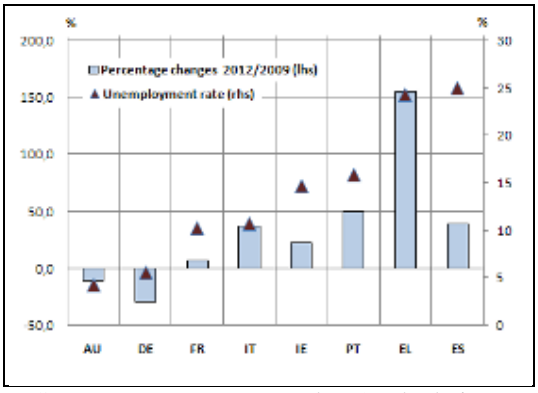
The severe austerity programs introduced in the Southern Eurozone countries since 2011, which have destroyed the social protection and safety nets, engender the risk

of social tensions in Europe, between countries and between social classes, with a direct repercussion on the viability of the European project.

The economic recession is reflected not only by the GDP growth rate contraction, but also by the increasing of the unemployment rate.

Figure No. 3 illustrates the dramatic evolution of the unemployment rate in 2012 against 2009, in Greece, with the largest increasing, above 150%. Large numbers have been recorded in Portugal, Spain and Italy. The result of these changes is also reflected by the level of the unemployment rate: Spain and Greece are the most affected countries, with levels of this indicator near 25%, in 2012. At the opposite side, Germany and Austria have improved the unemployment rate.

Figure No. 3. The evolution of unemployment rate in several euro area countries



Source: Eurostat Data; authors' calculations
Note: DE – Germany; AU – Austria; FR – France; IT – Italy; PT – Portugal; ES - Spain; EL - Greece; IE - Ireland

Generally speaking, the strong increase in unemployment means important social and psychological burdens, with longer-term implications.

The younger people affected by this problem loose the opportunity to pursue their chosen career and the risks derived from this refers to the youthful energy, a positive feature for younger, that is directed towards delinquency, or to the development of the anti-state movements. In Italy, Greece, Portugal and Spain, the people under 25 years old are reported unemployed at a level above 30 percent.

Unemployment has also larger influences, since it does not affect just one person, but the other family members and relatives, and the consequences can be catastrophic in the social and psychological fields.

The European crisis and the austerity measures promoted by Germany have amplified the social tensions, engendering strong protests among people, and even the developing of several radical groupings. For example, in Italy have emerged radical parties, which opposed to the austerity program implementation, and Greece has already developed a radical right movement. Thus, the unemployment crisis is a political one, and it could affect, through social and political issues, the course of the monetary integration process in Europe.

At the European level, the current major priority should be dealing with the demand led recession in some European countries, not with their budgetary position.

3. The policy crisis implications upon the European project viability

The European construction has a strong German "footprint" made by the European Central Bank policy itself, which pursues as a priority the price stability objective, and the euro area authorities, especially from the "hard core", are focused primarily on the financial aspects of the crisis. But the financial crisis has been worryingly expanded in the social life, creating a fundamental dilemma for driving the euro area: pursuing the price stability, as an objective of the euro area monetary authority, or stimulating the economic activity, as a broader objective of the European policy-makers, in order to correct the excessive unemployment levels. This dilemma call into the question an inveterate problem, but fundamental one, about the viability of a monetary area functioning comprising countries which have major differences on economic outcomes, especially on the unemployment levels and its dynamics.

From the political level debate regarding the identification of the proper solutions for the European crisis, assuming that the distribution of the crisis burden should be made at the country level, it outlines two opposing directions, which actually highlight the dual structure of the euro area, and, more generally, the European Union. On the one

hand, countries that are financially "stronger", considered that the "weaker" countries should bear the debt burden by implementing tightening policies. On the other hand, the "weaker" countries deemed that the developed economies of Europe have to bear the debt burden by supporting further lending activity, although the risk of default has increased. This difference has kept tensions between countries creating a vicious circle: the European crisis has been fuelled by the political tensions which in turn has deepened the crisis.

Besides the vision regarding the way of sharing the crisis burden between countries, if we considered the burden sharing between social classes, it would arise the conflict between the middle and the lower social class, on the one side, and the wealthy social class, on the other side. Namely, the middle and lower social class should bear the crisis burden by reducing the public expenditures which they benefit, or the debt burden should be assimilated by the "elite" of the society, increasing its taxes and regulations [7].

The conditions induced by the current crisis faced by the euro area are a test for the sustainability of the monetary integration in Europe. The political crisis is revealed by the tensions arising between the euro area countries and by the reactions of other countries concerning the policy pursued by the developed European countries. Such a situation questions the development of a European political community, which should be extended beyond the institutional framework. If the tensions between countries are increasing, then the European common institutions will lose their legitimacy and the European Union member states will begin to formulate their own internal and external policies.

4. Conclusions

Analyzing the current and especially the potential effects triggered by the austerity policies in the economic and social fields, it is noticed that the objective of the financial stability should be permanently reported on the economic and social conditions. If the financial stability is achieved at the cost of a higher unemployment, then it cannot be a priority.

The persistent unemployment recorded in the European countries undermines the political power of the governments to pursue the required policies for managing the financial system. It is hard to imagine a common European policy at this moment, because the differences between countries on the unemployment rates make difficult the governance by common policies.

The failures concerning the eurozone governance, caused by the global financial and economic crisis, and amplified by the sovereign debt crisis and by the derived economic downturn, have revived the importance of the political will, which was, at the beginning, the fundament for the single currency project.

There is a trend for a chain-exhibiting occurrence: the national economic problems, which are undoubtedly a priority for the national authorities, which are weakening the national motivation for remaining in the euro area, consequently dragging along a feeling of distrust on the idea of common governance in this union.

Basically, the European crisis is threefold: the sovereign debt crisis, the unemployment crisis induced by the economic downturn, and the crisis of countries' inability to find common solutions.

As Friedman [7] signals, the problem of solving the European crisis is not the lack of solutions and ideas, but the lack of a common agreement about who will pay, geographically and socially, the price. The tensions between countries and those between the social classes are engendered by the lack of the authentic common solutions.

The economic and social burdens, unequally distributed across countries and also across social classes, represent an important threat facing the European Union in the near future. The test for Europe is not the sovereign debt, but the social problems management.

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Challenges of the National Bank of Romania's Monetary Policy on the Road to the Euro Area

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Abstract

Romania's accession to the European Union implies adopting the euro currency, which is conditioned by the participation in the Exchange Rate Mechanism II (ERM II) for at least two years.

The participation in the ERM II has implications upon the monetary policy: on the one hand, the exchange rate variation must fit the ± 15% fluctuation band around the central parity, while on the other hand, the fulfilment of the inflation criteria is necessary.

The first part of the paper focuses on the challenges of the National Bank of Romania's monetary policy which issue from the Maastricht convergence criteria.

In the second part of the paper we highlighted the necessity of coordination of monetary and fiscal policy in the ERM II period, being essential for achieving inflation criteria and government deficit criteria. The fiscal policy must strive, simultaneously, the budget deficit and inflation decrease.

Key words: Exchange Rate Mechanism II, convergence criteria, monetary policy
JEL Classification: E52, E31, E58

1.Introduction

The countries which acceded to the European Union in the years 2004 and 2007 have become members of the Economic and Monetary Union with derogation regarding the adoption of the euro currency, the moment of accession to the euro area not being explicitly specified. Among these, only five countries have adopted the European currency (Slovenia - 2007, Malta and Cyprus - 2008, Slovakia - 2009, Estonia - 2011), currently being a number of seventeen countries which form the euro area. The other states, including Romania, have committed to adopt the euro currency in the moment of the fulfilment of the sustainable convergence criteria.

The fulfilment of these criteria implies a series of challenges for the mix of macroeconomic policies, as a result of the existence of the conflict between the convergence criteria. In reality, we observe a heterogeneousness in the choosing of the monetary regime in the euro area accession countries. Some countries have opted for the currency board (Bulgaria, Lithuania), while others have chosen the inflation targeting and a more flexible exchange rate (the Czech Republic, Hungary, Poland, Romania).

This heterogeneousness is explained by the fact that economies of these countries are different, the choosing of the monetary policy being based on its capacity to fulfill the nominal convergence and, especially, the monetary criteria. The monetary criteria (the inflation, the exchange rate and long term interest rate) represent the primary preoccupation of the central banks in the countries on the road to the euro area. But the main challenge which the monetary authorities of the countries which apply a flexible exchange rate will face is the simultaneous assurance of the price stability and exchange rate stability in the period of the participation in the Exchange Rate Mechanism II.

Thus, an essential role in the fulfilment of the convergence process will fall on the policy of the National Bank of Romania

(NBR), the paper concentrating itself upon *the challenges of the monetary policy of the NBR* which result from the Maastricht convergence criteria.

2.Romania's participation in the Exchange Rate Mechanism II and the implication upon the monetary policy

The adoption of the euro currency by Romania is conditioned by the participation in the Exchange Rate Mechanism II for at least two years, being considered the ante-chamber of the integration to the euro area.

According to the 2012-2015 Convergence Program, the commitment to adopt the Euro in 2015 is maintained, the moment of *Romania's entry into ERM II* not being specified.

According to the European Union's Treaty, during the Exchange Rate Mechanism II a country can not adopt the following monetary regimes: the fully floating exchange rates, the crawling and anchored pegs, other than the euro.

During the participation in the Exchange Rate Mechanism II, Romania is obliged, according to the Maastricht Treaty, to respect the exchange rate fluctuation band of ± 15%. Consequently, the strict inflation targeting is no longer viable, but a more flexible form is necessary to ensure the fulfilment of the two criteria: the price stability and exchange rate criteria.

This flexible variant of the inflation targeting includes a strategy based on a single instrument, examined by Jonas [9] and a strategy with two instruments, proposed by Orlowski and Rybinski [13].The first strategy is based on the use of the interest rate for the realization of the two objectives, while Orlowski and Rybinski [13] propose the realization of the inflation target through the adjustment of the interest rate and the stabilization of the exchange rate through interventions on the foreign exchange market.

According to the European Council's Resolution in 1997, during the ERM II the exchange rate stability is subordinated to the primary objective of the monetary policy, the price stability being a condition prior for the currency stability. Thus, the necessity of the realization of the inflation rate level compatible with the Maastricht price stability criteria is being imposed, so that fluctuation margins provided in the Exchange Rate Mechanism II are respected. In this sense*, the conflict between the two objectives represents a challenge for the monetary policy of the NBR.*

The increase of the nominal interest rate in order to alleviate the inflationary pressures can determine an increase of the interest rate differential vis-à-vis the euro area which encourages the speculative capital inflow and, therefore, the leu currency is appreciated against the European currency.

Although the nominal appreciation has a positive impact upon the inflation rate, taking into consideration that the imported goods with the highest average in the consumer's basket (foods) is very large, the capital inflow have negative effects upon the inflation target through the liquidities increase. Also, a nominal appreciation too large on a short–term leads to losing the external competitiveness and therefore, to the increase of the current account deficit.

In the June 2009 - May 2011 period, the leu exchange rate against the euro has fluctuated between -1.94% and 2.98% compared to the reference level (the month of May 2009), indicating a high stability of the national currency, facilitating the fixation of the central parity in the ERM II entry moment.

The nominal appreciation of the national currency during the ERM II can also be the result of the manifestation of the Balassa-Samuelson effect, the real appreciation realizing itself through the exchange rate and, less through the inflation differential.

The interventions on the foreign exchange market (currency purchases and the sterilization of the liquidity in the national currency) can be used for the prevention of the appreciation of the national currency, but this option is considered to be inefficient, because it does not permit the diminishment of the interest rate, being an incentive for the capital inflow. In case the exchange rate isn't in line with the equilibrium exchange rate, despite the effectuated interventions, *the central parity will be revalued* according with the state of the economy.

In our opinion, *in order to realize the exchange rate stability objective, a*

combination of the two methods aforementioned is necessary, using with priority the interest rate. We consider that the appeal to the intervention operations on the foreign exchange market should be effectuated in case the reduction of the interest rate has not been sufficient to alleviate the appreciation of national currency.

A second situation which might appear during the ERM II refers to the depreciation of the leu and the risk of breaking the inferior limit of the variation interval, an increase of the interest rate being necessary then. In this case the exchange rate stability is in concordance with the inflation target, but the restrictiveness of the monetary policy reduces the aggregate demand with negative effect on the economic growth.

The low level of the interest rates is not a sufficient condition to maintain the exchange rate stability. For instance, the stability of the Czech koruna in the recent years isn't only due to the low interest rate level, but also because of national bank's credibility to maintain the inflation rate at a low level.

Thus, the credibility of the national bank is a necessary condition for the fulfilment of the two nominal convergence criteria: the inflation and the exchange rate. We consider that *the National Bank of Romania must strive in order to win the credibility through the fulfilment of the proposed inflation target.*

In the opinion of the governor of the NBR, after the ERM II entry it is possible to maintain the direct inflation targeting or the adoption of the exchange rate targeting, the second variant being used as to not generate conflicts between objectives, considering the increase of the degree of openness (approximately 66% in the year 2010), the exchange rate becoming the main monetary transmission channel. His opinion is backed up by Hungary's experience, which in the year 2001 it has adopted the direct inflation targeting strategy and a mechanism similar with the ERM II (with a fluctuation band of ±15% around the central parity). In order to protect the rate's fluctuation band, the National Bank of Hungary had to sacrifice the inflation target in the years 2003 – 2004 [8].

We consider *that the exchange rate targeting isn't viable for the ERM II entry,* because the catching-up process will also continue after this moment, which means that in order to fulfill the inflation criteria, the nominal appreciation of the leu is necessary. On the other hand, in the condition of the liberalization of the capital flows, an exchange rate requires the loss of the monetary autonomy and, implicitly, the control of the inflation. Therefore, *we consider that flexible inflation targeting aimed the fulfilling of both conflicting criteria is appropriate for Romania during the participation in the Exchange Rate Mechanism II.*

Borowski et.al. [2] has examined two ways to reduce the inflation rate during the participation in the Exchange Rate Mechanism II in Poland: the increase of the interest rate and the nominal appreciation. The results of the simulation show that the impact of a shock of the exchange rate is produced after eight months, while in the case of a shock of the interest rate the effect appears after sixteen months. The reduction of the inflation rate by 0.5 percentage points can be realized either through the increase of the interest rate by 1% or through the appreciation of the national currency by 2.5%. The author concludes that the interest rate policy is less efficient during the ERM II.

In our opinion, the reduction of the inflation rate during the ERM II will be done in **three ways**:

1. If there are inflationary pressures provoked by supply-side factors (the hike in the oil price), their moderation will be realized through *the increase of the interest rate* in order to anchor the inflationary expectations.
2. In case of the price increase are caused by demand-side factors, the inflation reduction will be realized through *raising minimum reserve requirement, the application of a preventive credit policy in the case of consumption credits* and/or *the restrictiveness of the fiscal policy*, these measures not being accompanied by the interest rates increase. Their maintenance at a low level is necessary for the fulfilment of the other convergence criteria.

3. Although the depreciation of the leu by 15% is permitted, we consider that the nominal appreciation is necessary for the fulfilment of the inflation criteria. This necessity is imposed, on the one hand by the real appreciation of the national currency as a result of the real convergence process and on the other hand, the exchange rate variations reflect themselves faster on the prices, compared with the interest rate, in which case the monetary impulses transmit themselves with a certain delay. In the case of the appearance of the too strong appreciation or depreciation of the leu, the NBR will intervene on the foreign exchange market, so that the national currency to be appreciated by a few percentage points, a favourable situation for the two nominal convergence criteria.

3.The coordination of the monetary policy with the fiscal policy in the context of the fulfilment of the convergence criteria

The accession to the euro area implies a mix of economic policies which will ensure the fulfilment of the five nominal convergence criteria provided in the Maastricht Treaty. The monetary policy can not ensure the price stability without the support of the other components of the macroeconomic policy – the fiscal policy and the income policy. In the period prior to the entry in the euro area, the fiscal policy will have a crucial role in the maintenance of the economic stability.

Empirical studies demonstrate the relationship between the fiscal deficit and inflation. Thus, Catão and Terrones [4], Fisher, Sahay and Vegh [7] have shown that there's a strong relationship between the fiscal deficit and inflation in the countries with a high inflation and developing countries, and it rules out this relationship in the case of developed countries and countries with a low inflation. This link is explained through the fact that the budget deficit is financed through monetary creation – seigniorage. According to the Maastricht Treaty, the monetary finance of the budget deficit is forbidden. In case the financing is realized through loans, the budget deficit does not have an inflationary character. On the contrary, the loans from commercial banks restrict the liquidity in the bank system and, therefore, determine the increase of the interest rate.

The negative impact of the fiscal deficit upon the inflation rate highlights the necessity of the fiscal consolidation, as it is presented in the convergence criteria of the Maastricht Treaty. But Vierra [16] investigating the inflationary effects of the budget deficit in six countries of the European Union suggests that the relationship between the two variables is inverted in the case of a majority of studied countries, meaning that the inflation leads to the increase of the deficit. The lack of empirical evidence concerning the monetisation of the fiscal deficit is explained by the change of objectives of the monetary policies in the beginning of the eighties (the entry in the European Monetary System) towards the price stability and the fiscal consolidation and the higher independence of the central banks.

The reduction of the budgetary deficit is realized through the application of a restrictive monetary policy, through the increase of fiscality and/or the reduction of public expenditure, with effect upon the aggregate demand, in the sense of its reduction and, implicitly, upon the inflation rate. But we must specify that the increase of the indirect taxes (VAT, excises), as a measurement for the reduction of the budget deficit, have a negative influence upon the price consumer and, as a consequence, the impossibility of the fulfilment of the inflation criteria.

In the opposition, *the direct tax increase* reduces the income and decreases, as a result, the inflationary pressures, but this measure *isn't always efficient*. In case the population doesn't pay its fiscal obligations, the sums which represent unpaid taxes can be destined for consumption.

In our opinion, in order to fulfil of the two aforementioned objectives, the *adjustment of the budget deficit must be based on the reduction of budget expenditure*, because the tax increase can have an inflationary character.

A successful fiscal consolidation must be based on the reduction of the public consumption and not on the diminishment of public investments which can beneficial for the long term economic growth. The experience of the new member states of the EMU shows that the decrease of the inflation rate through the promotion of a restrictive fiscal policy has permitted the relaxation of the monetary policy and consequently, the convergence of the interest rates.

The reduction of the aggregate demand, as a result of the tightening of the fiscal policy, determines the diminishment of the money demand and, therefore, the decrease of the interest rates, thus eliminating the incentive for the capital inflow [17]. In the author's opinion, the restrictiveness of the fiscal policy through the increase of income can determine the extension of the fiscal expenditure, the effect being null. On the other hand, the decrease of expenditure in a strong economy isn't a very popular measure.

The empirical studies highlight the bi-univocal relationship between inflation and the increase of public expenditure, Ezirim et. el. [5] suggesting the fact that the fiscal policy is an appropriate instrument for combating inflation in the United States. In order to reduce the inflation, the government should properly reduce the level of public expenditure.

The interest rates increase amid the inflationary expectations exercise negative influences upon the budget deficit through the increase of expenditure with the interest afferent to the public debt. Thus, *during the ERM II the monetary policy must reduce the interest rate, necessary for the reduction of the budget deficit and the stability of the exchange rate, the inflationary shocks being absorbed by the fiscal policy.*

Borowski and Brzoza-Brzezina [3] suggest as an optimal moment for the restrictiveness of the fiscal policy – the period prior to the entry in the ERM II. In this case, the fulfilment of the budget deficit criteria, the credibility of the exchange rate policy and the reduction of the inflation rate at the proper moment (in the middle of the ERM II period) are being assured. The author specifies that the early application of a restrictive fiscal policy does not assure the fulfilment of the inflation criteria, because the disinflationary effect can disappear in the moment of the evaluation of the convergence criteria. We consider *that the restrictive fiscal policy can be applied in any given moment before the ERM II entry*, because the reduction of the inflation is done in a sustainable way, according to the Maastricht Treaty, which means that if the level of the inflation rate was reduced before the moment of the evaluation, it will be maintained even after that moment.

For the fulfilment of the inflation target, a balanced income policy is also necessary to ensure the correlation between the wages in the public sector with the ones in the private sector and with the labour productivity evolution. The wages increases in a rhythm superior to labour productivity generates the unit labour costs increase, which will have effects on consumer prices.

We consider that the *coordination of the monetary policy with the fiscal policy is essential for the fulfilment of both the inflation criteria and the deficit criteria*. The objective of the fiscal policy is to reduce the budget expenditure in order to reduce the budget deficit and to alleviate the aggregate demand, while the objective of the monetary policy is represented by the reduction of the interest rate with the purpose of fulfilling the fiscal and exchange rate stability criteria.

4. Conclusions

The monetary policy strategy which will be lead by the NBR during the participation in the ERM II will be directed towards price stability, as a main objective, with the simultaneously maintenance of the exchange rate stability.

Romania's participation in the Exchange Rate Mechanism II has implications on the monetary policy: on the one hand it must reduce the inflation rate, while on the other hand it must respect the provided fluctuation band. Thus, the reduction of the interest rate differential is imposed in order to ensure the exchange rate stability, but this measure isn't in concordance with the inflation criteria. Thus, the diminishment of the interest rate will be done by monitoring the approximately constant maintenance of its real level. In case the interest rate differential maintains itself at a high level, stimulating,

thus, the speculative capital inflow, the central bank intervenes in order to avoid a strong appreciation of the leu.

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The Relationship Between FDI and Convergence Under the Current Evolution of the Global Economy. Aspects Regarding The New Member States.

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Abstract

Government policies have a significant effect over the impact that investments have on the economic and social environment.

Trade measures to reduce or eliminate transaction costs, the increase in efficiency as a result of competitiveness, capital flows from west and labor mobility are factors that supported regional integration. All countries are making efforts to satisfy the requirements of investors, but also to support and develop their regional advantages

The expansion of European Union involved new states in the process of economic growth and development. The final objective of any NMS is to adopt the euro, but for achieving this, they should observe economic conditions, that must be sustained long term

Key words: foreign direct investments, real convergence, sigma convergence, New Member States
J.E.L. Classification: E22, O11

1. Introduction

Government policies have a significant effect over the impact that investments have on the economic and social environment.

Capital flows are directed into countries that have lower wage levels and abundant natural resources. Taking into account these considerations, it can be explained the situation during 1990-2000. Studies have shown an increase in FDI flows in Central Eastern European Countries and Baltic Countries. During 1990-1994 these countries received 95% of total FDI inflows per capita for transition economies. During 1995-1998 it was a slight decline, reaching 84%, at the end of this period.

This process of foreign capital flows to developing countries, is the result of a wide range of determinants. Over time, studies have shown the main reasons behind the decisions of foreign investors and states' efforts to attracts them.

In choosing the best investment options are considered aspects of the market, available natural resources and efficiency resulting from capital investments.[1] In terms of *market choice* we are dealing with horizontal FDI; for the investors some important aspect were the size and the features of the local and regional markets, and especially the removal of tariff barriers and lower transport costs (major impediments that convince them to give up to exports and to operate from the host country). Firms that invest abroad seek *available resources* of the host country (raw materials, labor, natural resources). In contrast to horizontal FDI, vertical FDI suppose reallocation of part of the production chain, managing to cut the cost of labor and hence the manufacturing cost. The foreign direct investments' decision was also influenced by those regions where it can be exploited the advantage of economies of scale (which involves a *higher level of efficiency*). In this case they preferred the new members of European Union.

2. FDI determinants

In 2000, the announcement regarding membership deepening of the 12 EU countries also influenced the direct capital investment. [2] The interest of investors has shifted to country risk, assessed in terms of development of private sector, industry, gross reserves, level of corruption. Bevan and Estrin noted a discrepancy between the levels

of development of future new EU members and believe that an extension of time of accession (to the date set), due to increasing demands of the Union (if some states will not fully meet expectations) would cause not only for the FDI in those countries, even for all economy, discrediting the capacities of the Community.

After EU enlargement in 2004 FDI flows to new members have intensified due to positive perception on increasing the efficiency of the market in these countries.[3] If government policy to attract foreign investors operates, the number and flows of FDI may rise, and previous FDI flows could be a good background for present FDI.

Effects of the efforts made are not being exhausted when attracting investors, but are perpetual, because investment decision is based on prospective partners and on positive externalities that previous investors contributed to improving knowledge and specialization of national workforce.

Regarding the manner in which states are mobilizing to attract foreign capital flows it can be said that countries are competing on 3 areas: liberalization, promotion and competitiveness. [4]

Liberalization involves reducing trade barriers for foreign investors. Developing countries' governments work towards creating an appropriate framework for FDI. As a result, over the past 20 years were concluded regional integration treaties, which require the adoption of bilateral and multilateral trade, designed to increase the attractiveness of these economies. The goal is not only the willingness to learn from the experience of developed countries, but especially to obtain funds for growth. The mission of these governments is difficult because they have to create a harmonious domestic market, without acting against national companies.

Besides increasing openness of economies, Central and Eastern European states, are trying **to promote their own image**, in order to convince foreign investors, interested on the size and degree of market development, but also of financial incentives and tax.

Governments of host countries must develop an environment based on **competitiveness** and prosper both for foreign and domestic investors. This implies the existence of an adequate legislation, efficient partnership between the public and private sectors and of course, a good infrastructure.

To conclude the analysis of the determinants of FDI can be said that host countries, based on regional advantages (market size and low costs of labor and accessing resources), are trying to satisfy the investors' requirements (a good infrastructure, reformed institutions, coherent policies, financial and fiscal facilities, fair and predictable economic environment).

3. The effects of FDI flows

Foreign capital flows should be directed towards upgrading and increasing training and qualification of labor force for the benefit of maximizing positive effects, among which may be mentioned:

- economic growth sustained on investments in a new production capacity that can generate new jobs, new taxpayers or privatization, leading to an increase in efficiency for business;
- a higher competitiveness and internal development for the sector in which the investment is made, or the branch from which the new investor is purchasing;
- especially the restructuring and privatization of companies that require large capital flows;
- an increase in budget revenues, due to new contributors;
- improving living standards, lower prices and diversification due to the rise of competition.

4. The relationship FDI – convergence under the current global evolution

The expansion of European Union involved new states in the process of economic growth and development, but as we can see it was a slow down after the accession, on the one hand due to the economic crisis, but also due to a more relaxed economic policy. The convergence of NMS to the EU it's a gradually process that requires substantial efforts especially under current circumstances – the global crises. Any new Member State has the ultimate objective of adopting the single currency, but for achieving this step some economic

conditions should be observed to be sustain for a long-run.

The requirements of The Maastricht Treaty are the framework conditions that each state must meet. At first, all NMS focused on issues of nominal convergence, but they discovered that only if they achieve to sustain those issues it's a way to get to real convergence.

In the economic literature, real convergence is measured using the coefficient of variation of GDP / capita, known as *sigma convergence*. [5] It covers two types of convergence: absolute (not taking into account the initial conditions from which leaves countries) and conditional (even if you don't take into account the initial conditions, countries must have the same fundamental structural characteristics). [6] Even though this type of convergence primarily involves reducing the variance between GDP/capita of some countries, I have expanded a little the analysis on the real disposable income of households and the productivity per hour.

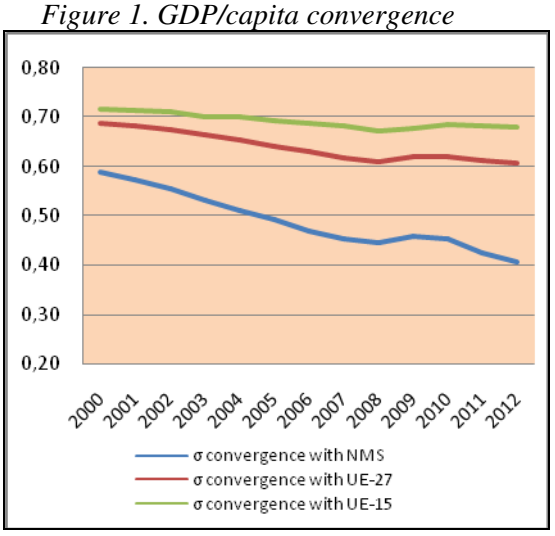
For computing the sigma convergence it was used the formula:

$$\sigma_t = \sqrt{\frac{1}{n}\sum_{i=1}^{n}(X_{it} - X_t)^2} / X_t,$$

where n is the number of states; X_{it} represents the value of the indicator analysed for country *t;* X_t is the average value of the indicator against which it is compared. [7]

As we expected, during the last 12 years, the convergence between NMS and UE-27 average occurred more quickly, then between NMS and UE-15. It's harder to come closer to the trend of old members.

Figure 1. GDP/capita convergence



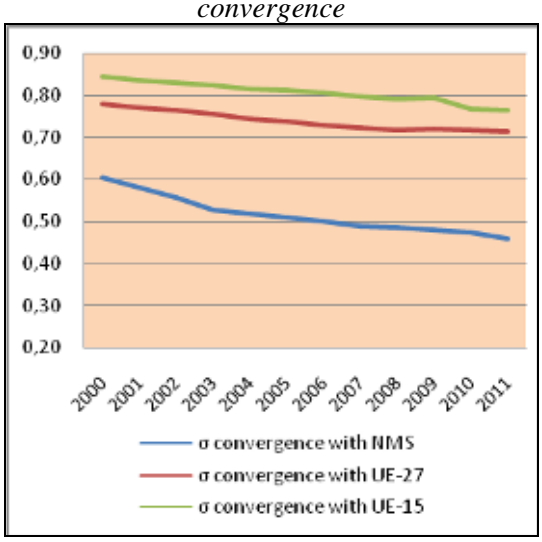
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As it can be seen in Figure.1, during 2000-2012 sigma coefficient moved from 0.72 to only 0.68. Differences existing at the time of accession in the EU-15 and new members cannot be easily overcome. There is a slight change of trend in 2008, followed by a modest rebound that does not keep for long, meaning that in recent years we can not decide on the speed or the enhance of this process. The values of this indicator captured best economic contraction caused by the crisis.

In early 2000s the convergence of productivity per hour was very low. This hasn't improved significantly. In the figure below it can be seen only a very small change (less than 0.10).

This shows that productivity is a chapter that needs a change, and it won't progress unless NMS support, initiate and implement research and development projects (they don't have to expect only technologies transfers from developed countries). To reduce the gap in terms of this indicator, developing countries should increase the performance and skills of their workers to manage to face off the big European market challenges.

Figure 2. Productivity per hour worked convergence

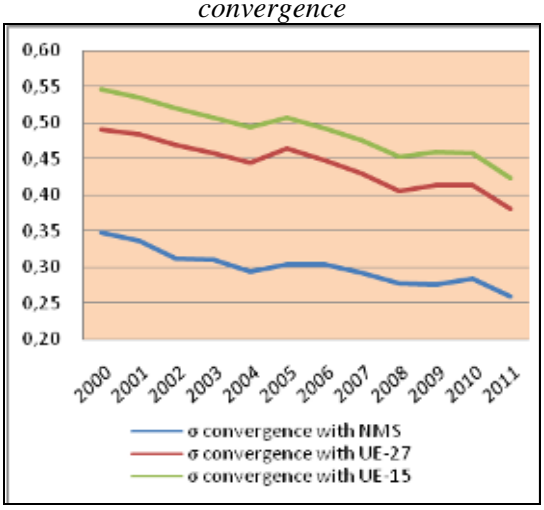


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Finally, the analysis of household disposable income has the fastest catching. In the late 2011, while the EU-27 had an increase of 34%, compared to 2000, for NMS it was much higher. Among the leading countries there are: Lithuania (from approx. 6.400, to approx. 12,600, an increase of over 96%), Romania (from approx. 3.850, to approx. 7,500, an increase of 94%), Latvia (from approx. 5.400, to approx. 10,000, about 85%), Estonia (from approx. 6.350, to approx. 10,900, an increase of over 70%), Slovakia (from approx. 7.400, to approx. 13,500, an increase 82%).

The level of sigma convergence decreases more for this indicator, as it can be seen in Figure 3; reduction is observed both in relation to the EU-27 and EU-15 (it comes to less than 0.45 for sigma convergence with old members, and below 0.4 in relation to the average of the European Union).

Figure 3. Disposable income per capita convergence



Processing after Eurostat Database

Comparing to the other 2 graphs, the last one shows us a tortuous course of convergence, showing that despite the reduction in differences the evolution wasn't smooth and unhindered. The real disposable income of households in the NMS had a different change compared to the other countries. In 2009, revenue decreased for most Europeans. This was mostly felt in Latvia, Lithuania and Romania. Thus, in the figure above it can be seen the divergence during that period (the value of sigma convergence increased).

In Figure 2. and 3. distances between straight is relatively constant, a different situation can be observed for Figure 1., which shows a more pronounced increase convergence with EU-27 compared to EU-15 (that and because of higher discrepancies of the EU in terms of GDP / capita).

Lack of real convergence in some peripheral economies can turn, less flexible and unable to eliminate shocks affecting them. Due to divergent structures asymmetric shocks will gain and convergence will be reduced, which will lead to a different impact of monetary policy.

5. Conclusions

Convergence is a common goal for all new member states. Integration involved a combination of factors, which increased benefits to these countries until the crisis started. Trade measures to reduce or eliminate transaction costs, increasing efficiency as result of intensifying

competitiveness, capital flows from west, labor mobility are factors that supported regional integration. At the time of the last wave of accession, those countries were less developed than the EU-15 (the GDP per capita was 40% of the European average). Previous analyzes have shown positive effects occurred as a result of intensifying relations with the EU, but as I said before the differences in development between the new and the old group have been felt only after 2008. When the old states felt compelled to restrict relations and to show a higher degree of caution and their support for the new members began to diminish, most NMS started to be more vulnerable, and imminent changes occurred affecting them more and more, having a negative impact on the hole economy, reducing most of the investments and bringing these countries at a level that they thought it was left behind forever.

All NMS must retry to coordinate their efforts for overcome the current situation and to convince foreign investors to trust again in those economies because, as it could be seen during the analysis, this capital flows are not enough, but are representing an important support for a future development.

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An Analysis of the Energy Efficiency of the EU Economy in the Context of Sustainable Development

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Abstract

In the context of the accentuation of the negative impact of human activity on the environment, the energy efficiency issue becomes more and more important. The European Union has developed a package of policy measures in the field of energy in which energy efficiency is seen as a key that can provide fulfillment of other major EU targets.

This paper analyzes the level and evolution of statistical indicators of energy efficiency at EU level, in relation to the rate of economic growth and research and development activity.

Keywords: Energy Intensity of the Economy, Real GDP per capita growth rate, R&D expenditure, Gross Inland Consumption of Energy.
J.E.L. classification: O31, Q43, Q50.

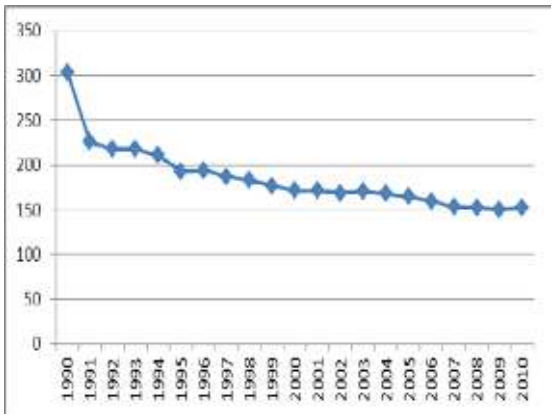
1. Introduction

The deepening global warming, increased intensity and frequency of extreme weather events, increased pollution, depletion of non-renewable resources - are just some of the harmful effects of human activity on the environment [1]. However, they speeded up the transition to a sustainable economic development, monitored at EU level through the European Strategy for Sustainable Development. In this strategy, energy plays an important role. Among the key objectives of European energy policy we mention: increasing energy efficiency, increasing the share of renewable energy, reducing emissions of greenhouse gases and others. Research - development and innovation activity brings its contribution to improving energy efficiency, increasing the competitiveness of the European economy as a whole, to create new jobs in a knowledge-based economy [8]. European Commission undertook a series of ambitious targets in energy domain for the EU economy, by 2020: reducing emissions of greenhouse gases by 20%, improving energy efficiency by 20%, reaching a 20% share for renewable energy, reaching a level of 10% for bio-fuels. Energy efficiency can also provide a reduction in economic sensitivity to climate change or to energy price changes [7].

2. Energy Intensity of the Economy.

One of the EUROSTAT statistical indicators that monitor the efficiency of measures taken in European countries in order to implement the European Strategy on Energy is Energy Intensity of the Economy. The indicator is calculated as a ratio between the Gross Inland Consumption of Energy and the Gross Domestic Product (GDP), corresponding to a given year [10]. The indicator is used to quantify the energy efficiency in general terms, addressed by the energy consumption of an economy. Since the EUROSTAT definition of the indicator "the Gross Inland Consumption of Energy" were taking into account five different types of energy (coal, electricity, oil, natural gas and renewable energy sources), expressed in different units of measure, in order to ensure the comparability it was used a standard unit of measurement - kilogram of oil equivalent [11].

Figure 1. The Energy Intensity of the Economy at European Union level (kg of oil equivalent per 1 000 EUR), between 1990 and 2010



Source: made by the authors, based on data available on EUROSTAT Database.

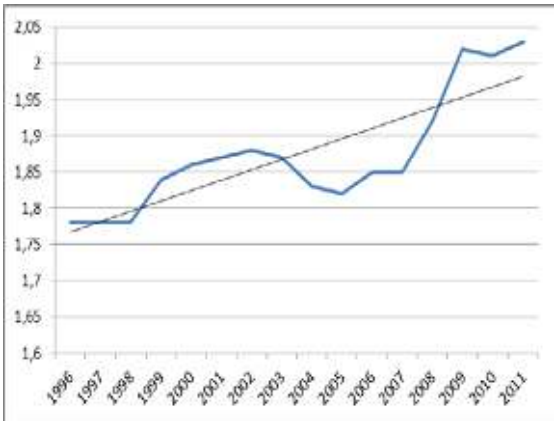
The Energy Intensity of the Economy at European Union level had a favorable evolution during the last two decades. The indicator value decreased by 50% (in 2010 the Energy Intensity of the Economy in European Union was half of its value in 1990). Along the entire period the indicator value decreased by 3,4% in average per year, but the average relative decrease was higher in 1990-2000 decade (-5,57%) than in 2001-2010 decade (-1,32%). In 2010 the highest value of the indicator was registered in Bulgaria, followed by Estonia and Romania. At the opposite side there are Denmark, Ireland and UK, countries with lower values of the energy intensity of the economy [6].

3. R&D expenditure

We cannot talk about energy efficiency without a determined research-development-innovation activity. "Research and experimental development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society and the use of this stock of knowledge to devise new applications" [11]. The evolution of Research and Development sector in a country strongly depends on the education management system, in a knowledge-based society [4]. One of the EUROSTAT indicators that characterize the research-development activity is GERD – Gross Domestic Expenditure on R&D, as a percentage of GDP [10].

In the last 15 years we can see – in the next chart – that the evolution of the indicators was fluctuating at EU level. Thus, between 1996 and 2002 the R&D expenditure as a percentage of GDP increased from 1,78% (in 1996) to 1,88% (in 2002). It was followed by a decrease until the beginning of the financial global crisis. Then EU countries have realized, however, that research-development can be a viable solution for ending the crisis. So the indicator level recorded the strongest growth in 2007-2011 period (maximum value: 2,03% of GDP in 2011).

Figure 2. Total R&D Expenditure (% of GDP)



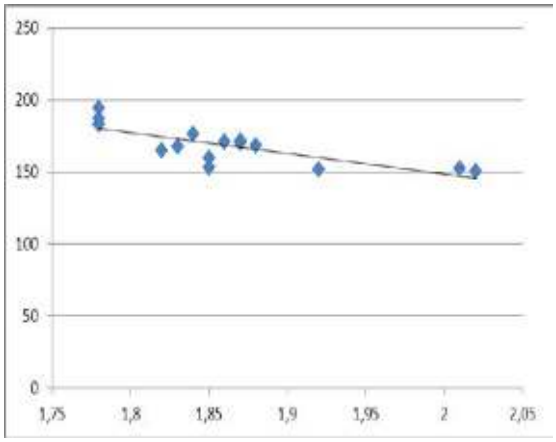
Source: made by the authors, based on data available on EUROSTAT Database.

In the first part of the last decade, growth indices of real earnings recorded lower values than those of real expenditure of the population. In the second part of the decade (after 2005) the evolution of the two indicators is similar. Indices have values above unit on almost the entire period, except for the years of financial crisis.

4. The correlation between R&D expenditure and the energy intensity of the economy

Analyzing the next scatter, the correlation between the R&D expenditure as a percent of GDP and the energy intensity of economy, in 1996 - 2011 period was a rather strong and negative one, (the correlation coefficient was -0,788 and it was statistically significant for more than 95% confidence level) [2] [3]. The growth of R&D expenditure was accompanied by a decrease in the energy intensity of the economy.

Figure 3. The correlation between the R&D expenditure (% of GDP) and the energy intensity of the economy (kg of oil equivalent per 1 000 EUR), between 1996 and 2010, at European Union level.



Source: made by the authors, based on data available on EUROSTAT Database.

Table 1. The coefficient of correlation between R&D expenditure and the energy intensity of the economy.

	Total R&D Expenditure	*Energy intensity of economy*
Total R&D Expenditure	1	
Energy intensity of economy	-0,78835	1

Source: made by the authors, based on data available on EUROSTAT Database.

5. Real GDP per capita growth rate and its connection to the energy intensity of the economy.

Real GDP per capita growth is a EUROSTAT indicator characterizing the dynamics of an economy. EU economy recorded a downward trend in terms of this indicator. One of the peaks of development was manifested in 2000 (+3.6%), while the second peak - less high - occurred in 2006-2007 (+2.9%). There was a period of slowing economic growth between 2002 and 2005. After 2007 the global financial and economic crisis was felt in a very strong decrease in real GDP per capita growth rates, when the EU economy registered a negative growth (-4.6% in 2009). Since then, the EU economy has recovered in 2010 and 2011, going back to a positive growth. Unfortunately, specialists' forecasts indicate a return of financial crisis in the years 2013 and 2014, when real GDP per capita growth will be negative again.

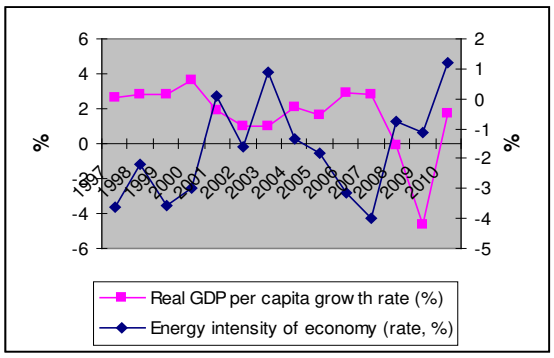
Figure 4. Real GDP per capita growth rate (%), 1996-2014, at European Union level



Source: made by the authors, based on data available on EUROSTAT Database.
Note: 2013, 2014 – predicted values.

One of the specific objectives of the implementation of the European Strategy for Sustainable Development of the EU is to ensure the independence between the economic development, on one hand and energy and resource consumption, in general, on the other hand. In other words, the economic growth in EU countries must no longer be produced by resources overuse, by increasing resource consumption. Due to the slowdown in GDP growth and a decrease in energy consumption during the same period, it was achieved absolute decoupling between energy consumption and economic growth. Development of energy intensity has a strong link with the dynamics of economic cycles [9].

Figure 5. The comparative evolution of Real GDP per capita growth rate (%) and Energy Intensity of the Economy growth rate (%), 1997-2010, at European Union level



Source: made by the authors, based on data available on EUROSTAT Database.

In support of this idea we have examined the correlation between real GDP per capita growth rate and Energy intensity of the economy. Over the period analyzed (1996-2010) the correlation between the two indicators is positive, medium intensity, which shows that throughout the period there has been a decoupling between economic growth and energy consumption [5]. Analyzing this correlation in time sequences, we have noticed that there were some different developments. Please note that the results are indicative and should be interpreted with caution due to limited information in the sub-samples. The period 1996-2000 was characterized by a strong negative correlation between the two analyzed indicators; economic growth was accompanied by a reduction in the energy intensity of the EU economy.

Table 2. The coefficient of correlation between real GDP per capita growth rate and the energy intensity of the economy (1996-2000).

1996-2000

	Real GDP per capita growth rate	*Energy intensity of economy*
Real GDP per capita growth rate	1	
Energy intensity of economy	-0,93962	1

Source: made by the authors, based on data available on EUROSTAT Database.

In the next sub-period (2001-2006) continues the same type of correlation between real GDP per capita growth rate and Energy intensity of economy, however, although the correlation is negative, it decreases in intensity from the previous period. It is a period of some stability in the rate of economic development, on a background of lower energy intensity of the EU economy.

Table 3. The coefficient of correlation between real GDP per capita growth rate and the energy intensity of the economy (2001-2006).

2001-2006

	Real GDP per capita growth rate	*Energy intensity of economy*
Real GDP per capita growth rate	1	
Energy intensity of economy	-0,69757	1

Source: made by the authors, based on data available on EUROSTAT Database.

In the last sequence of time (2007-2010) the meaning of the correlation between the two indicators has changed, becoming a very strong and positive correlation. The explanation is that in this period there was a strong economic recession, a strong decrease in the rate of economic development, naturally accompanied by a reduction in energy consumption. Decoupling between the evolutions of the two indicators manifested in the first two sub-periods of time analyzed.

Table 4. The coefficient of correlation between real GDP per capita growth rate and the energy intensity of the economy (2007-2010)

2007-2010

	Real GDP per capita growth rate	*Energy intensity of economy*
Real GDP per capita growth rate	1	
Energy intensity of economy	0,96784	1

Source: made by the authors, based on data available on EUROSTAT Database.

6. Conclusions.

The issue of energy efficiency gains new amplitude under the impact of the undesirable effects of economic development on the environment. Therefore the European Commission has granted an important place in the European Strategy for Sustainable Development. Our analysis focused on a number of indicators used by EUROSTAT in the system of sustainable development indicators: real GDP per capita growth rate, energy intensity of the economy, R & D expenditure as percent of GDP.

The correlation between the R&D expenditure as a percent of GDP and the energy intensity of EU economy, in 1996 - 2011 period was a rather strong and negative one, which means that the growth of R&D expenditure was accompanied by a decrease in the energy intensity of the economy.

Examining the correlation between real GDP per capita growth rate and Energy intensity of the economy, we have noticed that this correlation have had some different developments during time sequences. Over the period 1996-2010 the correlation between the two indicators was positive, medium intensity. The sub-period 1996-2000 was characterized by a strong negative correlation between the analyzed indicators, when the economic growth was accompanied by a reduction in the energy intensity of the EU economy. In the next sub-period 2001-2006 continues the same type of correlation between real GDP per capita growth rate and Energy intensity of economy, with lower intensity compared to the previous period. Finally, in the last sequence of time (2007-2010) the meaning of the correlation between the two indicators has changed, becoming a very strong and positive correlation.

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Operational Risk Disclosures in Hungarian Commercial Banks

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Abstract

This paper aims to assess the current operational risk disclosure in Hungarian banks. Therefore, we focus on the operational risk items that Hungarian banks disclose and if they comply with the requirements of the International Bank of Settlements. The survey methodology was adopted by testing the annual financial reports for Hungarian commercial banks. The analysis shows that Hungarian banks, primarily, do not meet the requirements of the International Bank of Settlement, relating to operational risk disclosure, and there are many discrepancies between Hungarian banks relating to the format of the financial report, which presents the operational risk disclosures. Commercial banks in Hungarya have different approaches of showing the disclosures of operational risk. Accordingly, they do not disclose the same types of information. Our study advice Hungarian commercial banks to enhance current operational risk disclosure practices. The contribution of this paper is to highlight the Hungarian commercial approaches of the operational risk disclosures.

Keywords: operational risk, disclosure, banking, Basel II, International Bank of Settlement
J.E.L. Classification: G21

1. Introduction

Mandatory disclosure is an important tool intended to allow market participants to assess operational risk [1]. The annual reports of the banks are a tool which should show the key indicators of operational risk, because a major task of the banks is to measure and manage the risks that arise from their business activities.

Under Pillar 3 financial institutions are required to provide detailed information on their capital structure and adequacy, as well as information on the size and assessment of risk exposures.

In this paper we examine the quantity and quality of operational risk measurements and management information that it is currently provided by Hungarian banks' annual reports and assess the results in the light of the disclosure requirements of operational risk as put froward by Basel Comittee on Banking Supervision.

The importance of this study consists in detecting the concept and de adequacy of the operational risk disclosure and the nature of the contiguity of the banking activity and imposed by this nature. And through the participation of financial statements contain a high level of disclosure to operational risk in order to enhance the transparency of banks and to strenghten the market system by encouraging banks to provide the public and maket participants the information they need in order to assess the financial position of banks and the performance and activities and exposure to economic risk. The importance of this consists in the fact that the weak practices in operational risk management were the part, from many reasons, for the failure of banks and banking crisis in the world.

The purpose of this study is to measure the current level of disclosure for the Hungarian banks in operational risk, through the examination of annual financial for Hungarian commercial banks and if the current practices comply with Bank of International Settlements.

2. Previous study

Following the widepread recongnition of the importance of operational risk in banking and the knowlodge that operational risk

exhibits caracteristics fundamentally different from those of other risks, an increasing amount of academic research has been devoted to this issue

One study [2] shows an investigation of operational risk disclosure practice for the years 1998 to 2001, a sample period in which the concern about operational risk started to increase but related disclosure was not manadory. Their findings indicate that institutions with a lower equity-ratio and/or which are less profitable choose a higher level of disclosure with repect to operational risk, in order to assure the market that operational risks are well managed. This study also shows that there was a asignificant increase in the extent of operational risk disclosure, measured by word count.

Another study [1] examine the value of operational risk disclosure through the controversial SEC requirement which required major hedge funds to register as investement advisors and file Form ADV disclosures. The study highlights that leverage and ownership structures suggest that lenders and equity investors were already aware of operational risk but operational risk does not mediate flow-performance relationships. Investors either lack this information or regard it as immaterial. This investigation suggests that regulators should account for the endogenous production of information and the marginal benefit of disclosure to different investment clienteles.

Other paper [3] aimes to highlight the role and significance of assymmetric information in contribuing to financial contagion. Moreover she emphasises the importance of greater disclosure requirements and the need for the disclosure of information relating to "close links ", such disclosure being considered vital in assisting the regulator in identifying potential sources of material risks, it illustrates the fact that incentives, such as the reduction in the levels of capital to be retained by institutions, which have the potential to facilitate market based regulation may not necessarily serve as suitable means in the realization of some of objectives included in Basel II. This study concludes that information disclosure should be encouraged for several reasons, amongst which include the fact that imperfect information is considered to be a cause of market failure, which reduces the maximization potential of regulatory competition and also because disclosure requirements would contribute to the reduction of risks which could be generated when granting reduced capital level rewards to banks who may have poor management systems.

Haija and Hayek [4] study the items of operational risk that Jordanian commercial banks disclose and if they comply with the central bank of Jordan requirements. They test the annual financial reports for 12 jordanian commercial banks. They show that Jordanian banks meet the requirements of the central bank of Jordan, relating to operational risk disclosure, but there are many discrepancies between the way the commercial banks organise their inormation in their annual reports. Therefore, they advice Jordanian banks to enhance current operational risk diclosures practices.

3. Research Design

3.1. Research Factors

We will use a model created by Haija and Hayek. This model includes the following three variable:

- Definition issues, which includes: operational risk definitions; operational risk measurement system; information on key risk indicators; technology and system risk; risk of human error; legal risk and other operational risk.
- Hierarchical issues, which includes: risk management framework; establishing operational risk committee; operational risk management department.
- Regulatory issues include: operational capital charge as % of minimum regulatory capital; operational risk exposure (by business line, if available) unexpected loss from operational risk.

3.2. Sample Selection

In our case we include all Hungarian commercial banks. Therefore the study population consists in all 33 Hungarian commercial banks.

Table 1, Table 2 and Table 3 show the disclosure items for all Hungarian banks and if they abide by our research factors.

Table 1. The disclosure items in Hungaryan Commercial Banks

Disclousure items	Risk Management Framework	Operational risk definition	Establishing operational risk Committee	Policies, process and procedures	Operational Management Department	Operational risk capital charge as % of minimum regulatory capital	Operational risk exposure (by business line)	Operational risk measurement systems
Allianz Bank	1	1	-	1	-	1	1	-
AXA Bank	1	-	-	-	-	-	-	-
Banco Popolare Hungary Bank	-	1	-	1	-	-	1	-
Bank of China	-	-	-	-	-	-	-	1
Banif Plus Bank	-	-	-	-	-	-	-	-
BNP Paribas Hungaria Bank	-	-	-	-	-	-	-	-
Budapest Hitel- és Fejlesztési Bank	-	-	-	-	-	-	-	-
Calyon Bank	-	-	-	-	-	-	-	-
CIB Bank	1	-	1	-	-	-	-	-
Citibank	-	-	-	-	-	-	-	-
Commerzbank	-	-	-	-	-	-	-	-
Credigen Bank	-	-	-	-	-	-	-	-
Deutsche Bank	-	-	-	-	-	-	-	-
Erste Bank Hungary	-	1	-	-	1	1	-	-
FHB Bank	-	-	-	-	-	-	-	-
Hanwha Bank	-	-	-	-	-	-	-	-
ING Bank	1	1	1	-	-	1	1	-
KDB Bank	-	-	-	-	-	-	-	-
Kereskedelmi és Hitelbank	1	1	1	-	1	-	-	-
Kinizsi Bank	-	-	-	-	-	-	-	-
MagNet Bank	-	-	-	-	-	-	-	-
Magyar Cetelem Bank	-	-	-	-	-	-	-	-
Magyar Takarékszövetkezeti Bank	-	-	-	-	-	-	-	-
Magyarországi Volksbank	-	-	-	-	-	-	-	-
Merkantil Váltó és Vagyonbefektető Bank	-	-	-	-	-	-	-	-
MKB Bank	-	1	-	-	-	-	-	-
Oberbank	-	1	1	-	-	1	-	-
OTP Bank	-	-	-	-	-	1	-	-
Porsche Bank Hungaria	-	-	-	-	-	-	-	-
Raiffeisen Bank	1	1	1	-	-	-	-	-
Sopron Bank Burgenland	-	-	-	-	-	-	-	-
UniCredit Bank Hungary	-	1	1	-	-	-	-	-
WestLB Hungaria Bank	-	-	-	-	-	-	-	-

Table 2. The disclosure items in Hungaryan Commercial Banks

Disclousure items	Information on the models used to manage and measure operational risk	Information on Key risk indicators (KRI)	Unexpected loss from operational risk	Tehnology and system risk	Risk of Human Error	Legal risk & other operational risk
Allianz Bank	-	-	-	-	-	-
AXA Bank	1	-	-	-	-	-
Banco Popolare Hungary Bank	1	-	-	-	-	-
Bank of China	1	1	-	-	-	-
Banif Plus Bank	-	-	-	-	-	-
BNP Paribas Hungaria Bank	-	-	-	-	-	-

Budapest Hitel- és Fejlesztési Bank	-	-	-	-	-	-
Calyon Bank	-	-	-	-	-	-
CIB Bank	1	-	-	-	-	-
Citibank	-	-	-	-	-	-
Commerzbank	-	-	-	-	-	-
Credigen Bank	-	-	-	-	-	-
Deutsche Bank	-	-	-	-	-	-
Erste Bank Hungary	1	1	-	-	-	1
FHB Bank	1	-	-	-	-	-
Hanwha Bank	-	-	-	-	-	-
ING Bank	1	-	-	-	-	-
KDB Bank	-	-	-	-	-	-
Kereskedelmi és Hitelbank	1	-	-	-	-	-
Kinizsi Bank	-	-	-	-	-	-
MagNet Bank	-	-	-	-	-	-
Magyar Cetelem Bank	-	-	-	-	-	-
Magyar Takarékszövetkezeti Bank	-	-	-	-	-	-
Magyarországi Volsksbank	-	-	-	-	-	-
Merkantil Váltó és Vagyonbefektető Bank	-	-	-	-	-	-
MKB Bank	1	-	-	-	-	-
Oberbank	1	1	-	-	-	-
OTP Bank	1	-	-	-	-	-
Porsche Bank Hungaria	-	-	-	-	-	-
Raiffeisen Bank	-	-	-	-	-	-
Sopron Bank Burgenland	-	-	-	-	-	-
UniCredit Bank Hungary	-	-	-	-	-	-
WestLB Hungaria Bank	-	-	-	-	-	-

Table 3. Summery

Disclosure Item	% percentage
Risk Management Framework	18.18%
Operational risk definition	27.27%
Establishing operational risk Committee	18.18%
Policies, process and procedures	6.06%
Operational Management Departement	6.06%
Operational risk capital charge as % of minimum regulatory capital	15.15%
Operational risk exposure (by business line)	9.09%
Operational risk measurement systems	3.03%
Information on the models used to manage and measure operational risk	33.33%
Information on Key risk indicators (KRI)	9.09%
Unexpected loss from operational risk	0%
Tehnology and system risk	0%
Risk of Human Error	0%
Legal risk & other operational risk	3.03%

% percentage: equal the existence of item in banks divided on total number of banks

The previous tables show the disclosure items for all Hungarian banks and if they abide by our research factors to each factor from annual report for each bank.

First of all, by analysing Hungarian commercial banks annual reports, we provide evidence that both extent and content of disclosures on operational risk of the banks are very poor, reflecting the lack of concern of managers of the banks, of supervisers and

of other agents, relating to operational risk disclosures.

Second of all, there are many dissonances refering at the approches of exposing the main information about operational risk. There are few banks which manifest interest in disclosing information about their operational risk.

Finally, the area of operational risk disclosure is poor in Hungarya, because banks are still in the process of developing operational managament departments, operational management framework, procedures and processess.

Conclusions

Hungarian commercial banks have a poor disclosure of operational risk. Moreover, our study expose that the preponderence of Hungarian commercial banks do not give information about operational risk. Most of annual reports of hungarian commercial bank do not even mention about operational risk. Furthermore, we recomend that Hungarian central bank should impose to commercial banks to include in their annual report the main information about operational risk and to enhance the disclosure of operational risk

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European Banking Integration in the Aftermath of the Global Crisis: the Case of the New EU Member Countries

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Abstract

One of the most important components of the European financial system is represented by the banking sector, especially in the case of the new EU member states, where the economy is almost exclusively financed through this channel. The banking integration process thus has a vital importance for the creation of a fully functional and efficient European Union. In this context, the aim of our research is to underline the main characteristics regarding the development and integration of the new EU member countries banking sector, especially taking into account the recent events determined by the global financial crisis and its aftermath. In order to achieve this, we have used a qualitative analysis based on structural indicators of the banking system that underline the main characteristics of the analysed countries.

Key words: European integration, banking sectors, law of one price
J.E.L. classification: G21, F15, F39, N24

1. Introduction

The completion of the European common market cannot take place without a fully integrated financial system, this being one of the main concerns for the EU policy and decision makers in the last two decades. Although the creation and adoption of the European single currency has speed-up and deepened this process in some financial segments, the completion of this process is still a far reaching goal. One of the least integrated financial sectors is represented by the banking sector, this being more obvious in the case of the new EU member countries. The integration of the banking sector is of the up-most importance, as especially in the case of the new EU member countries, the economy is financed through this channel, and thus the achievement of a long term economic and sustainable growth is directly linked to the deepening of this sector integration. The recent financial, economic and sovereign debt crisis has underlined even more this idea, as banks operating at a pan-European level have played an important role in the contagion process.

Taking all these into account the aim of our research is to underline the main characteristics regarding the development and integration of the new EU member countries banking sector, especially taking into account the recent events determined by the global financial crisis and its aftermath.

In order to achieve this, we have used a qualitative analysis based on structural indicators of the banking system that underline the main characteristics of the analysed countries. The sample is composed from the Central and Eastern European Union member countries, namely: Poland, Czech Republic, Slovenia, Slovakia, Hungary, Romania and Bulgaria.

The reminder of the paper is organised as follows: the second part is dedicated to a literature review, the third part details the methodological approach, the forth part underlines the characteristics of the analysed banking sectors, the fifth part presents the challenges faced in the banking integration process in the case of the analysed countries, while part six contains the concluding remarks.

2. Review of the academic literature

The dynamics of the European Union banking sector have been studied deeply in

the last two decades, a large body of literature being focused on related subject, employing both qualitative and quantitative approaches (see: [1]). One quick conclusion that can be draw from this large body of literature is that the banking sector of the EU has undergone through tremendous changes in the last decades. It all started with the deregulation of the capital markets, determined by the London Stock Exchange Big Bang in the eighties, followed by the European Commission initiatives materialised in the banking directives that aimed to stimulate cross-border banking activities and finally by the development of the Lamfalussy process and the subsequent proposal for the creation of a banking union in the aftermath of the global financial crisis. These impactful events that have succeeded in a short period of time have exercised a tremendous pressure on the business model of the EU banks, the enlargement to 27 members presenting yet another simulating incentive for pan-European development and competition.

Thus, in the face of these challenges the banks operating in the European Union have diversified their portfolios, universalising their operations and aiming rather for a general public (both retail and corporate) then a specific niche. As a result European bank provide customers with a wide range of products and services beside the traditional ones: insurance products, investment products like fund units, private banking and wealth management services and nevertheless portfolio management and advisory services. The liberalisation and deregulation of the financial sectors has also prompted an increased competition for banks from non-banking actors, thus the boundaries between banks and other financial agents have become more blur [2]. As mentioned earlier the extension to 27 members has provided the opportunity for Western European banks to develop their cross-border activities in the new member countries, as these markets are far from reaching their full potential. This has lead also to an increase of the competition level in the case of the new EU member countries banking sector [3].

Although the legislative initiatives at the European level have aimed an improvement of the overall integration level of the banking sectors the progresses registered are far ([4], [5]) from the ones achieved in the case of the monetary and bonds markets ([6], [7]).

The academic literature identifies a series of challenges that prevent the deepening of the banking integration process, these being more obvious in the case of the new EU member states. Thus, these challenges are represented by the characteristics of the national business environment [8], the socio-demographic barriers that exist that tend to be enhanced by the heterogeneous juridical and fiscal frameworks, that is specific to each member country and nevertheless the different impact that the recent global crisis had on the national macroeconomic environment ([9], [10], [11]).

3. Methodological considerations

In order to underline the progresses made in the banking integration process by the sample countries we have employed in our analysis the law of one price.

Thus, according to the law of one price, as a result of the integration process the nominal interest rates should converge toward the lowest registered level that exists in the case of the analysed countries [6].

In order to completely underline this complex process we will also take a look at the changes that have been registered in the competition level from the analysed banking sectors, as a deepening of the integration process should point out to an increased competition level, as entry barriers are removed and the cost for accessing these new banking markets drops significantly.

In order to establish the dynamics of the competition on the banking sectors from the new European Union member states we will take into consideration two main indicators.

The first indicator that we will use is the *CR5 Index*, which represents the percentage that the top five banks are having in the total assets of the system and which reflect the concentration degree of the market. The indicator is calculated based on the formula:

$$CR5 = \frac{A_1 + A_2 + A_3 + A_4 + A_5}{AT} x100$$

where A_1, A_2, A_3, A_4 and A_5 represent the value of the assets held by the top five banks in the system and A_T represent the value of

the total assets of the banking system. It can take values between 0.1% and 100%, where the low value represents a highly dispersed market and 100% represents an oligopoly or monopoly.

The second index that we will use is the *Herfindahl–Hirschman Index*, which underlines the degree of competition which exists on the market and is calculated based on the following formula:

$$H = \sum_{i=1}^{N} S_1^2$$

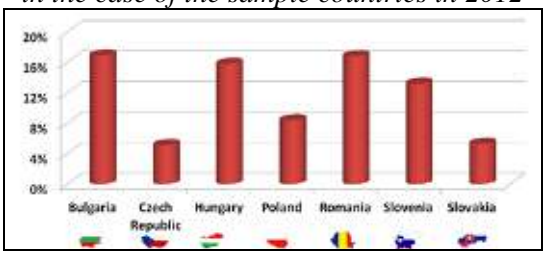
where s_i is the market share (in our case the value of banking actives) of firm (bank) i and N represents the number of banks that exist in a certain market. It can take values between 0 and 10000. If the values are below 100 it underlines the existence of a highly competitive market, if the value is below 1000 it reflects a dispersed market, if the value is between 1000 and 1800 it indicates a relative moderate concentration in the market and if the value is above 1800 indicates a highly concentrated market.

4. Development of the banking sectors from the new EU member states

The characteristics of the banking sectors from the analysed countries have been influenced on the one hand by the European integration process and lately by the recent global financial crisis.

In the aftermath of the global financial crisis an important problem has been represented by the increase of the non-performing loans ration in total loans. This has affected directly the profitability of the banking institutions and their business strategies, as banks have been faced also with a diminishing of the customer base in the context of macroeconomic depression. The dynamic of the non-performing loans is however different in the case of the analysed countries. Thus, we can observe from figure 1 that the highest level of non-performing loans is registered in the case of Romania, Hungary and Bulgaria. This evolution was determined in the case of Romania and Bulgaria especially as an effect of the macroeconomic environment depreciation, while in the case of Hungary it was determined by the depreciation of the forint compared with the euro and especially the Swiss franc, most of the mortgages being denominated in these currencies. At the other end of the spectrum are the banks operating in the Czech Republic, Poland and Slovakia. In the case of Poland the low level of non-performing loans can be attributed to the ability of the government to maintain a stable macroeconomic environment during the international financial crisis and its aftermath, while in the case of the Czech Republic and Slovakia it was the strict regulations imposed by their Central Banks that prevented banks from overexposing them in the credit boom period and thus the number of clients that have defaulted on their loans was relatively low.

Figure 1. The ratio of non-performing loans in the case of the sample countries in 2012

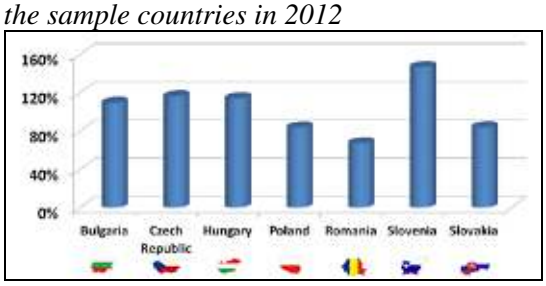


Source: author calculation based on ECB data

Another good indicator for the banking sectors of the new EU member states is represented by the intermediation level, calculated as the ratio of total banking assets to the gross domestic product.

Analysing figure 2 we can observe that the countries from our sample are registering a somehow similar intermediation level. Still, we must underline that Romania is registering the lowest level for this indicators, this being attributed to the late start of the banking privatisation process, that got momentum only at the start of the new millennium, and the late macroeconomic stabilisation that occurred only since 2004-2005. In the case of Poland the low intermediation level is attributed to negative re-evaluation of the banking assets in the aftermath o the global financial crisis and a slightly increasing GDP, a similar explanation being also valid for Slovakia.

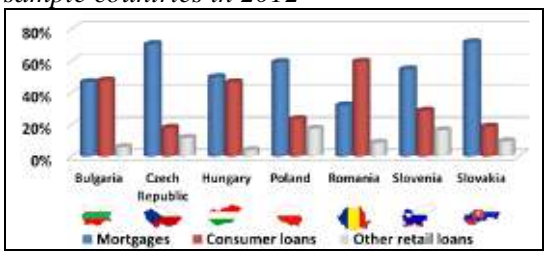
Figure 2. Intermediation level in the case of the sample countries in 2012



Source: author calculation based on ECB data

Another interesting indicator is represented by the retail loans structure of the analysed banking sectors (figure 3). In order to facilitate the analysis we have grouped the retail loans in three categories: mortgages, consumer loans and other retail loans. We can observe that in most of the analysed countries mortgages represent the main category of retail loans followed by consumer loans.

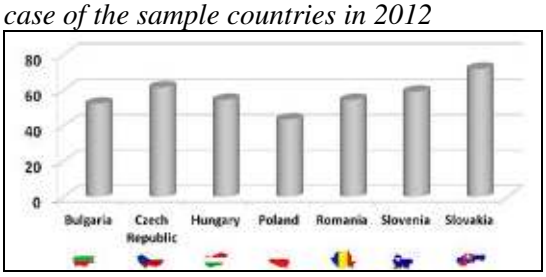
Figure 3. Loans structure in the case of the sample countries in 2012



Source: author calculation based on ECB data

A particular case is registered in the Bulgaria and Romania, where consumer loans have the highest share, this being more obvious in Romania. This evolution of the loans structure can be attributed to the macroeconomic instability registered in Romania and Bulgaria until 2004-2005, that determined banks to focus their crediting activity more on the consumer loans, that were granted for a short period of time and at high interest. Also, the impossibility to obtain a stabilisation of the inflation rate, that made almost impossible to grant mortgage loans at a reasonable interest rate. This is the reason why mortgages in these countries are granted almost exclusively at an adjusting interest rate. Nevertheless the loans structure influenced the ratio of non-performing loans, as clients mostly defaulted on their consumer loans, Bulgaria and Romania registering as presented previous a high level of non-performing loans.

Figure 4. CR-5 on the banking sector in the case of the sample countries in 2012



Source: author calculation based on ECB data

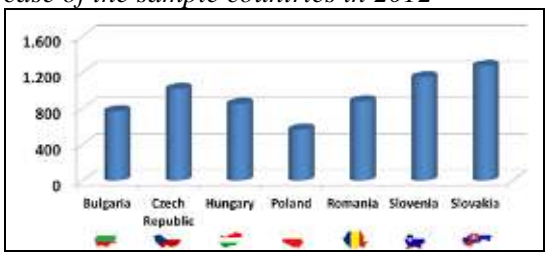
Regarding the concentration of the market, we can observe from figure 4 that the share of the five largest banks from the analysed countries held between 60 and 80 percent of the total banking assets in the case of the analysed countries. These levels are comparable with the ones obtained in the case of the Western European Union banking sectors. This also underlines the importance of relationship banking, as many banks have developed branches in these countries, but were unable to obtain a significant market share. Most of the pan-European groups that have a major market share in these countries have acquired local banks before the EU ascension process.

The Herfindahl–Hirschman index underlines the competition level that exists in the case of the analysed banking sectors. Analysing figure 4 we can observe that the concentration level of the banking sectors from the analysed countries are extremely low this underling that there is a good competition level. The best results are registered in the case of Poland were there are active over 50 banking institutions and, except for the big five, the banking market is fairly split between the rest of the banks.

Overall we can conclude that the banking sectors of the analysed countries have registered a solid development in the last decade, however the most important characteristic being that they are far from achieving their maximal potential. This is best underlined by the intermediation level that does not exceed 120%, while in the case of the Western European Union member countries this ratio is well above 240%. Also, a big challenge on the short to medium term

is represented by the high ratio of non-performing loans, the banks needing a solid rebound strategy as the macroeconomic recovery being still a long way ahead.

Figure 4. CR-5 on the banking sector in the case of the sample countries in 2012

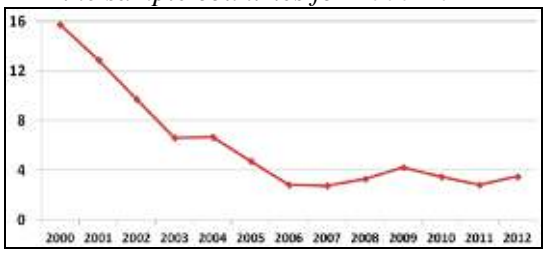


Source: author calculation based on ECB data

5. Challenges in the banking integration process

We will start our analysis by comparing the convergence of the average interest rates for retail loans. We have taken into consideration these interest rates because the retail loans represent one of the main categories of loans granted by the banks operating in the analysed countries and directly affect the European citizens from these countries. Thus the benefits of the banking integration process should be felt directly by anyone who contracts a loan from the bank, as the interest rates should decrease with the deepening of the integration process toward the lowest value registered on the market according to the law of one price.

Figure 5. Convergence of the average interest rates for retail loans in the case of the sample countries for 2000-2012

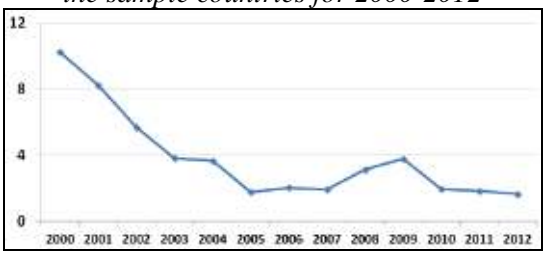


Source: author calculation based on ECB data

Despite the initial negative impact of the global financial crisis we can observe from the convergence analysis on the average interest rates for retail loans, calculated as the standard deviation for the interest rates, that in the aftermath of the crisis the banking integration process has continued to deepen in the case of the analysed countries.

In this context it becomes interesting to analyze the evolution of the average interest rates for retail deposits, in order to confirm the previous registered results (figure 6).

Figure 6. Convergence of the average interest rates for retail deposits in the case of the sample countries for 2000-2012



Source: author calculation based on ECB data

From figure 6 we can observe that also in the case of the average retail deposits the same convergence as in the case of the retail loans can be observed. Also in this case we can observe that the global financial crisis had a negative impact on the convergence process, while in the aftermath the convergence process continued.

The positive evolution can be attributed especially to the stabilisation of the macroeconomic environment and to a lesser extent to the development and expansion of the banking activity. On the contrary the freezing of the loaning operations has also impacted the convergence process, contributing to the diminishing of the standard deviation, as interest rates tend to be diminishing as a result of the relaxation of the monetary policy [11].

6. Conclusions

Concluding, the results of our analysis underline that even after more than two decades since the fall of the communism in Central and Eastern Europe and the successful completion of the EU ascension process, the banking sectors of the analysed countries are far from forming a homogenous club as they are portrait most of the times. Thus, the obtained results underline that during the analysed period the sample countries have registered notable progresses

in the banking integration process, despite the negative impact of the global financial crisis.

Although the banking sectors of the analysed countries have undergone through a processes of reform, privatisation and EU ascension there is still room for improvement, both in the case of the banking integration process and the development of these banking sectors. Probably the most important challenge will be the deepening of the banking integration process beyond the result achievable through the stabilisation of the macroeconomic environment and in the context of a possible banking union.

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The Social Law Rules Developed by the Council of Europe

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Abstract

In the European space, human rights issues is inevitably linked to the Council of Europe, acting in support of democratic ideals, providing the universality of human rights by promoting common standards in all member states, in the benefit of all citizens, regardless of their origin. Among Council of Europe activities, the development of numerous human rights programs occupies an important place.

Legal instruments are also operating in the conventions and agreements concluded within the Council of Europe, and the most important are: European Convention on Human Rights, European Social Charter, European code of social security and European Convention on Social Security.

Keywords: forced labour, compulsory labour, people trafficking
Classification J.E.L.: K31

1. Introduction

The actual implementation of human rights cannot be separated from the idea of the existence of on united Europe, with clear objectives, whose fulfillment is nothing less than the foundation of ensuring, promoting, respecting, guarantee, protection and effective realization of human rights.

The Council of Europe is the first organization of political Cooperation and it can be seen in the following that the Council's role is not restricted military and economical field but social and cultural one.

More than that, the Council of Europe came into being long time before the European Union, as an independent organization, dealing with the vast field of democratic security, which cannot be secured without the protection and promotion of human rights.

In their parallel and consecutive development and evolution, the Council of Europe and European Union adopted and developed numerous documents and common programs and sometimes till the overlapping of the content of legislation, which is based on the principle of respect for fundamental human rights.

The present work aims to establish the role and evolution of the Council of Europe in the field of human rights protection and insurance, so, we will refer to: European Convention on Human Rights, European Social Charter (revised), European code of social security and European Convention on Social Security.

2. Council of Europe

From the beginning we must distinguish between the European Council and the Council of Europe because, in some cases there have been confusions between the two of them.

So, the European Council represents one of the European Union institutions which brings together the representatives of the Governments of the Member States, being the main decision organization of European Union, while, the Council of Europe is a political organizational of intergovernmental and parliamentary cooperation, which was founded by the treaty signed in London, on 10th May, 1949, by ten European states: Belgium, Denmark, France, Iceland, Italy, Luxembourg, Great Britain, Norway, Netherlands, Sweden.

Those who want to be members of this organization must accept the principles of the rule of law and the principle according to

which, each person under its jurisdiction must enjoy the human rigths and fundamental freedoms plus the sincere desire of the participants-the members, to compete effectively in achieving the purpose of the Council.

This Council has the Committee of Ministers in its structure, which is the decision organization of the European Council and the Parliamentary Assembly (called Consultative Assembly until 1974) which is a consultative organization without law making power. Besides the two main organizations, in the European Council structure there are also the European Court of Human Rights , the General Secretariat, the Congress of Local and Regional Authorities.

Till the present, the European Council developed a number of over 200 European conventions and agreements, and these documents are the real source of the regional international law (especially in human rights issues) some of which are open to ratification for the states which are not members of this organizations.

These are binding conventions and agreements only for the states that sing, ratify or accede to them.

Besides these conventions, the European Council adopted a series of recommendations which haven't got a judicial power, but they offer strands of organizations and, in many situations, these recommendations have become conventions and agreements.

Since 1950, the European Council „equips" Europe with an „European Convention on Human Rights" establishing the legal protection mechanisms at European level.

European Convention on Human Rights and Fundamental Freedoms was adopted on 4th November 1950, in Rome and came into force on 3rd September 1953.

This convention is also judged to be a fundamental document on human rights protection and guarantee by both, the instituted and procedure and through a wide range of rights and freedoms, devoting them the recognition and guarantee.

It is considered the most important legal instrument in the conventional system of the European Council[1].

Although reiterates a number of rights enshrined in the Universal Declaration of Human Rights (we mention some of these: the right to life, prohibition of slavery, respecting the right to privacy, the freedom of thought), the European Convention brings some developments and concretizations in fields like: right to freedom and security, the right to found a union, prohibition of forced or compulsory labour.

Concerning the prohibition of forced or compulsory labour it can be seen that this European Convention took certain terms from the International Labour Organization Convention, number 29/1930 regardind the forced or compulsory labour, convention which was adopted in the 14th session of International Labour Conference. This convention is also among the eight fundamental conventions of International Labour Organization.

In the specialty literature, the forced labour is also called „modern slavery"[2], which refers to underpaid work, the work performed in high-risk of accidents conditions and in certain situations to trafficking people. Sometimes, the forced labour is performed by the migrant workers. A lot of migrant workers are exposed to the risk of exploitation and abuse because most employers don't respect international labour standards [3].

Under the art.4, par. 2 from the European Convention, no one can be constrained to perform a forced or compulsory labour; by exception of this rule, it is not considered forced or compulsory labour:

-any work required to be done in the ordinary course of detention imposed or during conditional release from such detention

-any service of a military character or, in case of conscientious objectors in countries where they are recognized, service exacted instead of compulsory military service

-any service exacted in case of an emergency or calamity threatening the life or well –being of the community.

-any work or service which forms part of normal civic obligations.

Regarding the right to establish a union, referred to in Article 11 from the Convention[4], it can be drawn just the idea that any person has the right to establish a union and to join a union but not the right of trade unions to function freely.

The compliance with the Convention is provided by the existence and functioning of the European Court of Human Rights, composed of a number of judges equal to the one of the contracting parties.

Under the art.35 of the Convention, it can be seen that you cannot go to the European Court on Human Rights only after the exhaustion of the ways of internal appeal.

The European Convention on Human Rights covers only civil and political human rights. Therefore, the Council of Europe, in its effort to regulate and protect the economic, social and cultural human rights adopted, in Turin, on 18th October, 1961, the European Social Charter (came into force in 1965). Among the most important human rights covered by the Charter can be mentioned: the right to work, union rights, negotiation, the social security.

This document sets out 19[5] rights that the Contracting States undertake to guarantee.

In other news, this book can be considered a mixed text because it includes declarative part, which set social polity objectives to be pursued by Member States of the Council of Europe and part legal, listing obligations for a State ratifies. One of the obligations of Member States is to submit periodic reports for consideration to a committee of experts.

Moreover, the European Social Charter is a summary of international labour law, as it is produced mainly by the International Labour Organization.

Council of Europe's concern about this international document led to the revision of such content Social Charter in 1996, was reinstated in the document adopted in Strasbourg on 3 May 1996, known as the European Social Charter (revised).

In its new redaction, the document we refer, appears as a set of core labour rights and social security. In addition to the 19 rights, which are defined by the European Social Charter, the new revised Charter adds another 12 rights.

In the legal doctrine this document is considered to be one of the „major Council of Europe treaties in human rights, an European reference tool in social cohesion".

The Council of Europe adopted (among those presented above) the European code of social security (1964) and the European Convention on Social Security (1972).

This way, the European code of social security is the only legal instrument which defines European social security rules. It was adopted in 1964 but came into force on 17 th March 1968. This code also establishes minimal protection levels, which the states must provide them in nine social security fields and it has as a purpose, the harmonization of social security systems of the Member States of the Council of Europe [6].

Otherwise, the Code was revised, so that was opened for signature on November 6, 1990[7].

After a period of four years from the development of the European code of social security, the European Convention on Social Security (adopted in 1972 came into force in 1977) came in addition to it. This Convention has as a foundation, the fourth principles of the international[8] Law of social security meaning: equal treatment in social security between domestic and foreign people, maintenance of rights acquired abroad, the uniqueness of the applicable law as well as the transfer of benefits between the countries concerned.

This Convention applies to all fellow Contracting States, stateless persons residing in their territory and their family members and survivors [9] and covers all social security benefits.

3. Conclusions

From the analysis made, we can conclude that European community and the world one have reached a stage of evolution, where the development and security of human existence can't be unilaterally treated. In this context, the human development cannot be provided without offering it safety: at the same time, safety is not guaranteed without development and both can't be guaranteed without the respect for human rights.

For this reason, it is necessary to target the need to coordinate the efforts of all states to achieve the best interests of the international and European community, respectively the protection of human rights and freedoms.

In this context, the fundamental rights represent the convergent point which is based

on the European Convention on Human Rights, at the level of the Council of Europe, legal text that represents a reference point in any democratic legal system.

The Council is aware that legal norms, tools and mechanisms for the protection of human rights have little effect if European citizens are not informed of their existence and scope.

According to the content of this paper and analyzing the content of the European Convention on Human Rights, but especially, observing the mechanisms of action of the Council of Europe we can conclude that, in terms of protection and providing human rights, these are much safer than anywhere in the world.

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Trade integration of the Central and Eastern European economies with the Euro area

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Abstract

The objective of this study is to examine the intensity of the trade linkages between the CEE economies and the countries belonging to the core and periphery of the euro area, in terms of the symmetry of the shocks and costs of the adopting euro currency. The trade represents a transmission channel for the external shocks towards the CEE emerging economies, and thus the macroeconomic evolutions from monetary union will influence the exports of the new EU member countries and their economic growth process. The first part of the study examines the significance of the trade integration based on the theory of the optimum currency areas, making references to the results found in the economic literature. In the second section, I have determined the degree of trade integration with the Euro zone countries, first of all making an analysis for Romania's case and then of the other CEE economies.

Key words: trade integration; Euro area; business cycle synchronization; external shocks.
JEL Classification: E42; F15.

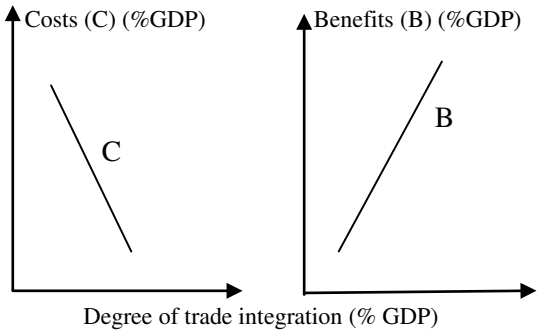
1. Introduction

Robert McKinnon proposed an important criterion for the stability of a monetary area, namely the degree of trade integration between the economies forming a monetary union [4]. The motivation to include this criterion was based on the correlation between the efficiency of the macroeconomic policies and the degree of economic openness. Thus, the more an economy is open in terms of trade, the lower are the benefits generated by the national currency's nominal depreciation, as the prices of the imported goods will rise, thus influencing the raise of the prices for final domestic goods. Consequently, there will not be a significant real depreciation of the national currency, and thus the benefits of a common currency will get increased. The more the internal prices react to a greater extent to the modification of the exchange rate (a significant "pass-through" effect), the more the exchange rate affects inflation only, and not the external competitiveness [7].

The increase of a country's trade integration degree favors the decision to adopt a common currency, as it influences the related costs and benefits (figure 1):

a) the costs (in terms of loss of economic stability as a consequence of giving up their own monetary policy) are the lower so as the degree of trade integration is higher. The explanation is that the effects of the shocks recorded in the trade partner countries will be transmitted faster in their own economy, thus reducing the efficiency of using the rate of exchange to adjust those external shocks.
b) the benefits (in terms of efficiency benefits of the common monetary policy) will be more important so as the degree of trade integration with the monetary area is higher. That economy will record benefits generated by the removal of uncertainty and transaction costs specific to the foreign trade operations under the terms of a flexible rate of exchange.

Figure1. The influence of the trade integration upon the joining to a monetary union



Beside the direct influence of the trade integration degree upon the adoption of a single currency, there is also an indirect influence, which is the effect of the degree of correlation between the business cycles. Regarding this, there are two views in the economic literature: an optimistic view and a pessimistic view. In the optimistic view, the trade in the European Union countries is an intra-industry trade to a great extent, so that most of the aggregate demand shocks affect the countries from this economic union in the same way. If a unique market is made, most of the demand shocks will tend to have a symmetric effect. According to this approach, the increase of the trade integration degree will lead to a convergence of the economic structures and to the occurrence of asymmetric shocks.

Therefore the degree of business cycles synchronization and the benefits of adopting the single currency will get increased. In the pessimistic view, the trade integration results in a regional concentration of the industrial activities and in the occurrence of asymmetric shocks, thus reducing the degree of correlation of the business cycles. The empirical evidence of Frankel and Rose [2] support the optimistic approach. Frankel and Rose asserted that the countries with the strong economic relations tend to record a higher business cycles correlation, claiming that the emphasis of the trade integration due to the monetary unification will generate the better synchronization of the economic cycles closer to the specificity of an optimum currency area.

The CEE countries have recorded a fast increase of exports, despite of the national currencies appreciation tendency from the period previous to the economic crisis, as a result of the foreign investments, of the privatization process, of reducing the commercial barriers along with entering EU and maintenance of competitive advantages related to the taxation level or to the labour costs. As the direct foreign investments have contributed to the CEE economies' integration in the global channel of products, then the share of the intra-industry trade will be closer to the level recorded by the most important trade partners from the Euro area. Under these terms, those economies accession to the Euro area should not be accompanied by additional costs in terms of trade. However, the results obtained in the economic literature are contradictory. On the one hand, de Grauwe and Mongelli [3] asserted that the emphasis of the trade relations between the structurally divergent economies (such as the Euro zone and some of the CEE economies) will increase the probability to form a heterogeneous monetary union. On the other hand, Bussiere and the others [1] settled that the CEE economies are characterized by a degree of trade integration which is superior to that of the monetary union, this fact reducing the costs for the adoption of the unique currency.

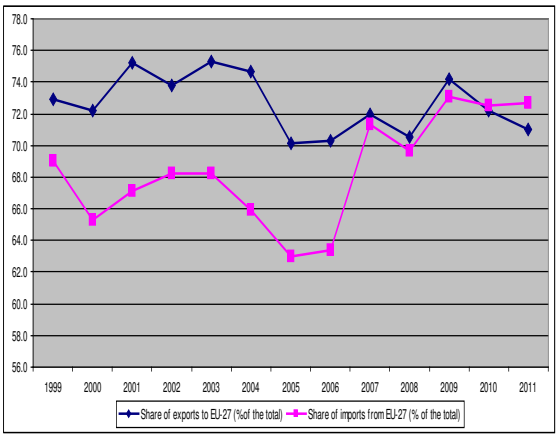
This finding confirms the results of the analysis made by Zumer and Melitz [8], according to which the new EU member countries have an exports structure more diversified, thus providing a higher resistance to the action of some shocks specific to a certain activity sector. A significant factor which influences the relation between the trade integration and the business cycles synchronization is constituted by the intra/inter-industry feature of the trade. According to a study made by Munkácsi [5], some of the new EU member countries (such as Hungary and the Czech Republic) record a share of the intra-industry trade superior to the cohesion countries, thus increasing the probability of occurrence of more symmetric shocks with the Euro zone countries. As the CEE economies are quite open from a commercial point of view, then one of the economic growth engines is represented by the foreign exchanges, mainly with the Euro zone economies.

2. The degree of trade integration

Romania's economy is relatively less open in terms of trade compared to other CEE countries, but the trade is especially made with the Euro area core countries. In this

regard, Romania was the ninth economy in EU in 2011 in terms of the share of the exports towards EU-27 (71% of the total) and the eighth in terms of the share of the imports from EU-27 (72.7% of the total imports). During the period 1999-2011, the share of Romania's exports to EU was quite stable, ranging between 70.1% and 75.3%. The Romanian adhesion to the EU does not generate an increase of the share of exports above the levels recorded during the period 2003-2004 (figure 2). In contrast, the share of imports was decisively influenced by the adhesion to the European Union, as a consequence of the elimination of the custom duties and the weak competitiveness of some of the domestic final products. Thus, the share of imports from EU increased in 2007 by 8 percents in comparison with the previous year, after which it was limited to approximately 73%.

Figure 2. The evolution of trade exchanges between Romania and EU-27

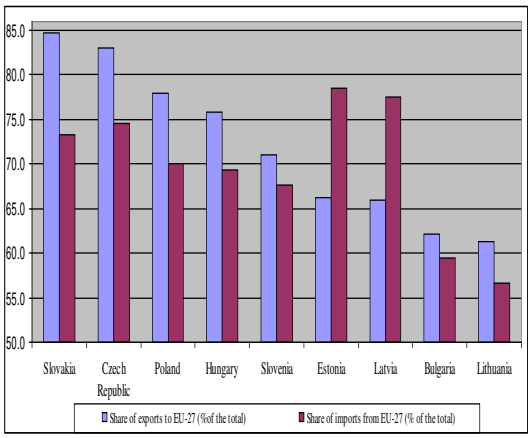


Data source: Eurostat

Among the ten economies which are the most integrated with EU-27, six of them are from CEE, both in terms of imports and also of exports. These economies' accession to EU has rather influenced, as in the case of Romania, the imports and less the exports to the other countries from the economic union. Thus, in 2004 relative to 2003, the share of the imports from EU increased by 8.9 percents in the Czech Republic, by 8.7 percents in Estonia, and by 7.4 percents in Lithuania. However, the increase of the dependence on European imports was temporary in most of the CEE economies, the most significant decreases being recorded by Slovenia (by 14.4 percents in 2011 if compared to 2004) and Lithuania, in this case the decrease being by approximately 7 percents.

According to figure 3, it results that Estonia and Latvia imported over 77% of the goods from EU-27 in 2011, while Lithuania recorded the lowest dependence on European Union, its share being of 56.7% of the total. With reference to exports, over 83% of the Slovenian and Czech external market is European Union, while Hungary's and Poland's exports are at least 76% to the other economies of the union. The Baltic States recorded a reorientation of exports towards countries outside EU-27, the share of the European exports decreasing by 14-15 percents in 2011 compared to 2003-2004. As in the case of imports, Lithuania is the least integrated CEE economy also in terms of exports to the other EU countries.

Figure 3. The share of trade exchanges between CEE and EU-27 (2011)



Data source: Eurostat

Among the European Union countries, the CEE economies (except the Baltic States) are the most integrated with the economies of the monetary union, especially with the core ones (Germany, France, Italy, Austria, the Netherlands, Belgium and Luxembourg). Thus, in 2011 approximately 54% of the exports and 52% of the imports of the Romanian economy were made with the Euro zone countries, yet these values being lower compared to 2004, when approximately 60% of the foreign trade was made with the countries from the current monetary union. In 2011 five out the first ten destination countries for the Romanian exports/imports were from euro area (i.e. 44.5% of the total exports, 41.5% of the total imports), thus

confirming higher trade integration, especially with the economies forming the Euro zone core. However, if compared to 2004, the share of these economies in the total Romanian exports decrease by approximately 6.5 percents, as a consequence of the decrease of exports to Italy, by approximately 9.3 percents in 2011.

Germany is the main trade partner of Romania, although the share of exports to this economy decreased from 21.4% of the total in 1999 up to 13.7% in 2008. The fiscal stimulus packages of the German economy have contributed to the increase of demand for Romanian products, their share reaching 18.6% in 2011. According to the data included in Table 1, it results that more than a half of the Romanian exports to EU-27 are made with the most important Euro zone economies – Germany, France and Italy –, which produce approximately two thirds of this area's output. The economic shocks which will influence these economies will be transmitted through trade also in the Romanian economy and they will become more symmetric.

Table 1. The most important trade partners of Romania from the Euro area

2004		2007		2011	
Share in the total exports	Share in the total imports	Share in the total exports	Share in the total imports	Share in the total exports	Share in the total imports
Italy 21.2%	Italy 17.2%	Italy 17.1%	Germany 17.2%	Germany 18.6%	Germany 17.1%
Germany 15%	Germany 14.9%	Germany 16.9%	Italy 12.7%	Italy 12.9%	Italy 11.4%
France 8.5%	France 7.1%	France 7.7%	France 6.3%	France 7.5%	France 5.8%
The Netherlands 3.2%	Austria 3.5%	Austria 2.6%	Austria 4.8%	The Netherlands 3.1%	Austria 4%
Austria 3.1%	-	Spain 2.3%	The Netherlands 3.6%	Spain 2.4%	The Netherlands 3.2%
Total		**Total**		**Total**	
51%	**42.7%**	**46.6%**	**44.6%**	**44.5%**	**41.5%**

Data source: Eurostat

The integration with the Euro area core economies does not constitute a feature of the Romanian economy only, also being a feature of the other CEE economies, except the Baltic States. Surprisingly, during the last 11 years, the new member countries have reduced their exposure upon the important economies of the monetary union, meanwhile increasing the integration with the other EU economies, including other economies within the same group. Thus, the share of exports to the Euro zone core has reduced by 24 percents in Hungary, and by approximately 20 percents in Romania and Slovenia, in 2010 compared to 1999. Since 2008 a slight increase of exports to the reference economies has been recorded, as a consequence of Germany's foreign demand increase. As a matter of fact, this economy represents the main trade partner of the Czech Republic (31.5% of the total exports), Poland (25.7%), Hungary (23.1%), Slovakia (19.6%) and Slovenia (17.1%), while the Baltic States' and Bulgaria's dependence on Germany is by maximum 10.4% of total exports. Nevertheless, the high trade integration with Germany does not constitute a consequence of the economic integration, this being a characteristic of most of the CEE economies even before 2000. For example, in 1999 Germany was the main external market for 8 CEE economies (including Lithuania and Latvia), the Czech Republic exporting 40.5% of the total to that economy.

According to the data included in Table 2, it results that the macroeconomic evolutions of the monetary union core has a significant influence upon the exports of the CEE economies (except the Baltic States), thus contributing either to their re-launch when the core passes through an economic expansion period, or to their decrease when, for example, the core applies certain budget austerity measures [6]. In order to illustrate the possible contagion effects in terms of trade, I have also considered the group of periphery economies of the monetary union (with 12 members) including Ireland, Portugal, Spain and Greece. Bulgaria is the CEE economy which is the most integrated with the Euro zone periphery, exporting 8.3% to it in 2010, under the terms in which the shares of the other economies range between 0.6% (Estonia) and 4.1% (Romania). As a consequence, the increase of unemployment and the decrease of revenues in economies such as Spain and Greece will only marginally influence the total exports of the new CEE member countries.

Table 2. The degree of trade integration of the CEE countries with the core and periphery of the Euro area

		1999	2005	2008	2010
BULGARIA	Core	43.0%	39.2%	29.1%	31.8%
	Periphery	12.6%	10.4%	9.8%	8.3%
THE CZECH	Core	58.7%	46.8%	48.1%	52.1%

REPUBLIC	Periphery	2.6%	2.8%	2.6%	2.9%
ESTONIA	Core	22.5%	16.6%	11.0%	12.2%
	Periphery	1.9%	1.9%	0.8%	0.6%
HUNGARY	Core	65.8%	47.6%	41.2%	41.9%
	Periphery	3.3%	3.7%	3.5%	3.4%
LITHUANIA	Core	38.7%	20.1%	19.4%	22.1%
	Periphery	1.9%	2.6%	2.8%	1.8%
LATVIA	Core	40.2%	23.5%	15.7%	14.9%
	Periphery	3.4%	5.5%	5.8%	1.4%
POLAND	Core	55.9%	42.1%	42.5%	46.3%
	Periphery	2.3%	2.6%	3.5%	3.4%
ROMANIA	Core	62.1%	50.0%	39.0%	42.7%
	Periphery	4.2%	4.6%	4.1%	4.1%
SLOVENIA	Core	60.5%	42.6%	39.2%	41.8%
	Periphery	1.5%	1.9%	1.7%	1.7%
SLOVAKIA	Core	57.8%	45.6%	37.0%	41.1%
	Periphery	1.3%	2.0%	2.2%	3.0%

Data source: Eurostat

Beside the influence upon the trade relations with the countries from the monetary union, the CEE countries' accession to the European Union has generated the reorientation of a part of the exports towards economies from the same group, which are characterized by a closer development level, having a similar geographical position. Thus, the CEE economies exported at least 13.5% of the total to the other economies from same region in 2010, while in 1999 only the Czech Republic recorded a share higher than 10% of the total. Slovakia is the most integrated, exporting over 31% of the total to the other six economies, while the share of Hungary's exports increased by 10 percents within seven years only. As a consequence, the group of the seven CEE countries will develop synchronized in terms of trade, due both to the dependence on the same group of economies (the Euro area core) and also to the trade integration with economies from the same region.

Conclusions

In this study I have demonstrated that there is a strong trade integration between the Central and Eastern European countries with the rest of Europe, especially with those belonging to the core of the monetary union. According to the optimum currency area theory, this situation will reduce the costs of monetary integration for CEE economies. However, the degree of trade integration with the euro area is important and in absence of the transition to the single currency. Thus, increasing of the demand in the euro area will generate a significant impact on highly integrated economies with monetary union, stimulating the recovery of these countries. Also austerity measures promoted in the monetary union will affect in a greater extent the growth process of the more integrated countries.

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Business Cycles Synchronization with the Euro Area. The Case of CEE Countries

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Abstract

The optimum currency area theory and the economic literature settled that the convergence of the business cycles is one of the most important criteria in establishing the costs and the benefits of the adhesion to a monetary union. If the action of various types of economic shocks, respectively the speed in neutralizing them is very similar among economies, then their own monetary policy will no longer be necessary as those shocks may be adjusted by means of a common monetary policy. Thus, the costs for giving up their own currency get decreased, thus increasing the benefits of the monetary integration. In this study, I have proposed to estimate the correlation of the CEE countries' business cycles with the average of the Euro area, in order to establish the extent of the potential costs generated by the loss of monetary independence.

Key words: business cycle synchronization; Hodrick-Prescott filter; statistic correlation; Euro area
JEL Classification: E32; F15.

1. Introduction

The business cycle synchronization is both the result of certain specific evolutions, and also it becomes a condition for a higher symmetry of the way in which the shocks will be transmitted in those economies. Consequently, this criterion is important not only for the monetary union member economies, but also for those outside it, especially if those economies are highly integrated with the Euro area core, as in the case of most of the CEE economies. In order to explain the usefulness of the convergence of the CEE economies' business cycles with those of the monetary union, I have divided this study into three sections. The first one is a brief presentation of the main conclusions drawn from the economic literature. As the business cycle cannot be directly noticed, the objective of the second section was to explain the meaning of the Hodrick-Prescott econometric filter, used to extract the GDP cyclical component. Once the business cycles extracted, I have calculated, in the third section, the degree of business cycles synchronization and I have made a comparison between the situation of the CEE economies and that of the core and periphery economies of the euro area.

2. The literature review

The economic literature has caught the positive impact of the accession to Euro area upon the business cycles synchronization. Thus, Micco and the others [10] showed that the accession to the monetary union led to an emphasis of the bilateral trade, and the companies' benefits were superior to the economic costs generated by the loss of monetary policy independence. Baldwin [4] estimated that the introduction of Euro currency led to decreasing transaction costs, which inducing the more commercial and financial relations between the member economies and, consequently, the improvement of the synchronization between the business cycles. Afonso and Furceri [1] emphasized that the Euro currency introduction generated the increase of the degree of synchronization of the business cycles for all the Euro area countries, except Germany, while Mink and others [11] estimated that there were no records of an obvious increasing tendency of the business cycles correlation, especially as a consequence of the influence from Germany, France and Italy. Gayer [5] draw the conclusion that Greece, Finland, Belgium and Ireland had business cycles weakly

correlated with that of the Euro area economy. Based on the cluster analysis, Kappler [8] identified the following country groups of the monetary union: 1. Austria, Germany and the Netherlands; 2. France, Belgium, Italy and Spain; 3. Greece and Portugal. Gogas and Kothroulas [6] estimated that the common monetary policy tends to destabilize the economies from euro area periphery, as they are less correlated with the group of the three biggest countries, which achieve 60% of the entire Euro area GDP. Aguiar and Soares [2] studied the correlation between the business cycles by means of the wavelet transformation and they identified the existence of a convergence of the periphery economies to the Euro zone core, but with different speeds. The studies which analyzed the business cycles synchronization between the new member countries and the Euro area showed inferior results compared to the Euro zone core, and, respectively, superior results if compared to some periphery economies, such as Greece. The results outline the fact that there is not a homogenous group of the new member states, but most of them are rather correlated with Germany than with the Euro area.

3. The Hodrick-Prescott filter

The simplest way to estimate the business cycles synchronization is to extract the cyclical component of an aggregate indicator such as GDP, industrial production or certain components of the GDP and to calculate the statistic correlation between the business cycles by means of the Pearson or Spearman coefficients. This method was used by authors such as Artis and Zhang [3], Socol and Socol [12], Levasseur [9], Kappler et al. [8] and Gogas and Kothroulas [6]. The business cycle represents the fluctuation of the real GDP around the trend constituting the potential GDP. The changes of the trends are explained as being the result of the factors influencing the long run aggregate supply (capital stock, employment, total factor productivity), while the changes of the cyclical component are the effect of the short-term demand and supply shocks. In this section, I have used a univariate method to identify the business cycle, based on the Hodrck-Prescott filter. It was introduced by R. J. Hodrick and E. C. Prescott [7] and it supposes the decomposition of a data series in two unnoticeable components, i.e. the trend and the cyclical component. This statistic method is based on solving a problem related to the minimization of a function related to the mean square deviations of the cyclical component and the changes of the trend's increasing rhythm:

HP=

$$\min_{y_t^*}\{\sum_{t=1}^{T}[(y_t - y_t^*)^2 + \lambda \cdot \sum_{t=1}^{T}[(y_t^* - y_{t-1}^*) - (y_{t-1}^* - y_{t-2}^*)]^2\}$$

where:

T represents the total number of observations; y_t – time series; y_t^* - the trend of the time series; $y_t - y_t^*$ constitutes the cyclical component of the time series; λ – penalty coefficient of the sum between the variations of the time series trend's increasing rhythm, which determines the degree of smoothness for the trend component.

In this study, I have applied the Hodrick-Prescott filter in the case of seven CEE countries (Romania, Bulgaria, the Czech Republic, Poland, Hungary, Slovenia and Slovakia), of the current Euro area with 17 members and of nine Euro area economies (Germany, France, Austria, the Netherlands, Italy, Spain, Portugal, Greece, Ireland). I have used the GDP data series in constant prices (millions of euro) with 2000 as a fixed base. For 16 out of the 17 entities included in the analysis, the data series covers the period 1998:Q1-2011:Q1, namely 53 observations, while 45 observations were available for Greece starting with the 1st quarter of 2000. Before using the filters to extract the cyclical component, I proceeded to eliminate seasonality by using the TRAMO/SEATS solution provided by the Eviews 7 software.

4. The correlation between the business cycles

The most often used method to estimate the convergence between the business cycles in the case of two countries A and B is to calculate their statistic correlation. From a conceptual point of view, a correlation coefficient surprises two features of the relation between two business cycles – synchronization and amplitude of their variation. Thus, the existence of a perfect concordance of the recessionary and inflationary gaps for two economies reveals

two perfectly synchronized business cycles. However, there is a very low probability that A and B are perfectly correlated, because the amplitude with which each economy grows above its potential or decreases below its level is important. Consequently, the correlation between the business cycles is influenced both by the nature of the output gaps of the two economies, and also by their variation.

The statistic correlation may be calculated based on some values which are contemporary or which are delayed with certain lags. If the business cycle of country B (for example, a CEE country which is not part of the Euro area) depends on the business cycle of country A (for example, the monetary union) then the study of the temporally delayed correlation could be more relevant. From the point of view of the optimum currency area theory, the analysis of the contemporary correlation between the business cycles is more useful, irrespective of the nature of the relation between the economies constituting a monetary union. The main motivation is to study the way in which the ECB monetary policy decisions are influenced by the macroeconomic evolutions of each member state. The lower the contemporary correlation with the countries being part of the Euro area core, the more asymmetric impact of the common monetary policy upon the member countries, thus increasing the costs for the shocks stabilization in the case of the uncorrelated economies.

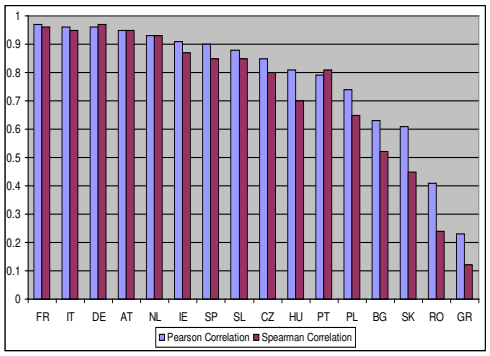
The Pearson coefficient of the correlation between the business cycles of the countries A and B are calculated as a ratio between their covariance and the product between their mean square deviations. By normalization, the coefficient may take values ranging between -1 and 1, the first one corresponding to a perfect displacement in different ways of the business cycles, and the second one to a perfect tendency of the two countries to move in the same way. In the case of a value close to zero, there is not a linear relation between the business cycles of the countries A and B. As the coefficient is symmetric, it results that cannot be established a dependence relation between the economies A and B. Moreover, the correlation between A and B may be *spurious*, if these economies are simultaneously influenced by a third country. For example, along with the accession to European Union the CEE countries have become more correlated with each other, as they are simultaneously influenced through the commercial and financial channel by the countries constituting the Euro area core. The Spearman coefficient represents a non-parametric measure of the correlation between two ordinal variables, also taking values between -1 and 1. For all the cases, the values of each variable are arranged, from the lowest to the highest. This assessment supposes the allocation of values indicating the hierarchy within a data series and that is the reason why this coefficient is also called the rank correlation coefficient.

In order to catch, in its dynamics, the changes of the business cycles synchronization between countries A and B, I have made an analysis for two sub-periods and for a *rolling window* with 5 years. Dividing the analyzed period into sub-periods aims to outline the variation of the correlation according to certain specific economic events. Thus, in this section, I have analyzed the correlation of the business cycles between countries A and B both for the entire period 1998:1-2011:1, and also for the sub-periods 1998:1-2004:4 and 2005:1-2011:1. Both sub-periods include recessionary output gap and also inflationary ones, ensuring accuracy of the obtained results. If the correlation coefficient is higher in the second sub-period in comparison with the first one, then the business cycles of countries A and B will be more synchronized. The rolling window method for 5 years has been chosen both to be able to make an accurate estimate of the correlation coefficients for each 20 quarters, and also to outline the temporal dynamics of the convergence between the business cycles. However, the results obtain may be influenced by the extreme values of the used variables, so that unrealistic results may be obtained (*biased estimation*). By applying this technique, were calculated approximately 34 correlation coefficients between countries A and B calculated starting with the periods 1998:1-2002:4, 1998:2-2003:1, the last one corresponding to the interval between 2006:2-2011:1. Similarly, the increasing tendency of the correlation coefficients will suggest a better

synchronization between the business cycles of the economies A and B.

Firstly, I have calculated the Pearson and Spearman correlation coefficients between the national business cycles (for the 16 countries) and the business cycle of the Euro zone with 17 members, for the entire period 1998:1-2011:1 (figure 1).

Figure 1. Business cycle correlation with Euro area



Data source: Eurostat

The results obtained confirm an extremely high correlation between the business cycles of the Euro zone core countries and the business cycle of the entire monetary union. Its most important three economies (Germany, France and Italy) have a correlation coefficient which takes the values between 93% and 98%. Beside these, Austria and the Netherlands record higher correlations of the business cycles. As for the five economies, there are no significant differences with reference to the types of the statistic correlation of the business cycles. Among the Euro area periphery economies, Ireland and Spain have been the most correlated with the Euro area, as the correlation coefficients took values close to 90%. On the contrary, Portugal's business cycle has been correlated by 81% with the Euro area, while Greece was the most divergent economy of the monetary union. Among the new EU member countries, Slovenia, the Czech Republic and Hungary recorded higher correlations compared to Portugal and close to 90%. The least correlated economies with the Euro area have been Romania, Bulgaria and Slovakia, the last one despite the fact that it adopted the Euro currency since the beginning of 2009. With reference to the optimum currency area theory, Romania would be the most vulnerable if it would join to the Euro area especially because of the fact that it has not strong enough domestic mechanisms to adjust certain asymmetric shocks.

The analysis of the business cycle synchronization for the entire considered period cannot outline the changes generated by some factors, such as the adoption of the single currency, EU's successive enlargements or the influence of the capital flows from the period 2005-2008. Theoretically, these factors may induce a higher correlation of the Euro area periphery countries and of the emerging Central and Eastern European economies with the Euro area core economies. Calculating the business cycles correlation with the Euro area for two approximately equal periods of time (1998:1-2004:4 and 2005:1-2011:1) it results some differences related to the results from the entire analyzed interval (table 1). Thus, there is an emphasis of the business cycle synchronization with the Euro area during the second period in comparison with the first one in the case of all economies included in this study. For example, Germany, France, Italy, Austria and the Netherlands were correlated between 95% and 98% with the Euro area.

Among the periphery countries, Portugal and Greece recorded better results during the second sub-period, the correlation coefficients being higher to those calculated for the entire period, while Spain's and Ireland's business cycle correlation was quite similar, during the second period, to that recorded during the entire analyzed period. As for the EU emerging economies, all of them recorded a higher business cycle correlation along with the accession to EU and with the emphasis of the degree of commercial and financial integration with the Euro area core economies. Generally, their correlation coefficients for the second sub-period are higher than those calculated for the entire interval. Thus, the business cycles of Hungary, Slovenia and the Czech Republic have become as correlated with the Euro area as the periphery economies. If during the first sub-period, the evolutions of Romania, Greece and Slovakia were negatively correlated with the Euro area, during the second sub-period positive correlations only were recorded, higher for the third economy and lower for Greece. The

business cycle correlation in Romania was 69% during the period 2005:1-2011:1, this value being close to those of Bulgaria, but higher than in Greece.

Table 1. Business cycle correlation with Euro area in two sub-periods

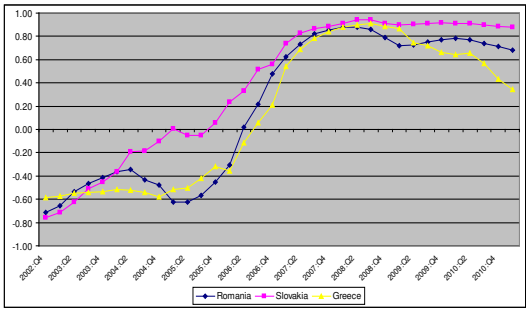
	(P)	(S)	(P)	(S)
	1998:1-2004:4		2005:1-2011:1	
RO	-0.5	-0.47	0.69	0.69
BG	0.11	0.21	0.73	0.72
CZ	0.52	0.53	0.93	0.92
PL	0.7	0.55	0.81	0.75
SK	-0.39	-0.36	0.88	0.89
SL	0.7	0.79	0.92	0.95
HU	0.33	0.21	0.9	0.91
GR	-0.61	-0.65	0.39	0.56
IE	0.86	0.8	0.92	0.9
PT	0.76	0.78	0.92	0.87
SP	0.89	0.86	0.91	0.87
IT	0.88	0.89	0.98	0.98
DE	0.97	0.95	0.96	0.95
FR	0.96	0.9	0.98	0.98
AT	0.89	0.86	0.97	0.97
NL	0.94	0.89	0.95	0.96

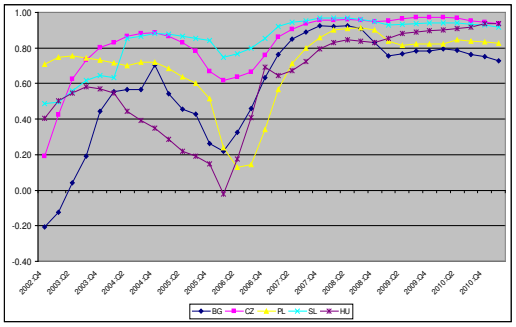
Note: (P) – Pearson correlation; (S) – Spearman correlation
Data source: Eurostat

The analysis for the two sub-periods allows the examination of the hypothesis related to the endogeneity of the optimum currency area theory. Since business cycles become more correlated with the Euro area along with the use of a single currency or increasing trade integration, the business cycle synchronization criterion should not be considered ex ante, but ex post, ie after joining to the monetary union. Consequently, the costs of a common monetary policy will be reduced subsequently to the adoption of the single currency. Another method used in the economic literature to estimate the dynamics of the business cycle synchronization degree is to calculate a rolling window correlation for a five-year interval. The results obtained record a progressive increase of the business cycle correlation with the Euro area until the occurrence of the economic and financial crisis, after which a synchronization decreasing tendency was recorded for most of the less competitive economies. Thus, during the periods 2003:2-2008:1 and 2003:3-2008:2 all economies recorded a high business cycle correlation with the Euro zone, and the correlation coefficients were ranging between 90% (Romania) and 99% (Spain, Italy and Austria). Along with the occurrence of the crisis, the degree of business cycles synchronization with the Euro area was significantly reduced in Greece, Romania and Bulgaria, while in the other economies it was at least 86% (Poland). Therefore increasing the business cycle correlation of the three economies was temporary only, because these neutralize with difficulty the shock induced by the global crisis, what prolonged the economic recession.

In order to outline the differences between the economies included in this study, I have built two charts, the first one including the countries characterized by a negative business cycle correlation during the first sub-period (1998:1-2004:4), and the second one including the other CEE countries. Starting with the five-year business cycle finished in the 3rd quarter of 2006, the synchronization with the Euro area has significantly increased in most of the economies included in the figures below. Thus, Greece and Romania passed from a negative correlation to a positive one, which is though not statistically significant and then to a significantly positive one, while in Poland, Bulgaria and Hungary the correlation increased from approximately 30%, up to over 90%. Hungary is the only economy in which the maximum was recorded at the end of the period, the business cycle correlation being by 5 percent higher than before the economic crisis. Slovenia is, also, a more special case, as the business cycle correlation with the Euro area was higher than 90% starting with the business cycle finished in 2007.

Figure 2. CEE and Greece business cycle synchronization with the Euro area (rolling window correlation – 5 years)





Data source: Eurostat

From the perspective of the optimum currency area theory, it is more important the evolution of the correlation coefficients starting with the 1st quarter of 2007, which corresponds to a full 5 year interval of using the Euro currency. The results obtained confirmed the favorable influence of a common currency upon the business cycle correlation within the Euro area. Nevertheless, as long as there are economies encountering problems in adjusting the negative shocks upon output, then the optimality of the Euro area will decrease.

Conclusions

According to the analysis performed in this study it results that the Central and Eastern Europe countries are heterogeneous in terms of convergence with the euro area business cycles. Thus, Hungary, Czech Republic and Slovenia tend to be more synchronized with the core of the monetary union, while Romania, Bulgaria and Greece Slovakia had higher performance compared to Greece, but lower than Portugal. At first glance, this conclusion assumes that there are higher costs of monetary integration for the less synchronized economies. However, an endogeneity approach of the optimum currency area theory argues that such situation can be improved within the monetary union, because using a single currency increases the economic linkages and business cycles synchronization, which would ex-post increase the benefits of the monetary integration.

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Aspects of Some Problems of the Euro Area Member States

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Abstract

The multitude of difficult national problems, of economic, financial, social, cultural nature etc. deepened and intensified in the Member States of the euro area, in the current context of the global financial and economic crisis, have generated, in many states, the emergence and the exacerbation of discussions concerning the opportunity to exit from the euro zone and even from the European Union, given that some states have been forced to seek financial aid from the European Union and from international financial institutions, in burdensome terms.

At the same time, constrained by the effects of the global financial and economic crisis, the European leaders rethink the whole project of the European Union.

In these conditions, we consider of great and present interest our paper, where we have highlighted some aspects and causes of the problems being faced by some euro zone countries.

Key words: crisis, euro zone, contagion effect, indebtness, heterogeneity
J.E.L. Classification: F15, F 34, F 36, G01

1. Introduction

The creation of the Economic and Monetary Union (EMU) has been put into practice progressively and on the basis of well-established rules. The developments within EMU have caused and will continue to determine the direction of the European integration and thus, the form of the new European architecture. Given the emergence and the amplification of discussions concerning the euro zone breakup scenario, many European politicians perceive the building of a more integrated hard core of the European Union as an unavoidable trend.

The year 1999, when the euro has been launched, characterized as the most important event in the history of the international monetary system after the Breton Woods Conference was seen either as the starting point of a period of unprecedented growth and prosperity in Europe, either as a very expensive historical failure.

Currently, the EMU faces many problems, exacerbated by the economic and financial global crisis which overlapped the crises in the countries from the euro area (overfinancialization crisis of an economy [1], sovereign debt crisis, banking crisis, balance of payments crisis, etc.).

In the period since the start of this important process, the creation of the EMU, we realize that there have not been analyzed deeply enough the consequences of an EMU both for the countries participating to the euro area and for the European Union (EU) countries not participating in the EMU, but also for the countries outside the EU, who wish to join the euro zone.

2. A highlight of some problems faced by the euro area Member States

In order to be part of the EMU, both the original countries and those that have joined later the EMU had, at least theoretically, to meet the same conditions. Nevertheless, there are many countries in the euro zone that have failed to meet some of the convergence criteria at the moment when they have joined the euro area. Thus, in 2000 (prior to its entry into the euro area), Greece had a general government gross debt as a percentage of GDP of 103, 7% [2] well above the nominal convergence criteria for this indicator. The entry of Cyprus into the euro zone has not either been based on the fulfillment of all the convergence criteria, this country having not fulfilled the criterion on the general government gross debt as a percentage of GDP. Thus, before the entry of Cyprus into the euro zone, in 2006, this indicator was 65.3% [3]. Malta did not fulfill either the criterion on the general government gross debt as a percentage of GDP, and she has fulfilled the budget deficit criterion only a year before its joining the euro zone [3]. Italy, Spain, Netherlands, Austria, Belgium, Germany did not fulfill the criterion on the general government gross debt as a percentage of GDP at the moment of their entry into the euro zone [4], while Ireland, Denmark and Portugal have almost met this criterion in 1998, an year before their joining the euro zone [4]).

In this situation, the global financial and economic crisis has led to a deepening and intensification of the various problems (economic, financial, social, cultural, etc.) already faced by the euro area countries. In this context, there have been brought to light the structural deficiencies of some economies of the euro area, emphasizing the differences between them (the deficiencies in the relationship between the banking system and the real economy, the architectural flaws of the monetary union etc.).

Thus. in the recent years in the European Union , including in the euro area, there have been exacerbated a number of problems such as: the slowdown of economic growth, the amplification of the risk of reducing the credit supply toward the real sector, the increase in intensity of the sovereign debt crisis proliferating the risk of spreading, by contagion, of its effects, etc.

The avalanche of unbearable problems faced by the European countries in the recent years, their constraint to seek financial aid, accompanied by tough austerity conditions led to more and more discussions on the feasibility and appropriateness to exit the euro area and even the European Union, of several countries. Such ideas have been taken into consideration in Greece, Portugal, Spain, Italy, Cyprus, Great Britain etc. Even in Germany most people think the country would be better outside the euro area.

Theoretically there is no provision in the European Union treaties for "expulsion" of a country from the euro area or from the European Union. The analysts and the official sources say that a country could be deprived, de facto, by the statute of euro state by closing its access to the European Central Bank (ECB) operations, which would force that country to issue its own currency for resumption of money circulation in the economy in order to pay wages.

The exit of a country from the euro zone (we think, particularly, of Greece and Cyprus) is unlikely because of the many disadvantages and perils. The central issue is the general chaos at local and regional level – implicitly with political, financial, economic and social impact.

No one can say exactly what will be the consequences of a country leaving the euro zone, but some effects can be predicted.

The first effect will materialize in problems of the banks in the country, with spillover effects in the countries where they have offices and branches. The contagion effect will affect other foreign-owned banks in other countries.

We consider that an important effect will be of psychological nature. The public reaction in the case of an announcement of a state leaving the euro area will be the decisive element during future events. The highest probability is that the human reaction is represented by lack of confidence and panic. Most likely if the public found out, that the authorities of that state prepare the exit from the euro area, the resulting panic could lead to acceleration of the process. The banks will suffer massive loss of credibility. Depositors will feel constantly threatened by the danger of losing their savings. This will lead to massive withdrawals of deposits and finally to complete freeze in lending. Practically the banking activity will collapse.

As you know, the banks are the transmission channels of capital flows in the economy, or, with the their collapse, the economic activity will return, finally, suddenly or gradually, to barter exchange.

Investors will loose confidence in the euro, and also local currencies will not be able to survive without the assistance of national central banks. The costs will be seen in public indebtness.

The stock exchanges will collapse one after another, due to a major spillover effect in all European Union countries. Currency devaluations will affect all social classes, and the state will not be able to honor its obligations to employees or to social assisted categories. Even obtaining loans by the government will become more difficult both in terms of credit conditions and of the cost of borrowing, which will increase significantly. Unemployment will also increase and consumption will be affected. Companies will also record high losses. There will be a general loss of confidence, which will make very difficult economic and financial exchanges in that economy and in the European Union. In some countries facing the same major problems as the country leaving the euro area, similar effects will occur, which will multiply the estimated costs of leaving the Union (or the euro zone) even of a single country.

At the political and economic level, the exit of a country from the euro zone will entail its isolation, thus creating the possibility of an attack on its resources from creditors who will require their funds back.

At the same time, the resources in the banks of that country will not necessarily be directed to its territory, but to other areas of the European Union and the world, thus occurring disorder in terms of financial, human, capital formation values, etc.

In general, the crisis situation from the country combined with the costs of the euro zone exit will determine at the social level, discontent and social revolts that may extend to other countries in the region.

We think that a possible exit of a country from the euro zone, will happen only if the entire European and global context will agree and will consider the country is ready for such a step.

In order to get a more complete picture of the problems that the countries from the euro area are facing, it is important to succinctly present the situation of some countries that have considered the possibility of leaving the euro zone. Thus, Greece, with a small economy heavily indebted to euro zone countries, is the first country that has needed massive financial assistance from the European Union and the international financial institutions. In order to avoid bankruptcy, Greece has received a huge financial help, provided either by directed "injection" or through debt cancellation by private creditors.

Portugal, heavily indebted to Spain, passes also through a serious recession, having been forced to sign, in May 2011, an austerity plan with the European Union and the International Monetary Fund (IMF).

Ireland, a small country, but with an important financial sector, with high economic growth until 2008, has entered into recession because of the housing bubble that devastated the country's banking sector. This is the second country that has concluded a financial aid plan with European Union and the IMF, accompanied also, as in the case of Greece, by harsh conditions imposed by the international creditors.

Spain, having debts to Germany and France, and passing through a deep recession, managed to avoid a plan of global assistance for its economy by obtaining in June 2012 a credit line for its banking sector from the euro zone.

The euro zone crisis shows that for analyzing the situation of a country, the indebtedness of the private sector has great importance. Thus, Spain and Ireland, countries with relatively low public debt, but with private huge debts has been hit hard by the crisis.

Italy has also high debts. France is the most exposed to them.

Germany highly exposed to the debts of Spain, Greece, Ireland and Portugal would suffer if one of these countries would go bankrupt.

The sovereign debt crisis highlights the importance of the banking system for each country, and how important it is the state's and local capital's control in the domestic banking system, something that has not been taken into account in some European countries.

Netherlands, the fifth largest economy in the euro area faces major problems such as a mortgage debt of the highest in Europe, small exports, the European crisis, etc. Of the four largest Dutch banks, SNS Reaal and ABN Amro have been nationalized, and ING has received in 2008 funds that it has not still fully paid back to the state.

Direct or indirect subsidies granted by governments (which leads to increased public debt) and the use of very cheap lines from the central banks to the financial sector, in some cases meant to avoid bank bankruptcies, is a main issue in Europe.

The public debt crisis is not the main crisis showing in the euro area. According to some economists [1], the euro zone crisis is primarily a balance of payments crisis and a banking crisis. The original cause of the euro zone crisis can be found in the institutional arrangements and in some of the policies implemented. The situation is due to the heterogeneity between the member states of the European Monetary Union and it raises the problem of the divergence on making joint decisions with impact on the economic development. Thus, the adoption of a joint decision can produce contradictory effects between countries. For example, in the case of asymmetric shocks, due to structural differences at the level of EMU, the implementation of a single monetary policy meant to counteract the negative effects, will often have under-optimal effects, at least for some Member States [5].

Prof. D. Daianu stressed repeatedly that the euro zone crisis is connected with that of overfinancialization of economies [1]. Continuing this idea we mention that between the financial system (especially, the banking system), which assesses the economic performance and the risk characteristics of the economy, and the real economy, it must exist a "right" relationship, which has been neglected in the euro area countries.

The overfinancialization of some economies, in general, in this case of those from the euro area, can lead to the outburst of a financial crisis of vast proportions, if there is no effective regulation and supervision. Sometimes the fulfillment of these requirements is not enough. Thus, in the case of Cyprus, the large size of the financial system relative to the total economy of the country has exacerbated the problems caused by the losses due to the debt cancellation program of Greece and the decline in the housing market. Going forward with the idea, it can be said that the Cypriot banks have been encouraged to invest in the government bonds of Greece. Thus, a few years after the adoption of the euro, Cyprus has come to the situation to be forced to seek financial aid from the euro zone whose operation is currently perceived as rigid and extremely compelling.

The agreement between Cyprus and the consortium consisting of the International Monetary Fund, the European Commission and the European Central Bank aims at removing the uncertainties and the danger of forcing Cyprus to exit the euro zone. The harsh conditions enforced on Cyprus by Germany and the IMF aim at reducing the country's oversized banking sector (about eight times the GDP). But if by this Agreement it will be destroyed the country's financial sector, which is the engine of the economy, affecting Cyprus's ability to pay back its foreign loans, then the negative effects over this country will be numerous and powerful.

Cyprus passes through a deep crisis considered a "systemic risk". The European proposals to close the second large bank of the country, Cyprus Popular Bank, in which the state holds 84% of shares, to restructure the Bank of Cyprus with large losses for depositors could have very extensive effects in Europe, and even around the world.

The policy strategy chosen in Cyprus is very similar to the solution, which has been adopted in the case of Iceland. Iceland allowed its three largest banks to fail as part of the solution to the banking crisis that struck the country in 2008. The Icelandic experience could hold many lessons for Cyprus, since the impact of the re-structuring could be similar. One of these refers to the fact that Cyprus will need to reinvent itself.

The Icelandic experience has also shown that capital controls, once in place, are difficult to dismantle. Capital controls should be carefully studied so as to minimize the strain on businesses, as well as the disincentives for the banking sector to effectively restructure. This will be the case, for instance, if restrictions on domestic transfers or on loan restructurings are

imposed. This type of restriction will not only deter depositors from undertaking a sensible diversification, but will also lead to complacency on the part of banks. [6]

There are alternative strategies for solving a banking and financial crisis. But there is a theoretical premise that is important to put in practice: the financial sector is based on trust. Whatever the plan is, it should be coherent and explained clearly and transparently, so that agents' expectations are anchored in the success of the plan from the outset. Destabilizing leaks or statements that are later withdrawn should be avoided. In the case of a banking crisis it is even more important for policy-makers to treat communication as an important component of the policy toolkit, because the communication strategy of policy-makers anchors expectations and builds credibility. What concerns the recent policy actions in Cyprus to resolve its banking crisis has shown that a well structured communication strategy has been conspicuously absent. [6]

We emphasize that given that in other European Union countries (Ireland, Iceland, Malta and Luxembourg), the financial assets exceed several times the GDP, the imbalances in this respect being even bigger than in Cyprus.

A connection can be made with the fact that everything happens in a period of control consolidation in the euro area financial sector, of implementation a comprehensive financial reform agenda in response to the financial crisis.

In the euro area, given that the banking system has shown major weaknesses during the crisis, it has been decided that the first area to work to is the banking integration. Thus, the European Commission requested the creation of the European Banking Union (EBU), which intends to achieve a substantial reform program in the field of the Single Market regulation, program, which is in progress [7].

By creating the EBU, the European Union wants to restore confidence in the euro. Also, the creation of EBU means ensuring a unique framework for handling "problem banks", the standardization of the schemes for guaranteeing banking deposits, as well as a mechanism of fiscal aid from governments.

The establishment of EBU is considered to be important in order to avoid the present fragmentation of the euro area since during the last years there has been a phenomenon of banks' withdrawal from other countries, phenomenon that causes undesirable, dangerous and worrying effects (the complication of the effective monetary transmission mechanism in the euro area, the prevention of free movement of capitals, the isolation of problems banks from the euro area, etc.).

In the process of creating EBU, a series of divergent interests confront, namely those of the states from the euro area with those outside it, of the countries financially sound with those of the countries with problems that are ever more.

3. Conclusions

From the facts presented above, it can be concluded that in Europe a "bundle" of crisis gather way, such as the euro zone crisis, which is primarily a balance of payments crisis and a banking crisis, but also a sovereign debt crisis and a crisis of an economy overfinancialization.

It also can be noted that the euro zone crisis arises from inappropriate institutional arrangements and from the implementation of macroeconomic policies in an heterogeneous medium (the euro area Member States).

In this situation, it is not surprising that after a period of time, in some of the euro zone Member States, the national disequilibria enhanced and under the pressure of the international financial and economic crisis they have exploded. In the case of some countries, we can even say that their entry into the euro zone, at the moment when it had taken place, has been an error and that the geopolitical reasons prevailed at the expense of economic logic.

The functioning of the euro area is at present rigid and very burdensome. The austerity terms agreed by European Union member countries with the European Union and the international financial institutions for obtaining access to external financing are difficult to fulfill.

Due to the serious problems faced by an increasing number of euro area countries, they have taken into consideration the possibility of exit from this union, which will have important consequences for both parts.

The financial system of the euro area is growing larger and more integrated. The global financial integration and the European Union single market allowed, in some Member States, the banking sectors to exceed several times the national GDP. So, there have appeared institutions "too big to fail" and "too big to be saved."

On the other hand, the acceptance by Cyprus, in order to avoid the exit from the euro zone, of a considerable restructuring of its oversized banking system, in exchange of a bailout program, shatters the myth that some banks are too big to be allowed to collapse.

So, in order to keep the Member States inside the euro zone, we consider that the European Union should create another "European model" opposite to austerity, in general supporting the economic growth.

It should also be underlined that in order to cope with the threats to financial stability from the euro area, the European Union continues the euro area reform and consolidation plan, bringing substantial improvements and implementing complex financial reforms.

Under the pressure of the current economic and financial crisis, the European leaders rethink the whole project of the European Union. In the future, this stipulates giving up banks and the control of national budgets.

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The Incidence of Environmental Taxes on the Economic Competitiveness

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Abstract

This study is focused on the linkage between environmental taxes and economic competitiveness.

The performed research has emphasized that the environmental taxes determine additional costs at the level of the economic polluting activities, influencing on competitiveness through price. However, competitiveness is determined by a set of structural factors and it cannot be reduced only to the impact exercised on prices by the environmental policy, by means of the fiscal instrument.

In order to see if there is a relation between economic competitiveness and the fiscal instrument used for the implementation of the environmental policies we compared Global Competitiveness Index (GCI) to the value of the fiscal collections derived from the environmental taxes. According to the results, our analysis reflects that the economic competitiveness and environmental taxation at the level of the EU member states doesn't reflect a direct correlation between them.

Keywords: fiscal policy, economic competitiveness, environmental taxes.
J.E.L. Classification: E62, F43, F64.

1. Introduction

Derived from the ethics of responsibility, the „polluter pays" principle formulated by Pigou [6] underlies the environmental taxes. According to this, the negative externalities coming from the activity of any economic entity which pollutes must be internalized at their level. The internalization of the pollution costs by its originators is made through fiscal, economic and regulation instruments.

Environmental taxation contains a set of heterogeneous fiscal measures [10] represented by the environmental taxes applied on the polluting products, the royalties which have an impact on the price of the natural resources, being designed to cover the costs for the environmental services, the positive measures represented by the tax credits, accelerated amortizations and exemptions pursuing to act on the company behaviour in order to influence the investment options, the environmental modulations under the form of exonerations, deductions, rate differentiations designed to orient the behaviours in favour of the environmental protection. These fiscal measures are applied on certain sectors or various sectors: energy, water, natural resources, transports, wastes, urban pollution, risk prevention and the fight against noise.

2. Taxes, instruments of the environmental policy

Do the environmental taxes serve for the fulfillment of the objectives specific to the environmental policy? Which is the relationship between environmental policies and competitiveness? How can competitiveness be integrated in the environmental policies? These are just a few questions to which experts are searching for an answer.

As a result of Kyoto Protocol signing in 1997, the member states decided to develop environmental policies which shouldn't increase the unit costs in economy excessively, but should be efficient regarding the resource allocation so that it shouldn't encumber competitiveness. Whereas the companies' decisions related to the

manufacturing technologies but also the citizens' decisions concerning the domestic energy consumption, are made according to the information included in prices and the tax can change the price and integrate the external costs, then the environmental taxes together with the economic instruments represented by the direct regulations, the certifications on the greenhouse gas emissions, the grants and financial benefits may represent an instrument of the environmental policy.

At the business environmental level there is however the fear that the environmental policies can reduce competitiveness and influence the economic growth negatively. This fear is not justified in the opinion of Porter [7], who affirms that the environmental policy might be beneficial for competitiveness, because the costs of conformity with such a policy can be fully balanced out through innovations generating competitive benefits which should allow companies in question to receive the "first mover advantage" in the area of technologies which have a market potential in the future. In his opinion, the strict standards on the products performance together with the product safety have an impact on the environment, contributing to the updating of technologies and the formation of competitiveness advantages. Subsequently, in a work published in 1991, he insisted on the fact that well-conceived environmental policies can generate efficiency incomes in production through innovation and therefore, an absolute advantage of innovating companies in regard to the non-standardized ones. Accordingly, Porter and Linde [8] suggested the quick enactment of some new environmental standards which, in authors' opinion, represent a competitiveness factor.

Although the regulation allows the direct targeting of the polluters, the encouragement of the innovating processes and competitiveness, however due to its inflexibility, the environmental taxes and markets of the greenhouse gas certifications are preferred. These economic instruments encourage the innovating processes and competitiveness implicitly, being more efficient from the economic perspective. Practically, through the environmental taxes we intend to change the behaviour of the polluting companies, by integrating the cost of the produced damages in the price of the good or economic service generating the pollution, which destroys the environment respectively.

In comparison with the approaches based on regulation, there is also an economic approach based on the signal transmitted by prices on the market, as the environmental taxes are incorporated in the prices of the produced or traded economic goods as well as the manufacturing prices. Companies shall be interested in the polluting emissions' reduction when the cost of these efforts shall be lower than the fiscal cost. An alternative to the economic approach is the voluntary approach, consisting in the participation of the companies to public programs and negotiated agreements as they would be more successful regarding the impact on competitiveness. However, a study made by OCDE [5] recommends the caution concerning the specific instruments of the three approaches, as their economic efficiency is reduced due to the behaviour of certain companies trying to circumvent the regulations and environmental taxes. Accordingly, we consider that it would be more efficient for the environment protection to establish certain performance objectives on environment protection at the level of each company.

The environmental taxation brings resources to the budget without generating welfare losses because integrating the external costs in the equilibrium of markets presents a static efficiency but also a dynamic one through the fact that it encourages the reduction of these costs. In order to assort the environmental policies with competitiveness, the environmental taxes can be used to fund the decrease of taxes and fees on the working factor which is not related to the polluting emissions, but also the measures intended to support the structural competitiveness.

Introducing the environmental taxes can create competitiveness issues on short term at the sector level, but by fact that they force companies to replace the old technologies with new nonpolluting ones, we ensure a reconciliation of the environment policy with the one regarding the competitiveness support. The fact that the environmental policies imply for companies a cost related to the renunciation to the use of polluting

technologies, they are concerned with the impact on profitability. It is obvious that if the costs of the compensations related to the produced damages are higher than the costs needed to reduce or avoid pollution, then from the economic perspective, this costs' substitution is efficient.

3. The environmental taxation and competitiveness in the European Union

In order to prevent the emergence of unwanted modifications to the planet climate system, the political decision makers agreed that a general operative framework is needed to include political and economic measures designed to reduce the global warming and prevent the emergence of the climate changes. The objective of the United Nations Framework Convention on the climate changes in 1992 was "to achieve the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.

The impact of the environmental policy on the economic competitiveness of companies, sectors of activity and competition on the internal market integrated to the regional level, represents one of the European Commission concerns in the last two decades [2]. The European Commission established that in order to get correct prices and create incentives for an economic behaviour in favour of the environment protection, the member states can use economic and fiscal instruments to internalize all the external environment costs contracted during the entire product lifecycle so that the environment favourable products shouldn't be disadvantaged from the point of view of the competition, in comparison with the products determining pollution and wastes [3].

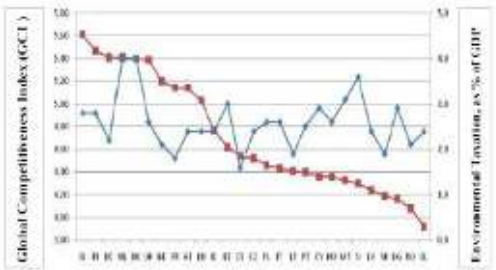
The European Commission adverted that the economic decisions are largely made according to price signals. As the consumers adapt the purchase decisions according with the price changes and the companies determine the product design, the technological development and the organization of the manufacturing process largely according with the market prices, it is essential that these prices reflect the total costs and benefits for man and society correctly [4].

The environmental taxes seem to present a serious challenge for company competitiveness, their existence implying that they are applied to all goods affecting the environment. On the other hand, they represent an incentive to improve the environment performances of the companies. In this case, the Business Council for Sustainable Development states that "a lot of the waste reduction programs and environmental programs for the business area economically healthy and offer positive rates of profitability in relative short periods of time" [9].

Notwithstanding, there is a significant discrepancy between such a conclusion and the business environment which considers that the environmental policy and especially the environmental taxes represent a major threat to the competitiveness increase. But if companies lose their competitiveness, they lose in their market share, become less profitable and eventually, they give up on business.

The analysis of the macroeconomic indicators calculated by various entities and foundation reveals the difficulty of highlighting all factors influencing on the economic competitiveness of the countries. In order to see if there is a relation between competitiveness and the fiscal instrument used for the implementation of the environmental policies we shall compare Global Competitiveness Index (GCI) to the value of the fiscal collections derived from the environmental taxes.

Figure 1. Global Competitiveness Index and environmental taxation at the level of the EU member states in 2010



Source: The World Economic Forum, Eurostat, data processed by the author.

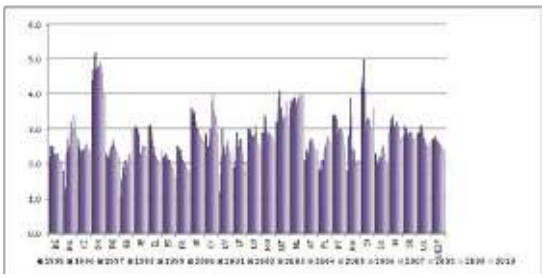
States such as Netherlands and Denmark have the highest level of environmental taxes in GDP. Other states in the top of the European most competitive economies such as Sweden, Finland, Germany, and Great Britain have a high level of the environmental taxation. Instead, in the states which made the object of the last two extensions but also in certain states of the euro zone such as Greece, Portugal and Italy, the environment taxation is high. This observation is explainable because the environment taxes as they are currently established don't have an effect on the competitive position of the member states, the impact being at the sector and company level.

Although there is an instrument for the environmental policy implementation, however, in order to attenuate the negative effects on competitiveness, there are multiple exceptions and reductions to the sector level which vary from a state to another. Although the member states agree with the harmonization of the environmental taxation, it is difficult to achieve as it needs the existence of their unanimity. If a group of states agrees to coordinate its efforts towards harmonization the impact on competitiveness is not completely solved because there isn't the possibility of the practice of neither an external common tariff at their geographical border nor a control at the borders between states.

In order to have a global image on the use of the fiscal instrument concerning the environmental policy implementation in the EU member states, we shall analyze the value of the environment taxes in the gross domestic product and the total taxes taken respectively.

In the analyzed period (1995 – 2010), the value of the environment taxes in GDP at EU-27 level dropped by 0,3% against their decrease in 14 of the 27 member states. The analysis refinement at the level of the member states reflects the existence of some substantial differences. In 2010, the value of the environment taxes in GDP exceeded the European average of 2,4% both in some of the old member states and in those which made the object of the last two extensions. Denmark and Netherlands separate from the others with a value of 4%, being followed by Slovakia (3,6 %), Malta (3,1 %), Estonia (3 %), Bulgaria and Cyprus with 2,9 %. Values between 2,8 – 2,5% were registered by Finland, Sweden, Great Britain, Hungary, Poland, Italy and Portugal. Practically, it seems that this fiscal instrument is insufficiently used to support the environmental protection policy. Moreover, we must remark that their value is important in states with high Global Competitiveness Index, such as Sweden, Finland, Netherlands and Denmark. Therefore, we cannot consider that the decreased value in the 14 member states is caused by the fact that governments attached priority to competitiveness increase and to economies' opening, considering that the fiscal instrument would have a negative impact. For a more correct image, the analysis of the environmental taxes should be structurally refined at the level of the taxes on resources, the taxes paid by the industrial pollutants, the taxes on energy and transport.

Figure 2. The value of the environmental taxes in the gross domestic product, 1995-2010

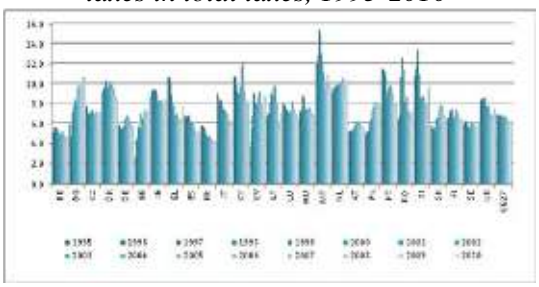


Source: http://epp.eurostat.ec.europa.eu, data processed by the author.

In the same period, at the EU27 level the value of the environmental taxes in total taxes dropped by 0,7%, given the fact that only in five member states their level is below the European average in 2010, namely in France, Belgium, Spain, Austria and Denmark. The highest values included between 10,7 – 9,2% were registered by Bulgaria, Slovenia, Netherlands and Malta, followed by another group of states represented by Latvia, Estonia, Ireland, Cyprus and Poland where the value was between 8,8 – 8,1%. In Portugal, Greece, Romania and Czech Republic the value of the environmental taxes in total taxes was between 7,9 – 7,1%. While in most member states the importance of the collections deriving from the environmental taxes decreased, in others they increased. However, although the increases were specific to some

of the new states against the increase of the fuel excises, there are old states such as Netherlands and Finland where the contribution of the environmental taxes to the national budget financing increased during the analyzed period.

Figure 3. The value of of the environmental taxes in total taxes, 1995-2010



Source: http://epp.eurostat.ec.europa.eu, data processed by the author.

In order to reduce the impact on competitiveness through price, the Union opted for the application of the "double dividend" principle to the environmental taxation. Practically, it consists in the reduction of other compulsory contributions such as the contributions related to social security paid by corporations or the reduction of the salary tax in order to balance out the fiscal cost generated by the introduction of the environmental taxes. A neutral effect on competitiveness would be if the environmental taxes apply not on the manufacturing place but on the consumption place, but we raise the question of the efficiency of achieving the intended objectives through the environmental protection policy. There are various other solutions and exceptions, by which we can limit the effects on competitiveness but the objective which must be taken into account is that by means of environmental taxation to encourage the formation of new less polluting technologies generating a big added value, the only ones capable to ensure both the real increase of competitiveness and the environmental protection.

The commission suggested the reform of the environmental taxes to simultaneously promote the economic growth, employment and a better quality of the environment. Actually, the suggestions aimed that the increase of the environmental taxes should be accompanied by a corresponding reduction of other taxes, so that the global fiscal pressure remains unchanged.

Denmark, Finland, Germany, Netherlands, Sweden and Great Britain ranked among the reform supporting countries. The reform supporting countries proceeded to the increase of the environmental taxes and used the additional incomes obtained in this way to fund the reduction of the taxes on salary incomes or other incomes obtained by natural persons, with the purpose of encouraging the employment. In the same time, they implemented measures referring to reductions of the tax rates or reimbursement schemes, in order to protect the manufacturers against any negative effect on competitiveness, deriving from the increase of the entry costs. The basic idea was the transfer of the tax burden from the working factor towards the use of the goods and other environmental harmful activities, as a result of the impact on the cost exercised by the environmental tax.

In order to study the efforts made by the member states in the direction of a reform on environmental taxes, we shall analyze, at the level of the above mentioned states, the value of the taxes on the workforce in comparison with the value of the environmental taxes in total taxes. The performed analysis emphasizes that in Denmark, Netherlands and Finland, during the analyzed period, a reduction of the fiscal pressure on the working factor occurred as the environmental taxes increased, being interrupted by a trend reversal in 2001 and during 2007–2009 respectively. Except a few years, in Sweden, Germany and Great Britain increased or decreased the pressure on the working factor concomitantly with the increase or decrease of the environmental taxes.

The introduction of new environmental taxes or the increase of the existing ones determined the member states to adopt different strategies to reduce the actual fiscal pressure on the industrial activities. As Etkins and Speck [1] noted, the common purpose of these policies was that of protecting the internal industries against the risk of losing the competitiveness as a result of the unilateral introduction of the environmental taxes, as any type of tax which is additionally added to the business costs could affect the international competitiveness of an activity or a sector.

An important aspect regarding the environmental taxes and competitiveness is represented by the way of using the fiscal incomes generated by their taxation. In the case in which these incomes are returned under a certain form to the environmental tax payer companies, then their competitiveness, on the whole, shan't suffer, even if certain gaps of competitiveness are identified at the sector level. In the case in which the incomes deriving from the levied environmental taxes aren't returned to the payer companies, then the effects generated on their competitiveness shouldn't be compared to the non-taxation situations, but to the effects caused by the increase of the same incomes and the achievement of the environment improvement through other possibilities.

The instauration of such taxes is designed to include the costs of the damages produced on the environment in the market prices of the goods and activities with a negative impact on the environment, the purpose of their implementation being that of increasing the incomes in order to fund the environmental policies, to induce environment less harmful models to the behaviour of the economic agents, and last but not least, to reduce the fiscal pressure on the workforce, for the unemployment reduction.

Conclusions

The effects of the environmental taxes on competitiveness can be attenuated by excepting or granting concessions for the vulnerable sectors, by performing certain adjustments of the customs or by the international harmonization of the taxes. Each of these approaches also implies some negative aspects: the first one diminishes the tax efficiency and increases the cost for achieving the presumed environment objectives; the second one presents the risk of disguised protectionism and may infringe on the international commercial standards; and the third one is difficult to negotiate, being perceived sometimes as coming in conflict with the principles of the fiscal sovereignty of the states and subsidiarity.

The ideal theoretical solution for the attenuation of the environmental tax effects on competitiveness implies their international harmonization. a step forwarded by the European Commission back from 1991. But there were states which brought arguments against it, appealing to the principles of sovereignty and subsidiarity, based on the right of enacting their own taxes, so that the impossibility of reaching a unanimous agreement at the European Union level on this topic has generated the impossibility of enforcing the suggestion made by the European Commission.

Even in a presumed context of achievement of such a unanimous agreement at the level of the EU member states, the concerns regarding the competitiveness, existing in the OCDE member states but at the global level too, in our opinion, make the international harmonization of the environmental taxes a difficult and long-term process.

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The Liquidity of the Financial System and the Sovereign Debt Crisis in Europe – Is There a Solution?

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Abstract

The financial crisis of 2007-2008 has brought to light the liquidity problem of the financial system. Trying to solve this challenge, the members of the European Monetary Union were confronted with the sovereign debt crisis, which exacerbated the gravity of the initial situation. This paper analyses the causes and effects of the sovereign debt crisis as well as the measures taken by the European Central Bank to minimize the negative effects. The analysis is used in order to identify possible solutions for this critical situation. The findings reveal the fact that there is no panacea solution, that situations differ from country to country and that there is no measure only with positive effects. The broader question is which steps have to be taken in order to avoid a worse situation in the long run.

Key Words: financial crisis, sovereign debt crisis, European Central Bank, liquidity risk, fiscal policy
J.E.L. Classification: E56, E62, G01, G12, H12, H63, N24

1. Introduction

The lack of liquidity is one of the major causes of the 2007-2008 financial crisis. The international financial regulation in force in 2007 was ignoring this dimension of the financial risk, being focused only on credit risk. But the globalization process combined with interlinks between credit risk and liquidity risk generated the extension of the risks to the systemic level. Contagion risk was also a consequence of the complexity and linkages of the financial system. The international regulation institutions created the Basel III framework to respond to these major problems. Trying to eliminate the weaknesses of the old regulation, the new framework became too strict. For example, researchers and professionals alike consider that the list of assets qualified for LCR and NSFR is far too restrictive and encourage pro-cyclicality and concentration of risks. And this is exactly what the regulators want to eliminate.

Another doubtful situation concerns the fact that the sovereign bonds are quoted as high quality liquid assets. But after the beginning of the sovereign debt crisis in Europe it is hard to regard Greek bonds or Cypriot Bonds as high quality liquid assets. Considering this, it is important to determine whether the sovereign debt crisis in Europe will be a long term concern for the stability of the financial system.

Following this lead is justified to analyze causes and effects of this sovereign debt crisis, measures taken by the European Central Bank from the beginning of this critical period and solutions proposed by different researchers.

2. Causes of the sovereign debt crisis

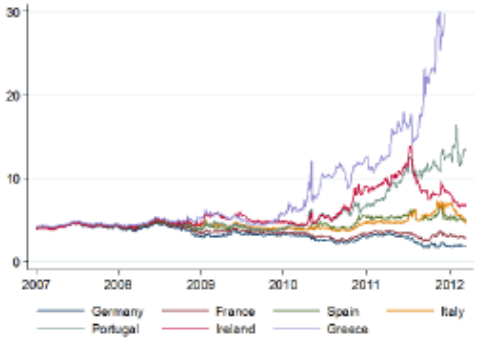
Till the end of 2009, when the new prime minister of Greece, George Papandreaou, announced that Greece's real budget deficit is 12.7 percent of GDP, and not 6 percent tabled by the previous government, the situation did not seem to be that bad. But from that moment, not only Greece, but also other periphery European countries, like Portugal, Italy, Spain and Ireland, with similar economic situation to Greece confirmed that the euro-zone was in a critical situation.

A perfectly valid statement is the one which argues that the roots of the debt crisis in Europe stand in the way the euro-zone was

designed [10,12]. The structure of the European Monetary Union (EMU) encourages members to run huge deficits. The fact that EMU members do not have their own currency that can deteriorate when selling large amounts of debt to global financial investors, enable them to be aware when a country's deficit is getting dangerously high, no market feedback mechanism being there to signal this situation.

At the same time the euro-zone bonds were regarded as close substitutes for each other, despite the fact that the issuers were different. The investors treated all sovereign bonds issued in the Euro area as basically default-free. As shown in Figure 1, sovereign bond spreads among European countries before the fall of 2008 were minimums.

Figure 1 – Yields of the 10-year government bonds for selected euro-aria countries



Source: Bank of Finland Research, Kilponen et al (2012)

Table 1 – Sovereign Debt in the European Periphery, broken down by important holders

Country		Holdings of Sovereign Debt, end-2010		
		Euro Banks	Domestic Banks	Total
Italy	Mld. EUR	649,20	555,50	1538,20
	% din GDP	41,80	35,80	99,00
	% din Total	42,20	36,10	100,00
Spain	Mld. EUR	240,40	189,20	522,40
	% din GDP	22,90	18,00	49,70
	% din Total	46,00	36,20	100,00
Portugal	Mld. EUR	85,80	36,40	154,00
	% din GDP	49,70	21,10	89,20
	% din Total	55,70	23,70	100,00
Greece	Mld. EUR	169,70	129,80	328,60
	% din GDP	73,70	56,40	142,80
	% din Total	51,60	39,50	100,00

Source: Board of Governors of the Federal Reserve System, Luca Guerrieri et al (2012)

Considering the elimination of exchange rate risk among euro area members, European banks increased their regional government bond portfolios.

Table2 – Most important bank exposures by country to the sovereign debt of six countries In millions of Euro and in percent of Tier 1 capital, as of December 2011

Sovereign Exposure to Greece		
Banks	Sov. Exp.	% Core Tier 1
GR	48376	212
CY	4926	129
BE	4257	21
DE	6450	5
FR	7053	4
Sovereign Exposure to Portugal		
Banks	Sov. Exp.	% Core Tier 1
PT	22680	130
BE	1993	10
DE	3750	3
Sovereign Exposure to Italy		
Banks	Sov. Exp.	% Core Tier 1
IT	150636	151
BE	17409	85
DE	26259	22
FR	30775	18
Sovereign Exposure to Ireland		
Banks	Sov. Exp.	% Core Tier 1
IE	12844	42
CY	361	9
Sovereign Exposure to Spain		
Banks	Sov. Exp.	% Core Tier 1
ES	155175	152
DE	16895	14
BE	2605	13
FR	5610	3
Sovereign Exposure to France		
Banks	Sov. Exp.	% Core Tier 1
FR	84207	49
NL	21583	29
DE	15471	13
BE	2194	11
GB	20251	9

Source: Blundell-Wignall (2012), OECD

Especially, banks of the core European countries have turned into major holders of the sovereign debt of periphery countries. Following the numbers in Table 1, it is easy

to observe the dependence of the Euro-zone banks on the quality of the sovereign bonds issued by European periphery countries.

The financial crisis of 2007-2008 and the global economic downturn have exacerbated the levels of the euro-zone sovereign debt, reflecting the effects of automatic stabilizers, discretionary stimulus measures and official sector support to the financial sector. Beyond the initial liquidity crunch, many euro-area banks faced solvency problems, and national governments across the euro area stepped in to provide banks under their jurisdiction with funds or guarantees.

The IMF [14] estimates that total direct support for the financial sector, by the middle of 2011 amounted to roughly 6 percent of GDP in countries such as Greece and Belgium, 13 to 14 percent in the Netherlands and Germany, and 41 percent in Ireland. The level of sovereign debt in Ireland and Spain increased dramatically over this period, placing these countries next to Greece, Portugal and Italy. This situation is easier to follow observing the figures presented in Table 2.

The financial crisis period also revealed the fact that the euro area did not have a common crisis management and resolution framework. There were no backstops for sovereigns and banks, so that the crisis had severe effects on Greece, Ireland, Portugal, Spain, Italy and Cyprus [17].

Retrospectively looking, the major cause for the sovereign debt crisis in Europe was the external debts of the European countries which exposed the banks from the euro area to the sovereign risk as shown in Table 2 [2,22].

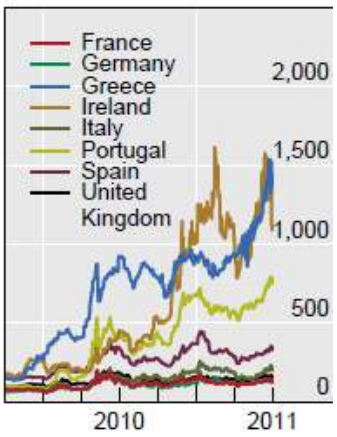
3. Effects of the sovereign debt crisis

The most important effect of the sovereign debt crisis, combined with the financial crisis was the decreased liquidity of the sovereign bonds. If until the financial crisis the euro area sovereign bonds were considered without risk, regardless of the issuer, from that moment on important differences were observed between countries. Graphic 1 shows these gaps between issuers, identified as spreads for 10 year sovereign bonds. If the German had relatively constant sovereign bond yields, even with a decreasing trend in the last few years, this was not the case for Greek or Portuguese spreads of the sovereign debt. Their yields increased dramatically after 2010.

This effect was determined by the loss of confidence of the investors in the capacity of sovereigns of the European Periphery countries to meet their obligations. This loss of confidence affected also the banks from the euro area. Graphic 2 reveals the five-year CDS premia on senior bonds issued by the major banks from the selected euro zone countries, which had similar trends as the spreads of the sovereign bonds.

In fact the sovereign debt crisis has determined an increase of the funding costs for the banks from the affected countries, and impaired their market access. Banks from Greece, Ireland and Portugal have seen their CDS premia rise to extremely high levels.

Graphic 2 – CDS premia for bank



Source: BIS Quarterly Review, Davies and Ng (2011), Datastream, Bloomberg.

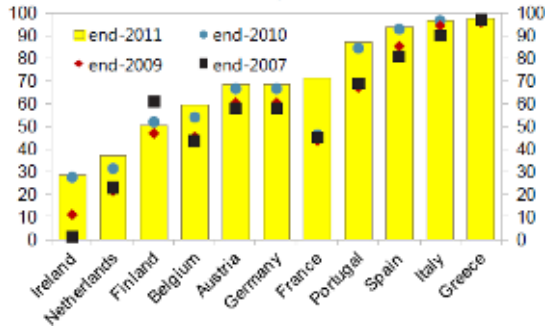
The banks from the European Periphery countries suffered a drain up of the liquidity through capital flows. During the crisis, the investors from these countries shifted funds into safer assets such as German bonds which have benefited from the safe haven status. There was a risk-averse "flight to quality" process.

Another consequence of the sovereign debt crisis doubled by the financial crisis was the increased demand from domestic banks for their own government debt. Graphic 3 illustrate these trends for the period 2007 – 2011.

A study conducted by Arslanalp and Tsuda [3] identified the factors that determined this trend as follows: the global

recession – that has reduced demand for bank loans and, as a result, the banks had as only alternative to accumulate government debt instead; bank deleveraging; Basel III and new financial regulations; rising home bias; the ECB's long-term refinancing operations and changes in its collateral criteria.

Graphic 3 – Euro aria: Banks holdings of own government debt securities, 2007 – 2011
In percent of bank holdings of all euro aria government securities



Source: IMF, Arslanalp and Tsuda (2012), IMF International Financial Statistics

A Report of the Committee on the Global Financial System, conducted by Fabio Panetta from the Bank of Italy in July 2011, showed that sovereign risk adversely affect banks' funding costs through several channels, due to the pervasive role of government debt in the financial system. These channels determine the following situations: the losses on holdings of government debt weaken banks' balance sheets, increasing their riskiness and making funding more costly and difficult to obtain; higher sovereign risk reduces the value of the collateral banks can use to raise wholesale funding and central bank liquidity; sovereign downgrades generally flow through to lower ratings for domestic banks, increasing their wholesale funding costs, and potentially impairing their market access; a weakening of the sovereign reduces the funding benefits that banks derive from implicit and explicit government guarantees [20].

As the history of the recent crisis reveals there is a bilateral linkage and influence between liquidity risk and sovereign risk. This can determine a self-fulfilling crisis [1]. At the same time the inter-linkages of the euro-zone markets and the similarities between countries stimulate the contagion risk which will enable the systemic risk [11].

4. Measures taken by European Central Bank

Considering the internal and external exposures of the euro area banks to the sovereign debt, it is obvious that the default of a country, even the default of a sole one, will generate a dramatic situation. This is valid not only for the euro zone financial system, but also for the international financial system. To prevent the possible damages of a euro area country default, the European Central Bank took a series of measures since the beginning of the crisis.

One measure takes into consideration the establishment of the European Financial Stability Facility (EFSF). This facility was instituted in 2010 and later will be transformed into a permanent fund, the European Stabilization Mechanism (ESM) that will obtain funding from the participating countries and will provide loans to countries in difficulties. What is to blame about this measure is the fact that the amount collected from the euro zone countries is not enough to cover the needs of the system, if there are more countries in possible default. At the same time, if the rate for the loans is high that will be a signal to the market that there is a significant risk of default and that there is no trust in the success of the package. That will determine the investors not to buy sovereign bond issued by the country with problems. High interest rate also makes it more difficult for the governments to reduce their budget deficit and to slow down debt accumulation [8]. But above all an institutionalized bailout facility would create perverse incentives for countries to run up their balance sheets. The availability of emergency cash has the potential to weaken market discipline and create a moral hazard, since countries know that mismanagement of public finances would not carry heavy political or economic costs [10].

Another measure of the ECB was to take increasingly large deposits from commercial banks in surplus countries and to extend increasingly large loans to commercial banks in deficit countries. Willing not to aggravate the developing collateral squeeze, ECB also reduced its reserve requirements, and substantially relaxed its own collateral eligibility rules. These facts determined the flight of the credit risk from the balance

sheets of the commercial banks into the balance sheet of the ECB [2].

But all these measures address more the effects and not the causes of the crisis. From this perspective it is important to review other possible solutions.

5. Solutions to solve the sovereign debt crisis

As long as the main causes of the sovereign debt crisis stand in the way that the European Monetary Union was designed, the solution has to be there too.

The most adequate solution seems to be the fiscal union [10, 16, 23, 18, 8, 9]. But this is not a valid alternative if the euro zone countries want to maintain their fiscal sovereignty.

A second option is the monetization of the public deficit [23, 12]. This measure supposes that the governments will be allowed to create new money, and directly finance their deficits with that new money. But history reveals the fact that after the monetization of the public deficit there would be a rise in inflation, and hyperinflation would follow.

Some authors talk about Eurobonds, as a sustainable solution, representing an important mechanism of internalizing the externalities in the euro zone [23,16,18,6,8].

A Eurobond is an instrument with a collective underwriting guarantee from all euro-area countries. An advantage of this tool is the fact that it transforms the currently fragmented European capital market for sovereign bonds into one single and vast European government bond market similar to US Treasury. A collectively-backed bond is stronger than one backed by a single government and has the opportunity to become a global payment tool that all investors will wish to hold and a "safe haven" instrument. Its disadvantage arises from its possibility to raise the interest rates at which the most creditworthy members of the euro zone presently pay on their debt. The second disadvantage is that it could remove the disciplining effect of capital markets on the ability of member states to issue more debt and it could institutionalize a moral hazard situation [16].

A special solution that could be used to eliminate these disadvantages is the conditional Eurobond. Conditional Eurobonds involve creation of a structure of escalating rates, proportional to the debt-GDP ratio of each country [8, 16, 18]. The question that arises is: will different conditions for Eurobonds not be considered by the market as signals of possible default and will not generate risk-averse attitude from the investors?

A desirable measure involves increasing the powers of the European Union to monitor fiscal policies of the national governments: private and public debt, current account imbalances, competitiveness measures, house prices [8, 22].

The banking federation is also taken into account by the specialists, as a viable alternative. This banking federation implies centralized supervision, centralized banking resolution, and centralized deposit insurance schemes [6, 17].

Last but not least aspect is the requirement for greater transparency about overall government debt levels in some countries so that policymakers, banks and other market participants can accurately assess the associated risks [20].

As the study reveals, taking into consideration different situations from country to country, there is no panacea solution for the crisis and there is no measure only with positive effects.

6. Conclusion

The financial crisis and sovereign debt crisis have shown that there is a bilateral linkage and influence between liquidity risk and sovereign risk. This can determine a self-fulfilling crisis. At the same time the inter-linkages of the euro-zone markets and the similarities between countries stimulate the contagion risk which will enable the systemic risk.

If the international financial regulators try to find the optimal framework to settle the financial system, what is to be done for the sovereign risk? In fact all the solutions concern important reduction in budget deficit and sovereign debt.

This important reduction supposes relatively long time and are mainly driven by decisive and lasting fiscal consolidation efforts, focused on reducing government expenditure, in particular, cuts in social

benefits and public wages [19].

On the other hand, robust real GDP growth also increases the likelihood of a major debt reduction because it helps countries to grow their way out of indebtedness. The question is how will the euro-zone act to stimulate economic growth nowerdays?

The problem seems to be much deeper considering the results of recent studies which reveal that above a 90-100% of GDP threshold, public debt is, on average, harmful for growth [5]. In the same study confidence intervals for the debt turning point suggest that the negative growth effect of high debt may start already from levels of around 70-80% of GDP, which calls for even more prudent indebtedness policies.

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The Effects of Creating the European Union Bank, on the Banking System in Romania

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Abstract

The establishment of a mutual supervision of the banks within the European Union, entrusted to the European Central Bank, is the first stage of the banking union, desired by several countries in the attempt to prevent future crises. The purpose of this union is the supervision of the banks in Europe, identifying and correcting potential dangerous practices in their activities as well as the recapitalization of the financial system in safer conditions, the failure of insolvent financial institutions. Romania, as an EU state, joined the countries participating in the European Banking Union. As a state outside the euro zone, with a fragile banking system in front of the increasingly diverse problems of the economic crisis, Romania will not automatically assimilate the constraints posed by such a system. With the problems this implies, the adherence to this system may represent a step in the sustainable development of the national banking system.

Keywords: special regulations, mechanism, banking system, financing, regulatory framework
J.E.L. Classification: E5

1. Introduction

The establishment of a banking union for the euro area, but also for the banks in the European Union that want to be included in this framework, may represent one of the most ambitious European projects. This project intends to demonstrate the viability of the operation of the eurozone, and the evidence of the financial strength of the European Central Bank as an entirely operational institution. In the context where the banking market in Romania is dominated by credit institutions with capital in the euro area, our country could benefit from such a financial mechanism that has the potential to strengthen the confidence in the banking system of the region. This concept, where there are many uncertainties regarding the form and its effects, should be analyzed, given that the application of this banking system is an important step towards a greater European integration on different levels, changing at the same time the role of central banks.

It does not have to be denied the fact that the emergence of this banking concept occurs simultaneously with the propagation and continuation of the sovereign debt crisis, affecting increasingly more EU countries. It was from here that emerged more criticism regarding the feasibility of this concept, having in the center the European Central Bank, provided that the main sustainability issues on the monetary plan appeared precisely in the euro area Member States. It was also drawn attention on the issue of common assumption by all the member countries of the losses of certain European banks.

Basically the project aims to centralize the banks' supervision at European level by the European Central Bank (ECB) and the European Banking Authority, using common banking rules at EU level. Also, it takes into account the establishment of a common fund to guarantee bank deposits. European institutions' officials claim that common supervisory measures would strengthen the confidence of depositors and of the markets, and would reduce the vulnerabilities of the European banking sector. [1]

One of the main negative aspects is the fact that it cannot be determined how sustainable is this project and if it works. One problem is avoiding the risks and the resumption of the intermediation at a more or less efficient level, but it is not hard to

predict how soon it can be implemented even in the euro area.

2. The need to amend the national banking system

After prolonged negotiations on the mechanisms of institutionalization of the European Banking Union it was in principle established the start of the first phase of the integrated banking supervision, starting March 2014. The other three elements of the Union do not have a specific timeframe to be applied. Romania is among the countries that are Banking Union Member States. One of the main provisions is represented by the monitoring of large banks by the European Central Bank not only within the euro area, but also in the non-euro national banking systems. What draws the attention is not only the rapid development of such measures, but also the essential character of the provisions of this Union, which reveal the importance of this new community bank concept, the more important for Romania.

Currently, in the national banking system, banks are still a sector with high privileges compared to other sectors. These have special regulations on bankruptcy, refinancing at low cost, and low capitalization requirements. Also, banking companies have the possibility to operate with a fractional reserve, allowing them to keep only a fraction of demand deposits in their deposits. The rest of these demand deposits can be used for crediting, even a few times. In this way, these privileges can only lead to the increase of the moral hazard on the banks, that already exists, as well as to financial risks, more difficult to anticipate in these circumstances. We can add the problem of limited capitalization of the banks, indicator that reaches 14% for Romania. [2]

There may be a concern regarding the association of the Romanian banking system with this Banking Union, since our country is not a member of the euro area. It is also the problem of the other non-euro countries that have adhered to this economic concept. This association comes naturally, especially that most of the banks' capital, in the domestic banking system, is held by banks from the euro area. Over 80% of the domestic banking sector is owned by banks from the Community, represented by the euro area. [3] Therefore, avoiding this Union would have led to a complication of the economic situation, on the banking plan in our country, since most banks would operate under the supervision of some banking organizations that would evolve, in the other states, according to new financial principles.

Romania could benefit from such a mechanism that has the potential to strengthen the confidence in the banking system in the region, given that, the local market is dominated by credit institutions in the euro area capital. The main purpose of the European Banking Union is to break the link between heavily indebted governments and the banks facing their own difficulties, the central element of the debt crisis that hit Europe in early 2010. While there are more banks holding capital from the euro area, that by establishing this Union would give confidence to the respective banks, this would have a positive indirect effect on the banking system in Romania. [4]

In recent years, the emergence of the disintermediation phenomenon, as well as its impact on the real economy has become a concern in Europe. In Romania, the disintermediation process could consist of reducing funding provided to local branches by parent banks or reducing lending to the private sector. In the current context of the crisis, there has not been recorded in the Romanian banking system a trend, significantly enough to reduce funding by parent banks. This is also demonstrated by the relative degree of reliability of banking companies in Romania. In recent years, the solvency ratio has evolved between 14% - 15% representing higher levels of the prudential threshold of 10% recommended by the National Bank, after the outbreak of the international financial crisis. Those values represent, nevertheless a dose of economic optimism, especially since the credit institutions in our country have continuously evolved in an environment of austerity and uncertainty, by the persistence of the effects of the financial and economic crisis. According to the annual reports of NBR, domestic banks held an action to minimize possible spillover effects, trying to adapt both to the new regulatory framework oriented towards consolidation and to the current requirements of the financial markets. [5]

3. The ECB role within the banking system in Romania

By adhering to the mechanisms of the Banking Union, Romania has accepted subordination, at least partially of certain banking companies and under the supervision of the European Central Bank. The same as in Romania there is only one Central Bank (BNR) that sets rules for all the banks in the system, in Europe as well there should be only one central bank to impose rules for the banks in the system (ECB). Even if the relations with other countries outside the EU should be developed, the reality is that at this moment, Romania's economic exchanges are more than 80% with the European Union, which limits a lot the directions that Romania can take on future development. [6]

So far, the ECB has proved that, it is an institution that has successfully managed the contemporary economic fluctuations, especially the acute financial problems faced by several countries in the euro area. It has often been drawn the attention to the relatively passive role of the ECB within the national banking systems in the euro area, suggesting the idea of the modification of the monetary policy as stipulated. The establishment of the Unique Mechanism of Supervision comes to confirm the need to change the role of the European Central Bank, respectively the growing importance of this institution in the banking activity across the EU. The European Financial Stability Fund (EFSF) and now the ESM (European Stability Mechanism) are seen as useful means to mitigate the cost of the financing sovereign debt of countries in difficulty. Along with the Banking Union, the ESM could have the possibility to capitalize directly the banks in danger of insolvency.

In this context, the entry into force of the Fiscal Union Treaty, along with the attempts to institutionalize the European Banking Union is no longer accidental. This is explained by the fact that a banking union cannot work without tax arrangements, which means common resources for intervention and burden-sharing. The financial transaction tax is mentioned as supply source of a possible Eurozone budget. The transaction tax could be the source for the EU budget. Romania is a signatory state of the Tax Treaty entered into force as of January 12, 2013.

Our country has a banking market generously dominated by foreign banking groups, overwhelmingly depending on the Eurozone markets. The economy is strongly dominated by the euro and it records a lower level of productivity and competitiveness, based on relatively fragile institutions in front of external economic pressures. The interest for the Banking Union is so natural, that once formed, it will influence the domestic banking system activity directly and indirectly.

There has often circulated the idea of a passive politics of the Romanian banking system towards the evolution, at least for the moment, of the European Banking Union. If the problems of banks in the euro area were solved, it would be great because they control most of the local banking system and automatically this would be more solid. However, things are much more complicated when we are dealing with them in terms of the relations between the national authorities, according to the percentage of the foreign bank capital involved, the relationship of economic power or the degree of euro integration.

Under these circumstances, it cannot be ignored the danger that this requirement of the ECB to optimize the banking groups in terms of liquidity and capital could induce resources movements, destabilizing our country. However, the ECB involvement in the "Vienna Initiative" was meant to stop such a phenomenon after the outbreak of the financial crisis in late 2008. The collective guarantee of the deposit, when established, will also raise a big problem. If it is imposed only for the euro area countries, the ECB will not be able to prevent cash outflows from economies outside the euro area, if the latter are perceived as less solid and the euro is intensely implemented, as it is the case of Romania. In order to prevent such a situation, the guarantee scheme should be extended and there should exist financing lines arrangements between the National Bank and the ECB. These latter could also imply a substantial participation of the European Central Bank to supply the ESM with resources.

Being included within the European Banking Union would mean, for Romania, to

have economic policies suitable for such a structure and, in addition, to participate with resources in financing the intervention devices in the Banking Union. But it cannot be denied the fact that Romania was able to absorb only 10% of EU resources that have been provided. This is an especially more worrying situation as Romania has the obligation to pay contributions to the EU budget. On the other hand, by direct participation in the Functioning of the Banking Union there would be required other national resources, which would increase public debt. [7]

On short and medium term, there is a worrying situation, considering that Romania is one of the EU states with the lowest level of public debt, especially related to the GDP. On long term, the perpetuation of the low level of absorption of EU funds, combined with weak contributions to the EU budget, and that of the Banking Union, may significantly degrade the national financial system. From here to the European Central Bank intervention, in the role of ultimate creditor for our country, there is only one step. [8]

Romania needs a rapid evolution of the performance in absorbing the European resources, in the use of public resources in general as well as in increasing tax revenues. This actually means the overall functioning of the economy, in order to benefit directly from participating to the European Banking Union. Such a development of performance of the domestic banking system would automatically lead to the adoption of the euro. Only considering these issues we can justify the sense of direct participation to the unique monitoring mechanism.

4. Issues on the application of the principles of the European Banking Union in the Romanian banking system

One of the issues raised by the actual existence of the Banking Union is the retention related to the supervision exercised by the European Central Bank. This idea is to limit that power, although within this project, the ECB should monitor all the major banks in and out the euro area. But since this institution is the only strength pillar in the debt crisis, it is not recommended to be assigned another responsibility of such complexity.

Besides its role as central bank, the ECB has gained the role of principal financial support for indebted countries as well as that of financier of the banks hit by the crisis. This role is undermined by the financial balance and, on behalf of the Eurozone interest, contrary to its own status. In addition, there has not been reached a complete agreement with the EU States to confer the institution the necessary powers. If it recognizes the fact that the ECB is dealing with banks with systematic risk, then it should be given the right to impose measures, above the regulatory institutions in our country.

The responsibility to supervise without also having the power to intervene could represent a dangerous prerogative. This gives the feeling of a European regulation, but leaves all the power in the hands of the National Bank of Romania's authority. Therefore, if all goes well, then the ECB will have effectively no role. But, in the event of a crisis, the ECB could be held liable, which would represent a dangerous precedent in legal and political terms. [9]

Currently, the different structure of the banking system in Romania, the local regulations, and also the legal and judicial systems make it very difficult to apply a Community mechanism to guarantee deposits. Given that there are large European banking companies, comparable in terms of numbers to those of the national income in Romania, the domestic banking system could have serious problems in participating to deposit guarantees for all the banks in the States participating to the Union, limiting its activity.

One of the solutions would be primarily the development of the domestic capital market, so that the share of bank assets in gross domestic product to decrease and the debt accumulated in the banking system not to affect significantly the economic development of Romania. Another solution would be to establish a system of pooling the risks associated with the deposits only at the retail banks level, not including investment banks, whose risk is still too high.

Recent economic developments warn that there is a risk that the whole process of cross-border integration to be destroyed because of

the tendency of the European banks to self-isolate. This economic situation recommends and supports the creation of the European Banking Union as a means to protect the global banking system. The cross border integration process has been developed and enhanced over 20 years and it is in danger to be completely destroyed because of the containment measures taken by the banks in Europe. These have undergone a series of restructurings in an attempt to avoid another crisis.

According to the project of the Banking Union, the ECB will receive the power to authorize and withdraw banking licenses in Romania, to apply new rules on the requirements related to the banks' capital and to perform stress tests and field inspections. It will also have the authority to supervise banks' purchased or sold goods, and the right to impose sanctions for non-compliance in the Romanian banking system. This aspect has generated various criticisms, mainly related to the issue of national sovereignty over its own banking system and whether the ECB will be able to fully understand the specific problems of the banking activity in Romania. [10]

It is not very clear which will be the impact of the Banking Union package on our country that is not part of the euro area. All that it is said, is that our country should cooperate closely with the European Central Bank, with the possibility for this bank to have the same supervisory role in the other non-member states of the euro area. The involvement of the European Parliament or of other national legislative institutions will be limited to an advisory opinion role, which generates the problem of potential authority abuses from the ECB, which will assume the control and supervisory roles of the most important European banks.

The governing rules of the European Banking Authority, one of the three supervisors of the financial sector, created in 2011, is about to be substantially modified in this financial context. In the conditions when it is already known the influence of the European Parliament on the Banking Authority, and the limitation of its prerogatives, it would mean to limit the prerogatives of the European Parliament at the banking level. The attention is drawn on the risk regarding the management of the extremely complex banking system, within the European Union by a single institution, with relative experience in this field. [11]

5. Conclusion

The establishment of a single supervisory authority is an essential condition in order to enable the direct recapitalization of the banks by the European Stability Mechanism. In this context, the European Council confirmed the month of June 2013 as the deadline for reaching an agreement on the national frameworks better harmonized, on the banking resolution and deposit guarantees. The Commission will introduce by summer time, a single resolution mechanism for the countries participating in the MSU. This mechanism, that will include an effective protection, aims to ensure the financial stability in case of bank failures and to minimize costs for the taxpayers. The European Council stated that the proposal should "be considered as a priority" for its adoption until the summer of 2014.

The European's Commission Project, which requires strengthening the supervisory responsibility at the level of the European Central Bank, for the larger banks in the community space, has caused serious disagreements. One of the friction points is the connection between the 17 Member States of the euro area and the ten states outside the Monetary Union, namely the right to vote in the future supervisory council of the ECB. In Romania, the euro area banks have a significant share in the banking system. In recent years, it has managed through its own important efforts to strengthen the prudential parameters even above the levels required in their home countries. Taking into account the expected developments, it is absolutely natural the desire to avoid the error of these indicators, at least on medium term.

Considering that the supervision of the banks with capital in the euro area, could be exercised both by an authority at European level (European Central Bank) or by the National Banking Authority (BNR), it is absolutely necessary to clarify the issues related to the decisions' ranking. The cooperation framework between the centralized supervision at EU level and the national supervisory authority, as well as the

harmonization of different points of view between the central supervisory authority at EU level and the one in our country, if it reaches such situations. [12] It is obvious the connection between the Fiscal Union Treaty and the establishment of the European Banking Union. Given that the European economies are characterized by an increasingly high degree of fiscal memory it is obvious the need to start a fiscal coordination action of the Community Member states that could go beyond the frontiers of the euro area. This is even more evident as the Banking Union targets both the euro zone countries and the non-euro member states wishing to participate in the scheme.

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Corruption, with Emphasis on Health System

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Abstract

For nearly 20 years, corruption in the health system damages the state budget and health insurance budget. This article is aimed at initiating a warning sign on to illegality and the factors that led to this situation.

According to the statistics on fraud in the health system, in 2004 they amounted to 1.6 billion Euros, and in 2012, since the financial crisis has led to drastic cuts in the budget of medical units, its value decreased to 300-400 million Euros.

To quantify the impact of corruption on the healthcare system, we used global indicators of corruption, but with direct impact on the health system, including: index of perception of corruption and overall integrity index.

Keywords: health system, transparency, corruption, index of perception of corruption, global integrity index.
Codes JEL: E02, I11, H 51, K42,

1. Introduction

Romania is one of the member countries of the European Union that has unsolved problems in managing corruption and bribery. Public transparency, monitoring, limiting and restricting are just a few chapters on corruption and fraud. Corruption in Romania has experienced exponential growth in recent years, and helped by the "bureaucracy of the public, and by the resignation of the control bodies, by an attitude of <<we can do nothing about it >> "[1].

According to the global corruption barometer in Romania, the most corrupt sectors are the political parties and customs, followed by judicial, legislative, police and medical system.

In low income countries, citizens tend to pay a significantly higher percentage of their income on bribes than those in high-income countries. Corruption creates a dramatic impact on the lives of low-income people; they are forced to pay bribes to obtain a public service to which they are entitled.

"Unspoken demand of bribes does not mean a form of corruption less damaging than a direct solicitation of bribery, especially if the refusal to pay means you will not receive the necessary medication to stay alive "[11] . According to the Global Barometer "corruption affects the lives of people around the world and is threatening their ability to enjoy human rights and public services" [11].

In Romania, corruption is manifested in various areas, and in varied and complex interactions, but it is dominant in the budget arena.

Corruption flourishes when there is no transparency, and accountability and transparency are basic conditions for integrity and preventing corruption.

Regarding health system transparency, none of the health units can meet the legal requirements of information. Under these conditions of opacity, we can not speak of improving the quality of services, combating fraud and obtaining efficient costs in the health system in Romania. Any analysis outside of the health system in Romania is facing the opacity of the National Health Insurance House and the Ministry of Health, which published very little of the information they hold. This does not allow stakeholders to analyze health system as a whole, the

situation of a sub-domain or that a particular county or supplier.

2. Research Methodology

This paper combines qualitative and quantitative research, using specific methods, document analysis and content analysis. To achieve the objectives we used a series of bibliographical sources which consist of books, accounting rules, tax and legal studies and articles published in various national and international organizations in the field. To this end, we collected data from Transparency International Global Corruption Barometer, Global Integrity and the European Commission, the European Anti-Fraud Office, in order to make a comparative analysis, of focus group type, in terms of healthcare, Romania, EU in 2011.

Variables were used on the dynamics of corruption, such as the index of corruption perception and the global integrity index.

3. The research results

As in any field hidden to glances and assessments, the risk of major slippage occurrences is very high. The most common ways to defraud the Romanian health system are:

- Preparation of fictitious prescriptions free or compensated filed with the County Settlement Houses (there were found in the system settled prescriptions for people who have not been to the doctor long periods of time, and even deaths)
- Illegal completing of prescriptions by pharmacists (the prescriptions is prepared by a doctor with 3-4 drugs, then, after the patient gets the medicines, the prescriptions are compiled with another 1-2 drugs for which they subsequently receive money from CNAS.
- In medical analysis laboratories a patient is actually given a small number of laboratory investigations, deductions being made for many more investigations that the patient did not have, or the investigations are conducted on behalf of another patient for uninsured persons.
- Sick leave granted without justification or for a longer period of time than necessary.
- The award of contracts by the procedure "negotiation without prior publication of a contract notice", at a rate of 21.86% of all contracts awarded. Most times, they are generating unacceptably high costs for rehabilitation of health units.

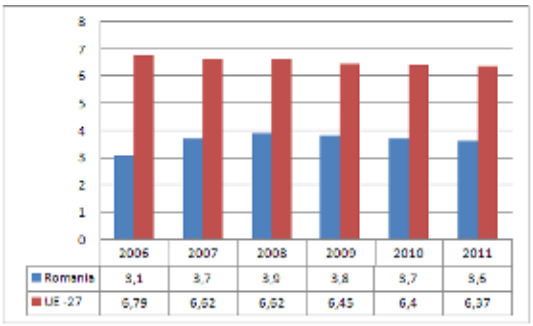
As you can see, one of the main methods of defrauding of public funds is targeting bogus prescriptions. They have made considerable profits to drugstore chains, at the expense of the state budget and it was a factor for stimulating growth in the number of pharmacies. Thus, there were in December 2011, a number of 7259 pharmacies, respectively 1,896 inhabitants per pharmacy, almost double compared to the EU average of 3,400 inhabitants per pharmacy.

Compared to the number of inhabitants, Greece occupies the first place in the EU with a pharmacy for 1110 residents, followed by Romania, and Belgium, with 1,988 inhabitants / pharmacy.

In order to determine the impact of corruption on the healthcare system, we used global indicators of corruption, but with the direct impact on the health system, including: index of perception of corruption and overall integrity index.

Corruption Perceptions Index (CPI) is an index based on data regarding corruption; it reflect the views of business people and analysts from around the world, including experts from the countries assessed (Figure 1).

Chart 1. Evolution of the index of corruption in Romania and the EU 2006-2011 (IPC)



Made by the authors. Source : Transparency International

European Union countries with a low score of the index in 2011, are the countries most affected by the economic and financial crisis, namely: Romania (position 24th), followed by Bulgaria, Italy and Greece. Globally, Romania ranks 75 out of 176

countries analyzed. In 2012, CPI increased from 3.6 in 2011 to 4.4, so the result is a lower perception of corruption by 0.03. If we compare CPI the evolution of Romania to the EU average -27 we see a reduction in this gap from 3.69 in 2006 to 2.77 in 2011.

Denmark, Finland and New Zealand are tied in first place, recording the highest CPI score of 9 points due to growth and the rules governing the behavior of people in public office. Afghanistan, North Korea and Somalia occupy last place with a score of 0.8 due to lack of responsible leadership of effective public institutions and lack of concern for corruption.

Globally, areas perceived to be most affected by corruption, are considered to be those shown in Table 1:

Table 1. Domains the most affected by corruption

Political parties	4
Parlament	3,7
Police	3,6
Legal/Judicial System	3,5
Businesses/ Private Sector	3,4
Customs	3,3
mass- media	3,2
Medical services	3,2

Made by the authors. Source :Transparency International

Corruption is seen frequently in many sectors from the political parties, police, and customs agents to healthcare, education etc.

This web of "corruption" that is present in all areas, more or less, affects daily life around the world threatening people's ability to benefit from public services. "When a government is corrupted at high-level the power to reform lays in the hands of those less able to do so." [9].

On a scale of 1 to 5.5 political parties fall into the category "extremely corrupt", [9] recording a score of 4.0. Perception of widespread corruption in terms of political parties transcends regions and even purchasing power.

Not all countries have indicated political parties as the most corrupt sector. In many countries of Central and Eastern Europe, including Bulgaria, Kosovo, Moldova, Romania, Serbia and Ukraine, customs officials were considered to be the most corrupt.

Global Integrity Index (GII) quantifies the existence and effectiveness of anti-corruption mechanisms that promote public integrity. Integrity Indicators are assessing both the existence of laws, regulations and institutions meant to stop corruption, as well as their implementation and the free access of citizens to those mechanisms. Global Integrity Index can range between 0 and 100 (Table 2).

Table 2 Values of Global Integrity Index (GII)

Values of index	Interpretation
sub 60	very faint fight of corruption
(60 – 70]	faint fight of corruption
(70 – 80]	moderate fight of corruption
(80 – 90]	good fight of corruption
peste 90	Very good fight of corruption

Made by the authors. Source :Transparency International

In the year 2011, in South East Europe GII presented these values as in Table 3

Table 3 Index GII for South-East Europa

Romania	79*
Bulgaria	84*
Croatia	N/A
Bosnia and Herzegovina	61
Serbia	73
Montenegro	56**
Albania	74*
Macedonia	78
Greece	N/A

Made by authors. Sursa : Global Integrity
*data available 2010
** data available 2008
N/A data are not available .

Since the overall assessment in 2008, when it scored 80, Romania has changed very little in this area. Yet it occupies a leading position among the countries of Southeastern Europe. Elements of anti-corruption in the public sector exist, but they continue to be ineffective largely due to inadequate staff and low funding of the

system. Surveillance of public service remains weak, including ongoing challenge of political criteria and nepotism (in hiring key positions). Montenegro (56) and Bosnia and Herzegovina (61) occupy the last places because of the institutions which, though they should be the backbone of anti-corruption (the judiciary system, anti-corruption agency, the Central Election Commission) are facing problems, such as lack of capacity and strong political influence. The south-eastern Europe, Bulgaria has the highest score (84) fitting into the category of good fight against corruption. This is due to robust regulations governing public service.

4. Conclusions

Health is an area of major social impact, which may provide evidence for the adoption of policies, but it is also a fundamental value both for individuals and for society, being the main premise of fulfilling social roles by each of us. The health system has been for a long time in a state of prolonged crisis.

"Romania loses about 1.6 billion Euros annually because of fraud existing in the medical system in the form of informal payments made to medical personnel or by recording treatments which have not been made," according to data presented by Paul Vincke, President of the European Network of anti-corruption and fraud. [5]

According to existing studies worldwide waste of healthcare resources is caused by fraud and corruption (by up to 19-20%), administrative inefficiency (17%), errors and inefficiency of health care providers (12%), over consumption-or avoidable health services (40%), lack of coordination between institutions in the system (6%) and health care that could be prevented (6%), "explained Paul Vincke. [5].

According to national health officials, fraud size can be assessed only after a year from the introduction of the health card.

"Today, it is estimated that fraud in the healthcare system is about 10-20% of total revenues, and the introduction of the new system of "electronic prescriptions " will reduce bureaucracy in the health area and will allow medical prescriptions control and transparent use of money".[2].

Corruption makes economic growth difficult, inefficiently allocates national resources, weakens the administrative system efficiency, contributes to the decay of political system and undermines stability, democracy and national integration.

In our opinion, several factors leading to the emergence and flourishing of corruption are:

- Lack of transparency in government;
- Low salaries and promotion rate in functions based on "connections" and nepotism;
- Non-professionalism, incompetence of civil servants;
- The proliferation of bureaucracy.

Some other factors can also be added.

Lately, there is o lot of talk about the introduction of centralized procurement system for healthcare, which would help in the management and saving of funds.

Purchase of more equipment at the same auction would lead to lower prices because there is a much greater and stronger competition in the participating companies.

This centralized procurement would lead to more transparency in the public procurement. However, we should not minimize the impact of the time factor in the purchase decision. Will purchases be made in time or the system will cause other problems? Time will tell.

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Mihail Manoilescu, a Professor of the Polytechnic School

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Abstract:

The paper focuses on Manoilescu's nomination as a Professor of Economics, Organization and Rationalization at the Polytechnic School of Bucharest in 1931 and his dismissal in 1944. The biographical sources include the archives of the institution.

Key words: Mihail Manoilescu, Polytechnic School, Professor, Economics.
JEL classification: B20, B31.

1. Introduction

Much has been written both during his lifetime and in these last decades about the multifaceted (scientific, didactic, political and publishing) activity of Mihail Manoilescu, the most advertised Romanian economist of the first half of the 20th century. This contribution focuses on his didactic activity carried on at the Polytechnic (later Politehnica) School of Bucharest between 1931-1944, in general, and of the circumstances of his appointment and dismissal from office, in particular.

2. Manoilescu, the Professor

Manoilescu acted as a professor at the Polytechnic School following a strange competition, he had not signed in. The competition for the professor in full vacancy at the Department of Economic Sciences, Organization and Rationalization with the Polytechnic School of Bucharest had been announced in March 1931. Two candidates had submitted their competition dossiers until the registration deadline: Adrian-Dumitrescu-Bumbesti and Ilie Gârbacea.

The Board of Education of the Polytechnic School designated in its 16 May 1931 meeting a commission consisting of three members to verify the titles and the works of the competitors and to recommend the most appropriate candidate for said vacancy. The commission included Constantin Busila, Dumitru Busuiocescu, both professors in full of the Polytechnic School and Professor Gheorghe Tasca, a first-rank personality of the Romanian economic education of the age and, as will become apparent, the most subtle connoisseur of the candidates' activity. Tasca acted as full professor both at the Faculty of Law of the University of Bucharest (where the candidate Dumitrescu-Bumbesti had defended his doctorate in economics) and at the Academy of High Commercial and Industrial Studies, where candidate Garbacea had defended his doctorate. After designation of the competition commission, he would refer to the papers presented by the two candidates, of which he had requested copy [1].

Adrian Dumitrescu-Bumbesti had presented seven papers, including the doctoral thesis, focused on the themes of the development of the cooperation and the private credit in Romania. After describing each of them briefly, Tasca and the other members of the Commission reached the conclusion that they were out of the scope of the specialty of the referred department, and the candidate could not possibly prove – as required by law – and effective scientific activity in the least five years at least.

Ilie Garbacea was at the time of registration for the competition, a professor of industrial accounting and the study of industry and trades in Romania at the Commercial Academy in Cluj. He had presented four papers, including the doctoral thesis, on the profile of such disciplines. There was between the position in Cluj and that he applied for in Bucharest, as the Commission found, a 'very remote relationship'. This candidate could not prove either a scientific activity in the specialty the last five years.

The candidate who claimed the honour to fill in the vacant position, maintained the Commission, had to prove the in-depth knowledge of economic science, of the doctrines and of its method. Or, the two registered candidates were far from meeting such demands, and therefore they could not be appointed. Instead, as the report stated, the Commission proposed the appointment in the vacant position of Mihail Manoilescu, an engineer, an honors graduate of the Polytechnic School of Bucharest, 'though he did not claim this teaching position'. This appointment was justified by the scientific activity of over 15 years (more precisely, 11 years, n.a.) when he approached the economic issues 'with the power of a thorough connoisseur of the subject and of a passionate innovator' [2].

If for the two candidates, we could only suppose who the main author of the report was, the appreciations on Manoilescu's scientific activity certainly belonged to Tasca. The latter had not only a higher training in that line than the two members of the Commission, but he was accustomed for some time with Manoilescu's economic ideas.

3. Manoilescu's contribution

Tasca used to mention among his writings, first 'Théorie du protectionnisme et de l'échange international', published in Paris, in 1929. In a well-known review dated 1930, he was critical about some basic concepts introduced or redefined by Manoilescu, such as work productivity, net value, individual and national gain a.s.o. [3] This time, the tone of the appreciations was much more benevolent: the courage and boldness to elaborate a general theory of protection made honour to the author.

The theory built by Manoilescu started from three sentences, as Tasca called them, depending on the factors which determined the work quality, the opposition between the national and individual gain and the differences between the international and individual exchange. Even if some of us, Tasca concluded, in a prudent note, did not fully agree with his scientific approach, Manoilescu's work remained the most brilliant economic book published by a Romanian author in the last decades [4]. Tasca's comments would be resumed usually without citing the source, in many writings on this theme issued in the last decades.

Tasca's change of attitude could be explained at least partially, by political aspects. As an ambassador of Romania in Germany and the Netherlands, professor Tasca felt he was bound to support the appointment of Manoilescu, a favourite at that time of King Charles II in the vacant position of the Polytechnic School. Later, after his fall from grace of the sovereign, Tasca would resume the polemic dialogue with him.

On 29 June 1931, the report of the Commission including the recommendation for the appointment of Manoilescu in the vacant position was approved during the meeting of the Board of Education. On 9 July, the director of the School addressed to the Minister of public instruction asking him to act in this respect. The minister informed him on 5 August that under the High Royal Decree no. 2843 of 1 August 1931, Manoilescu was appointed full professor at the Department of Economic Sciences, Organization and Rationalization starting with 1 September 1931 [5].

As a professor, Manoilescu was a dynamic and jolly presence, close to the students. He would speak freely, with wide digressions from the theme of the lecture, while keeping the text of the lecture on the chair. Year after year he attempted to bring new elements, in point of contents, and of the presentation of the courses. Florin Manoliu and Cristian Petrescu were among his assistants.

A topic that was constantly brought to the attention of the students was turning to value human personality, both at the level of the individual and at the national level. In every generation, he used to say to the students [6], the relation between the valuable young people and the mediocre ones maintained almost constant. Therefore, he pleaded for the careful widening of the number of students, considering that a sudden raise – claimed by some student organizations of the time – would inevitably lead to the degradation of the level of the educational process. The student engineers, as Manoilescu said, gathered a too high number of valuable young people, who were removed from other professions. Flattering for the

audience, even if not entirely confirmed by the statistics of that time, this fact could not be a reason of concern for the doctrinaire of Romania's industrialization, but – on the contrary – of real satisfaction.

An old custom required from the professors that in the inaugural lecture of every academic year, they should approach from an original perspective, a theme concerning the object of study, the methodology of the discipline and its interferences with other domains. The inaugural lectures delivered by Manoilescu between 1931-1937: *Method in economic sciences* (1931), *Economy, science, technics* (1932), *Economic science and the engineer's career* (1933), *Spiritual autarchy in economic science* (1934), *Economic science and collective ideals* (1935), *Mathematical method and the issue of human will in economy* (1936) and *Human will in economic science* (1937) would be published in the volume *Attempts in the philosophy of economic sciences*, edited in 1938. The volume was reviewed among others by I. Veverca in 'Economic and Statistic Annals', 7-10, 1938.

The academic lecture of political economy delivered by Manoilescu – including, besides the inaugural lectures, other 21 lectures – was lithographed first by a group of students and published in 1933 and 1934. The course was reviewed among others by M. Platareanu in the 'Economic and Statistic Annals', 4-6, 1933. The author continued to complete his lectures and edited them under the form of a *Course of political economy and rationalization,* Bucharest, 446 pp, in 1940.

His performance as a professor was affected by his many concerns and interests. Starting from here, some of his contemporaries reproached him, more or less directly, inconsistency and superficiality. The most vocal of his critics reproached him that not every economic heresy should be communicated to the students, despite the charm of novelty [7].

His removal from office had, just like his appointment, a political connotation. Before the end of the courses in June 1944, Manoilescu had joined his family in refuge at Breaza, where they watched greatly concerned the development of the war. The fast on-coming of the frontline to Romanian borders was distressing for a public personality with Manoilescu's past. Under such conditions, mid-August the departure preparations for settlement in Portugal started, which represented a triple advantage to be a neutral country, geographically protected against any foreign invasion and with a political system ideologically close to Manoilescu. Besides, the Portuguese prime-minister Salazar was, at least declaratively, an admirer of his writings and had urged him eight years before to continue his professional career, if need be, in his country.

4. Adverse events and consequences

Acting in this sense, Manoilescu had a meeting on 23 August, in the morning, with the Ambassador of Portugal in Romania, who was at the time on Valea Prahovei. The latter assured him that he was instructed to grant for the whole Manoilescu family the entrance visa for Portugal, which would occur in a few days. His trip would take place by air from Bucharest. But, just like on so may previous occasions during his life, the events took an unexpected turn. After the act of 23 August and the transformation of Bucharest in a battlefield, the variant of travelling by plane became too risky. Another way seemed safer: boarding on a train with Romanian-German ethnics that would leave from Brasov to Germany on 26 August. Manoilescu was assured he would have a train compartment for the whole journey. But the declaration of war between the former allies Romania and Germany and the prospects of his internment as an enemy citizen (and, moreover, a former dignitary) in a German concentration camp removed this variant too. An important role was played in this episode, according to the family memories of his nephew [8], the fact that leaving the country in a German train was equal, under the given circumstances, with desertion to the enemy, which would have disqualified him morally.

After the beginning of the academic year, Manoilescu wrote to the rector of the Polytechnic School on 8 October that, for health reasons, he would settle temporarily in Breaza and requested for a 3-month leave starting with 1 November 1944 [9].

The new government in Bucharest made his intention known to judge the dignitaries of the former political regimes guilty for the

country disaster, and for the territorial losses incurred by Romania in 1940 and for the political approach to Nazi Germany. In this context, the former dignitary Manoilescu was arrested on 12 October 1944 and brought for hearings to the headquarters of the Police Prefecture of Bucharest. The Rector of Politehnica (where his application had been registered on 14 October) distantly notified that 'as at the present you are under arrest, your application for leave is not approved' [10].

Early February 1945, Manoilescu got ill of typhus exanthematicus and was transferred under guard to Colentina Hospital. There, he continued to be investigated between rounds of treatment. In the hospital, Manoilescu received the visit of his family and friends, with whom – according to a delation of his political adversaries – was eating delicatessen and was drinking champagne. Developing a *viveur* image, partying while the rest of the population was affected by the war and by indigence was meant to make him detestable to public opinion and to prepare his marginalization.

5. Conclusion

Still unrecovered, Manoilescu was reincarcerated at the police headquarters in Bucharest on 19 May 1945. Two weeks later, on 2 June 1945, the Rector of Politehnica 'had the honour to inform him' that he had been dismissed from the position of full professor starting with 24 May 1945, according to the note received by the Ministry of National Education [11].

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Economic Development and Migration in European Union

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Abstract

This article is based on data provided by World Bank and deals with the question of how migration correlates with economic development of the countries where the migrants are living in. In order to prove that, I studied whether the International Migration Stock and Net Migration of several countries, including Romania, are related with Gross Domestic Product, as a variable regarding economic development, and I employed some other variables regarding education, health and employment, as they are the main reasons for migration decision of people.

Key words: migration, economic development, regression.
JEL classification: C21, F22, J01, O15, O30.

1. Introduction

Economic development refers to a series of measures or policies taken to ensure an optimal interaction between the four systems: economical, technical, human and environmental. Economic development is different from economic growth but is based on its components. Economic growth is a process of positive changes in the level of economic results commonly measured using the Gross Domestic Product indicator.

Douglas S. Massey[9] defined economic development as being the application of capital to raise human productivity, generate wealth and increase national income.

Migration represents the physical movement from one area to another, for a period a time or definitively. Migration plays an important role in economy, it has an impact on the welfare of households and its influence is reflected on labor market, as well. Labor market implies three major issues: employment, unemployment and wages. The main link between migration and economic development is that higher level of development brings more mobility. Usually, people migrate for a better quality of life through higher paid jobs. The benefits of migration to origin countries are obtained mostly through remittances which represents personal flows from migrants to their families. As *Devesh Kapur*[7] considers, remittances are emerging as an important source of external development finance and are one of the most visible aspects of how international migration is reshaping the countries of origin. His is bringing an idea that remittances have become a new "development mantra": governments and officials believe that money sent home by migrants can be a reason for local, regional and national development. Based on his idea, *Stephen Castles*[3] extended this notion of a "new mantra" and included the whole range of benefits that migration is said to bring development:

1. Money remittances: bigger than official development aid
2. Social remittances: migrants transfer home skills and attitudes for development
3. "Brain drain" which benefits both sending and receiving countries
4. Circular labor migration benefits: for receiving countries, origin countries and migrants
5. Economic development will reduce out-migration

The Report for 2008 on the level of remittances in the world economy of the World Bank presents the situation of cash flows and at the level of remittances within national economies where the gross domestic product is highly dependent on this type of incomes[1].

An OECD study based on OECD countries and non-OECD countries shows that the relationship between the total emigration rate and the income level of

origin countries follows an inverted U-shape relationship: total emigration rates are very low for low income countries, higher for lower-middle and upper-middle income countries, and decrease again for high income countries (although they remain higher than for low and lower-middle income countries). Second, this pattern is different for the migration rates of the tertiary educated, where no large differences in emigration rates for the three groups of developing and emerging countries is observed, while high income countries have noticeably lower emigration rates[5].

2. Data and Method

Data used for the study comes from World Bank database, unfortunately for some important variables there are limits on the availability of data.

All variables are analyzed for the year 2010 for 28 countries of the European Continent (Bulgaria, Romania, Latvia, Lithuania, Hungary, Croatia, Poland, Czech Republic, Slovak Republic, Portugal, Slovenia, Greece, Cyprus, Spain, Italy, France, Belgium, Germany, Netherlands, Austria, Finland, Ireland, United Kingdom, Denmark, Sweden, Iceland, Norway, and Luxembourg). Croatia in 2010 was in process of integration in European Union and she will become a member on 1st of July 2013.

Although there a limitation concerning data availability, I have found and used a series of variables for covering both economic development and migration in order to identify if there is a correlation between them.

As endogenous variables I have considered:

- *Net migration* is the difference between immigration to and emigration from a given area during the year (net migration is positive when there are more immigrants than emigrants and negative when there are more emigrants than immigrants). Since many countries either do not have accurate figures on immigration and emigration, or have no figures at all, net migration has to be estimated. It is usually estimated as the difference between the total population change and the natural increase during the year. Net migration gives no indication of the relative scale of the separate immigration and emigration flows to and from a country; a country may report low net migration but experience high immigration and emigration flows.

- *International Migration Stock % of population* is the number of people born in a country other than that in which they live and it also includes refugees estimated for a particular period (usually a year) related to the total population of the receiving country.

Comparing these two variables we can conclude that the last one gives indication of the immigration stock of a country.

- The set of exogenous variables used are: *GDP per capita* – highlights the economic development of the analyzed countries;
- Compensation of employees and Unemployment Youth, ages between 15 to 24;

*Compensation of employee*s (at current prices) (ESA95, 4.02) is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period. Compensation of employees consists of wages and salaries, and of employers' social contributions.

- education: *Primary school enrollment*;
- health and demographic: *fertility rate* (the expected number of children born per woman in her child-bearing years), *life expectancy at birth.*

Considering the methods involved in the existing literature the main influence on migration is reflected by GDP[6] or GNP used by *Rotte and Vogler*[14] instead of income or wage variable, where they've studied the migration from least developed countries (from Asia and Africa) to Germany, by comparing the OLS model with random effect panel model(two depending variables – asylum migration and inflow – in correlation with economic opportunities (GNP per capita ratio home/Germany), political situation and home country characteristics (urban population, distance to Germany)), they concluded that the total inflows reacted to political freedom and the distances is significant only for Asia.

According to World Bank Metadata, *GDP per capita* is the final result of the production activity of resident producer units and it is often considered an indicator of a country's economic development. As we can observe

from *Table. 1.* Luxembourg has the highest per capita Gross Domestic Product, which clearly stands out from the other countries, at opposite stands Bulgaria and Romania.

Table 1. GDP per capita rating for year 2010.Source: World bank Database.

Top 5 countries with the highest GDP per capita		Last 5 countries with the lowest GDP per capita	
52222.5	Luxembourg	5633.9	Hungary
39970.2	Norway	5332.5	Lithuania
33943.1	Iceland	5011.2	Latvia
32631.1	Sweden	2636.7	Romania
30667.8	Denmark	2555.1	Bulgaria

A study based on data from Eurobarometers on multinomial Logit model is analyzing the macroeconomic determinants (GDP per capita, Unemployment rate, Years of schooling and Gini Index) of migration abroad intentions in Europe by comparing two moments of time: 2002(UE10) and 2005(UE15) – capturing the 2004 enlargement of UE[15], the conclusion was that young educated people tend to migrate between EU countries.

An OLS model regarding British Columbia Net Interprovincial Migration was described by Schrier and McRae[13], in this model the dependent variable, the estimated annual British Columbia net interprovincial migration from 1985 to 1998, is studied along unemployment rate and GDP for determining a prediction equation on Interprovincial Migration.

Yashiv and Levy[8] estimated OLS and Fixed Effects regression models to examine the effect of customary migration determinants on the flow of migrants to Israel Comparison between Israel, Europe and the United States 1990-2004.

3. Results from the OLS model

Gross Domestic product is a sign of economic development by measuring the growth of goods and services of a country, it covers the production of government, households, and even the investments in goods.

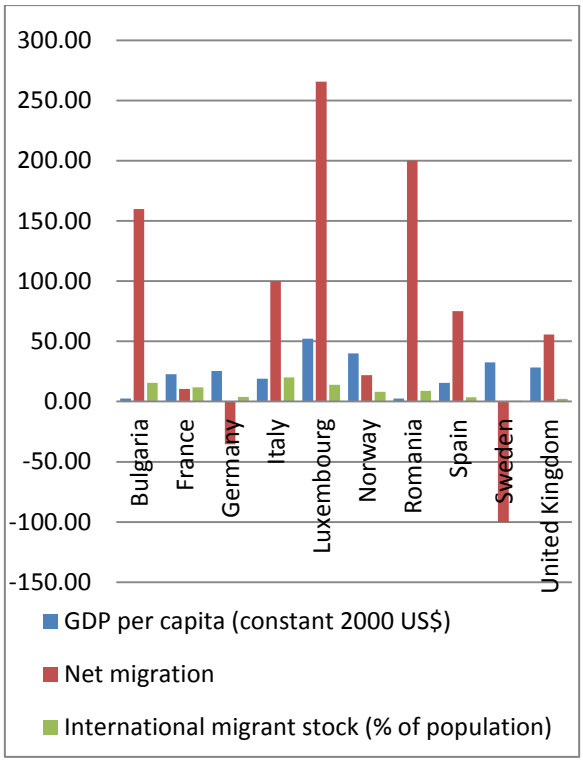
The correlation between GDP per capita and the migration variables: international migration stock and net migration can be shown by building a bar chart. For the figure below I have used the data from a few important countries implied in the migration phenomenon as sending and receiving migrants.

We can observe that for Sweden there are more migrants than immigrants, though has a high Gross Domestic Product per capita, probably this an effect of weather conditions, unfortunately there was not any available data for the net migration and international migrant stock besides the year 2010 to compare the evolution of those variables.

The outstanding country is Luxembourg which has the highest Net migration and the second highest international migrant stock, having more immigrants than migrants. It is renowned that Luxembourg has survived the financial crisis and still it is considered the country with the highest standard of living. Hence, people tend to migrate to countries that offer better living conditions.

Romania has a high net migration and comparing it with the international migration stock we can conclude that Romania is also a receiving country.

Figure 1. The correlation between GDPper capita, International Migration Stock and Net Migration. Source: World Bank Database.



Assuming that there is a correlation between the exogenous and the endogenous variable described above, first we need to show if there is any correlation between all the variables studied through Pearson Correlation Coefficient by analyzing if each dependent variable has a significant Pearson Correlation Coefficient with each independent variables.

As it shows in the table below:

- Net migration has strong linear correlation with life expectancy and unemployment youth ages 15 to 24 – if net migration is positive it means that life expectancy and unemployment youth ages 15 to 24 are reasons for migrating.
- International migrant stock has strong linear correlation with GDP per capita and primary school enrollment – it means that people settle into a country concerning its economic development and the opportunities of education.

Table 2. Pearson correlation between studied variables. Source: based on author's calculation.

Variables Pearson Correlation		Net migration	Internat. migrant stock
Comp. of employees	Correl.	-0.227	0.161
	Sig.	0.246	0.414
	N	28	28
Fertility rate	Correl.	-0.084	0.205
	Sig.	0.670	0.296
	N	28	28
GDP per capita	Correl.	0.080	0.651
	Sig.	0.686	**0.000**
	N	28	28
Life expect. at birth	Correl.	0.449	0.461
	Sig.	**0.016**	0.014
	N	28	28
School enroll.	Correl.	0.293	**0.013**
	Sig.	0.130	0.947
	N	28	28
Unempl. youth ages 15-24	Correl	0.301	-0.160
	Sig.	**0.120**	0.415
	N	28	28
*. Correlation is significant at the 0.05 level (2-tailed).			

We can observe that there is a linear correlation between some variables and so we can proceed to the Ordinary Least Squares Multiple Regression Analysis, represented mathematically as:

$$Y' = \varepsilon_i + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + ... + \beta_k * X_k$$

Where the Y' is the endogenous variable and X_k are the exogenous variables.

To explore the relation between migration and economic development I considered a various econometric models based on the two endogenous variables.

First model refers to the correlation between international migration stock and the exogenous variables and the second has as an endogenous variable net migration.

All OLS regressions described are synthesized below into a table, where we presented the coefficients and the significance of all the variable of the models above.

Table 3. The estimated linear regression results.

	The international migration stock(%)		The net migration	
	M1	Sig.	M2	Sig.
Constant	17.12	0.60	-1.301E7	0.00
Compens. of employees	0.319	**0.02**	-22555.0	**0.07**
GDP per capita	0.001	**0.00**	-5.25	0.67
Unempl. youth ages 15-24	0.26	**0.03**	28809.8	**0.01**
Fertility rate	-12.8	**0.00**	-725209.6	**0.06**
Primary School enrollment	0.175	0.43	4990.3	0.80
Life Expect. at birth	-0.33	0.47	175055.0	**0.00**
R^2	0.688 (68,8%)		0.627 (62,7%)	
F	7.708		5.881	
Sig. F.	0.000		0.001	
N	28		28	

Source: based on author's calculation.

We can observe that the Significance(Sig. F) of the models based on ANOVA test it is under α=0.05 for both models, this confirm that there is a direct influence on migration and the independent variables considered. Both models show that there is a strong relation between the dependent variable and independent variable: over 60% of the variation of migration (represented by international migration stock and net migration) explains the variation of the variables included in models.

Regarding the model M1 it shown that if the country is developed and has a high GDP per capita, the international migration stock increase with 1% (0,001).

As for the second model M2, there is a low significance of linear connection between GDP and net migration.

Primary school enrollment has no significant importance on both models, despite the expectations.

Compensation if employees has strong influence for both models and we can conclude that the development level of a country has an influence on migration and also people tend to migrate where they are paid better.

The youth unemployment rate has a significant positive impact on both models, if it increases the exogenous variables are increasing, 2,6 % of population in case of the internal migration and about 28809 persons in case of the net migration.

Migration is strongly influenced of the employment factor, migrants are always tending to look for a secure and better paid job.

4. Conclusions

The financial crisis affected both the emerging countries, that are a part of European Union (or will be part of it as in case of Croatia), and the developed ones confronting with high unemployment rates.

In 2011 the youth unemployment rates were at unprecedented levels: in Spain 46,4%, in Greece 44,4%. As we know the sending countries are facing with high unemployment rate or low life expectancy rates as a measurement of welfare, and so the migrants tend to establish in more developed countries.

It is obvious that migration is a fact that cannot be denied by both sending and receiving countries. The migrant receiving countries are often developed countries and the sending countries are often developing countries. Migration is seen as a way to make use of the excess labor force and eventually reducing the unemployment rate in the developing countries.

Migration it is not an issue itself, it is a result, it shows that the sending countries are having issues at the economic levels which are reflected into the sociological levels.

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Evolutions and Trends in the European Microfinance Market

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Abstract

Microfinance in general and the microcredit especially has a major role in the economic growth of a country and an important social impact, supporting the social inclusion. Moreover, its role becomes more vital, if we take into account the major negative effects of the recent financial crisis, because it can significantly contribute to the creation of new jobs and new added-value generating activities. Such considerations make the development of the microfinance sector to be a priority on the working agenda of the European decision makers. On this background our research aims at underlining and discusses the recent evolutions but also the major characteristics of the European microfinance landscape. Through its content, our research seeks to highlight the vital necessity for supporting the development of the microfinance sector in the EU member countries for the recovery of the national economies.

Key words: microfinance institutions, micro lending, microenterprise, social inclusions, European countries
J.E.L. classification: G21, G23

1. Introduction

At the international level it is acknowledged that microfinance provides financial services to persons with a low income, that do not have access to traditional banking services [1]. Comparatively with the international practice of microfinance that refers equality to microloans, savings and insurances, in the European countries microfinance is focused especially on microloans and the offer of other financial services is limited by the juridical framework. Moreover, it is noted that the preoccupations of the European Commission and the EU instruments for the supporting of the microfinance activities are focused exclusively on micro-lending [2, p. 36].

In the last years the European microfinance sector and especially the microloans have registered a significant expansion having an important contribution in the helping of the microenterprises, of the self-employment and also of the social inclusion. Despite these, the disparities between countries regarding the regulatory, institutional and commercial framework make the development of the European microfinance market to be in the incipient phase registering an important gap between the demand and supply of microloans [3].

In this context, our research aims at underling key facts and figures regarding the European microfinance sector, with a special focused on microloans, and brings into discussion the most important characteristics and evolutions of this sector in the context of the recent financial crisis. Because of the reduced availability of the data regarding the microfinance activities in Europe, our study is based on the statistical data obtained from the European Microfinance Network (EMN) surveys. Mainly we have been focused on the 2010-2011 survey, that has covered 154 microfinance institutions from 32 European countries, from which 18 were members of the European Union and the rest were member countries of the European Free Trade Association, EU candidate countries and other European countries.

Our study is structured as follows: the

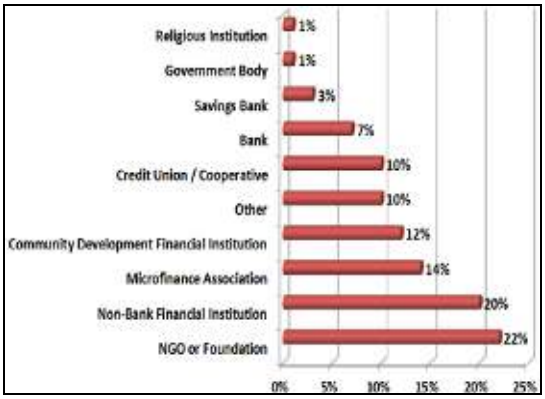
second part of the paper aims to highlight some key features of the microfinance system in the European countries and to highlight the lending patterns practiced; the third part emphasis some major evolutions recorded by the European market of microcredit and some implications of the recent financial crisis. Our research ends with conclusions.

2. The European microfinance framework and micro-lending models

Microcredit is defined by the European Commission as the loans under 25.000 euro for micro-enterprises, unemployed or inactive persons that wish to be involved in an independent activity or do not have access to the traditional banking services [4; 5]. Through its destinations, the microcredit has a vital role in the sustainability of the micro-enterprises, the development of new income generating activities, the creation of new jobs and the sustainability of the social and financial inclusion. The major role of the microcredit results also if we take into account the key figures, that underline that 99% of the European start-ups are micro and small firms, while a third of these are created by unemployed persons [5, p. 5]. Overall, through its double role, economic and social, the microenterprise can have a major contribution to the fulfilment of the objectives stipulated in the Europe 2020 Strategy, the achievement of a smarter, more sustainable and more inclusive economic growth.

The economic reality from the EU member states underlines that the size of the microcredit varies significantly from one country to another, from values below to values above the threshold established by the European Commission. As a result in the European countries, especially in the EU member countries, there is no single definition for the microcredit, which makes for it to be granted by various entities, for example commercial banks, saving banks, cooperative banks and also non-banking entities like microfinance institutions, credit unions, foundations, not for profit associations that predominantly are active at national or regional level, or event on both levels. The diversity of the institutions from the European microcredit market is underlined in figure 1 that shows that most of the institutions are NGOs or foundations (22%), Non-Bank Financial Institution (20%) and microfinance association (16%), while the lowest share is held by Savings Bank (3%), Government Body (1%) and Religious Institution (1%). The analysis in the case of the European countries, based on the survey made by the European Microfinance Network (EMN) for the period 2010-2011 underlines that in countries like Hungary or Spain over 50% from the institutions participating to the survey are NGOs or foundations. Comparatively, in countries like Albania, Belgium, Finland, Lithuania, Moldova, Romania, Serbia and Sweden the non-banking institutions are dominating while in Bulgaria and Croatia credit unions and cooperatives are in top. A different situation is registered in Great Britain where 80% of the institutions from the survey are Community Development Financial Institution. Overall, we can consider that from an institutional point of view the European microcredit market is characterised by a high degree of heterogeneity.

Figure 1. The ratio of the different type of institutions in the European countries for 2011



Source: [2]

According to the target groups, the survey undertaken by the European Microfinance Network underlines that some suppliers are targeting the bankable entrepreneurs (like start-ups and microenterprises), while other suppliers are targeting the non-bankable entrepreneurs, like financially excluded people. This diversification of the microcredit suppliers makes the microcredit practices to be not only different from one country to another but also from one institution to the next. In this context, the

European Commission has enhanced its preoccupations aimed at promoting and extending the best practices in the microfinance sector, publishing in 2011 an European Code of good conduct, the encompasses recommendations and norms regarding the granting of microcredit's [6].

Taking into account the type of business that the microfinance institutions are focused on (see figure 2), the results of the survey undertaken by the European Microfinance Network for the period 2010-2011 underlines that two thirds from these institutions are aiming start-ups (81%), the existing firms (72%), self-employed without employees (72%), while less than a third are aiming entrepreneurs in pre-start-up phase (29%), informal businesses (28%) and social enterprises (22%). The country analysis underlines significant differences, thus if in the case of most Eastern Europe countries the microfinance institutions are focused only on micro-lending, the situation is different in Western Europe where the institutions are focused on other operations. Such an orientation of the European institutions signals that they are in different stages of their business cycle, the Eastern European being more mature while the Western European being much younger (being founded after 2000) and aiming a wider range of operations.

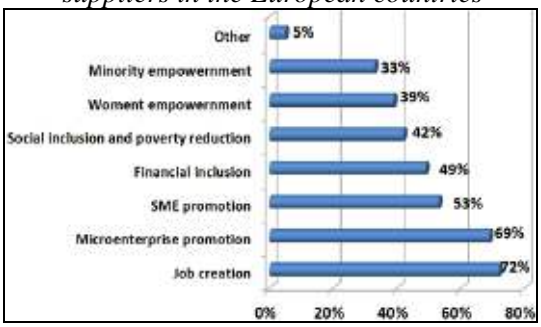
Figure 2. Type of businesses aimed by the European microfinance institutions



Source: [2]

Another significant aspect underlined by the survey undertaken by the European Microfinance Network (EMN) is represented by the main objectives of the European microfinance institutions. Thus, the results of the survey (see figure 3) underline that the main objectives of the microcredit suppliers are: the creations of jobs (72% aiming such an objective), promoting micro enterprises (69%) and SMEs (53%), followed by the increase of the access to financial services (49%). A smaller percentage have mentioned as a main objective social inclusion and poverty reduction (42%) and women and minority empowerment (39% and 33% respectively).

Figure 3. Main objectives of the microcredit suppliers in the European countries

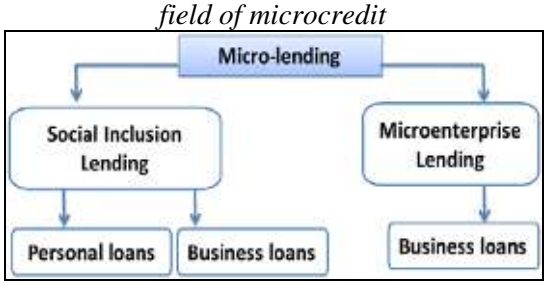


Source: based on data from [2]

In close correlation with the main objective of the European microcredit suppliers we can state that there are two lending models [2], *microenterprise lending* and *social inclusion lending respectively* (see figure 4).While *microenterprise lending* aims the granting of loans to bankable or nearly bankable microenterprises, *social inclusion lending* aims the self-employed individuals that because of their socio-economic statue do not have access to banking services. If in the case of the microcredit size both categories are aiming the same amount (up to 25.000 euro), the differences appear in the destination of the microcredit, thus: *business microcredit* aims to support the microenterprises and the self-employed while *personal microcredit* aims the personal needs and consumption of the client.

Through the distribution of the two lending models the survey undertaken by EMN underlines that social inclusion lending is more practice by some microfinance institutions, like all the microfinance associations, 91% of the credit unions, 64% of the non-banking financial institutions. In the case of these institutions the clients under the poverty level represent 13% from the whole lending activity [2].

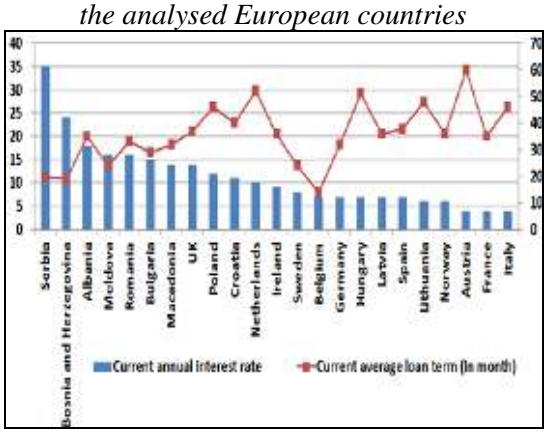
Figure 4. Lending models in the European field of microcredit



Source: [2, p. 16]

A significant characteristic of the European microcredit market is given by the average duration of loan and the interest rate charged. Regarding the period for which a microcredit is granted, this is between 6 months and 7 ½ years. According to the survey undertaken by EMN almost two thirds from the microfinance institutions are granting microloans up to three years. A cross-country analysis underlines the existence of major differences (see figure 5). Thus, comparatively with the Western European countries in some Eastern European countries that have the most developed microfinance sectors like Romania, Serbia and Bosnia-Herzegovina the period for which a microcredit is granted is extremely short as a large part of these loans are granted for the working capital, involving a smaller value and a shorter period.

Figure 5. Conditions for the microloans in the analysed European countries



Source: Based on data from [2]; [7]

Significant differences between the European countries are also registered in the case of the average annual interest rate for microcredit's (see figure 5). Thus, these are between 4% in Austria, France and Italy and 35% in Serbia. The size of the interest rate charged depends to a series of factors specific to a country among which are: the juridical framework, the existence of usury laws, the inflation rate, the refinancing cost of the microfinance institutions etc. Overall in the case of the European countries analysed we can observe that the granting period is shorter in the countries where the average interest rate is higher and the average loan size is smaller.

3. Recent evolutions in the European microfinance landscape and the implications of the crisis

A first aspect that reflects the evolution of the European microcredit sector is given by the number of granted microloans and their volume. Thus, it is underlined that although the number of microfinance institutions included in the surveys undertaken by EMN in the period 2003-2011 has been different, the data in table 1 show an important development of the microloans sector. In this way we can observe a 7 time increase of the microloans number, from 27.000 in 2003 to 204.080 in 2011 and a 5 time growth of their volume, from 210 million euro to 1,047 million euro (see table 1).

Table 1. The evolution of the microcredit's in the European countries included in the sample, for the period 2003-2011

	Number	Value (million EUR)
2003	27.000	210
2004	35.553	295
2007	42.750	394
2008	90.605	802
2009	84.523	828
2010	178.572	779
2011	204.080	1.047

Source: [2]

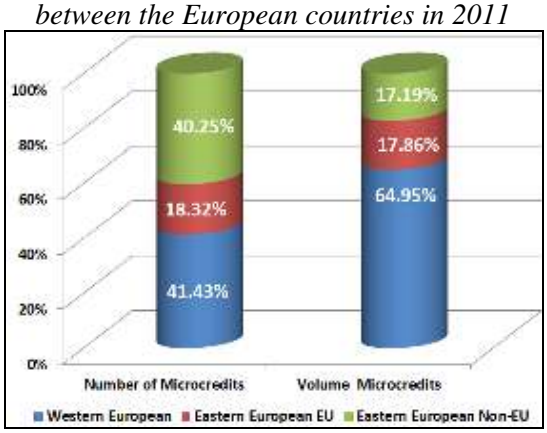
Comparatively with 2009, the survey underlines that the most important increase has been registered in Spain (a 560% increase), while in the case of the Eastern European countries Romania stands out, where the increase of the microloans has been especially the results of the financing through the European Progress Microfinance Facility [2].

The higher increase of the number of microloans comparatively with their volume in the EU countries has determined in 2011 compared with 2009 a decrease of the

average loan size from 9.641 euro to 7.129 euro [2]. The cross-country EU analysis underlines that in the Western European countries like Belgium, Finland and Ireland the average loan size is well above the EU average, while the Eastern European countries, especially Romania, Poland and Bulgaria register values well below the EU average loan value.

Through the distribution of the microloans on countries, the EMN survey underlines in 2011 the existence of high disparities. Thus, on the one hand, if in Western Europe the volume of microloans granted in 2011 by the microfinance institutions has been 680 million euro, representing 65% from the total volume of European microloans, while in the case of the Eastern European countries the volume of microloans has been of 368 million euro, representing 35% of total European microloans (see figure 6). On the other hand the significant discrepancies appear between the EU Western and Eastern member countries also in the case of the number of microloans but also on their volume (see figure 2). A clue of the regarding the discrepancies between these countries underlined by the EMN survey [2] is reflected by the average number of microloans per institution, that was around 1226 microloans in the case of the Western EU member countries comparatively with 1575 in the case of the Eastern EU member countries. This situation underlines that the microfinance institutions from the EU Eastern member countries are more developed and mature that their Western peers.

Figure 6. Distribution of the microcredit's between the European countries in 2011



Source: authors calculations based on data from [2]

The significant expansion of the European microfinance sector has been stopped in the context of the recent financial crisis. As we can observe from the data in table 1 the number of microloans has registered a negative increase of -7% in 2008 compared with 2009, for the first time since the EMN surveys stated in 2003. As a result of the economic recession, the increase of the firms' bankruptcies, the diminishing of the people's income, the microfinance institutions have registered a significant growth of the non-performing loans that has determined an increase of the risk aversion of the microcredit suppliers and implicitly the diminishing of their offer. On the other hand, microfinance institutions have faced increased difficulties in accessing the external financing sources as their price increased.

Regarding the demand for microloans, it can be anticipated an increase of this, both for social inclusion lending and for microenterprises lending, especially in the European countries with a high unemployment rate [8].

The significant difference between the demand and the supply of microloans and also the major problems faced by the microfinance institutions (for example the lack of institutional capacities, the lack of a regulatory framework, lack of access to funds for lending and the covering of the operational costs) [9] underline the necessity for the support of the European microfinance sector by the national public authorities and the European decision makers. The public support of the microfinance sector is not an easy solution taking into account that most of the European countries are faced with a significant deterioration of their public finances situation.

Regarding the actions of the decision makers at EU level, we can underline that in the context of the negative effects on the crisis on the microfinance sector, the European Commission has intensified its aiding efforts in this direction. In this way it is worth mentioning the setting-up in March 2010 for the first time at the EU level of a financing program for the European microfinance sector known as Progress Microfinance [10], that will allow the providers of microloans from the EU member countries to increase the volume of their

granted loans. Also, an important role in the supporting of the EU microfinance sector is played also by the initiatives of the European Commission [11]: JEREMIE (Joint European Resources for Micro to Medium Enterprises) through which the microcredit providers benefit from special guarantees and loans, and also JASMINE (Joint Action to Support Micro-finance Institutions in Europe), that aims the development of the microloans offer in the EU.

4. Conclusions

Through the content of our research we have aimed at synthetically underling the recent evolutions of the European microfinance market and its main characteristics. A series of key facts and data provided by the surveys undertaken by the European Microfinance Network show a significant expansion of the European microfinance sector, but the development of this being still in its early stages. Moreover we can acknowledge the existence of some major disparities, especially between the EU member countries determined mainly by the regulatory and institutional framework.

The recent financial crisis has left its mark also on the European microfinance sector, that has faced a series of major problems. On the other hand, if we take into account also the severe diminishing of the bank loans supply we can consider that the microfinance institutions would have the opportunity to extend their activity. But, the recovery and development of the European microfinance sector depends significantly on the support provided the national and European decision makers, both through the increasing of the available funds for the microfinance institutions and the encouragement of different persons to invests in this type of institutions.

As future research directions we consider of interest an empirical evaluation of the social and financial performances of the microfinance institutions from various EU member countries.

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Moldova in the Eastern Partnership: Free Trade Attempts, Asymmetric Benefits

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Abstract

The European Neighbourhood Policy was launched in 2004 with the purpose of promoting security, democracy and shared prosperity at a regional scale, between the EU members and both Mediterranean and Eastern Balkans countries.

Shifting to a more practical approach through the Eastern Partnership, the EU has implemented specific procedures to help the poorest of its neighbours (Moldova, Georgia and Armenia) to overcome the gap of structural power and become more competitive on the regional market.

In this frame, Moldova was among the most obedient of the EU students, scrupulously doing her homework in liberalising trade and applying institutional reforms.

Notwithstanding, the EU has not answered equivalently to Moldova's efforts of opening its borders, as the gained benefits did not materialize into expected membership perspectives.

Keywords: conditionality, Eastern Partnership, trade liberalisation
J.E.L. classification: F19

Introduction

It is commonly acknowledged that a high level of trade liberalisation between states strongly reduces the possibility of conflict and increases their power of negotiation on a regional scale. Our attempt is to define to what extent such a perspective of cooperation is feasible and mutually beneficial when the two players are the EU and Moldova: a member of its neighbourhood.

Getting close to the EU by signing the Association Agreement and identifying key sectors of the country's economy would bring Moldova a competitive advantage on the EU single market through the more recent and practical approach of a Deep and Comprehensive Free Trade Agreement Moldova-EU.

1. ENP: the shortcut to EU?

Ever since the Euromed Agreement (Barcelona, 1995), gaining access to the internal market and freedom of goods, services and capital under the prerequisite of successful implementation of political, economic and institutional reforms has been the main principle at stake for the countries in the European neighbourhood.

However, being deprived of the near prospect of joining the EU, countries like Armenia, Georgia and Moldova are convicted to 'never be major commercial targets for EU exporters and investors' [1], not only because of their size, but also due to their mainly agricultural exports to the Single Market. This controversy should be analysed from the point of view of both parties involved.

On the one hand, the Eastern partners are encouraged to open up their market to EU products along with a unilateral commitment to visa liberalisation (as for the case of Moldova) and enhancement of democratic principles.

Ongoing negotiations for Association Agreements have made the ex-soviet countries think of EU membership [2], as these types of formal arrangements have been considered the first step towards joining the European Community.

Nevertheless, direct financial support provided by the EU in the frame of the Eastern Partnership (600 million euros for 2010-2013) has proved to be less effective

than the trade preferences offered through the Generalised System of Preferences (GSP), as the latter has brought increased and diverse access to Western markets, as well as boosting exports [3].

On the other hand, the EU has set trade liberalisation with Eastern neighbours to a progressive opening of its market for industrial goods in five years from the signing of the Association Agreement. Special protocols regarding sensitive areas, such as agriculture, soft goods, coal and steel, were offering a slower and more limited cooperation, as these goods were essential to the exports of these countries, reflecting their medium-term comparative advantages.

Moreover, regulations on the quota protection by antidumping, safeguard policy and anti-subsidy measures were meant to protect EU producers of the foreign competition [4].

Consequently, given that the purpose of the European Partnership started in 2009 has been to 'accelerate political association and further economic integration' [5] between the EU and these countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), trading relations have revealed asymmetry in the mutual benefits of the parties.

The tendency is to admit that 'the EU has a vital interest in seeing stability, better governance and economic development at its (...) borders' [6], advocating the positive conditionality rather than taking advantage of the free trade agreements with these countries or promoting the perspective of membership.

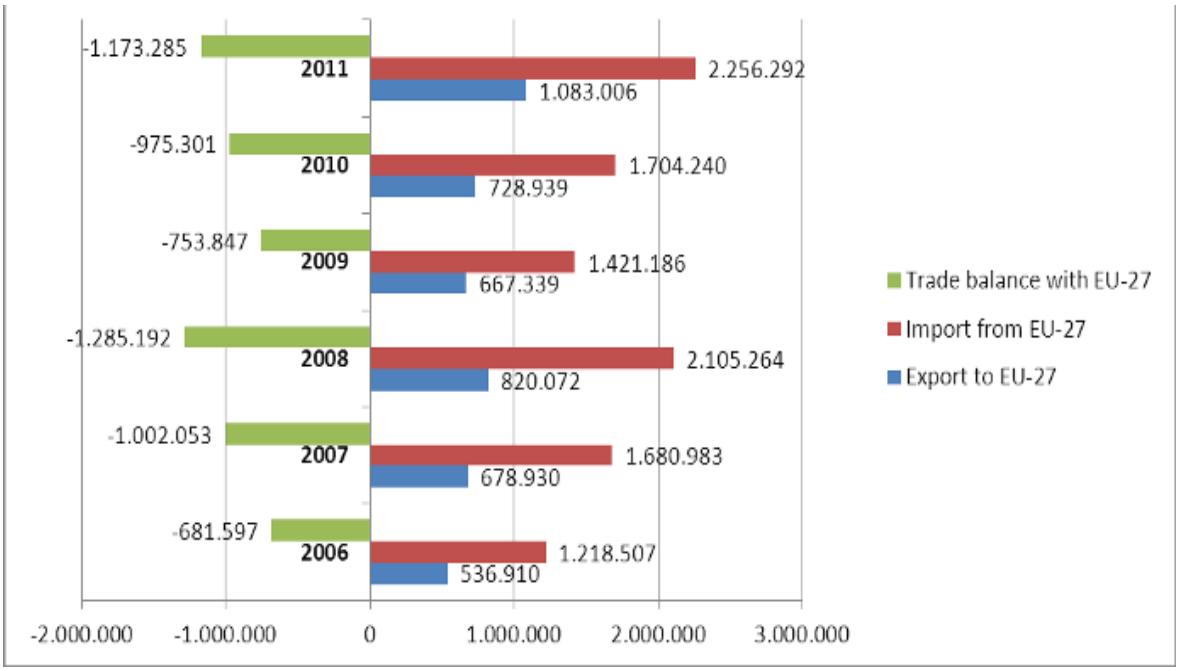
2. Moldova-EU and the DCFTA catalyst

Despite the political events of April 2009 - when parliamentary elections led to EU queries on the Moldavian commitment to political dialogue and reforms - Moldova has succeeded in overcoming the crisis and confirming the willing to foster measures to a steady economic development.

Therefore, a few months after the negotiations for an Association Agreement have started (in January 2010), the European Commission was already identifying a positive and dynamic evolution of trade flows [7] in the EU neighbourhood, particularly for the case of Eastern countries.

Measures to support a more deep economic integration have included, in the case of Moldova, unilateral trade preferences from the EU by December

Figure 1. Exports, imports and trade balance Moldova - EU27 between 2006 and 2011, million dollars



Source: Based on Ciucu, C., Chivrigă, V., Toderiţă, A., Tornea, I., *Consecinţele unei Zone de Liber-Schimb Aprofundate şi Cuprinzătoare asupra economiei Republicii Moldova,* European Institute of Romania, 2011, pp. 34

2015, consisting of duty-free access and removal of quota for all goods, excepting a few agricultural goods. Thus Moldova has become the only country in the ENP having been granted such a preferential trading regime with the EU [8].

Part of the Association Agreement, the DCFTA (Deep and Comprehensive Free Trade Area) would involve not only 'WTO minus' provisions – concerning exclusively tariff reductions – but also efforts to comply with advanced rules for opening the services market, investment regimes and government procurement, as well as for adapting to EU technical and sanitary standards.

As for the field of labour migration, mobility partnerships were created to deal with issues such as illegal migration or border management (the latter has been addressed through the EUBAM mission), and Moldova has been among the pilot countries to sign it in June 2008.

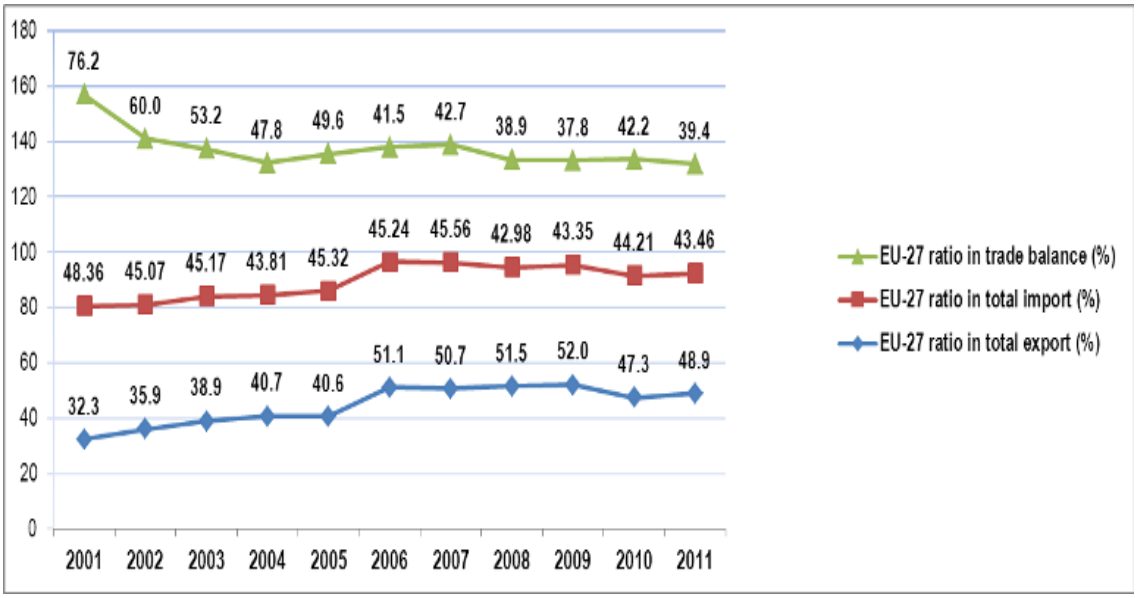
182.4 million dollars in 2001 to 1083 million dollars in 2011, whereas exports registered a five times growth: from 431.4 million dollars in 2001 to 2256.3 million dollars in 2011 [9] (the evolution of 2006-2011 is represented in Figure 1 above).

Out of the total 1651 million dollars increase in exports for the given period, 55% was represented by the growth of exports towards EU countries, while the increase of imports from the EU contributed by 42% to the total imports of Moldova (4299 million dollars). Trade with EU countries, as well as the total trade flows of Moldova have recorded high trade deficits within the last 11 years.

Given the more accelerated growth of the country's exports to EU, their ratio in total exportation flows from Moldova increased from 32% in 2001 to 49% in 2011, reaching a peak of 52% in 2008 and 2009 (Figure 2 below).

Even if, for 2010, exports to EU have grown slower than the ones to other destinations, in 2011 this situation improved

Figure 2. The ratio of trade flows to EU-27 in the total trade flows, %



Sursa: Based on Ciucu, C., Chivrigă, V., Toderiţă, A., Tornea, I., *Ibidem*.

Pursuing the expected positive spillover effects of developing a free trade area with the EU through soft coordination, Moldova has been continuously adapting its trade policy ever since the initiation of the DCFTA in early 2012.

Nonetheless, progress in bilateral trade has been registering steady growth after 2000. Imports increased six times: from

by 1.5 percentage points. The reduced ratio of EU in the total Moldavian exports might be explained by the slower recovery of EU economies after the crisis, as compared to other trading partners, respectively reflected in a lower increase of demand in Moldavian goods versus other source destinations. Imports, on the other hand, have lessened in

ratio over the analysed period, from 48% in 2001 to 43% in 2011.

Exports towards EU have enhanced after the introduction of GSP+, in January 2006, by 94,3 million dollars up against 2005, their ratio in total exports rising by 10.5 percentage points, from 40.6% to 51.1%. This situation could have been equally due to the Russian embargo set in 2006 on Moldavian alcoholic beverages, animal and vegetable products. However, the next two years, exports to EU have increased by 140 million dollars, what can be only attributed to the GSP+ liberalisation.

Conclusions

Taking part in the Eastern Partnership has brought Moldova a strong belief in a new orientation towards the EU. The electoral crisis of 2009 has been successfully overcome, as the Alliance for European Integration has given proof of Moldova's willing to adhere to EU norms and regulations and comply with the European normative power.

Nevertheless, strong reforms are to be accomplished by the Moldavian authorities by the time all targets included in the Association Agreement will be fulfilled. The most challenging of all is the pathway to creating a Deep and Comprehensive Free Trade Area with the EU, comprising not only of liberalisation with the Single Market in the manufactured goods, but also a progressive free trade in agricultural goods, services, in adapting sanitary and technical procedures, as well as in defining the government procurement sector and investment regimes.

Trade flows against the EU has shown a steady growth in both exports and imports with member states since 2000. However, the EU does not seem to benefit in the same way from open trade relations with small countries such as Moldova, both because of the feeble dimension of the Moldavian market and of the types of goods imported from its neighbour (mostly alcoholic beverages, soft goods and some animal and vegetable products).

Along with the DCFTA agreement that would help Moldova gain some competitive advantages on the EU market, strong political reform is yet to be undertaken in order to gain structural power of negotiation with the leaders of the giant Single Market.

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Administrative Perspectives Concerning the European Economic Relations

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Abstract

A possible European macroeconomic administrative pattern based on a higher administrative capacity of the macroeconomic system so that the portfolio of used administrative instruments fits the complexity of the system of transmission channels from the real economy, may be considered as solution for the macroeconomic administration of the problems caused by the current conjuncture. Within this context, the analysis will use as input the option of most EU member states to approach such pattern of the macroeconomic administration

Keywords: system, macroeconomic, regional, heterogeneity, sustainability.
JEL classification: R 11

1. Introduction

The starting point towards setting the objective of this study is the option of each EU member state to develop solutions specific to the national macroeconomic situation in order to administer the problems arising from the current macroeconomic conjuncture. The reason behind such option results from the following aspects characteristic to the current stage of the European process of integration:

- existence of a high level of heterogeneity within the European Union;
- existence of a high level of diversity among the macroeconomic effects manifesting in the different EU member states;
- existence of a high level of specificity of the macroeconomic administrative systems in the different EU member states;
- existence of a high level of diversity of the impact of the economic effects of the present conjuncture at the national macroeconomic level, due to the different levels of involvement in international economic relations.

A second input for our analysis is the matter of the different degrees of liberty of approaching such pattern of macroeconomic administration – the differences are given both by the particular level of involvement in the process of European integration, and by the level of development of the macroeconomic administrative system and of the real economy.

These key aspects yield the following results:

- implementation, with different results, of structurally different programs in order to administer the macroeconomic situations specific to each national macroeconomic level; this aspect will produce different levels of unavailability of the national macroeconomic systems to assume the commitments resulting from the continuation of the process of European integration;
- higher level of heterogeneity among the different macroeconomic entities composing the European Union.

Given these results, it will be necessary to review the progress of the process of European integration and to defend the European values acquired so far. A direct result of such approach, and a recommendation of this analysis, is the implementation, within the European Union, of a program of macroeconomic administration based on the following operational principles:

- limiting the increase of heterogeneity within the European Union;

- ensuring an optimal level of the administrative capacity to deal with the macroeconomic problems;
- consolidating, in good time, the macroeconomic administrative capacity, thus ensuring the efficacy of the intervention to administer a particular stimulus received as macroeconomic shock;
- preservation of the values already acquired by the European Union;
- ensuring a proper initial foundation for the expansion of the system of EU values;
- providing the channels for the expansion of the initial foundation by the implementation of programs which to expand the system of EU values.

With the view to implement specific programs associated to the mentioned operational principles, as recommendation in the acceptation of this paper, we propose the following programming elements that may support the continuation of the process of European integration:

- identification of sub-multitudes within the multitude associated to the European Union which to fit the possibility of implementing programs for the administration of the macroeconomic problems while:
  - preserving the already acquired European values;
  - ensuring the efficiency and efficacy of the administrative macroeconomic system;
  - ensuring a maximal level of heterogeneity within the sub-multitude, which to provide for the possibility of administration under optimal conditions of efficiency and efficacy;
- in the spirit of the principle of subsidiarity (see Art.5 from the Maastricht Treaty [3], [6], completed by the stipulations from the Protocol of the Amsterdam Treaty and by the stipulations from the Lisbon Treaty), identification of the limits, determined according to the principles of maximal efficiency and maximal efficacy, between the administrative capacity at the level of the multitude, the administrative capacities at the level of the sub-multitudes and the administrative capacities at the national macroeconomic levels;
- assumption, at the level of EU macroeconomic cooperation, of a functional and optimal mix of regional-national administrative solutions;
- drawing up and implementing programs of macroeconomic administration according to the operational formula of the regional-national mix of administrative macroeconomic solutions;
- reviewing the progress of the process of European integration in agreement with the mandatory operational character of the regional-national mix of administrative solutions.

2. Case of the European Economic and Monetary Union

Associated to the mentioned elements of the macroeconomic administrative pattern, the pattern of EU organising in multitudes with the view to design and implement a regional-national mix of administrative solutions, also includes the condition that the direction of the process of integration coincides with a higher level of integration at the administrative level [6].

The recommendation, from the perspective of this analysis, is, however, to correlate the speed of the integration process with the real and normally acceptable possibilities to decrease the level of heterogeneity among the composing macroeconomic entities. Practically speaking, such decrease of the level of heterogeneity among the composing entities is limited in terms of value; this means that there will be a GEMmin (where GE is the level of heterogeneity) below which it is not possible to decrease further the level of heterogeneity without inducing adverse effects into the economic and social system of the particular macroeconomic entity.

In other words, from the beginning of the process of European integration, we need to accept this idea of a minimal level of heterogeneity between the macroeconomic entities composing the union system, which will be part of the sum of characteristics of the regional system of economic cooperation. In the case of the process of European integration, this situation will put forth the necessity to accept one of the following two generic scenarios:

- limiting the process of European integration to the pattern of economic cooperation having two multitudes formed according to the criterion of two distinct values of the level of heterogeneity, GE1 and

GE2. The finality of the process of European integration corresponds to the pattern of classification of the multitudes based on the limit values GE1Min and GE2Min: the possible continuation of the process of integration, after a medium or long (most probably long) interval, towards a GEunique whose threshold value will be GEmin; the condition of such continuation of the process of integration would be:

$$GE1Min \approx GE2Min,$$

- limiting, by design, the process of European integration to a single multitude corresponding to a GE, GEmin respectively, with the following relations in relation with the previous scenario:

$$GE > GE1$$
$$GE \geq GE2$$

and

$$GEMin > GE1Min$$
$$GEMin \geq GE2Min.$$

Regarding the formation of these multitudes of components included in the large multitude corresponding to the regional pattern of economic cooperation, we have the following relation: the larger is the number of entities composing the multitude, the higher will be GE and GEmin, respectively.

Regarding the depth of the process of economic integration (same as in the case of the processes of economic integration), the larger is the number of entities composing the multitude, the higher will be GE and GEmin, which, in terms of the administration of the internal risks of the system, will necessary require a lower depth of the process of integration/economic cooperation.

Regarding the association between the analysed economic pattern and the current case of the European Union, in the acceptation of this analysis and given the current circumstance, it is more appropriate to continue the process of European integration according to the first scenario mentioned above: limiting, at this moment, in order to ensure the administrative capacity required by the current international macroeconomic situation, the process of European integration to the pattern of economic cooperation with two multitudes established on the criterion of two distinct values of heterogeneity; the possible continuation of the process of integration will be resumed after the lapse of a medium or long period, when the minimal set of operational principles of the regional macroeconomic system will have been met, according to the previous statements.

Regarding the approach of the current situation, and from the perspective of the international risks, we need to take into consideration the possible depreciation of some already acquired European values, case in which the regional economic-administrative pattern may move closer to the second pattern presented above, i.e. limiting, by design, the process of European integration to a single multitude, accepting a higher GE and a corresponding higher GEmin, while the depth of the process of integration/economic cooperation will necessarily be lower.

All these economic and administrative patterns proposed for the construction of a regional pattern based on economic cooperation must lead, in the acceptation of this analysis, to the promotion of a single vision; this should also be the reason for the national macroeconomic affiliation to that particular system, i.e. acquiring a higher economic and social standard compared to the situation of non-affiliation to the regional system.

3. The necessity if reviewing the process of European integration given the current international context

Regarding the current state of the European Union, we have the case of the first scenario described above.

The current international macroeconomic situation revealed the following main problems within the European Union:

- the high level of heterogeneity of the composing national macroeconomic entities in relation with the depth and speed of the process of European integration, reason why it was not yet possible to establish a regional structure with an administrative capacity able to administer the risk, shocks and macroeconomic effects due to situations like the economic crises, or to allow the member states to establish their own operational

national systems of macroeconomic administration. This would join the institutional and politic characters, which would compel the national states to get ready for the upper stages of the process of integration;

- in the acceptation of this analysis, these duties should be sized in agreement with the structural economic and social characteristics specific to each member state;

- lack of a program for the consolidation of the national macroeconomic administrative systems, which would allow the establishment of a consolidated regional administrative system by correlating the time and speed coordinates of the process of integration with the specific economic and social elements of each member states; this consolidated regional administrative system would be dimensioned in agreement with the administrative necessities resulting from the common problems, in relation with the depth of the process of European integration;

- existence of administrative deficiencies within the European institutions, deficiencies that support the perpetuation of the insufficient administrative capacity:

- lack of the function of banking monitoring within the European system of the Central Banks;

- insufficient administrative capacity of the function of control of the budgetary execution;

- insufficient correlation of the decisions regarding the destination of the funds from the unique budget with the actual requirements of enhancing the competitiveness of some economic and social sectors;

- insufficient preparation of the accession states and of the member states to approach important stages of the process of European integration (such as: insufficient pre-accession readying of the business environment in order to improve the absorption rate of the European funds; such as: insufficient post-accession readying of the business environment in order to assimilate the community acquis; insufficient preparation of the local public administration institutions to improve the absorption rate of the European funds). The main consequence of this aspect is the appearance of transmission channels for asymmetric shocks, additional to those associated to the program of regional integration;

- failing to consider the level of heterogeneity of the existing and potential member states – level of heterogeneity that should be correlated with the depth and stages of the process of European integration; consequently, the macroeconomic heterogeneity of the member states induced, within the regional system, effects that propagated on the associated transmission channels, and which generated secondary effects that were multiplied by the current conjuncture.

The main result of this situation is the insufficient administrative capacity both at the European and at the national level to manage the current macroeconomic situation, with the resulting consequences.

Thus, the present moment is associated, macroeconomically, with priority, to the administration of the effects generated by the current international conjuncture; under the current given conditions of the administrative organisation of the European Union, this administrative issue has to be tackled both at the regional and at the national level.

From this perspective, it appears necessary to review the progress of the process of European integration particularly since the processes of administration of the current macroeconomic situation, to be implemented, presume drawing up programs of macroeconomic policies specific to the characteristic situation of each member state, both in terms of macroeconomic specificity and in terms of the elements delineating the evolution of the present conjuncture within the national boundaries.

Thus, in the acceptation of this analysis, we propose prioritizing, both at the regional and at the national scale, the main objective of administering the current macroeconomic situation; the secondary objectives would be the elimination of all risk factors by decreasing the system of transmission channels for the macroeconomic shocks and effects within the regional system to the normal level associated to the process of European integration. Next, the future progress of the process of European integration must be reviewed in terms of:

- setting the stages;
- setting the depth of the process.

Starting from the administrative pattern presented earlier, these coordinates will depend mainly on the number of multitudes composing the regional system and on the level of heterogeneity associated to this pattern.

In the acceptation of this analysis, the current macroeconomic stage of the process of European integration is due mainly to the fact that the political decision-making factor has been considered – and has therefore acted accordingly – as having a higher importance than the macroeconomic decision-making factor.

Starting from this aspect, as solution for the sustainable evolution of any macroeconomic system, we propose the establishment of a consolidated decision-making fundament, by the establishment, at the institutional and conceptual levels, of a medium of cooperation between the political decision-making factor and the macroeconomic decision-making factor, as essential factors, reciprocally independent and with equal weight, of the economic-social evolution.

4. Conclusions

Within such context, both the level of the macroeconomic entities forming the European system, and the level of the system of the European Union, in the acceptation of this analysis, should review the progress of the process of European integration starting from the following priorities:

- implementation of programs for the administration of the present risks and of the effects that have already been induced into the system;
- configuration of a macroeconomic administrative system having the minimal necessary capacity to administer the risks and the situations presumed by the complexity of the level of real economy development; given the main characteristics of the European system, in the acceptation of this study, such direction of action is optimally built starting from the implementation of specific national programs depending on the variety of the national macroeconomic systems; depending on the evolution of the process of European integration, this system should become unitary at the scale of the entire European macroeconomic system.

As final conclusion, the current pattern of the European Union must be reviewed and redesigned so as to ensure a correspondence between the current and potential resources on the one hand, and the assumed objective, on the other hand. The current functional deficiencies of the macroeconomic system of the European Union have been also emphasised by the risk phenomena at the international macroeconomic level, in the absence of which the designed pattern would have had a higher probability of implementation with a much lower degree of erosion.

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Section I
International Affairs and European Integration

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Subsection 3
Regional Development Strategies

Analysis Models of Local Development Stakeholders

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Abstract

The purpose of this paper is to present methods of analysing local stakeholders and the development of a matrix to identify potential results of this group's activity, transposed in the local development document – "Local Strategy for Sustainable Development". It establishes both the vision (model) of development for Baia Mare city and the priority development direction, strategic objectives and policies that will support the accomplishment of these objectives for 2008-2020. The products provided where the analysis of resources and local problems/needs which led to the identification of solutions or local development projects in specific areas .

Key-words: local development, strategy, stakeholder, cooperation, resources.
J.E.L. Classification: R11, R12, R58

1.Introduction

"Stakeholders" are defined as: "People or institutions, organizations, interest groups whose expectations are affected by a certain public policy, decision or activity or which might affect the public policy / decision / activity in case"[3].

The stakeholders are people, groups of people, institutions and/or groups of institutions which are interested, affected, preoccupied or involved in a certain issue.

The instruments for analysing the stakeholders involved (stakeholders), consistently developed during the last period especially due to the practitioners' environment in the area of consultancy services, clarify the issue of applying Stakeholders' theory in the process of local development, therefore defining local stakeholders of development.

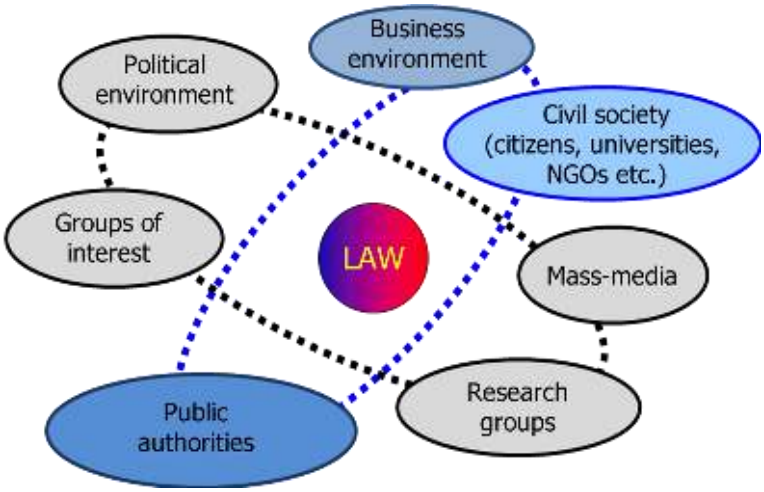
2. Organizational structuring and functioning criteria

Bibliographical sources, along with over 20 years of experience in local development planning at the level of Baia Mare city, led to a general "horizontal" classification of the categories of stakeholders involved in this process, presented in Figure 1.

This classification takes into account the type of organizational structure, specific interest and the purpose of its establishment and functioning.

a. **Public authority institutions** have the role stipulated in their fundamental establishment and functioning documents (statute, norms, regulations established through legislative documents) and consider general benefits of the target group/community.
   These structures can be:
   a) Territorial, administrative / local authority institutions (Local Council, Town hall), having as operational area and administrative task the administrative-territorial unit. Their interests are of general territorial level, especially in the fields of infrastructure and public services.
   b) Hierarchical-functional, sectorial–decentralized institutions(hierarchical level units), according to the activity fields (areas of development) of the public central administration (social-

Figure 1. General "horizontal" classification of the categories of stakeholders involved in local development, adapt.[2]



educational area: County School Inspectorate; environment field: County Agency for Environment protection).

c) Mixt – institutions created by territorial public institutions for the administration/application of specific policies in certain development areas (Public Services for Social Assistance in the suborder of Local Councils that apply specific sectorial policies in the area of the administrative territory).

b. **Business Environment** – private organizations created with the purpose to provide services and/or products required by the needs of the consumers and to obtain profit by selling them. They are characterized by focusing activities and applying results oriented management techniques – short-term operational objectives defined through immediate effect indicators.

c. **Civil society** – it represents formal structures (universities, unions, church, non-governmental organizations) or informal structures (mutual support groups, clubs, informal cooperation networks), characterized by associations based on interests, common needs (professional and civic) and informal leaders, personalities in various activity fields.

3. "Stakeholders" Theory and instruments for analysing development stakeholders

Before identifying interested stakeholders/people/parties/factors known in specialized literature as "stakeholders"– it is first necessary to define them.

Although initially designed to analyse corporate management and ethics in business management, the Stakeholders Theory [2] became a strategic analysis instrument in public administration at global level.

This theory starts from the premises that public management decision must be taken in light of the impact they have upon factors that might be affected by the decision [2].

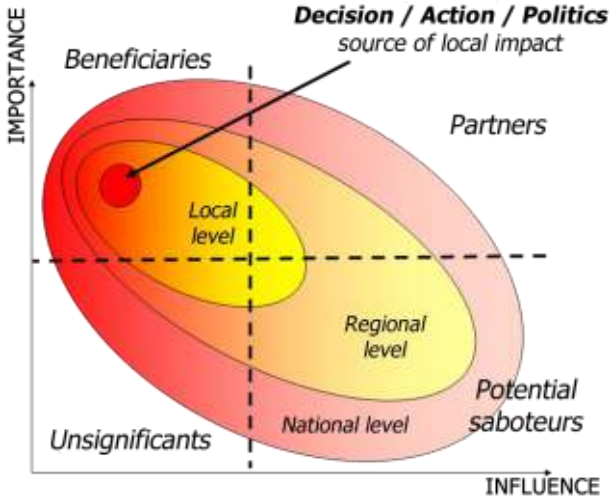
The purpose of the identification in the stakeholders' analysis is the answer to the questions: for whom? with whom? does the local development process take place.

a. **Quantitative analysis** – a first step in the quantitative identification of the local development stakeholders is the assessment of the activity/decision/public policy impact upon them.

The result of the quantitative analysis is represented by a long list of institutions and people identified though brainstorming sessions or focus groups consisting of local administration team groups responsible with the process of developing public policies completed by statistics (for primary stakeholders) and contact data for institutions, organizations with roles or responsibilities clearly defined though their establishment and functioning documents.

b. **Qualitative analysis** – its purpose is to delimit as clearly as possible the importance and the influence each of these stakeholders must and/or can have upon the

Figure 2. Qualitative Matrix Analysis, adapt.[2]



subject/policy/decision taken.

In the context of this analysis, to position various stakeholders identified within the matrix of the qualitative analysis (Figure 2), the motivations and expectations of each interested factor will be considered, so that differences/divergences may be emphasized, followed by common points and benefits that the public decision/policy can bring for each of them, more than the supporting or opposing the respective subject.

The systemic approach in the stakeholders analysis does not stop at local level (internal system), but in accordance with the estimated impact of the local activity/decision/policy, it will be extended at micro-regional level (urban system), regional and (inter)national (i.e. correlating local development policies with regional and sectorial higher level priorities, as well as European Union development policies and identified global trends).

From a qualitative point of view, four major categories of local development stakeholders can be identified:

a) Low importance or non-important/low influence – this defines local stakeholders "insignificant" for the analysed activity/decision/policy. Low importance or non-important/high influence – this defines the so-called potential "saboteurs" of the decision, due to interests contrary to the groups identified as "primary groups" for the issue analysed; practical experience shows the need for important resources for the "collaboration" with this category of stakeholders involved in the process of local development and their "transformation' into active partners;
b) Beneficiaries – in general, these are stakeholders identified as "primary" within the quantitative analysis at this stage, having great importance for the analysed activity/decision/policy, but with low influence capacity. This category of stakeholders of local development are the main target of facilitation services, community development;
c) Real partners (active) / they are characterized both by a high level of importance for the analysed activity/decision/policy and by an expertise capacity and high representation level.

The purpose of the "stakeholders" analysis is to identify the positioning of the stakeholders quantitatively identified in the matrix presented above and in the use of community facilitation techniques for increasing the number of active partners in the process of analysis, decision and implementation of public policies.

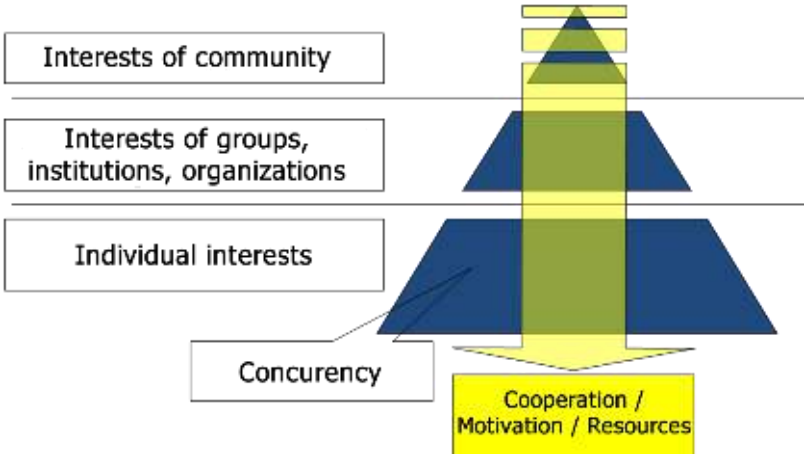
The sensitive and hard to delimit area of "common interest" (Figure 3) is based on the negotiation abilities of the local public administration team, founded upon the prior analysis of the real needs of the local stakeholders involved.

4. Criteria concerning the involvement level and role in the development process

Aim the place and role of the stakeholder in the local development structures (according to the model in Figure 3).

participatory identification of local needs and specific solutions applied through projects and local

Figure 3. Sensitive and hard to limit area of „common interest", adapt.[1]



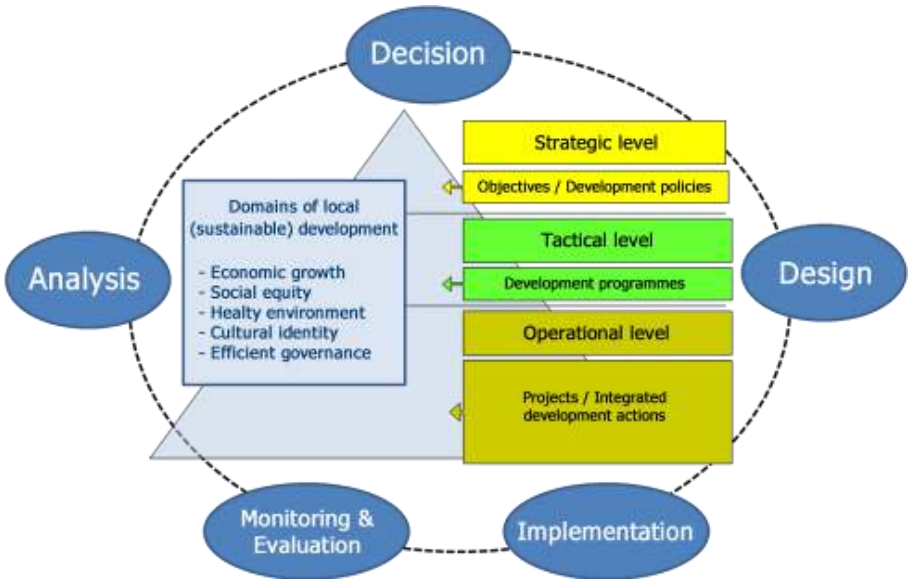
According to these criteria, stakeholders can play the following roles:

- *Strategic* – at the level of vision and elaboration of local development strategy characterized by defining long term objectives, projecting and application of local development policies ;
- *Tactical* – elaboration of specific objectives, sector objectives, general measures that have to be applied and implemented through specific development programs;
- *Operational* – at the level of development actions.

It is also important to know the possibility of their involvement in the local development stages: analysis – decision – projecting/design – implementation – monitoring and evaluation, process presented in a separate chapter of this document.

The involvement of citizens in the strategic planning process represents much more than the simple participation of a part of community representatives. Attention must be granted also to the variety of groups interested in the development process but also their reason of interest. Involving

Figure 4. Model presenting the place and role of stakeholders in the local development structures, adapt.[1]



citizens in the strategic planning process and their permanent information helps ensure their support in this program and their common interest in accomplishing the proposed objectives.

5. The analysis of the local development process at Baia Mare City level

According to the theoretical models presented above, the following list present the means by which Baia Mare City level stakeholder analysis has permitted the institutional construction of the local development process formed by:

- Baia Mare City Hall – coordinator;
- Baia Mare City Hall Directors;
- Local Public Services Directors;
- Parliamentary Parties representatives in the Local Council;
- Important Employers' Organizations representatives (representative economic operators);
- Representatives of important NGOs, universities;
- Project executive coordinator – Planning Integration, Development Service Director;
- Work Group coordinators – Local Experts (Public and Private).

This group's activity results are transposed into the local development policy document, "Local Sustainable Development Strategy", establishing for the 2008-2020 period the vision (model) for city development as well as the priority development directions, strategic objectives and policies supporting the achievement of these objectives.

The supplied product is in the planning phase, specific objectives and general measures supporting these objectives finalize the "Local Sustainable Development Strategy". The implementation phase supplies the reference terms for local development programs on priority fields, as well as criteria for delimitation and resource concentration, an also for prioritizing projects elaborated by the III-rd level, drawing up the "short project list" or the "Local Action Plan" [4].

The supplied products have been the resource analysis and the local problems/needs analysis (study of potential) leading to identification of solutions or the "long list" of local development projects on specific fields. Another important result would be the initiation of the forming process of cross-institution project teams and public-private partnerships.

From the "vertical" analysis (hierarchically – functional) of the presented structure one can observe the means by which all local development stakeholders have been involved in the local sustainable development planning , taking into account every structure's type and interest (Fig. 5).

The "stakeholder" analysis must follow the dynamics of local development stakeholders as opposed to the public activity, decision and policy but in the same time it is also used during the monitoring and evaluation of the public information, consultation and facilitation results, permanently developed by the local public authority.

The final result of a stakeholder analysis can be concentrated in a matrix containing a synthetic presentation of collected and processed quantity and quality data.

Figure 5. Level of local sustainable development operational planning, adapt. [1]

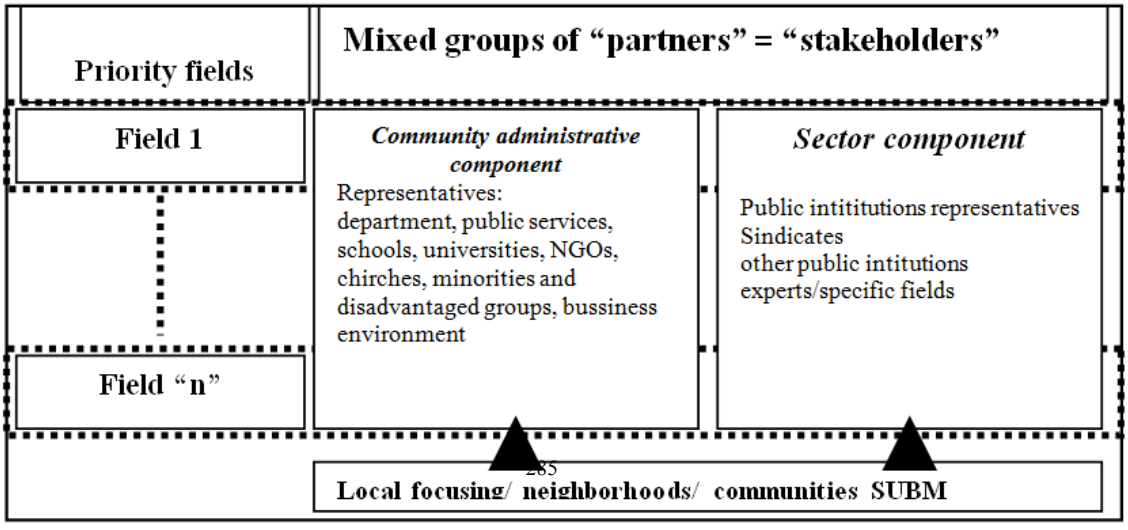


Table 1. Synthetic model used by Baia Mare City local public administration

Interested Factors	Category	Role	Impact / Importance	Influence
City Hall	lPA	S – O	5	5
Local Council Social Committee	lPA	S – d	3	5
Public Social Work Service	PAm	T – o	4	4
NGO – authorized social services providers	CS	O – i	3	2
NGO – representatives of social services beneficiaries	CS	O – p,i, m&e	5	2
University – social research	CS	T – a	3	4
Local enterprises working in projecting, constructions	BE	O – p, i	2	3

A synthetic model (excluding data and contact persons) used by the Local Public Administration of Baia Mare City is presented in table 1, and the abreviations are: PA – public administration(or:lPA territory/administrative; sPA – hierarhically sectorial; mPA - mixt); BE –bussiness environment ; CS – civil society; Functional role in the development process is defined by level of involvement: S – strategic; T – tactical; O – operational; x process stage: a – analisys; d – decision; p - projecting/ design; i – implementation ; m&e – monitoring and evaluation; o – entire process;Figures from 1 to 5 where 1 is the lowest level and 5 is the highest level of activity, decision, policy impact/importance for the interested factor; Figures from 1 to 5 where 1 is the lowest level and 5 is the highest level of influence that the interested factor can have on the activity, decision, debated policy.

The supplied products have been the resource analysis and the local problems/needs analysis (study of potential) leading to solution identification or the "long list" of local development projects on specific fields. Another important result would be the initiation of the forming process of cross-institution project teams and public-private partnerships.From the "vertical" analysis (hierarchically – functional) of the presented structure one can observe the means by which all local development stakeholders have been involved in the local sustainable development planning , taking into account every structure's type and interest [4].

6. Conclusions

Basically, local development is grounded on a complex system that includes factors with major roles with respect to the involvement in the decision-making process in a community, and who can significantly change the evolution course. These are the so-called stakeholders who mark their influences by applying strategies.

The issues related to the elaboration and application of local strategies consist in assuring the real participation of stakeholders in identifying needs, analysed problems, adopting and especially enforcing the public decisions. The real development of local communities should be based on their own strategic notions of development. Therefore, the selection of the development direction is made by the local government, considering their resources and the economic policies elaborated by the central government

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Strategic Approach of the Cultural Environment from Baia Mare

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Abstract

Sustainable approach to city development refers to maximizing the products added value, services created in/by communities and obtaining the synergic effect of: increasing economic competitiveness (technological but especially increasing the professionalism and active human resource attitude on the labour market), social equity, environment conservation and protection, local cultural identity (including by creating and promoting community brands), institutional development.

The purpose of the document is to present through a SWOT analysis the main results of the sustainable development strategic planning of Baia Mare City cultural environment, as well as a few results obtained from this planning.

Key-words: cultural development, strategy, community, SWOT analysis.
J.E.L. Classification: R11, R12, R58

1. Introduction

There is a professional agreement, almost general about the need of involvement from the public authorities in cultural policies and of increasing government support for culture, due to the wider definition attributed to "culture". [2].

New approaches to public culture policies define the fact that:

- Cultural policies are not public policies,
- Cultural policies are not only "policies for arts" but also for a higher quality life,
- Cultural policies must be embedded any development policy.

From this perspective, a "transverse"/ "integrating"/ "cross sector"/ "horizontal" approach is imperative, followed by a deep transformation of political thinking, succeeded by the establishment of adequate mechanisms and tools: in-government consulting procedures and mechanisms, cross - sector expert groups, etc.[1]

2. Cultural identity as a pole of sustainable local development

Intergovernmental Conference on Cultural Policies for Development in 1998 has adopted the Action Plan containing the following five objectives:

- *transforming cultural policy into a key component of the development strategy,*
- *promoting creativity and participation in cultural life,*
- *strengthening measures meant to keep cultural patrimony and to promote cultural industries,*
- *promoting cultural and linguistic diversity in the computerized society,*
- *increasing human and financial resource availability for cultural development.*

An assessment of own local cultural environments must be done for the purpose of diminishing the negative effects of globalization upon local culture, identifying both strengths and weaknesses and drafting consequent cultural policies.[5]

3. Strategic planning process of the "Cultural Identity" field in Baia Mare

The strategic planning process of the "Cultural Identity" field in Baia Mare was similar and parallel with the other fields of the sustainable approach to local development. Methodology stages are described in the strategic planning process of the Baia Mare City Sustainable Development Strategy.

Planning frame was ensured by the meetings of involved parties (representatives of local public administration, cultural public institutions, culture NGOs and business environment in the field) part of the CIVIC project initiated by Baia Mare City Hall during 2006 – 2008. [3]

The results of this process are described below.

1. Subfield: **Immobile cultural patrimony**

This names what in generic terms are called historical monuments and includes not only historical monuments but also historical sites. Immobile cultural patrimony is no limited to build patrimony, phrase excluding most of the archaeological sites.

Strengths:

- Existence of a rich and diverse ensemble of goods with immobile cultural patrimony value,
- Existence of a part of the historic architecture ensemble restored and functional for the local community,
- Existence of a ruling frame in the field concerning the territory improvement policy, ensures a mechanism that allows sustainable development of protected areas ,
- urban rehabilitation through rebuilding and developing the historical centre, cross-sector approach concerning the valuing of immobile cultural patrimony, especially in relation to tourism and hotel industry, civil constructions, transports, other consumer services,
- Involvement of local authorities in managing the immobile cultural patrimony goods existing in the territory.

Weaknesses:

- Lack of new work places and diversifying occupational typology in the field of research, conservation, restoration, using and reusing monuments, sets and historical sites
- Lack of sufficient training and specialization programs for human resources through formal and informal education.

Strategic objective: efficient management of the immobile cultural patrimony, allowing free access and knowledge of local patrimony value cultural goods.

Directions for action:

- *Maintaining a competitive and actual urban management.*
- *Keeping/establishing priorities concerning restoration works*
- *Raised prioritizing of the professional training for specialists in the field of protecting immobile cultural patrimony,*
- *Public promotion of cultural patrimony, especially the immobile one, as a community value.*

2. Subfield: **Mobile cultural patrimony**

This comprehends only the ranked mobile goods, but, in order to establish strategic action directions, the main interest of the general administrator has to be pointed towards the institutions protecting these goods: museums – County Art Museum, County History and Archaeology Museum, County Ethnography Museum, Mineralogy Museum.

Strengths:

- Existence of a rich and diverse ensemble of goods with mobile cultural patrimony managed by museums (art, history, archaeology, ethnography, mineralogy) ,
- National/county and local financing for research, conservation, restoration and valuing of mobile cultural patrimony,
- Increase of consumption and diversifying of markets at local level interested in goods and services in the field,
- Initiation of bilateral regional and international collaborations with the purpose of protecting and valuing local mobile cultural patrimony.

Weaknesses:

- Maintaining an obsolete mentality

concerning the role of museums in local society,
- Lack of sufficient training and specialization programs for human resources through formal and informal education,
- Lack of a cross-sector approach concerning the valuing of mobile cultural patrimony,
- Insufficient involvement and accountability from local/county authorities in managing through museums the existing mobile cultural patrimony goods in the territory.

Strategic objective: Extensive and intensive usage of mobile cultural patrimony, allowing free and unmediated access to the knowledge of cultural goods with local patrimony value.

Directions for action:
- *Ensuring access to national cultural patrimony values, in order to consolidate local cultural identity and acknowledge the belonging to a common community cultural space.*
- *Prioritizing restoration works and valuing mobile cultural patrimony, taking into account promotion possibilities with the support of touristic services.*
- *Granting major priority to professional training of specialists in the field of mobile cultural patrimony protection.*
- *Public awareness increase (social marketing) in order to acknowledge the role of the local mobile cultural patrimony in keeping local cultural identity and social cohesion – transforming museums in cultural mediators, and in beneficiaries and creators of services on the cultural market.*
- *Expansion of collaboration relations with similar institutions in other countries, especially neighbouring countries part of the European Union.*
- *Including local museums and managed public collections in larger cultural ensembles – attraction poles for local visitors and tourists.*

3. Subfield: **Immaterial cultural patrimony**

This refers to the ensemble of practices, representations, expressions, knowledge, abilities that communities, groups and individuals recognize as being a part of their cultural inheritance, transmitted through generations and permanently recreated (traditions and oral expressions – language as their main vector/show arts/ social practices, rituals and festive events, knowledge and practices linked to nature and universe/traditional handicraft and others).

Strengths:
- The existence of rich and diverse traditions and forms of artistic expression, social practices, rituals and types of events as well as numerous traditional practices and knowledge manifested in ordinary life of groups and individuals, permanently used and recreated
- The local programs and initiatives for activating and revitalizing traditional crafts and specific occupations, stimulation and valuing immaterial patrimony of national minorities , ethnological research.

Weaknesses:
- Not using traditional crafts and knowledge in restoring monuments and other goods in the tangible cultural patrimony.
- Lack of specific ruling that protects intellectual property rights upon various forms of expression of the immaterial patrimony.
- Lack of a local "inventory", according to the UNESCO Convention concerning the preservation of immaterial cultural patrimony.
- Reconsidering and inserting traditional objects and forms of expression in daily life (architecture, design, furniture, clothes, tools, etc.)
- Low local public interest for various forms of immaterial cultural patrimony, affecting this sector's economic viability.
- Insufficient valuing of immaterial cultural patrimony in the cultural tourism context.
- Unclear and insufficiently known legal frame concerning qualification certification and developing activities in the field of traditional crafts.

- Inexistent professional organizations representing craftsmen and their general interests al local level
- Fiscal frame not stimulating private investments and micro, small and medium enterprises to value this potential.

Strategic objectives:

- Ensuring the viability of immaterial cultural patrimony at local level – respecting and protecting all forms and ways of expression, also through the prevention of extinction or destruction of some of them
- Revaluing and reinserting immaterial patrimony in local community and citizens' life, especially young generations.
- Protecting origin, originality, authenticity as well as the rights of communities where these forms of cultural expression were born and rights of artisans (re) creating, perpetuating and transmitting them.

Directions for action:

- *Identification, documenting, researching and inventory of various elements of the local immaterial patrimony*
- *Preservation, promotion and valuing immaterial patrimony*
- *Authentically transmitting specific contents, especially through establishing programs in the formal and informal educational system*
- *Elaboration of special training programs for artisans and popular creators for learning techniques, materials and traditional expression forms, to combine them with modern design, in order to preserve authenticity and stimulate creativity and innovation.*
- *Correlation of organization frame of adult education/permanent with the one of training in traditional culture specific fields.*
- *Protecting the originality of creations, artisan products and other components of the immaterial patrimony (e.g., traditional medicine), from piracy and counterfeit.*
- *Developing offer and stimulating communities and creators through economic measures meant to motivate them and support their interest in preserving immaterial patrimony*
- *Stimulation of public interest in consuming this type of goods*
- *Intensified cooperation and dialogue between creators, communities, organisms and organizations with responsibilities in the field, market and cultural industries in order to support the viability of local and national immaterial patrimony.*

4. Subfield: **Visual Arts**

This refers to graphic and plastic works such as: sculptures, paintings, engravings, lithography, monumental art, scenography, upholstery, ceramics, glass and metal plastics, drawings, design, other works of applied art photographic works as well as any other works express through process analogue to photography.

Strengths:

- The existence of a large number of active creators and of powerful nucleus of creators from all generations;
- The centennial existence of Baia Mare Artistic Center, reason for community pride;
- Public – public, public – private partnerships, with the purpose of expanding access to contemporary creation (organization of exhibitions and other events of the kind, youth artistic education, etc.);
- Circulation in other countries of creators and their works;
- Local funding of cultural projects;
- Large number of unconventional/ alternative exhibition spaces for visual arts.

Weaknesses:

- Art market insufficiently developed for absorbing the offer in the field;
- Emphasize migration phenomenon among young artists;
- Low support of contemporary creation through specific public mechanisms (public acquisitions, material and fiscal facilities for developing human resources, creation, exposure and promotion);
- Low effectiveness of public art education programs;

- Inefficient public cultural marketing
- Substantial decrease in the number of public property workshops and spaces for creation;
- Insufficient involvement of artists associative structures in promoting specific social, occupational, financial rights.

Strategic objectives:

- Promoting the city creative potential, both contemporary creation as well as patrimony inheritance Baia Mare Artistic Centre/ Baia Mare Painting School
- Supporting creators in the field of visual arts through legal, economic and social measures
- Increasing visibility and importance of artistic creation in the life of local community.
- Increasing public access and art consumption at the level of various social-professional categories and development of specific market.

Directions for action:

- A new approach to local artistic education
- Protecting and supporting visual arts creators (e.g. protection of copyright)
- Stimulating intercultural dialogue and direct involvement of artists in drafting policies and establishing strategic objectives for the field of visual arts.
- Increasing public interest for visual arts through new forms of public education.[4]

4. Implemented projects

As the first results of this local planning, the first projects dedicated to the Culture subfield have been started and implemented.

a. Rehabilitation and promotion of cultural and historical identity – Citadel Market – Stephen Tower" - infrastructure project, contracted for funding in the Integrated Urban Development Plan (Regional Operational Plan, Axis 1 Supporting sustainable development of towns, Major Intervention Field 1.1. Integrated Urban Development Plans) having as a general objective the cultural – historical valuing and promotion of an urban public space with mainly historical, cultural and religious destination, through modernizing and rehabilitation of the historical and public edifices in the Citadel Market.

The project proposes the valuing of the following resources in the area:

- Historical signification of the area; Value of historical monument; un-researched archaeological potential;
- Urban value; quality of natural environment, especially through valuing the protected long-standing trees; integration of Citadel Market in the historical and cultural patrimony of the Old City Area (Liberty Square, Peace Square, Art Museum, City Theatre, Butcher's Bastion, History and Archaeology Museum); using information technology to connect the objective to the regional, national and European patrimony.

b. „CERAMICS" Project - international cooperation project, financed through the Interregional IV C Program,[4] sustaining the development of cooperation between towns with common cultural inheritance, confronted with the same difficulties and having the same goal to conserve and promote the field of ceramics and of small crafts in Europe.

The project activities have led to:

- Elaboration of a common diagnosis of the ceramics sector, with conclusions leading to the editing of a Best Practice Catalogue and recommendations for local support policies for the ceramics field, accomplished for every partner.
- Intensive experience exchanges between representatives of the ceramics field in the partner regions: Hungary, Romania, Portugal, Italy and Slovenia
- Elaboration of the Action Plan for the ceramics field and supporting it at local administrative and political level – Baia Mare Local Council.

5. Conclusions

Strategic planning is considered a process that is developed chronologically and systematically, enabling local communities to create their own image of their future,

drafting for this purpose the corresponding development stages according to the local resources available for achieving their established objectives.

Part of Baia Mare City Sustainable Development strategy, the cultural field is defining for what we are as an individual identity, community or nation, referring to inherited values. Even more important is the present forcing us to preserve these values, creatively use our available resources for the purpose of improving life and our evolution in European and Temporal context – the XXIst century!

The current strategy reflects a prognosis of the cultural development in the following period, supported by the Baia Mare City Sustainable development Strategy, by maintaining the major objectives and consistently promoting them but also through a new approach: inter – disciplinary approach leading to obtaining a quality cultural product, with civilizing, economic effects, influencing synergic fields – tourism or media.

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Social Responsability and Niche Tourism in Economic Development- Environment- Tourism Triangle

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Abstract

Economic development, initially understood and seen as a growth, receives in the 21st century a human side component, decreasing quantitative in favor of qualitative. The tourism industry has experienced a continuous growth, based on natural resources, with adverse effects, and now it's time for efforts to move toward finding a balance between tourism and the environment. Thus emerged the concept of sustainable tourism and, in a broader sense, sustainable development of tourism. This paper proposes a theoretical crossing in the literature, following growth, development and sustainability wire against the background of the relationship between tourism and environment, offering two solutions - tourism niche orientation and social responsibility.

Keywords: economic development, sustainable tourism, environment, social responsibility, niche tourism.
J.E.L. classification: Q01, Q56, L83, M14

1. Introduction

Although initial development was seen as an economic growth, while the idea of diversified development, coordinates of this imposing a reformulation of the concept.

We can look at development as a process of growth and modernization as a process of enlarging the opportunities- human development - and as a process to satisfy the whole range of current needs without compromising the ability to meet their future- sustainable development.

Obviously qualitative character of the idea of economic development, unlike the quantity that underlie the concept of growth. Tourism niche, born as an alternative to mass tourism, it follows, tourists civic education. Thus, we speak of social responsibility, a phenomenon that provides to development a human aspect.

2. Sustainable economic development

Economic development is a multidimensional process involving major changes in social structures, popular attitudes and in national institutions, aiming at accelerating economic growth, reducing inequality and poverty eradication. Any development policy must take into consideration three basic objectives [4]:

- Increasing the feasibility and widespread distribution of goods that support the basic needs of life;
- Increasing levels of living, including additional high incomes, more jobs, better education, greater attention paid to cultural and humanistic values, respectively, generating a greater national and individual self-esteem;
- Increasing levels of economic and social opportunities that are available to individuals and nations.

The concept of sustainable development is one that has evolved over time. In 1987, the World Commission on Environment and Development defined sustainable development as a viable and

environmentally sustainable "Warranty needs of this generation without compromising the ability to meet their own needs come" [6].

At Rio de Janeiro, in 1992, the UN Conference on "Environment and Development" was discussed environmental protection and supporting a less destructive industrialization, and finding ways and means to replace intensive economic development with sustainable development.

Sustainable development is a concept that is expected to resolve the problems of contemporary society: poverty (in the midst of abundance) environmental degradation, loss of trust in institutions, uncontrolled expansion of urbanization, uncertainty about employment, youth alienation, removing traditional values , inflation, unemployment and other economic and financial crisis or geopolitical.

3. Tourism – environment binomial- the center of sustainable tourism development

Development of society in general subject, the environment in two main types of pressure: one is a direct result of population explosion and expansion of cities, recorded considerable growth of industry, agriculture and other fields, amplifying traffic and transport sitemelor and communication, intensive and extensive exploitation of natural resources and other, more aggressive piutin predominantly seasonal nature, arising from the use of the environment for tourism and leisure activities [3].

According to studies conducted by the World Tourism Organization, tourism effects are grouped into three categories [8]:

- Effects on overall development strategy of a country (area) or global effects;
- Partial effects on the national economy, the agents, sectors,variables and macro economic fundamentals;
- External effects in the socio-cultural, physical and human resources, withindirect economic results.

Tourism therefore not only affect economic and social development strategy of countries worldwide, but also at branch level.

In the context of economic implications is also the contribution of tourism to developing areas less rich in resources processing industries, but tourism resources natural and man who harnessed, can become tourist attractions and determine existing settlements development as tourist resorts or even the creation of new states. Are recovered through tourism also some areas cultural and historical tourism resources with great force tourist attraction [6].

Tourism developments show that the sector has a great economic impact being sometimes a primary source of national economic recovery for countries with important tourism resources. Tourism acts as a stimulating factor global economic system.

Through its specificity - service activity, manpower intensive, intelligence and creativity - tourism has an important contribution to achieving added value. Due to the complex linkages between the tourism industry and other sectors of the economy, tourism has an important effect driving, stimulating production in other areas.

Tourism development policies at the national level involves setting goals and efficiently use macroeconomic levers specific to this field. Are extra-economic objectives (those related to natural and anthropogenic exploitation potential of a country), and economic objectives (increased production, increased income).

Tourism is an economic activity particularly complex for tourism services incorporating content, along with specific services, and some other appropriate economic, giving the character a branch interference tourism and synthesis, hence the magnitude and complexity of linkages between tourism and parts of the economy [6].

From the latest research in the field, Rojo (2009) contrasts the economic development environment, the economic reality of the tourism industry in Andalusia, and Williams, Ponsford (2009) showed tourism-environment paradox by defining the relationship between the tourism industry and natural environment as one not easy and the one in the center of the future tourism policies.

4. Impact of tourism - environmental protection and natural resources

The environment can be defined as the totality of natural factors and those created by human activities which, in close interaction, affect the ecological balance, determines the living and working conditions for human and social development prospects [7].

Must be cultivated a special and permanent environment interest from both the locals and the tourists, thus the environment is considered as an integral part of the quality of tourism services.

Pressure that tourism, along with other components of economic and social environment exerts contribute to its destruction, making more than ever necessary planning rational scientific space. This development should be seen in relation to economic development and tourism development, and taking into account the requirements of the natural and anthropic [7].

Environmental protection is materialized in a series of actions and measures among which may be mentioned that the most important: a thorough knowledge of the interaction between the environment and socio-economic system and the natural system, providing the consequences of this interaction, rational use and maximum economy of natural resources, regardless of their origin, prevention and combating environmental degradation caused by man, and that caused by natural causes; harmonization immediate and future interests of society as a whole and businesses on the use of environmental factors: air, water, nature reserves and monuments, landscape.

More than any other field of activity, tourism is dependent on the environment, representing "raw material" subject and the ongoing activity and tourism, being his support frame, carrier resources. Tourism takes place in the environment and the environment, its quality can promote or deny tourism activities [5].

Environmental degradation and tourism resources is the result of two main groups of factors:

- Factors that are the direct result of economic development;
- Factors derived from the use of the environment for tourism and recreation.

The first group of factors, primarily resulting from increased industrial activities, agriculture and transport, affecting both the environment and the general development of tourism activities, namely air, water, soil, vegetation, fauna, landscapes, nature and architectural monuments, etc. [3].

Regarding the second group, tourism as any human activity, as a consumer of space and tourist resources, participants involved in the degradation and pollution of the environment and tourism potential, either by direct pressure of tourists on the landscape, flora and fauna or other sights, you can partially or totally damaged, either through misconception recovery of areas and sightseeing points (endogenous pollution) [3].

Environmental quality and maintain a high level is a prerequisite for tourism competitiveness, particularly in relation to international tourism.

Tourism, as a field of activity, and policy makers in this area, incumbent special responsibilities on [7]:

- Avoid wastage of natural resources like water, air, soil, vegetation, considered until recently as inexhaustible;
- Preserving, protecting and improving human settlements (urban and rural), natural monuments, the historical vestiges, traditional architecture and so on;
- Planning, rational exploitation and conservation in the gaps, consistent with future tourist flows;
- Control the effects of tourism in order to prevent environmental degradation and use the best resource conditions.

Tourism can have positive and negative impacts, direct or indirect, tangible and intangible on the environment [2].

An effective strategy, a continuous monitoring and accountability of both local communities and tourists can minimize these effects.

5. Niche tourism and social responsibility - a sustainable alternative

The concept of niche tourism has emerged in recent years against the concept of mass tourism. This implies a more sophisticated set of practical differentiates and distinguishes tourists. In a world where everything tends towards globalization niche tourism represents diversity and ways to score differences.

Responsible tourism seeks to limit negative impacts on these areas, local

communities and local people of the destination host [10].

For tourist destinations using tourism as a tool for economic development, tourism, niche tourism opportunity more sustainable, less environmentally damaging and can attract tourists who spend more. For tourists, tourism niche provides a more meaningful set of experiences in that their needs and wishes will be met.

Tourism niche is determined by motivation, behavior and experience of both production and consumption. Niche tourism offer addresses a small but steady consumer niche tourism is practiced by a small segment of individuals due to preferences and financial situation.

Tourism, through his work, has a duplicitous nature. On the one hand, countries with a high level of civilization are among the most encouraging environmentalism. On the other hand, tourism itself cause pollution because they use the natural resources of the places visited and often leave behind material for disposal [9].

Social responsibility in tourism is via a symbiotic tourism with physical and social environment, in order to achieve sustainable objectives. Responsible tourism seeks to limit the negative effects of tourism activities on both tourism destinations and the local population.

Because an important social responsibility gets increasingly higher their business, more and more hotel companies (both international chains as well as small business local) have adopted codes of conduct and reporting standards that take into account the results environmental and social, not just financial ones, and joined the various schemes of certification and accreditation. There are many initiatives on certification and accreditation of social responsibility and sustainability in tourism - www.greenglobe.org, www.travelife.eu, www.yourvisit.info, www.blueflag.org, www.eceat.org - Quality Label, www. ceres.org - Green Hotel Innitiative, www.ecotelhotels.com, greenleaf.audubоninternational.org, http://ec.europa.eu/environment/ecolabel [1]

6. Conclusions

In the global economy at the beginning of the millennium, tourism occupies an important place in both international trade and the national economy of most countries of the world. Contributing to the achievement of world gross product and employment, tourism is among the most important components of the global economy.

Due efficient way to exploit the resources and beneficial effects on economic, social and cultural, governments of many countries give due consideration when determining tourism development programs at macroeconomic level.

Niche tourism concept was born as a reaction to mass tourism that differs by the quality of tourists, supporting sustainable development of tourism objectives, funding by local communities. This form of tourism is produced and consumed simultaneously satisfy consumer desires.

Responsible tourism would help to reduce the negative effects of tourism activities and to stimulate local community to realize that protecting the environment and its objectives must be achieved first in their interest, then, in the background, in the interest of tourists.

7. Acknowledgment

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The Production Factors' Mobility and the Fiscal Competition: A Theoretical Overview

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Abstract

The increase of the production factors' mobility, given the facts of the economic and financial globalization, brought again into focus the attractiveness of different states at the world level.

This study is focused on the analysis of conceptual term of fiscal competition, from traditional approach such as Tiebout's theory, up to spatial approach of fiscal competition, and also on the linkage between production factors' mobility and fiscal competition.

According to the results, our analysis reflects that while the level of the taxation rates variation represents the only explaining factor of the production factors localization in the traditional approach of the fiscal competition, in opposition the new geographical economics tries to explain the localization decisions of the companies, employees and mobile capital, by taking into consideration all the factors influencing the space distribution in the conditions of the economic integration increase.

Keywords: fiscal policy, factors of production, geographic mobility, economic integration.
J.E.L. Classification: E62, E23, J60, F15.

1. Introduction

The economic integration by building a single internal market in 1992 and subsequently the limited monetary integration, initiated in 1999 with the Eurozone emergence, given the fact that the member states weren't agreeable to abandon their sovereignty regarding the fiscal policy, are events which came into notice of experts. The decisions of the member states' governments to steady the factors of production, given the fact of a fiscal pressure differentiated at the level of the Union member states, were influenced by literature concerning the incidence of fiscal competition and the coordination of fiscal policies.

The fiscal coordination is the solution according to the traditional approach of fiscal competition because otherwise the mobile factors settle in countries with reduced taxation in order to balance the reduced productivity of the factors of production. The delocalization consequences on the departure and implantation countries can be found at the level of the internal and external trade exchanges, the occupancy rate of the work factor, the level of tax collection, and the supply of goods and public services.

2. Traditional approach versus spatial approach of fiscal competition

The analysis of the fiscal competition between the component jurisdictions of a federation elaborated by Tiebout [26] has as reference the arbitrage between taxes and public expenditure, to prove that the public sector can be equally efficient in the supply of public goods as the market. This starts from a series of suppositions according to which simultaneously citizens are perfectly mobile and informed about the collected taxes and the public goods supplied by each jurisdiction, the citizens' incomes derive only from investments' incomes, there are no contagion effects and externalities between jurisdictions. According to the "voting with the feet" principle, citizens shall settle their

residence in the jurisdictions which offer the combination of taxes-public goods corresponding to the personal preferences at a minimum cost.

Tiebout ignores the fact that the residence choosing depends on the working places and incomes and the residence place can be different from the place where the capital is established, therefore the principle of equivalence between the paid taxes and the public services the tax-payer is provided with ceases to exist. Setting aside the contagion means the fact of not taking into consideration that, the activities' concentration in a given zone has an impact on other, influencing the citizens' preferences and their welfare, and consequently, Pareto optimum disappears. In conclusion, Tiebout's opinion according to which the citizens' mobility provides a fiscal optimum and therefore a fiscal harmonization is not necessary doesn't correspond to reality.

In the models elaborated by Zodrow and Mieskowski [32] and Wilson [31], the working factor is stationary; the population composing the house sector fully consumes the salary and holds a part of the global capital, which is the only mobile factor. The financing of the public sector, of the jurisdictions perfectly monetary integrated and which are on the same level of administration is made through a tax applied on the capital factor. The increase of the tax on the capital factor, in order to supply more public goods, determines the decrease of the private incomes, the increase of the production cost of the public good per tax-payer, the decrease of the taxable base, as the capital factor performs investments and delocalizes towards jurisdictions where the benefit after taxation is higher. Concomitantly with the increase of the taxable base in the jurisdictions where the tax is lower, the public goods provided by them also increase. Consequently, the fiscal externalities determine the jurisdictions to reduce the taxation rates in order to attract the capital and the public goods are provided to a suboptimal level.

Placing their research to the level of a federation with a small number of member states which have the right to institute taxes, Mintz and Tulkens [20] stated that the different taxation rates of the consume, in the conditions of pure and perfect competition, determine externalities on the private consumption and on the public expenditure and bring into focus both the possible existence and the optimality of a non-cooperative fiscal equilibrium. In the elaborated model, they depart from the supposition that the optimum level of taxation and the supplied public goods must provide the citizens' welfare and the budgetary equilibrium. In their opinion, the fiscal competition between states determines the alteration of the taxable bases when the rates of the indirect taxes are differentiated because, in accordance with the origin principle, the differentiated level of the rates influences the export or import of economic goods between states. As every states establishes its level of taxation, setting aside the one applied in other state, if a state would reduce the taxation rate, then, the funded public goods would decrease but the welfare loss would be balanced by its increase on the expense of the consumption increase. The states confronted with the loss of taxable base would be forced to reduce the rates to a level to which the fiscal equilibrium wouldn't be optimal any more.

As a result of the performed researches, De Combrugghe and Tulkens [7] stated that when the rates of the consumption taxes are identical in two states there is an optimal non-cooperative fiscal equilibrium, but its improvement can be achieved only by increasing the rates and not be their reduction. Therefore, the increase of the consumption tax rate shall determine the increase of the public expenditure (of the public consumption) in the state exporting private goods and services.

In order to analyze the fiscal competition, authors appealed to:

- urban economics: Von Thünen [28] explained the localization of the agricultural activities by maximizing the net ground rent; Alonso elaborated the monocentric city model; Marshall A. approached the agglomeration phenomena of the companies, the emergence of the industrial districts, the sources of the scale economies; Hoover [12] approached the effects of the agglomeration economies; Henderson [11] elaborated a model in order to explain the company concentration);
-regional science: Weber [29] stated that the minimization of the total transport cost

determined the optimal implantation place for a company; Christaller [6] stated that the transport costs and the economies of scale determined the emergence of certain central places which were assimilated to the urban centres; Lösch [16] explained the concentration through the arbitrage between the reduced transport costs and the increasing benefits generated by specialization and economies of scale; Pred [24] was interested in the dimension and localization of the urban centres;

-space competition: Hotelling [18] stated that anticipations regarding competition according to the selling price influenced the companies' localization strategies by which he explained the agglomeration phenomena.

In the literature referring to space economy, there are a large number of models by which various authors try to analyze the space distribution of the economic activities, departing from different suppositions related to the factors' mobility. Baldwin et al [3] proceeded to a gathering of them in four categories. In the conditions of the working factor immobility, the models based on the supposition of the capital factor mobility stated that the concentration of the economic activities was determined by the profit difference [19]. Given the fact that delocalization is made without costs, at the company level the cost of the working factor is variable depending on the produced quantity, and the cost related to the capital factor is constant. The models with the capital accumulation and depreciation depart from the supposition of the capital and working factors' immobility [2], stating the existence of a process of accumulation in the attractive economic zones and a process of depreciation in the peripheral economic zones. Centre – periphery models depart from the supposition of a differentiated mobility of the working factor depending on the training level [8], [14], [22]. The models based on the contractors' mobility depart from the supposition of the contractors/capital owners' mobility, interested in the level of the real incomes when they delocalize and the lack of mobility of the human factor employed [9].

Various authors were concerned with the impact of the fiscal competition from the point of view of the space, analyzing the effects of the capital mobility on the fiscal collections and stating the necessity of the fiscal harmonization in general and especially the taxation rates. Persson and Tabellini [23] state that, given the fact of the European economic integration, there is a tendency of leveling the income tax downwards, and when the costs of the capital mobility become insignificant we can reach a void tax for the capital incomes. Oates [21] but also Gérard-Varet&Thisse [10] show that the delocalization of the economic activities determined by the increase of the fiscal pressure produce externalities, consisting in the enlargement of the taxation bases in the implantation countries, but also on the fiscal collections in the provenance countries and their passing-by at the supranational level degenerates in a suboptimal allocation of the public goods. For the internalization of externalities, they find for the fiscal harmonization.

Interested in the impact of the fiscal competition on the space distribution of the economic activities, given the fact of the European economic integration and the existence of the agglomeration effects, Ludema and Wooton [17] started from the supposition that the working factor is the one which determines the space distribution. In their opinion, the agglomeration of the economic activities is encouraged by the need of reducing the transport costs and the reaction of the taxable bases to the taxes' modification. When the agglomeration forces are predominant in comparison with the dispersion ones, the economic integration can determine the increase of the taxation rates which shall have as effect the production decrease, imports increase and the consumers shall pay the transport costs related to the imported goods, as well as the working factor migration. The increase of taxes shall be attenuated by the reduction of the transport costs and the final impact shall be found in price, influencing the company competitiveness on the market.

As opposed to Ludema and Wooton who affirm that the regional integration amplifies the agglomeration forces and allows the states to recover their fiscal autonomy, because the delocalization determines the increase of the consumer price index, Rieber [25] states that the integration in an environment with an imperfect competition and increasing benefits has considerable

implications on the distribution of the productive activities, determining the reduction of the costs and prices implicitly, influencing on competitiveness through price.

Keen and Marchand [13] elaborated a model of the fiscal competition taking into consideration the public expenditure which is distributed between an input for the mobile companies and a public good consumed by the stationary workers. They suggest the rebalancing of expenditure for population, as they stat that governments support the companies. On his turn, Wildasin [30] stated that together with competition through taxes there is also a competition trough public expenditure funded on the expense of the fiscal collections.

The impact of public infrastructures on industries' localization was studied by Martin and Roger[19] who affirm that their level and quality influence the companies' decisions and contribute to the emphasis of the agglomeration forces. On their turn, Justman, Thisse and van Ypersele [15] have affirmed that the public infrastructures influence the companies' transport costs and the mobile workers' localization decisions by means of the utility function differential between different regions.

Anderson and Forslid [1] analyze the impact of public goods and services on the space localization of the mobile factors of production, given the increase of taxes and the existence of the agglomeration effects which lead to the concentration of the economic activities. In order to analyze the taxation impact on space distribution of the activity, they take into consideration various situations in which the taxation rate either coincide or they are different at the level of the two categories of employees and regions. In the opinion of the mentioned authors, the public goods and services funded by means of taxes represent a factor which encourages agglomeration, and the impact on the localization decision depends on the preference to the offered utilities. In order to limit the agglomeration effect and to stabilize the mobile working factor, they suggest the translation of the fiscal obligation towards the stationary factors (the farmers, for instance). However, the performed analysis is restrictive, because they consider that only the working factor is mobile, setting aside the capital mobility which represents a reality.

Bénassy-Quéré et al. [5] have elaborated a model through which they support the possibility of coexistence of certain regions with high levels of taxation and public expenditure together with regions where these are low. They tried to explain that competition, by taxes and public goods, explain the continuing of certain high rates of taxation in the economic integration conditions.

On his turn, Rieber [25] tried to prove that the localization of the direct investments in the member states is not exclusively influenced by the taxation of profit made by companies, but we must take into consideration the relative importance of whole factors influencing the production costs.

Taking up the topic concerning the supposition of a pure and perfect competition and stating that the market competition is imperfect, Dixit and Stiglitz [8] consider that the factors determining the agglomeration and respectively, the dispersion of the economic activities influence on the space localization of the companies. The size of the working market and its level of training, the scale economies generating increasing benefits, the information exchange between companies, the presence of the professional providers, represent factors which encourage the emergence of an agglomeration effect as a result of the capital factor and working factor concentration in the same economic zone. Instead, the congestion effect, the immobility of the working factor, the available lands, the ground rents and the transport costs determine the dispersion of the economic activities, discouraging their concentration.

Accordingly, the company localization depends on the relationship between the increasing benefits and costs, and the market size and customers' incomes represent determining factors for the emergence of an agglomeration effect. After the agglomeration has attracted new companies and consumers, subsequently, given the market saturation, the competition increase determines the delocalization towards other zones where it is more reduced.

Starting from the supposition according to which public decision-makers try to

maximize the welfare of the stationary factors, Krugman and Venables [14] and Venables [27] have analyzed the relationship between the level of the working factor remuneration and localization, departing from a model based on the fiscal arbitrage between the factors of production which sets aside the costs of the unequal dispersion of the economic activities. In their opinion, given the fact of the European integration, the economic activities centralize in central countries, even if the salaries are higher.

Affirming that the European economic integration hasn't determined the effects envisaged by the theory on fiscal competition, as there are still different noticeable rates of taxation between the developed states (in the centre) and the emergent states (on the periphery) of the Union, Baldwin şi Krugman [4] elaborated a model in order to identify the reasons for continuing different rates of taxation, departing from various suppositions: the capital owners are considered the mobile contractors; the working factor is stationary; there is an asymmetry related to the capital distribution which is located at North; the purpose is to analyze the competition between the central states and the peripheral states only by means of the levels of sustainability, removing the influence of transport expenditure on localization, given the fact that the capital flows and the governments' reaction are discontinuous (because the capital can totally delocalize from North to South and backward);
-the national richness influence on the supplied public goods and services (which means that in the case of the developed states their provision is made by means of certain higher taxes in comparison with those in which the capital shows a deficit, in the absence of a fiscal competition).

As opposed to the classical theory of fiscal competition, Baldwin and Krugman affirm that capital is centralized in regions where the market size is bigger even if the rate level is high and not in the poorer peripheral regions. The fiscal competition determines the central developed regions to reduce the taxation rates according to the taxation level of the house sector in order to deal with the lower rates used by the less developed peripheral regions. In authors' opinion, the economic integration reduces the transport expenditure and increases the incomes of the two regions, and the taxes may increase as the rich electorate is agreeable to pay more for taking advantage of public utilities. Consequently, the economic integration provides the capital attraction in the rich regions with a higher level of taxation. Baldwin and Krugman consider that, because of the agglomeration and dispersions forces, the fiscal harmonization determining a single rate doesn't bring a welfare increment for the two regions as the rich region shall reduce the taxation to a level where the capital should not be attracted by the peripheral region. In their opinion, together with the factors operating towards agglomeration or dispersion, which are emphasized by the geographical economics, the fiscal competition can contribute to the concentration or dispersion of the economic activities.

3. Conclusions

Practically, the conclusions of the traditional approach are based on the supposition of certain constant benefits when the competition is pure and perfect. If the level of the taxation rates variation represents the only explaining factor of the production factors localization in the traditional approach of the fiscal competition, in opposition the new geographical economics tries to explain the localization decisions of the companies, employees and mobile capital, by taking into consideration all the factors influencing the space distribution in the conditions of the economic integration increase. This brings into focus the impact of the agglomeration and dispersion forces on the localization of the mobile factors, considering that companies in order to achieve increasing benefits shall direct towards markets of large sizes, where the degree of activity concentration is high. As long as the agglomeration forces are big, the mobile factors shall not delocalize if takes increase.

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The CRM a Solution for the Banks Management

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Abstract

If a few years ago, the banks in Romania didn`t put the problem of implementing a management a system of Customer Relationship Management (CMR), today things have changed, the subject learned the agenda of most Romanian banks.

Thus we can say that the market in Romania has kept pace with international trends in this area and, finally, CRM is no longer a taboo subject for the credit institutions operating in our country.

When it comes to market economy, buyers/consumers are free to choose what, when and where to buy a commodity or whether or not to buy/ a product or service.

Therefore, in order to be successful in attracting customers, the logical starting point for an organization is to identify what is it that customers want and then try to fulfill these requests in a more efficient way than the competition.

Key words: customer relationschip management, solution, loyalty, quality
Clasificare J.E.L.: D12, E50, E58, M31

1. Introduction

The banking activity is complex and varied and for this reason it is difficult to define. From an operational point of view „ banks are institutions whose current operations consist in granting loans and attracting deposits from the large public". [1]

The platform of partnership bank-customer is not just a favor, but an objective requirement, a condition of the success for both parties. [2]

K.J. Blois considers that „the service represents any activity that offers benefits without necessarily assuming an exchange of tangible goods". [3]

The customer is the main instrument of the banking competition in the modern world. The banking system is the most impact to essential mutation of this century – *the change* - namely the customer orientation, component of the change. Therefore, the major objective of banks management is formed by adapting to a change, if we take into consideration the opinion of the great scholar Peter Drucker, who said "change or die!".

The most initiatives CRM started in 2008-2009, during the economic crisis, which shows that, in fact, CRM has proven to be an attractive solution for the management of banks that have shifted from attracting new customers to retention of existing ones, as a result of the harsh conditions existing on the banking market. [4]

2. General presentation of study on application specific on the solutions Customer Relationschip Management (CRM) at the banks of Arges

The study on application specific on the solutions Customer Relationschip Management (CRM) at the banks of Arges aimed to analysis the current situation and to identify the future trends CRM in short and medium term.

The study "CRM at the banks of Arges" proved that if a few years ago they didn`t talk about CRM in the Romanian banking system, nowdays this is the topic of most of the banks. The Romanian market has kept pace up with international trends in this area and we can say that, in the end, CRM is no longer a foreign issue for banks active in our country. On the contrary, this issue is quite *hot*, the most banks surveyed having already implemented some type of CRM solutions, from the isolated modules and functionality on its own, to highly sophisticated ones.

From the methodological terms, the study was conducted through by face to face interviews, semi-structured addressed to the top management representatives within 10 banks operating in the local market. The interviews took place from October to November 2012.

The purpose of the study is to highlight the main features of CRM implementation in banks of Arges and also to analyze the critical success factors, best practices and likely future trends in this field.

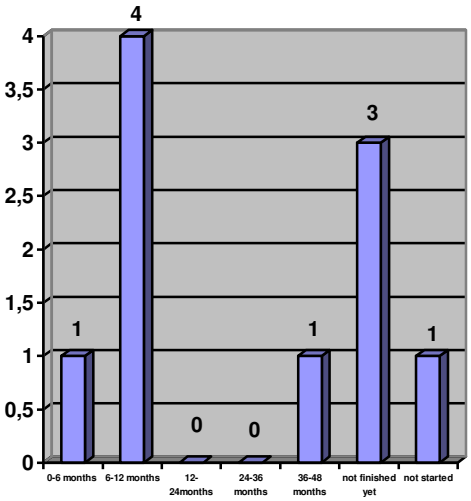
The representativeness of study is measured by two validation keys [5]:

- The aggregated market share of our respondents in terms of net assets (2011). Our respondents cumulated a market share of 78,4%, % as net assets (BCR-19,1%, BRD-14%, Volksbank-6,6%, Alpha Bank-6,4%, CEC Bank-6,3%,Uni Credit Tiriac-6,1%, Raiffeisen Bank-6,1%, Transilvania Bank -5,9%, BancPost-4,5%,ING-3,4%). Given this figure, we can say that the relevance and representativeness are very high research results and trends can be extrapolated to the entire market;
- The aggregate number of retail clients of our respondents (2011). Regarding the total number of retail customers, the banks surveyed have an estimated ~ 16 million clients. Thus, we can say that our research has high relevance and representativeness for the banking system.

3. The analysis and interpretation of results

According to the survey shows that most CRM implementations have a duration of 6-12 months, especially when referring to medium-sized credit institutions and implementation of isolated modules. On the other hand, if we consider the very large banks, on can see that the implementation is longer, up to four years. (Figure1)

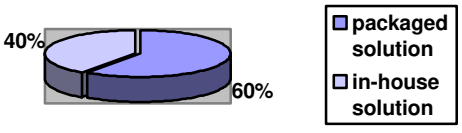
Figure 1. Duration of CMR Solution Implementation



Source: author's data

The data from figure no. 2 shows that many banks have chosen for internally developed solutions, mainly for reasons of cost efficiency. The smaller credit institutions can not support the cost of external CRM software. Most times, they want to implement a few isolated modules and CRM applications. However the largest credit institutions tend a international call providers CRM solutions.

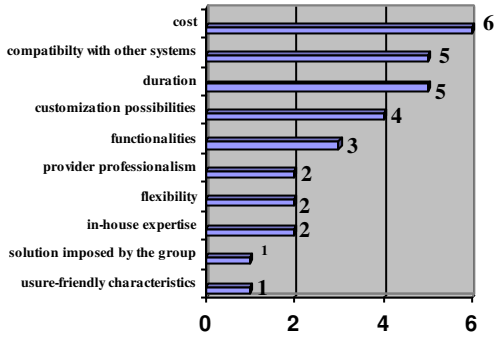
Figure 2. CMR Software Solution



Source: author's data

Regarding the criteria for CRM software providers selection, our respondents indicated: the cost, the compatibility with other systems and the term as the most important in the selection of a supplier. (Figure 3)

Figure 3. Selection Criteria for CMR Providers



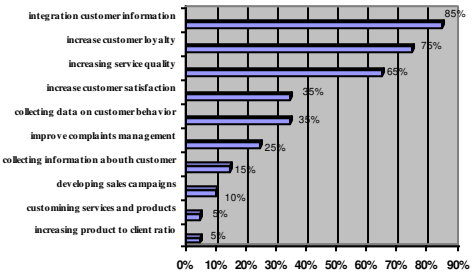
Source: author's data

So far only 60% of respondents recognize the strategic importance of CRM solutions, while the operational relevance is indicated by 40%. Most respondents consider implementations CMR as revenue of increasing opportunities, neglecting the possibility of reducing costs.

Integrating customer information, increased customer loyalty and service quality and these are the major objectives of CRM implementations.

While increasing product to client ratio, services and products and developing sales campaigns enjoys little attention until now. (Figure 4)

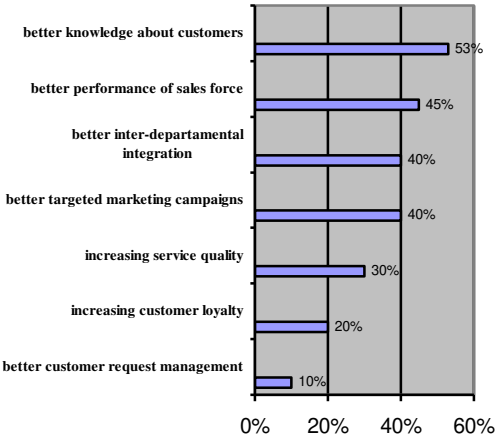
Figure 4. The Main Objectives of CRM Implementations



Source: author's data

Regarding the benefits of CRM implementations, the banks analyzed showed: a better knowledge concerning customers (53%), increasing the number of cross sales (45%), making better targeted marketing campaigns (40%), increase services quality (30%), better performance of customer loyalty (20%) and better customer request management (10%). (Figure 5)

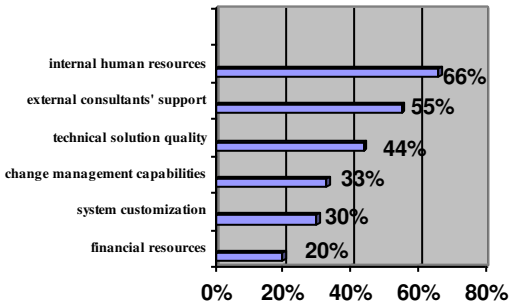
Figure 5. The Benefits of CRM Implementations



Source: author's data

The 10 credit institutions interviewed indicated as critical factors for successful implementation of CRM solutions: internal employees (62%), support external consultants (55%), quality technical solutions (44%), change management capacity (33%), system customization (30%) and financial resources (20%). (Figure 6)

Figure 6. The Key Success Factors in CRM Implementations



Source: author's data

4. Conclusions

In conclusion, we can say, more than ever, that today the ability of banks to maximize customer loyalty is critical to grow their business. Even if the Romanian's bank is still in an incipient phase in terms of CRM, we can predict that this area will see a boom in the coming years.

Banks seem more and more interested to introduce CRM, which allow them to guide their activity according to the customer's request. A customer can be a possible or a real customer, may come in contact which the bank through a multitude of methods, such as [6]:

- Bank's advertising;
- Information requested by phone;
- Information requested in writing;
- Asking at the front office;
- Accessing the bank's of internet.

The more the implementation are, the more visible the results and benefits will become visible to those that are skeptical about the ROI of this investment. This trend is even more striking if we compare with Western markets, the implementation of CRM solutions in the banking sector has been a topic of interest since the beginning of this century [7]

To obtain a stronger customer loyalty, the banks need a better knowledge of this, in order to develop products and deliver services targeted at specific market segments. This action is a result of better targeting of marketing campaigns, sales and services tactics [8].

The customer loyalty leading to organic growth can only be built through excellent shopping experience and durable. This involves understanding the needs and preferences of each client. One of the biggest challenges banks faced is how can better understand their customers, to offer personalized services, including the application of "Exception Management" adjustable single each client.

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The Perspectives of Leisure Tourism in Romania Based on Mountain Tourism Infrastructure and Services

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Abstract

The negative effects of the economic crises have also affected the international tourism activity. As a result, many destinations have chosen to underline the importance of tourism components like: food and beverage, accommodation, transport and nevertheless leisure.

The leisure services have dramatically changed the notoriety and competitivity degree of destinations by enlarging the touristic offer, by diversifying it and creating new forms of tourism. The mountain tourism infrastructure and services are considered to be one of the most appealing areas of leisure tourism as major destinations have showed. In consequence, the development of mountain tourism infrastructure can influence in a positive way the revival of Romanian tourism and it's reposition on international touristic map.

Keywords: leisure, infrastructure, mountain tourism, development
J.E.L.: L 83

1. Introduction

Even though many countries are recovering from the negative impact of the economic crisis, the tourism sector is still on the beginning of this process. This is the case of the emerging economies rather than the developed ones.

Many destinations have tried to recover by enhancing their offer by innovation and creating an artificial experience of tourism. But the opportunity of new offer, its variety and novelty are strictly based on the leisure component. Beaches, marinas, cruises, casinos, ski areas, theme parks etc. represent the leisure infrastructure that becomes an attraction by itself, turning into new forms of tourism for the more experienced and exigent modern tourist. The fruitful experience offered by many countries can establish that the leisure component is more appealing to the modern consumer in regard to the general tourism services. This is why the local and national authorities have reoriented their actions towards the

2. Mountain tourism infrastructure and services

The mountain tourism is strictly depended on the proper infrastructure, being influenced by the degree of its development. The number of ski areas, the slopes and the cable lifts determine the importance of the mountain destination and its attractivity, especially since the mountain tourists are predominantly skiers. Along with the general leisure equipment, such as: cinemas, malls, clubs, amusement parks etc., the ski areas and their particularity are the central point of the mountain tourism experience.

Therefore, a number of countries have invested in a large amount of modern facilities and a variety of them, which translates into an increase of tourism circulation and destinations' notoriety. More than that, some destinations have grown to be associated with ski practice as a synonym for this activities, for instance: Zell am See – Switzerland, Chamonix – France, Cortina D'Ampezzo – Italy, Kitzbuchel –Austria etc.

A study of mountain tourism presents countries famous for mountain tourism from the point of view of the number and diversity of infrastructure and also, the number of tourists **[1]**.

Table1. Characteristics of major ski areas

Number

Country	Ski areas	Major resorts*	Ski lifts
Austria	254	12	3003
France	325	14	3.731
Germany	510	0	1.827
Italy	349	4	1.948
Switzerland	240	7	1.774
USA	481	7	2.970
China	350	0	800

Source: http://www.vanat.ch/RM-world-report-2011.pdf;

* It refers to the dimension of the resort, for instance in Germany are generally small ones;

The countries selected are representative for the impressive number of ski resorts and for the specific infrastructure. More than that, they have oriented the tourism circulation to well positioned market' segments. As far as the mountain tourism, the focus has been on the development of leisure equipment's on one hand, and the general tourism activities one the other hand.

Table2. Major ski areas visitors

Country	Skier visits* thousands	Proportion of foreign skiers %
Austria	52.006	66
France	54.760	28
Germany	13.560	10
Italy	26.820	15
Switzerland	27.550,8	50
USA	58.201	5,6
China	4.640	0,5

Source: http://www.vanat.ch/RM-world-report-2011.pdf;

* It refers to an average 5 last seasons or estimated;

Table 2 presents a statistic regarding the number of skier visits and the proportion of foreign visitors, both indicators draw attention to the fact that skiing represents the most important leisure activity for mountain tourism. A brief analyses show that Austria has the biggest number of foreign skiers in comparison to the local ones, but in the same context, the skier visits are ranking on the third position. USA present itself on the first position concerning the number of skier visits, with mainly local tourists (only 5.6% are foreigners).

The figures are sustained by the destinations' notoriety on the international market, especially those related to the Alpes Mountains. The remarkable result of Compagnie des Alpes – the one that operates the alpine ski area – has determined the importance of ski facilities and ski slopes for the development of mountain tourism. The high number of visit is due to the modern and diversified facilities offered: a large spectrum of chair lifts, increased comfort, such as heated chairs, different types of ski slopes, in concordance with the level of practice and others. In addition, the leisure experience is completed by equipment and services like shopping units, rental ones, food and beverage, animation, entertainment.

Table3. International tourists' arrivals and receipts 2011

Country	Tourists Arrivals Mil	Tourism Receipts Bil. USD
Austria	23,01	19,8
France	79,5	53,8
Germany	28,4	38,8
Italy	46,1	43
Switzerland	8,5	17,5
USA	62,3	116,3
China	57,6	48,5

Source: tourism highlights 2012, http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/docpdf/unwtohighlights12enlr_1.pdf;

The majority of countries selected are positioned on the top of charts in regard to the tourist arrivals and receipts, meaning that are perceived to be the most attracting destinations worldwide. This appears as a consequence of the permanent implication in developing the tourism infrastructure and services. Along the others, the mountain tourism has detached itself by becoming a leisure opportunity for ski and après ski activities.

The exigent consumer is attracted to the destinations that provide a more diversified touristic offer, encompassing the benefits of leisure components. The relation between demand and offer is interdepended; for instance the trends in the demand's evolution stimulates the manifestation of future offer and also the new and divers offer has the ability to enhance the addressability degree regarding tourist age, nationality, level of education and others.

Ski practice stimulates increasing tourist circulation to areas that are catering to their needs and wants. As a result, the innovation

turns into more and more ski areas, ski slopes with different difficulty degrees, artificial snow machines, ski schools and so on.

Therefore, mountain tourism destination have searched for innovative methods to decrease the seasonality impact, by investing in specific equipment such as artificial snow machines, or by promoting other forms of ski, like grass ski. Nevertheless, mountain tourism represents a major attraction for all types of consumers that offer a great perspective for general development and competitivity.

3. Romanian Mountain Tourism

Over time, Romania's natural potential has exerted an attraction for different types of tourism. Despite the natural environment, the tourism components are inadequate and insufficient and rather poorly harmonized. Nowadays, this is an accurate situation, especially since tourism development didn't consider the evolution in accommodation, food and beverage and most of all, the leisure one.

Many destinations have invested in accommodation units regardless of the necessity of sustainable tourism, or the inexistence of the entertainment opportunities. This has led to an overflow of tourists in the visited locations, with little or no leisure structures. The lack of these or their obsolete appearance gave birth to a decrease of tourists' interest in the local destinations; related to the modern expectation of tourists which concentrates on the leisure services and facilities.

In addition, similar countries have acted towards growing reputation in the tourism market. Their initiatives concentrate to promote different forms of tourism and attractions based on the variety of opportunities of entertainment, recreation, development of education level, psychical and psychological toning etc. It consequence, it is imperative that Romanian' tourism emerge from this incertitude and neglect and reposition the image of an important destination.

As far as mountain tourism, Romania has a great potential, with 27 ski areas and 80 authorized ski slopes **[2]**. The mountain resorts are permanently visited by a large number of tourists, especially in the winter season, statistics consistent with market realities. Unfortunately, the ski areas and the specific equipment are rather poorly managed, with little exception; for instance the Prahova Valley hosts the most attractive resorts: Sinania, Predeal, Busteni and others. The large number of tourists corresponds to the public and private investments in tourism infrastructure. As a result, the tourist's circulation to particular mountain areas tends to increase the seasonality degree with negative impact on destinations and locals.

Regardless of this, the entire mountain tourism infrastructure it position itself at a low level compared to the most important international destinations.

Given that the proportion of Romanian tourism is higher than that of foreign tourists it's important to analyze the evolution of mountain tourists in comparison to other areas, as it follows:

Table4. Domestic travel by Romanian residents in tourism areas

Thousands

	2009	**2010**	**2011**
Total	11.165,0	10.796,9	11.985,6
Seaside	1.469,3	1.309,5	1.438,5
Mountain	2.921,7	2.597,6	3.051,4
Spas	290,9	213,5	298,8
Danube Delta	108,1	43,07	42,4
Round Trips	97,1	91,4	86,5
Other areas	6.763,2	6.541,7	7.067,7

Source: adaptation from http://www.insse.ro//cms/files\publicatii\Breviar turism_2012. pdf; 2011, 2010

It can be seen that, mountain areas play an important part in tourists' selections of destination. The dynamic records positive oscillation of tourism circulation due to the increased attractiveness of summer and winter sports offers.

The choice of mountain resorts as tourism destinations is explained by the excitement of adventure tourism, extreme sports, and nevertheless ski practice. Even though the leisure opportunities of mountain tourism are at a wide range, the modern consumer is attracted first by the ski facilities and other free time activities are placed on the second option. This ranking stimulates investments

in ski areas and equipment's rather than non-ski activities.

Related to this are the initiatives of local and national authorities; they have developed a program for mountain tourism development entitled "Ski in Romania „that focuses on 17 ski infrastructure programs: 54 ski slopes, 14 of them with artificial snow and 23 with nocturne facilities accompanied by 2 biathlon tracks, 1 polygon, 1 trampoline, 2 leisure equipment.**[3]**

The actions were sustained by organizing the event "FOTE" – European Youth Olympic Winter Festival – that required new ski areas, artificial snow, ski lifts and other necessities to cater for them. The European Olympic Committee chose Romania as a proper destination for this event, focusing on the premises that Brasov has invested in the tourism and leisure infrastructure.

The large number of countries participants – 45 – with 910 athletes **[4]** has led to an increase in Romanian tourism activities. The main problem (regarding the Romanian tourism initiatives) consisted in a little or less promoting actions in order to extend the importance of this event, event that determines benefits for all tourism organizations. Nevertheless, taking part in an international event, developing and organizing it prove that mountain tourism can be an important attraction for a variety of consumers.

4. Perspectives for mountain tourism development

Taking into consideration that some initiative have changed the face of ski areas and therefore mountain tourism and other destination are lacking the necessary funds for tourism development, a series of strategies are considered, such as:

- The attraction of local and foreign investors to specific destinations;
- The strong collaboration between the national, local authorities and the tourism enterprisers;
- The consolidation of accommodation units, food and beverage ones and leisure infrastructure;
- The development of ski areas, ski slopes and all the equipment required in destinations with tourism potential;
- The modernization of slopes descriptive panels, rental equipment centers, protection nets and others;
- The increase of non-ski activities for the segment of non-skier consumer and the large variety of them;
- The extension of ski season by providing artificial snow or developing grass ski as an alternative for winter sports;
- The particularization of ski slopes in regard to the type of sport practiced (ski fond, free ride, free style, telemark)**[5]**
- The creation of ski and snowboard schools in correspondence with the number of slopes homologated;
- Organizing sport events of national or international notoriety for enlarging the Romanian mountain offer and potential;
- The promotion of accommodation units that include winter and summer sport equipment for all types of ages;
- An intense promoting activities through the mass media and especially through the social networks such as Facebook, Twitter, Google + etc.;
- Creating complex tourism packages similar to all inclusive clubs based on the experience of international leaders, for instance Club Med, or multifunctional tourism centers;
- The development of information centers that provides important and detailed references about the mountain destinations and facilities;
- Identifying initiatives from the countries that are similar to us from tourism point of view and valorizing them etc. These represent a few actions that can stimulate the development of mountain tourism based on the leisure equipment and services.

5. Conclusions

The leisure infrastructure has the ability to change the tourism development and its image in a world ranking. Mountain tourism services represent a major component of leisure and therefore it is a priority to attract investments in valorizing its potential.

Aspects regarding the Romanian tourism suggest that mountain tourism activities and infrastructure are one of the most interesting objectives for the modern tourist; in consequence, the national and local economic agents must collaborate to modernize and promote it for the benefit of all implicated.

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A Cultural Explanation for Japan's Economic Performance, from the view Point of The General Power Theory

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Abstract

There is an ongoing debate over the role of culture in economic institutions, especially those institutions associated with .free market, and capitalism. The new theory of General Power is very promising in dealing with all contradictions, and lack of a general view on the role of culture and religion in economic development. Nevertheless there is a particular aspect that is contradicting the general assumptions of this theory in the case of japan. From the cultural determinates of the preference for wealth and power, Japan should have been an underdeveloped country. This paper tries to eliminate this apparent contradiction.

Key words: Japan, General Power Theory, Mega-goods, Development.
JEL Classification: Z12, B25, E02

Introduction

There are a few theories regarding the role of culture. The oldest is that of Max Weber's protestant ethics of capitalism. However he doesn't succeed to fully stand up to criticism. More, critics argue that so called spirit of capitalism isn't strictly a protestant particularity. Institutionalisms also tries to get a hold on the mechanism of institutional change, recognizes the role of culture, even of religion, but still isn't able to explain why some institutions persist, why some are bad, and some are stronger than good institutions. Why people tend to ignore rational efficient institution against their obvious interest, in favor of inefficient institutions? The General Power Theory developed by Paul Fudulu offers a new vision, which resolves all these issues, and promises a new understanding of the institutional evolution in developed and underdeveloped counties. [1],[2] As well formulates a model capable of explaining cultural change, and economic underperformance of culture. However, the model is presenting a concussion that contradicts the facts in the case of Japan.

General Power Theory

In order to provide a good understanding of the issues, we have to present detailed description of the theory. Paul Fudulu starts form the idea of the anti-entropic nature of life: All living beings fight entropic degradation by absorbing low entropy from the surrounding environment. In the case of the humans, this is done by utilizing the available resources in the close vicinity. This amounts to a certain amount of power over an individual's environment. In other words this capacity to fight physical degradation by engaging at a given time is called General Power.

One can fight the loss of entropy by controlling other members of the human species. In this case the individuals in a society are more interested in gaining positions of power in relation with the members of their community. This promotes an aggressive stance and zero sum games among individuals. The lack of cooperation among individuals is hurting that community ability to maximize on economic relevant opportunities, hence the economic poor performance of such cultures. This preference for power in a culture is called relative power, because its meanings and relevance is defined in relation, or by comparison with other individuals.

People of such cultures to be unequally treated by superiors, teachers, functionaries etc., and they accept that as part of their reality, even from the part of their peers. Everything form economic gains to social conduct and manners are a reflection of the

preference for relative power. For example wealth would be utilized to promote the image of power and superiority among peers, and less wealthy individuals. This preference for power is similar with Geert Hofstede cultural dimension.[5] For example the power distance index describes very well the preference for power in a given community. The findings don't contradict Fudulu's conclusions. Hence cultures with preference for relative power tend to develop centralized institutions, strong market regulation, autarchy and oppressive political institution. Dictatorships and weak human rights ratings are also characteristic. Such countries are plagued by corruption and issues regarding implementation of efficient institutions. Such cultures tend to have more likely quantitative positive trends, then positive quality trends in their economic development indicators.

The second alternative is to control the absolute wealth, without the implication of relative power when referring to this concept, like in the case of hedonistic consumption practices. So the individuals try to control the natural environment. The success in life is measured by the means of one's ability to control his resources, emotions and rationality, in order to acquire wealth. This is not done in order to acquire a position of influence and power. This is indeed unnecessarily, because the acquisition of wealth isn't a factor relative to others people wealth. This is called absolute wealth, because it is not comparable to other people. Such preference for absolute wealth promotes positive games among individuals, and the drive for material possession consistent with the protestant work ethic idea of predestination. Such point of view is often called salvation through acquisition of wealth.

One of the main points for criticism regarding Weber's theory revolves around these issues. One cannot ignore the overall success in economic terms of the Jewish diaspora population, or indeed the economic success of Japan. Max Weber speculates that this is due to the fact that the spirit of capitalism is found in many other cultures, but somehow it wasn't capably of promoting social and economic change in the magnitude of the Protestant Revolution. The main argument for such inconsistencies, not only for Weber, but also for Institutionalism, is a key cultural effect, described in the General Power model as cultural blindness. From the point of view of western economist, the general premise, from which all economic theory derives, is the desire for material affluence. This is obviously true for all men alive, well most of them. But the way in which this is acquired isn't universally true. If you are culturally programed (culture has been describe by Hofstede as Software of the Mind 1991) to prefer relative power, then all your material gains will reflect this in relation with your peers and superiors. Hence scientists were, with a few exceptions, practically blind to this elusive obvious reality. People in some culture simply prefer positions of power in relation with their peers. This power, in turn, can provide the possibility to acquire wealth, by securing high income; fame, recognition, corruption, wealth redistributions, and extortion form the inferior ranking individuals etc. All their institutions and actions will reflect this preference. This explains very well the persistence of ineffective free market institutions, and lack of sustainable economic development

Relative power and absolute wealth are the only two mega-objectives or mega-goods. It's obviously that one cannot have one hundred percent preference in any one of these two goods, but a mixt in different proportions, much like in microeconomic marginal theory. So the preferences for these two mega-goods can be described in terms of microeconomic theory.

The Problem

All fundamental concepts like rules, institutions and cultures can be defined using these two goods. Each culture would have a predetermined opportunity cost for these goods. This opportunity cost would be inversely related to the preference for a given good. For example if a culture has high opportunity costs for power (because individuals don't accept to be treated unequally) they would prefer absolute wealth instead, hence the community would tend to develop free market institutions and a democratic system. "Institutions are opportunity cost rankings and cultures are preference rankings in terms of the two mega-goods. Each institution, irrespective of

the particular field or sector to which it belongs, consists of a ranking in terms of opportunity costs for the two mega-objectives [1, pp.170]

The consistency with economic performance for a culture requires decoding them in terms of preferences and opportunity costs for the two mega-goods wealth and power. Paul Fudulu classified the criteria of consistency in two sets. The first set consists of criteria which have a direct reference to absolute wealth: (like material prosperity, work related values, prohibition of interest. The second set consists of criteria which contain references to the preference for power. (The means of salvation, type of asceticism, obedience to authorities, the masculinity, and the type of spiritual organization.) These criteria, and the way in which they can be related to opportunity costs for the two mega-good are extensively described by Paul Fudulu. This produces the following general ranking in a descending order: Judaism, Protestantism, Catholicism, Orthodoxy, Islam, Confucianism and Buddhism.[2, pp. 169]

As we can see Buddhism and Confucianism, both important religion in Japan, score the lowest ranking for economic compatibility. Paul Fudulu concludes that economic development in Japan is due to imported economic institutions that were imposed with force by the Japans political elite. Hence the institutional environment resembles a system compatible with the protestant work ethic, but this was imposed with political means.

We argue that, although japan in fact imported foreign economic institutions, their implementation and success is due to some informal institution, which were in place long before Meiji era. Informal institutions are based on cultural particularities and local religion. Somehow Japan manages to have high relative power preference, which is combined with western culture high absolute wealth preference.

Why do Japanese people have a work ethic that puts even then best protestant diligence to shame? There is a particular interpretation of Mahayana Buddhism, particularly the Japanese Zen School of spirituality, which is stressing a work ethic for the believers, that is similar in its ends with Protestantism. Japanese Zen Buddhism is stressing the belief, that one must devote body and soul to one's work. Diligence and industriousness were accepted practices among the common people long before Japan was forced to open its gates to the world.

Suzuki Shosan (1579-1655) a buddist zen monk, strongly advocated that sweating at one's work means the practice of *Buddhism*. *Shosan* preached that: Any samurai, farmer, artisan or a merchant, must exercise diligence in one's profession:

1) *Samurais* must sacrifice themselves for the master with courage,

2) Farmers must go out into the fields to work with devotion,

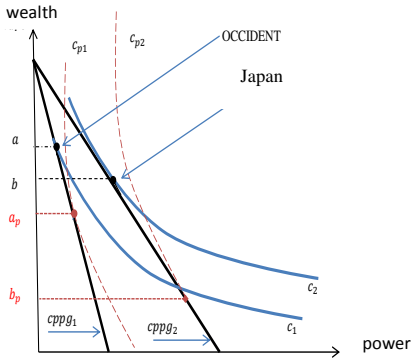
3) Artisans must pursue a craft with determination and responsibility

4) Merchants must work in the name of heaven, and should engage in trade for the benefit of country and people. [4, pp.12]

In this aspect virtual redemption and end of the cycles of reincarnation is possible for everyone, not only for the monks, that practice an ascetic life impossible for the common people. Hence a huge relative power source for the culture. Now the ascetic way of the monks, can be performed in everyday life. The perfection in accomplishing ones duty to the family, peers, superiors, country emperor, is the way to achieve true illumination, and eventually the end of the cycle.

This is nothing more than what the Protestant preacher demanded form the ordinary believer, and is consistent with low opportunities costs for absolute wealth.

Figure 1 Japans economic institution, from the General Power perspective



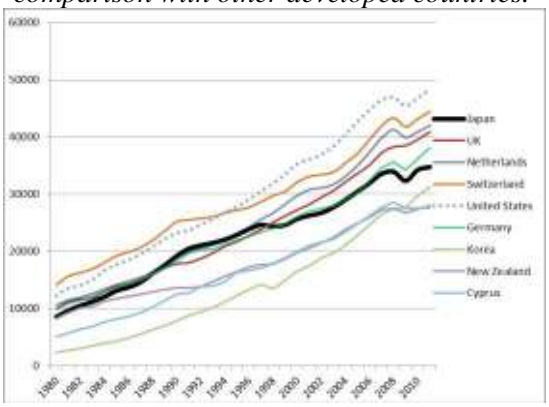
Source: interpretation of the model [1]

Japan has a relatively high preference for relative power based on the cultural influence of Shinto, and Confucianism. This is

confirmed by Hofstede in his cultural dimensions analyses.

In figure no.1 we have the cultural indifference curves c1, and c2 for a high wealth preference culture. For comparison we have also the curves for a high power (in red) cp1 and cp2, In the case of Japan we took in consideration an increase in the preference for power; cppg (the curve of general power possibilities) represents the combination of general power specific to the institutional system in a developed country; we consider Japan a culture with high preference for absolute wealth, and its cppg2, is specific for a more controlled economy; is a better institutional alternative for Japan, because it represents a higher position indifference curve c2 The price is a lower level of economic development (b < a), the only difference is that an liberal system like in Occident would produce a slighter higher level of development.(Represented by cppg 1) The model suggests that Japan should have a lower GDP per capita PPP then most of the western developed countries.

Figure 2 Japan`s GDP per capita PPP evolution between 1980and 2011, in comparison with other developed countries.



Source:[3]

In Figure 2 we can see the evolution of Japans GDP per capita on PPP. Data suggests that Japan has a development level equal with most of the Western Europe protestant countries. These countries have strong liberal economies, but also with strong regulations and government intervention, but Japan lacks behind more liberal countries like Swiss or USA. The relatively long period of two decades shows that Japan development in qualitative terms is somewhere in the middle range, of developed economies. The empirical data form IMF, and World Bank supports this finding.

Conclusions

The General Power theory does not collide with the Japanese case, and the preference for absolute wealth is based on cultural characteristics of the Japans cultural system.

The Japanese Zen Buddhist work ethic is organically mixed with the collective values of Confucianism and Shintoism. Japan manages to perform an institutional equivalent of a limbo walking, taking advantages form the free market system, but also from the protective, and highly paternalistic culture organization. The price is a relatively lower economic development level, in qualitative terms.

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Theoretical Considerations Referring to Law no. 10/1995 Regarding the Quality in Constructions

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Abstract

After the year 1989 Romania faced an unpreceded intensification of the legislative activity. But what worries the most is not the great number of normative acts, but their imperfection. Being unsufficiently elaborated, after their coming in operation they were modified and completed by other normative acts, wich in their turn were modified and completed, generating the legislative instability fenomena.

Directly proportional to the multitude and imperfection of the normative acts, appeared both the more ununitary judicial practice, in almost every justice branch.

Keywords: Quality, Buildings, Designer, Certification
Classification J.E.L.: K4 - Legal Procedure, the Legal System, and Illegal Behavior

1. Introduction

Initially, most of the actual form of the Law no. 10/1995 regarding the quality in constructions was elaborated between 1993 – 1994 and approved by the Romanian Government in 1994 by Governmental Order.

Based on the very same law text, diametricaly opposite solutions are pronounced. This ununitary judicial practice is emphasized not only between different instances of the same rank, but often between the pannels of judges from the same instance. In this manner it became a fact that some solutions arbitrarily depend on the instance's or the pannel's practice, and not on the law's sense and spirit. These inconveniences wouldn't take place if the elaboration of the normative acts should respect the provisions of the 34th article from Law no. 24/2000 on the standards of the legislative technique for elaborating normative acts, according to wich „the normative acts should be drawn up in a concised, sober, clear and precise style, wich should exclude any ambiguity, with the strict respecting of grammar and spelling rules".

At that time, the law consisted in a significant step forward on the way of the transition from a hypercentralised economy to a market economy.The law was the fruit of the work of some of the best specialists in the field, who promoted their best at that time.

The main interest of the Law no. 10/1995 regarding the quality in constructions is that it has regulated for the first time in our contry a unitary system of insuring the quality in this vast field of constructions, settling cryteria according to the European legislation. The regulation for the application of the Law established the method for the abilitated instances to inforce the provisions of the law. It has been institutionalized for the first time in our country the institution of the Projects Verifyers, the Technical Experts and Site Master, settling the responsibilities, the field of action and the degree of responsibility for everyone along with the investor and the constructor. It has been also institutionalized the way of selection and certifying the Verifyers, Experts and Site Masters, so that this activity to contribute effectively to the insurance of the quality in constructions.The subsequent modifications and completions to the law were ment to adapt the law to the new realities of Romania, without operating a structural change of the law as a hole. The new law tried a democratic cosmetization of the intervention measures of the statal authority, taking over some recommendations of the EC Directive regarding the construction products, but without a crytical evaluation in their application to the circumstances of our country.

2. Arguments pleading for a modification of the Law no. 10/1995

Construction law developed in conditions of transition to market economy situation is inadequate and does not provide both biodiversity and prevent environmental pollution and the development of environmental management related to the rational use of natural resources.

In recent centuries, the economic states of the world was achieved mainly on account of damage and simplify capitation natural wastage of natural resources, environmental degradation and health of the human population. The concept of sustainable development requires economic and social development and environmental protection in mutual completion. Judicious management of natural resources can be profitable for both current users and future. Adopt the concept of sustainable development in developing countries can avoid costly problems related to environment and availability of resources for further development. In the 12 years from the publication of the Law no.10/1995, there were major modifications in Romanian political, economic and social life.

The Romanian society was structuraly changed, some of the state's functions were profundly modified and the private property became the main source to increase the IBP.

The civic consciece of the population raised, the proffesional associations were consolidated in all economy branches, the commercial, cultural and tchnico-scientific changes thoroughed with the most developed countries in the world, the degree of alignment of the Romanian legislation to the European legislation increased.

From the economic point of view, starting with the year 200, the Romanian economy encountered an ascending trend, and on the found of this economic increase the volume of the constructions in our country encountered a great ascendence.

All this factors prove that some laws, standards or normative acts elaborated in other conditions need to be modified, aligned to the actual needs of the economy.

Concerning these ideas, we must admit that the Law no.10/1995 regarding the quality in constructions is a confuse law in the theoretical aspects, not founded on a scientific base, on a logical and viable concept. The Law no. 10/1995 is an out-of-date law by its spirit proper to the past regime,totalitary and authoritary, expressed by the total control of the statal authority on all constructions activity, a control wich implyed no responsibility from the one in control. The Law no.10/1995 is an out-of-date law by its reference to instances wich no longer exist and to amounts of penalties that became hilarious in the actual circumstances.

In these conditions it is normal to regard the following:

- the necessity to abrogate the Law no. 10/1995 regarding the quality in constructions and to elaborate another law, more comprehensive and adequate to the actual orientation towards the values of the capitalist society, a law capable to include the requests of the constructions activity in such a formulation that the equivocal and taints of the former Law no.8/1977 should be eliminated;
- the necessity to sustain the role of the civil society, the engineering, professional an patronal associations, in wich concerns their active participation to the monitoring of the activities in the constructions field;
- the Law no. 10/1995 regarding the quality in constructions is the continuation of the Law no. 8/1977 regarding the insurance of the duration, safety and security in exploitation, functionality and quality of constructions, wich had and has still the role of subordinating the hole construction activity to the control of the statal authority. It would be more adequate to elaborate a new "Law regarding the activity in constructions", because by that it could be treated and regulated more important aspects of this activity, the insurance of the quality resulting implicitly from the respectance of its provisions, as it is in other countries.

In fact, even the actual law regarding the quality in constructions regulates also activities explicitly oriented towards quality problems, fact that I wished to emphasize by reformulating its text for a further eventual revision. I considere that the revision of the Law no. 10/1995 or the elaboration of a new law regarding the activity in constructions should be discussed in public, drawing into the debate the professional and patronal associations of the public institutions interested. I appreciate that the following

sugestions should be opportune for a new content of the law:

- First of all the formulation of the title of a new law should be, by example, „Law no.10 regarding the insurance of the quality in constructions", because it is about regulations referring to human activities and their results, the actual form „Law no. 10 regarding the quality in constructions" not being clear and explicit from the judicial point of view (the grammatical interpretation) of the participants to this actions.
- 1st article could be formulated this way: „The insurance of the quality in constructions is done by a series of activities and measures ment to grant the constructions the capacity to satisfy the requests of the beneficiarys according to their functional destination", instead of the definition „The quality in construction is the result of their hole performances in exploitation, in order to satisfy, during their period of existence, the exigences of the users and colectivities". The refering from the 1st art. 2nd align. to technological instalations and equipments can be missing.
- In its actual form, the 2nd art. mentiones : „The provisions of the present law are applied to constructions of any cathegory and their afferent installations – in spite of the form of property or destination – named in the following constructions, and also to their works of modernization, modifying, transformation, consolidation and repair. There are excepted the buildings for dwellig with ground and first floor and the annexes situated in rural environement and in villages that belong to towns, and also the temporary buildings". I considere that the 2nd art. could be formulated this way: „The provisions of this law are adopted as part of all cathegories of constructions, indifferently of their form of property." The completion regarding to „works", as well as the „exceptions from the law" do not have a sense.
- 3rd art. could be more enlightening if formulated like this: „By the present law it is established the system of insuring the quality in constructions wich should lead to the realization of constructions able for exploitation according to their destination and that do not endanger the life and health of people, the integrity of goods and the cleanliness of the environement".
- 21st art. reffers to investors that finance and realize investments or interventions on the existing constructions from the concieving to projecting, execution and reception. As an obligation and responsibility these investors shoud:
  - ♦ Invest only in constructions concieved and projected respecting the conditions of quality imposed by the technical regulations and agreements in operation;
  - ♦ The execution should be realized based on a contract wich contains the supplementary quality conditions and the terms of their guarantee, using materials of whom the quality is certified and under the controll of authorized fizical or juridical person;
  - ♦ The reception should endorse the finding of respecting the conditions of quality mentioned in contracts and the remedy of deficiency".
- 22nd art. reffers to designers, who should:
  - ♦ Respect the provisions of the technical regulations, of the technical agreements and those of the contract reffering to the minimal conditions of quality;
  - ♦ Elaborate instructions and projects regarding the monitoring of the constructions;
  - ♦ Participate to verifications during the execution and reception of theconstruction, providing the documentation of the project for the technical manual of the construction."
- Another aspect left uncovered by the Law no 10/1995 regards the certification of the professional qualification. The quality in constructions represents one of the prioritary objectives at the national level, because Romania's position in an intense seismic area, with special climatic conditions, leads to the necessity of adopting radical measures for insuring the quality level of constructions, in order to protect people's lives and goods, the society and the environement. Law no. 10/1995 grants the legislative field wich allows the realization of constructions at the level of requests, still existing a legislative lack in the evaluation of the professional competence of societies, both Romanian and foreign, who participate to the concieving and execution of constructions, regardless of the form of financing.

3. Conclusion

The present article didn't propose an exhaustive analysis of the legislative changes that should be imposed to Law no. 10/1995, but only an introductive presentation of those. I considere that the legislative act analyzed, due to the changes and completions suffered in time and also due to the doctrine and speciality literature, will occasion various analysis and interpretations in practice and juris-prudence.

4. References

[1] Law no. 10/1995, published in: the official monitor no. 12 from January 24th 1995
[2] Order no.2/1994, POUBLISHED IN: THE OFFICIAL MONITOR N0. 18 from January 24th 1994
[3] DECISION No. 925 from November 20 1995 regarding the verification and technical expertize of quality of projects, execution of works and constructions, POUBLISHED IN: THE OFFICIAL MONITOR N0 286 from December 11th 1995

Juridical Aspects Concerning Fiscality, Work Relations and Professional Training in the Field of Constructions

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Abstract

The constructions - a branch that is in close agreement with the overall evolution of Romanian economy - are confronted with the same hardships from a fiscal viewpoint, and not only that, as the whole economic activity from Romania. In the period following the year 1990, the business environment has been subjected to too many changes, which have also negatively influenced the investment activity in Romania. While focusing on the field of activity of constructors, which also involved the collateral industries of construction equipment and materials, we must notice some manifestations which contribute to the negative effects recorded by these.

Keywords: Quality, Buildings, Designer, Certification
Classification J.E.L.: K4 - Legal Procedure, the Legal System, and Illegal Behavior

1. Introduction

European integration is a response to the increasing pressure of globalization in that it is difficult or even impossible to achieve this if the countries do not have the same level of development. Among emerging phenomena which require both theoretical concerns and economic policy, it is noted the phenomenon of international and regional economic integration, which entails, by its nature, a number of consequences of legal, economic, politically and socially. Also, through European integration, it provides enhanced its compliance with the standards of international integration through greater harmonization of policies of local traditional leveling distinctions between policy instruments, legislative, local and international economic and social. However, these trends are inadequately investigated both at national and at regional and global levels. Sustainable socio-economic system of our country is largely conditioned by the weight and quality of natural capital, the state of the environment and hence the construction sector, which provides optimal ecological balance not only locally and regionally, but also globally. The current phase of post-industrial technological revolution that took place in developed countries, is synchronized with the first confrontation previous environmental hazards and reduction of the influence of eventual exhaustion of resources.

As background and condition of all these processes is the humanization of social life linked to the expansion of the post-industrial values, the heart of which is man's aspirations. Taxation is one of the areas that has passed through the most important changes in recent ten years unfortunately, these changes have occurred either too slow or too fast, so that the fiscal environment often embedded in the consciousness of taxpayers that is an instability factor in the development of Romanian economy.

Businesses recognize the progress in legislative framework for the harmonization with European regulators or the flat tax. however, poor administrative capacity remains the weak link in the Romanian fiscal system.

After 1989, Romania has experienced unprecedented intensification of legislative activity. But what worries most is not so large number of acts, as their imperfection.

Not sufficiently developed, after their entry into force have been amended and supplemented by other regulations, which themselves were amended and supplemented, which led to the phenomenon of legislative

instability. Directly proportional to the multiplicity and imperfection normative acts appeared increasingly inconsistent judicial practice in almost all branches of law.

On the basis of the same legal text gives solutions are diametrically opposed.

This unitary judicial practice is highlighted not only between different instances of the same grade, or between instances of different degree, but often even between panels of the same court.

Thus, it came as some solutions depend on the arbitrary practice court or judge, and not by the letter and spirit of the law. Such inconvenience would occur in drafting laws were complied with art. 34 para. 1 of Law no. 24/2000 regarding the legislative technique for drafting laws, according to which "normative acts must be written in concise, sober, clear and precise to avoid any ambiguity, strict compliance with the rules of grammar and spelling."

The construction sector together with the supporting industries hold a significant place in the structure of the Gross Domestic Product (GDP), and if we take into consideration the demand of investments in infrastructure, civil and industrial constructions etc., then the weight of this sector should become greater, at the normal levels of the process of restructuring which our country's economy is going through.

The experience which was acquired and above all the hardships with which construction units are confronted lead to the conclusion that urgent steps should be taken towards the revitalization of this productive sector of economy and, last, but not least, the increase of the incomes of the state budget.

Furthermore, I will pinpoint the main problems, to which finding a solution is imperative according to me, but also to experienced economic agents. Let me point out that this paper does not discuss all the economic and social problems, it only structures a series of main issues, which affect especially and directly the economic agents from the construction field.

2. Content

At the current level of economic development a major role in contemporary society had unquestionably nature and extent of any construction that were committed significant human and material resources.

In this context, objectively, it was necessary legal regulations specific to both international and national. These regulations have come, as I show below, different stages of development, from unwritten to the written forms, the regulations scope restricted to regulations affecting the national level.

It should be noted that specific legislation also supported depending on the country's economic development and the nature of the political regime in power, profound changes, but mainly diversification designed to provide solutions to a field as dynamic as that of civil engineering.

I appreciate that, following the documentation that we made, analyzed the current legislation, meet the main requirements of "construction market" and is aligned with the European one. Clearly, significant changes are taking place now, after joining the "European family".

Support this claim, as in the European Union, the legal rules specific to this field so dynamic, are in constant transformation, with an emphasis on both quality standards aimed at material resources used in the construction market and the improvement of working conditions and the protection of people at work. Buildings are designed to provide people the necessary conditions for their material and spiritual activity.

Development of a society in economic and social terms, it reflects on the technical level of construction.

In the current economic context, participation in the public procurement for small companies represent a real opportunity for survival.

Although participation in such procedures can be challenging for operators interested in both the public procurement legislation and the specific legislation for small companies provides a series of levers with which to procedures for the award is facilitated**.**

The fiscality, unstimulating for the economic development

In Romania, fiscal pressure in the construction activity, and in other activities as well, is very high, reaching over 40%.

This high fiscality does not favour the reinvestment of profit, in exchange it leaves an open way to the development of the "black market". Any investment done in

Romania has a cost of approximately 55%, the rest being covered by taxes.

Establishing the circumstances in which VAT is exigible in obtaining incomes

The current system of collecting VAT is very damaging for construction entrepreneurs, in the event of carrying out construction works financed from public money or from the money of economic agents with integral or majority state-owned capital. Currently, the obligation to pay the VAT arises on the date of making the delivery of goods and chattels, transferring ownership of real estate assets, and providing the services, more specifically at the time of delivering the bill to the client, regardless of whether it has been paid or not. From the moment of delivering the bill to the client, the construction company becomes indebted to the Ministry of Public Finance by the corresponding equivalent value of the VAT.

It is commonly known that in the construction field, between the time of issuing the bill (a bill recognised by the client) and that of collecting (cashing) it more than 60 days pass. During the time in which the construction company did not cash the bills and therefore did not pay the corresponding VAT, it cannot participate to the auctions organised for public investments, since, according to the laws in force, the company being indebted to the state, it becomes ineligible for the auction activity, thus losing important contracts.

The allotment of investment funds uncorrelated with the contracted completion time

At present, a serious problem which construction undertakings are facing is the lack of discipline in contractual relations, especially in the case of investment objectives financed through state budget and local budgets, as well as through the own sources of economic agents with integral or majority state-owned capital. The lack of discipline in contractual relations is visible in the lagging year after year of the dates of release for the works with the increment of the period of completion, as a result of low levels of fund allotment. In such a situation, the construction entrepreneurs' activity results in unfavourable economic effects by blocking material resources and some worksite means of organisation during long periods of time, blocking the "successful execution guarantee". Most of the times, the value of unfavourable effects is higher than the level of the profit from the contracts.

Aspects concerning the estimation of the value of the supply contract

If contracts have a period of completion longer than 12 months, then the contracting parties have the right, throughout the completion period of the contract, to arrange for the modification of the clauses regarding its price, for what remains to be completed, by an addendum, only in the event of the occurrence of circumstances which prove to be detrimental to the lawful commercial interests of the parties and which could not be provided upon conclusion of the contract.

The formula for updating the price of the contract, applied in order to ensure protection against inflation, must not result into exceeding the price expressed in euros at the time of making the offer. I feel that a monthly updating of the undertaking contract is advisable, according to the inflation index even in the case of contracts whose period of completion is shorter or equal to 12 months.

Reducing the quantum of the successful execution guarantee

The guarantee should be constituted as a bank deposit, and the updating of the discount price should be done according to the euro - RON exchange rate or to the cumulated inflation index.

A legal framework should be created, by a normative act issued by Parliament, which to allow for the qualification certification of construction companies.

Certification of professional qualification of construction enterprises represent a official recognition to businesses whose activities in construction, by bodies recognized by the regulator in the construction. The existing legislation, Law 10/1995 on the quality of construction ensure at least in theory building performance level requirements. However, it is imperative to introduce ways that technical competence of enterprises to be kept under control.

In most EU countries the construction companies are certified in terms of

professional qualifications, professional associations and / or certification bodies.

Presenting the certificate of professional quality for a particular area may replace eligibility file, the file is requested in the current procurement procedures.

To decide, by statute, on a better cooperation between the professional associations in the construction field and the technical and construction universities towards finding and undertaking valuable research works/projects, useful for the construction companies. Also, it would be opportune to carry out an analysis (with the participation of specialists from the field of education and constructions) concerning the state of education in the field of constructions, with a view to identify possibilities of collaboration for the improvement of study programmes.

4. References

[1] Government Decision no. 411/2005, published in the Official Gazette no. 424 of 19 May 2005

An Analysis on Consumption Expenditure of Households at Territorial Level, Using Multi-criteria Ranking Methods. Study Case: Romania

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Abstract

One of the key indicators of human welfare refers to consumption. Moreover, consumption, along with other component – production, is one of the major themes of EUROSTAT indicators system of sustainable development. In real terms, total consumption expenditure of households in Romania increased in the first eight years of the last decade, growth followed by stagnation and even by a decline during the global financial crisis that hit our country.

The present paper performs a multi-criteria ranking of Romanian development regions, applying two ranking methods: the Relative distances ranking method and the Real ranks method.

Keywords: consumption expenditure, household income, multi-criteria ranking method, relative distance, real ranks
J.E.L. classification: C30, D10, R10.

1. Introduction

European Sustainable Development Strategy supports the idea of sustainable consumption and production, the basis for an improved quality of life [7]. Sustainable patterns of production and consumption means a reduction in the negative impact of human activity on the environment. The first part of the paper includes an analysis of consumption expenditure and income of households at national level, followed by an analysis at regional level.

2. Analysis of consumption expenditure of households at national level.

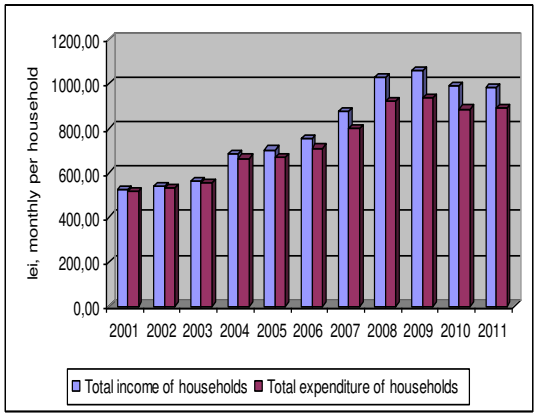
In 2001-2011 period the total monthly income of households, expressed in lei per household has doubled from 521,79 lei to 982,71 lei (real values, comparable to the level of 2001) [1]. Monthly expenses had a similar pattern with the revenues, increasing until 2008 and then decreasing after this year.

Table 1. Total income and total expenditure of households - real values (2001 level) (lei, monthly per household)

Year	Total income of households (lei, monthly per household, real values – 2001 level)	Total expenditure of households (lei, monthly per household, real values – 2001 level)
2001	521,79	516,52
2002	537,56	531,97
2003	562,94	553,28
2004	686,99	664,31
2005	703,65	667,17
2006	755,16	710,68
2007	876,41	801,18
2008	1026,96	922,67
2009	1056,71	934,13
2010	991,00	887,21
2011	982,71	887,78

Source: Authors' calculations.

Figure 1. Total income and total expenditure of households - real values 2001 (lei, monthly per household)



Source: made by the authors, based on data in Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro [6] [8]

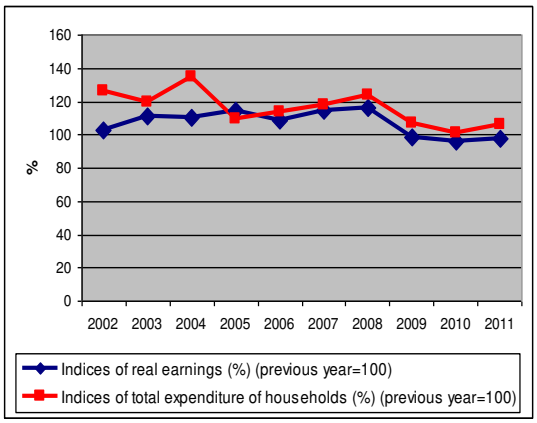
In the first part of the last decade, growth indices of real earnings recorded lower values than those of real expenditure of the population. In the second part of the decade (after 2005) the evolution of the two indicators is similar. Indices have values above unit on almost the entire period, except for the years of financial crisis [2].

Table 2. Indices of real earnings and indices of total expenditure of households (% - previous year=100)

Year	Indices of real earnings (%) (previous year=100)	Indices of total expenditure of households (%) (previous year =100)
2002	102,4	126,16
2003	110,8	119,92
2004	110,5	134,36
2005	114,3	109,53
2006	109	113,51
2007	114,7	118,19
2008	116,5	124,2
2009	98,5	106,9
2010	96,3	100,76
2011	98,1	105,86

Source: Authors' calculations

Figure 2. Indices of real earnings and indices of total expenditure of households (% - previous year=100)



Source: made by the authors, based on data in Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro [6] [8]

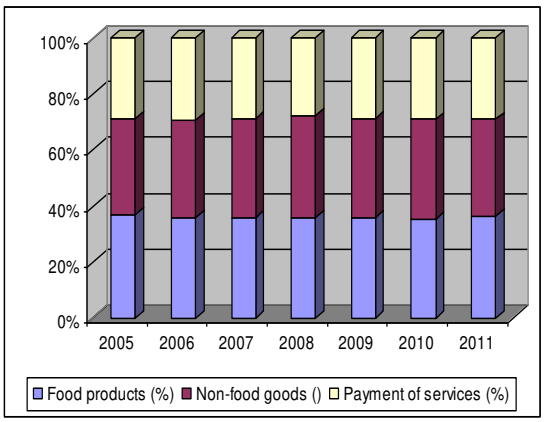
Between 2005 and 2011 in Romania households spend approximately equal weights for the purchase of food products and for the purchase of non-food goods (although the share for the first category of goods is slightly higher). Thus, in 2011 36,1% of money expenditure for consumption was spent for the purchase of food products, 34,8% - for the purchase of non-food goods and the remaining 29,1% - for payment of services.

Table 3. Money expenditure for consumption, 2005-2011

Year	Money expenditure for consumption			
	Total (lei, monthly per household)	of which for:		
		Food products (%)	Non-food goods (%)	Payment of services (%)
2005	720,27	36,7	34,5	28,8
2006	815,46	35,6	35	29,4
2007	946	35,8	35,4	28,8
2008	1185,33	35,9	36,2	27,9
2009	1275,03	35,7	35,7	28,6
2010	1286,29	35,5	35,4	29,1
2011	1320,83	36,1	34,8	29,1

Source: Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro [6] [8]

Figure 3. Structure of money expenditure, by categories of products and services (%) 2005-2011



Source: made by the authors, based on data in Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro

3. Analysis of consumption expenditure of households at regional level.

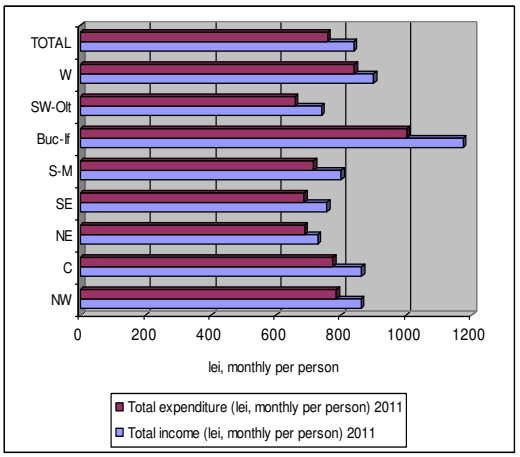
Further, the analysis focuses on the eight development regions of Romania for 2011. The regions with the highest levels of both total income and total expenditure of households are Bucharest-Ilfov (income: 1175,43 lei, monthly per household, expenditure: 1000,72 lei, monthly per household), followed by Western region. In terms of household income, North-Eastern Region ranks on the last place (727,86 lei, monthly per household), preceded by South-West-Oltenia Region (741,24 lei, monthly per household). In terms of households expenditure, the last place belongs to South-West-Oltenia Region (658,94 lei, monthly per household), preceded by South-Eastern Region (687,14 lei, monthly per household).

Table 4. Total expenditure and total income at territorial level, in 2011

Development region	Total income (lei, monthly per person) 2011	Total expenditure (lei, monthly per person) 2011
North-West	861,74	786,7
Center	864,02	774,98
North-East	727,86	688,41
South-East	756,98	687,14
South-Muntenia	800,67	716,12
Bucharest-Ilfov	1175,43	1000,72
South-West-Oltenia	741,24	658,94
West	900,97	841,58
TOTAL	**839,53**	**758,43**

Source: Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro [6] [8]

Figure 4. Total expenditure and total income at territorial level, in 2011.



Source: made by the authors, based on data in Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro

Analyzing the structure of money expenditure for consumption by categories of purchased goods and services, we make the following observations:

- Bucharest-Ilfov Region ranks first in terms of share of money expenditures for all three categories of goods and services: purchasing of consumed food and beverages (24,5%), purchasing of non-food goods (22,6%) and payment of services (22,5%).
- A relatively high share of money expenditure for purchasing food and

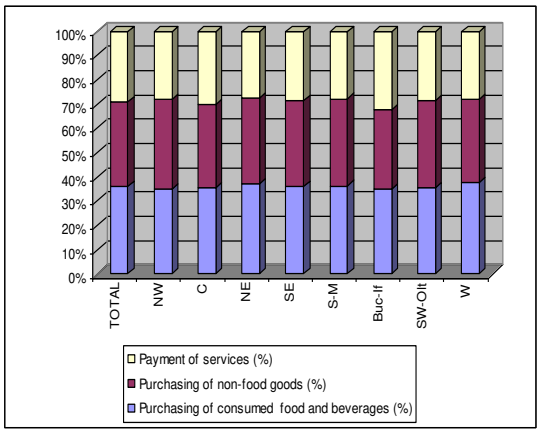
beverages registered in Western Region (24%), followed by South-Eastern Region (22%).

- High share of money expenditure for the purchase of non-food goods were registered in Western Region (21,8%) and in South-Eastern Region (21,6%).

- Besides Bucharest-Ilfov Region, households in Central Region spend more in 2011 for payment of services (18,2%), compared to other regions.

- The lowest shares of the money expenditure for purchasing the three categories of products and services were recorded: in North-Western Region and in South-West-Oltenia Region – for purchasing food products and beverages (20,4%); in North-Eastern Region – for purchasing non-food goods (19,9%) and for payment of services (15,5%).

Figure 5. Structure of money expenditure, by categories of products and services, at territorial level, 2011



Source: made by the authors, based on data in Romanian Statistical Yearbook, 2012, National Institute of Statistics and www.insse.ro [6] [8]

4. Multi-criteria ranking of development regions

The last part of the paper performs a multi-criteria ranking of the eight development regions of Romania, using two methods: the *Relative distances ranking method* and the *Real ranks method* [3] [4]. The criteria considered in the ranking were:

- GDP per inhabitant (lei/inh.) - 1st CRIT.
- ILO Unemployment Rate (%) – 2nd CRIT.
- Total average monthly wages by household (lei – current prices) - 3rd CRIT.
- Absolute poverty rate (%) – 4th CRIT.

Indicators values are for 2010 year, except for GDP per inhabitant, whose values correspond to 2009.

Table 5. Ranking criteria

Development region	1st CRIT.	2nd CRIT.	3rd CRIT.	4th CRIT.
NW	21297,4	6,8	2307,85	3,9
C	22618,8	10,5	2298,97	5,4
NE	14649,3	5,8	2047,4	7,7
SE	18738,2	8,8	2029,69	6,8
S-M	19913,7	8,3	2369,21	4,4
Buc-If	55079,3	4,6	3039,82	1,1
SW-Olt	17752,8	7,5	2134,13	7
W	25602,4	6	2344,64	3,3

Source: www.insse.ro – Sustainable development indicators at territorial level and Ministry of Labour, Family, Social Protection – Raport privind incluziunea sociala in Romania in anul 2010, 3rd Annex [5] [8]

Applying the ***Relative distances ranking method***, first in terms of these criteria ranked Bucharest-Ilfov Region, followed by Western Region (which carried 55% of the maximum performance) and North-Western Region (who made 49 % of maximum performance). The last ranked region was South-Eastern (37% of maximum performance), preceded by the North-Eastern Region (38%).

Table 6. Results of the applying the Relative distances ranking method

Development region	Ranks				Average relative distance	Final rank
	1st CRIT	2nd CRIT	3rd CRIT	4th CRIT		
NW	0,387	0,676	0,759	0,282	0,486	3
C	0,411	0,438	0,756	0,204	0,408	5
NE	0,266	0,793	0,674	0,143	0,377	7
SE	0,340	0,523	0,668	0,162	0,372	8
S-M	0,362	0,554	0,779	0,250	0,445	4
Buc-If	1,000	1,000	1,000	1,000	1,000	1
SW-Olt	0,322	0,613	0,702	0,157	0,384	6
W	0,465	0,767	0,771	0,333	0,550	2

Source: authors' calculations.

Applying the ***Real ranks method*** for determining the real average rank, the four ranking criteria have been allocated weights depending on their importance: 1st CRIT. - 45%; 2nd CRIT. - 25%; 3rd CRIT. - 15%; 4th CRIT – 15%. Applying the *Real ranks method* the regions placed in the top two places were Bucharest-Ilfov Region and

Western Region (as in *Relative distance ranking method*). The last two regions, ranked in the hierarchy differ from those resulting from the application of the first method: the 8th rank - Central Region; the 7th rank: the South-Eastern Region. This is explained by the fact that the unemployment criteria recorded the worst value in Central region, and had a fairly significant share in real average final rank.

Table 7. Results of the applying the Real ranks method

Develop-ment region	Ranks				Average real rank	Final rank
	1st CRIT	2nd CRIT	3rd CRIT	4th CRIT		
NW	7,836	3,610	7,725	3,970	6,183	3
C	7,803	8,000	7,733	5,561	7,505	8
NE	8,000	2,424	7,982	8,000	6,603	4
SE	7,899	5,983	8,000	7,045	7,307	7
S-M	7,870	5,390	7,664	4,500	6,713	5
Buc-If	7,000	1,000	7,000	1,000	4,600	1
SW-Olt	7,923	4,441	7,897	7,258	6,949	6
W	7,729	2,661	7,688	3,333	5,797	2

Source: authors' calculations

5. Conclusions

Due to its role of reducing the negative impact of human activity on the environment, the sustainable consumption represents a major theme – along with the sustainable production pattern - of the European Sustainable Development Strategy. In real terms, total consumption expenditure of households in Romania increased in the first eight years of the last decade, growth followed by stagnation and even by a decline during the global financial crisis that hit our country. Between 2005 and 2011 in Romania households spend approximately equal weights for purchasing food products and for purchasing non-food goods (although the share for the first category of goods is slightly higher). Thus, in 2011 36,1% of money expenditure for consumption was spent for the purchase of food products, 34,8% - for the purchase of non-food goods and the remaining 29,1% - for payment of services.

In the last part of the paper we had applied two ranking methods: ***Relative distances ranking method*** and ***Real ranks method***. We had used four ranking criteria: GDP per inhabitant, ILO unemployment rate, total average monthly wages by household and absolute poverty rate. After the appliance of these methods the Bucharest-Ilfov Region was ranked first, the Western Region was ranked the second; the South-Eastern Region and the Central Region were the last ranked regions.

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Harmonisation of Excise Duties on Energy Products and Electricity in Central and Eastern European Countries

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Abstract

The field of excise duty taxes focuses on the use of these economic instruments designed by the European law in the context of protecting the environment and public health and to establish a prudent and rational utilisation of natural resources.

Focusing mainly on deriving and explaining economic impacts of the minimum energy taxes rates corresponding to the EU Directive (2003/96/EC) in CEE countries, this article outlines the degree of harmonisation of excise duty on energy products among these countries.

Through this paper, I intended to see whether, for Central and Eastern European countries, there is any significant correlation between energy tax revenues and excise duty levels on energy products and electricity. Therefore, I have drawn two tables [1] including excise duty on motor fuels and heating fuels, such as petrol and gasoline, natural gas, coal and coke levied in Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia.

Key words: excise duty rates, Directive 2003/96/EC, energy taxation, energy tax revenues, green taxes";
J.E.L. classification: H21, P52, Q40, Q48, K34;

1. Introduction

After the EU accession of the Central and Eastern European countries (The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovakia) in May 2004 and January 2007 (Romania, Bulgaria), the main objective has been to raise living standards due to harmonizing policies to EU requirements. Hence, they undergone profound and coherent policy reforms in order to ensure better interaction and coordination among EU member countries and to bridge the gap between them and Western European Countries.

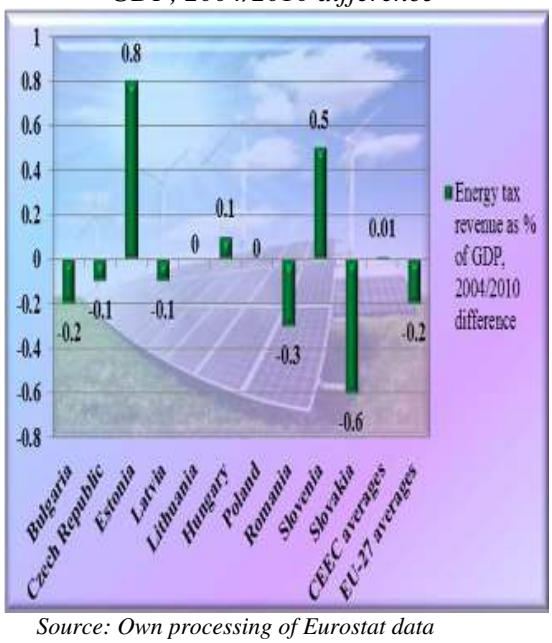
This paper discusses about the evolution of energy tax revenues in the Central and Eastern European Region (CEE), with a focus on excise duty related to the harmonization with the European Energy Taxation Directive (Directive 2003/96/EC) standards [2]. This legislative framework, which was adopted in 2003, aim to restructure the energy policy in European member countries.„It sets out common rules on energy taxes levied on energy products and which exemptions are allowed in order to avoid competitive distortions in the energy sector within the Internal Market".[3] Energy Taxation enable European Member countries to make the best possible use of energy and, ultimately, support „sustainable growth"..

2. Energy tax revenues in Central and Eastern European Countries

A detailed analyse of energy tax receipts in CEE countries, both as a percentage of GDP and as absolute revenue (millions of Euro), shows differences between countries. The following Graphs were made using most recent data provided by Eurostat, which cover 1995-2010 period.

Between 2004 and 2010, the share of energy taxes in GDP has fallen in EU-27 with 0,2 (%) and in CEEC-10 (ten Central and Eastern European Countries) with 0,6 (%), mainly due to reduced levels of energy tax revenues, as Graph 1.1 shows.

Graph 1.1 Energy tax revenue as % of GDP, 2004/2010 difference



Source: Own processing of Eurostat data

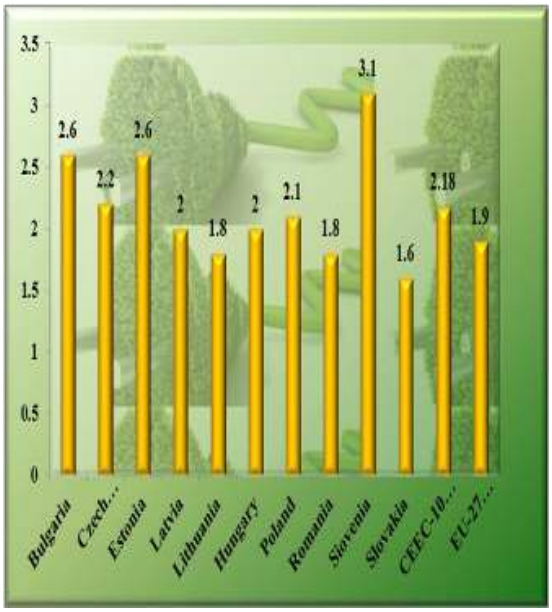
The highest increase in energy taxation took place in Estonia, 0,8 (%) of GDP while other countries with increases were Slovenia and Hungary (Graph 1.1.).

In Slovenia, the ratio of energy tax revenues in GDP is the highest in the CEEC-10 and EU-27, recording 3,1 (%) of GDP. This happened thanks to the Energy Agency, which successfully regulated electricity and natural gas market for a decade. There were adopted new acts related to electricity and the transmission network. Also, extensive work was done in the field of renewable sources and high-efficiency cogeneration.

Costumers consumed 3 percents more natural gas than the year before, but still gas is mainly used in industry. [4] Nevertheless, in respect of the absolute revenues, with1,086 billion of Euro earned in this sector, Slovenia is the fifth highest country in Central and Eastern European Countries, after Poland, Czech Republic, Romania and Hungary.

In comparison with Slovenia, in Estonia and Bulgaria the revenue from energy taxes has formed 2.6 % of GDP in 2010, placing the two countries on the second position.

Graph 1.2 CEEC's energy tax revenues rankings (as % of GDP) in 2010



Source: Own processing of Eurostat data

Estonia is the second lowest in respect of absolute revenues from energy taxation, cashing only 374 million of Euros. It is obvious that the high ratio of energy taxation in GDP is due to low level of nominal GDP, which in 2010 was only 19 billion $US.

In 2010, the Poland Government received 7,601 billion Euros from energy taxes. Thus, it has ranked first place in Central and Eastern European Countries and the eight place in EU-27.

The five best ranked countries (Poland, Czech Republic, Hungary, Romania, Slovakia) in respect of the amount of revenue from energy tax levied on products and electricity in the analysed year, „met on 28 January 2013 in Budapest to agree on the start of the structured cooperation with a goal to investigate and prepare for the integration of the day-ahead electricity markets of the five countries."[5]

Energy tax revenue in Romania, at 1,8 (%) of GDP in 2010, lies below the CEEC-10 average (2,18 %) and EU-27 average (1,9 %). The absolute value of energy tax receipts in Romania is the third highest in the EU.

In the current year, the Romanian Government will introduce „a special tax on the revenues of those who exploit natural gas and produce power, revenues derived from the liberalization of the energy price, said secretary of state in the Ministry of Finance Liviu Voinea." [6]

He also said that these taxes will be implemented as special taxes levied on extra

revenues, only for extraction and production, not to be levied on the distributors, but on the power producers.

3. Excise duty levied on energy products and electricity in CEEC-10

To understand whether the low percentage of GDP derived from energy taxation is caused by a lower taxation, or poor collection capacity, this article presents the situation of excise duties applied to the most important sources of energy in relation to the minimum EU rates on July 2010 and January 2013 in CEEC.

Table 2.1 provides an overview of the excise taxes on energy products and electricity in 2010 and it shows some variation between the countries of the analyzed region. Czech Republic and Slovenia have had the highest tax rates introduced for motor fuels and were above the EU minimum excise tax rates.

Slovakia has imposed the highest taxes both leaded and unleaded petrol. Nevertheless, it has the lowest value in energy tax revenues in the EU-10, which stood at 1.6 % of GDP in 2010. At 505, 11 EUR/1000L for unleaded petrol, taxes are the next highest in Czech Republic. The information presented above reveal that only Bulgaria and Romania had a minimum level and below the minimum of excise duty for unleaded petrol, in 2010.

In Bulgaria, natural gas used in propellant use, commercial/industrial use, heating business use and heating non-business use

processes are fully exempted from energy tax. Also, in Bulgaria the EU minimum excise duty are applied to almost all energy and electricity products. Although, Bulgaria

was the country with the highest revenues from energy taxes in EU-10, and the third highest in EU-27, in 2010, as Graph 1.2 shows.

The highest excise duties on domestic use of natural gas are in Slovenia, Estonia, and Latvia. In Poland LPG, natural gas, coal and coke are exempted from excise duties.

The lowest taxes levied on energy products used in non-business heating can be found in four countries where the ratio of energy tax revenues in GDP is the second highest, the fourth, the sixth, the seventh in the CEEC-10 (Bulgaria, Poland, Latvia, Lithuania). LPG used in non-business is levied only in Romania and Slovenia (Table 2.1).

Taxation of fuels used for heating used in business and non-business district is by far the highest in Slovenia. Taxes levied on gas oil heating – business and non-business use- in Romania are the third highest, after Czech Republic and Hungary, and those on natural gas, heavy fuel oil coal and coke are levied at minimum excise duty level, in 2010.

In 2010, Estonia has the highest electricity consumption taxes for households. In Bulgaria, Latvia, Romania, Slovenia the EU minimum tax level for electricity is applied. Only in Slovakia there is no electricity tax at all for households. The EU minimum levels in electricity taxation used in the business sector are applied by two countries, Romania and Lithuania.

This analyse reveals that in 2010, Latvia opted to maintain the lowest possible level of excise duties on energy products; nevertheless the revenue from environmental taxes grew up and was 2.4 % of GDP Graph 1.2).

Table 2.1 Energy products and electricity excise duty in CEEC, July 2010

Minimum excise duty	BG	CZ	EE	LV	LT	HU	PL	RO	SL	SK
Leaded Petrol- 421 EUR/1000L	424,38	539,34	422,77	423,55	579,24	459,56	*	421,19	421,61	597,49
Unleaded Petrol- 359 EUR/1000L	350,24	505,11	422,77	379,78	434,43	444,02	390,55	*348,04	484,51	514,50
Gas oil propellant use 330EUR/1000L	306,78	430,76	392,93	330,37	274,27	360,21	302,00	293,215	427,00	368,00
Gas oil Industrial/Commercial use 21 EUR/1000L	306,78	430,76	110,95	56,47	21,18	360,21	302,0	293,215	213,50	225,71

Gas oil Heating – Business use 21 EUR/1000L	25,56	430,76	110,95	56,47	21,18	360,21	54,65	**293,215**	117,90	225,71
Gas oil Heating – Non-Business use 21 EUR/1000L	25,56	430,76	110,95	56,47	21,18	360,21	54,65	**293,215**	117,90	225,71
Kerosene Propellant use 330 EUR /1000 L	306,78	430,76	330,10	330,37	330,17	459,56	429,21	**375,91**	330,00	481,31
Kerosene Industrial/Commercial use 21 EUR /1000 L	306,78	430,76	330,10	56,47	330,17	459,56	429,21	**375,91**	165,00	481,31
Kerosene Heating – Business use 0 EUR/1000L	25,56	430,76	330,10	56,47	330,17	459,56	429,21	**375,91**	21,00	481,31
Kerosene Heating – Non-Business use 25,56 EUR/1000L	0	430,76	330,10	56,47	330,17	459,56	429,21	**375,91**	21,00	375,91
Heavy fuel oil Heating business use 15 EUR/1000 kg	25,56	18,57	15,02	15,53	15,06	16,37	15,08	**15,00**	55,02	26,55
Heavy fuel oil Heating Non-business use 15 EUR/1000 kg	25,56	18,57	15,02	15,53	15,06	16,37	15,08	**15,00**	55,02	26,55
LPG Propellant use 125 EUR /1000 kg	173,83	154,72	125,27	127,06	304,10	177,24	191,95	**128,26**	125,00	258,91
LPG Industrial/Commercial use 41 EUR/1000 kg	173,83	50,75	125,27	127,06	304,10	44,75	191,95	**128,26**	62,50	258,91
LPG Heating business use 0 EUR/1000 kg	0	0	0	0	0	0	0	**113,50**	36,25	0
LPG Heating Non-business use 0 EUR/1000 kg	0	0	0	0	0	0	0	**113,50**	36,25	0
Natural Gas Propellant use 2,6 EUR /gigajoule	0	0	0	2,66	6,55	0	0	**2,60**	0,8750	3,68
Natural Gas Industrial/Commercial use 0,3 EUR /gigajoule	0	0,334	0	0,592	0	0,33	0	**2,60**	0,8750	3,68
Natural Gas Heating business use 0,15 EUR /gigajoule	0	0,334	0,70	0,592	0	0,33	0	**0,17**	0,8750	0,366
Natural Gas Heating Non- business use 0,3 EUR /gigajoule	0	0,334	0,70	0,592	0	0,33	0	**0,32**	0,8750	0,366
Coal and Coke Heating business use 0,15 EUR/ gigajoule	0,31	0,334	0,3	0,30	0,15	0,33	0	**0,15**	1,32	3,12
Coal and Coke Heating Non-business use 0,3 EUR/gigajoule	0,31	0,334	0,3	0,30	0,30	0,33	0	**0,30**	1,32	0
Electricity Business use 0,5 EUR/MWh	1,00	1,113	4,47	1,00	0,52	1,09	4,71	**0,50**	1,00	1,32
Electricity for householods	1,00	1,113	4,47	1,00	1,01	1,09	4,71	**1,00**	1,00	0

Source: Excise duty tables, January 2013, European Commission, Taxation and Customs Union, Indirect Taxation and Tax administration, Environment and other indirect taxes

4. Energy tax rates increases in 2013 compared to the 2010 level in CEEC

On 13 April 2011, the European Commission put a proposal to review the first Energy Taxation Directive in order to restructure the way energy products are taxed to remove current imbalances and take into account both their CO2 emissions and energy content. „Existing energy taxes would be split into two components that, taken together, would determine the overall rate at which a product is taxed. One would be based on CO2 emissions of the energy product and would be fixed at €20 per tonne of CO2.

The other one would be based on energy content, i.e. on the actual energy that a product generates measured in Gigajoules (GJ), the minimum tax rate would be fixed at €9.6/GJ for motor fuels, and €0.15/GJ for heating fuels. This will apply to all fuels used for transport and heating. This means that a fuel will be taxed on the basis of the amount of energy that it generates, and greater energy efficiency will automatically be rewarded. The revised Directive, which will enter into force in 2013 aims to restructure the way in which energy is taxed to support the objective of moving to a low-carbon and energy-efficient economy."[7]

Table 3.1 Tax increase in 2013 compared to the tax rates in 2010

Energy product	BG	CZ	EE	LV	LT	HU	PL	RO	SL	SK
Leaded Petrol- 421 EUR/1000L	-	+0,013	-	+0,085	-	-0,052	*	-	-	-
Unleaded Petrol- 359 EUR/1000L	+0,036	+0,013	-	+0,093	-	-0,026	+0,04	+0,033	+0,188	+0,07
Gas oil propellant use 330EUR/1000L	+0,075	+0,016	-	+0,017	+0,17	+0,105	+0,174	+0,127	+0,05	+0,05
Kerosene Propellant use 330 EUR /1000 L	+0,075	+0,014	-	+0,017	-	-0,052	+0,034	-	-	-
LPG Propellant use 125 EUR /1000 kg	-	+0,013	-	+0,017	-	+0,42	+0,05	-	-	-0,3
Natural Gas Propellant use 2,6 EUR /gigajoule	+0,42	+0,38	0	-	-	0	0	-	+0,4	-0,3
Natural Gas Heating Non- business use 0,3 EUR /gigajoule	0	+0,018	-	-0,22	0	0	0	0	+0,4	-
Coal and Coke Heating Non-business use 0,3 EUR/gigajoule	-	-	-	-	-	-0,06	0,31	-	-	0
Electricity Non-Business use 1,0 EUR/MWh	-	+0,015	-	-	-	-0,055	+0,034	-	+2,05	0

Source: Excise duty tables, July 2010, January 2013, European Commission, Taxation and Customs Union, Indirect Taxation and Tax administration, Environment and other indirect taxes

The increase of excise duty in 2013 on electricity for households in Slovenia stands out for its size (increased by 3,05 (%)). Another significant increase of excise duty in 2013 compared with 2010 levels occurred on natural gas used as propellant, which took place in a Balkan country Bulgaria (0,42), and Slovenia, (0,4). Also, another relatively marked increase of natural gas tax took place in the Czech Republic, over 0,38 increase in 2013 compared to 2010. Hungary, where energy taxes formed 2 % of GDP in 2010, saw a significant increase of LPG taxes from 2010 to 2013, 0,42. Table 3.1 highlights that the only country where no changes occurred in excise duties on fuels and natural gas, coal and coke, electricity for households is Estonia. This can be explained by the fact that, in 2010, the revenue from energy taxes has formed 2.6 % of GDP in Estonia, placing it on the second position among the CEE countries. As for reductions, the most remarkable case is Hungary, which have cut the excise taxes from 2010 to 2013 on four

energy products: leaded petrol, unleaded petrol, kerosene used as fuel, coal and coke used for households heating and electricity for households. Another country which significantly reduced its excise duty on LPG (-0,3) and natural gas used as propellant (-0,3%) is Slovenia. In Slovenia, the ratio of energy tax revenues in GDP is the highest in the CEEC-10 and EU-27, recording 3,1 (%) of GDP.

5. Conclusions

The tax systems in the ten Central and Eastern European countries that joined the European Union (2004 and 2007) have undergone environmental taxation reforms aiming to reduce greenhouse gas emissions as efficiently as possible. The energy taxation is used in order to stabilize and to enhance the more distortionary existing taxes. A properly designed energy taxation could improve economic efficiency and remove an existing distortion by charging users the true cost of energy products consumption.

This analysis of excise taxes for energy products, which only apply on final energy demand exclusive of the non-energy use, and not on energy production or transformation, in post-communist European member countries, shows some variation between environmental fiscal policy in the countries of the region.

While Slovakia has imposed the highest taxes both leaded and unleaded petrol, it has the lowest value in energy tax revenues in the CEEC-10, which stood at 1.6 % of GDP in 2010. In Bulgaria, the EU minimum excise duty are applied to almost all energy and electricity products. Although, Bulgaria was the country with the highest revenues from energy taxes in 2010, in EU-10, and the third highest in EU-27, as Graph 1.2 shows.

In Romania, energy products and electricity are levied at minimum excise duty level proposed by the European Commission.

Considering that Romania and Bulgaria are the European Union's poorest states, with a per capita gross national income of €6,440 and €4,460, increasing the energy prices in the context of the liberalisation of energy will hurt households.

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Are Education and Innovation the Paths to the Inclusive Economy?

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Abstract

The term "poverty" is gradually replaced with the concept of "social exclusion", the latter involving, more social and economic phenomena, and is the opposite of social integration, which reflects the importance of perceived to be an integral part of society.

The impact of exclusion to social integration can have negative consequences on the personal development, both individually and family because it involves a multitude of psychological problems such as depression, anxiety, low self-esteem.

But, clearly, the goal of economic activity itself is the increase in quality of life and, as far as possible, the reduction of poverty.

Keywords: index, education, innovation, exclusion, inclusion.
J.E.L. Classification: C

1. Introduction

That 80 million Europeans are in poverty (of which 20 million children and 8 percent of the active population), the EU has decided to set up a European Platform to combat poverty and social exclusion. This provides for actions aimed at achieving the European Union's objective of reducing poverty and social exclusion for at least 20 million people by 2020.

In order to avoid the phenomena of poverty and social exclusion, due to the complex and multidimensional nature of the policies of social cohesion to take part and assume the development and raising living standards. How can we do this in an increasingly globalized world if not using the two important factors of progress of civilization: education and innovation? Together, low rate of unemployment and a high standard of living are paths that lead to one inclusive economy.

The impact of the financial crisis has led to organizations and Governments to change its way of working to be able to "survive", so as to have a trend of increase they must use their best resources in delivering/trying to do new things. As a result, the term "innovation" probably originally appeared as a strategy was subsequently incorporated as a research and development policy. Thus, innovations, especially those of a social nature (taking into account the present theme), could be intelligent solutions for post-crisis Europe.

Much more than a policy, social inclusion is based on a moral position, in which the values are adhered to by every individual/organization. We are now passing thru a moment in which everything is in constant motion, the rapidly evolving education, with schools becoming more modern, they develop abilities and innovative abilities of students, where they are used models and new technologies, and where no account is taken of family of origin, ethnic or cultural backgrounds.

More, inclusion requires responding to the diversity of needs among all learners, through increasing participation in learning, cultures, and communities, and reducing exclusion from and within education. It involves changes in content, approaches, structures, and strategies, driven by a common vision that covers all children and the conviction that it is the responsibility of the regular system to educate all of them [2].

2. Inclusive Economic Analysis Index

As I mentioned above, poverty is an aspect of life, and to measure the level of this phenomenon there is a system of indicators.

This indicates the evolution of poverty in a given country or, to a greater extent, through comparative studies, at the international level. Obviously, this system of indicators is not the only tool used in the process of comparing the stages of economic and social development at the international level, but these index offer a relevant meaning to the studies.

2.1. Global Innovation Index (GII)

The competition between organizations does not exclude forms of cooperation and innovation involves their ability to develop both technical knowledge and practice. Furthermore, I believe that learning and innovation play an important role in the economic development of a country. The present study presents the evolution of the INSEAD [3] reports – Global Innovation Index and includes indicators that go beyond the traditional measures of innovation (such as the level of research and development in a given country).

In the 2012 Edition of the global report by the innovation, it is observed that the developed States have progressed in terms of innovation, but smaller ones have better ranking. If we look at the top 10 Nations noted that only seven are in Europe.

2.2. Human Development Index (HDI)

Human Development Index (HDI) is calculated in order to highlight the evolution of the quality of human life and is a quantitative measure of the degree of a country's success in the ability to be able to develop its human capital. Covers three major landmarks: life expectancy, literacy and GDP per capita. From this point of view, we can approach this three-dimensional and index according to the needs of the study, we will look at that or we can highlight the choose we make. Life expectancy index measures a country's performance in this regard based on the average life expectancy at birth in relation to the minimum level (25 years), and 85 years represents the maximum level.

Literacy index is obtained by calculating the weighted average of two parts: a share of two third part for this index representing adult literacy and a third for coverage of index in education on the three levels of education.

The index includes gross domestic product GDP per capita expressed in purchasing power parity.

The most important thing is that at the time of data analysis and data correlation does not forget about the hazard of the HDI. Unlike the degree of literacy and educational enrolment are measurable, life expectancy can only be estimated. This is the time of genetic aspects and, clearly, the conditions and the way of life affects the decisive indicator.

In these circumstances, it is possible that life expectancy to be erected in the developed countries but they do carry a relevant progress in terms of innovation, but the most underdeveloped to have a better rank. These aspects can be considered relevant degree milestones of human development of a country.

HDI is calculated as the simple average of these three indicators, its values indicating the degree of development in reverse order.

2.3. Index of cognitive skills and educational attainment

To be able to carry out a comparative analysis of international education systems has developed an Index of cognitive skills and educational attainment. Moreover, taking into account that it compares results from 39 countries and Hong Kong (China), on two categories: cognitive skills education and education level, from the analysis of the index can be a relevant image on the situation of education level in the countries studied.

Of note is the fact that it is becoming increasingly relevant in shaping educational policy at local, national and international.

2.4. Unemployment Rate

The unemployment rate represents the number of unemployed in the active population unemployed, as defined by BIM, are people aged between 15-74 years who meet the following three conditions simultaneously: I don't have a job, I am available to start working within the next two weeks and have been in search of a job at any time during the last four weeks and the active population from the economic point of view

includes all persons who provide labour force available for the production of goods and services during the reference period, including both the occupancy and the long-term unemployed.

A low level of unemployment reflects the ability of a country to supply a perfect balance between request, obviously amid an economy capable of consolidated to provide sustainable jobs and making more smaller the existing labour force.

In the present study is relevant to know that, nationally, in addition to the context witch indicators are used and other categories of indicators that can serve the substantiation process, elaboration, implementation, monitoring and evaluation in the field of employment and vocational training: indicators on access and participation in education and training; indicators of quality and efficiency of vocational education and training; indicators on education system results; results indicators on education and vocational training in the labour market and of labour and quality indicators on participation and investment in Continuing Education/FPC.

3. Data Analysis

The purpose of this chapter is to identify the degree of correlation between the abovementioned indicators as they are reflected on the basis of statistical data and reports from various organizations.

To this end, we have chosen to study the 27 member countries of the European Union witch cover the spectrum of economic development and political and regional developments over the last two decades. The analysis aims, on the one hand, outlining correlations between EU Member States on the same index and, on the other hand, the links between them at some point.

3.1. HDI and GII (2012)

As I mentioned above, the HDI is composed of three components, and in the analysis of the two indices, we will take into account the GDP Index. GII index assesses innovation on the basis of criteria such as institutions, human capital and research, infrastructure, loans, investment, acquisition and dissemination, interconnections, innovation and creative activity results.

Analyzing and correlating data from Table 1, note: regarding GII, Europe with more innovation – innovation leaders from Northern Europe and the West. Thus, in the context of the estimates, we can consider "innovation leaders" in UE countries with high incomes, such as the Nordic Countries, Switzerland, United Kingdom, Netherlands, Luxembourg, Ireland, Germany, Malta, Estonia, Belgium, France, Slovenia, the Czech Republic and Hungary, which have achieved success in creating innovation ecosystems.

But, by comparison, although the viewpoint of HDI is in the second part of the report GII we can notice that the United Kingdom has a leading position. Explainable, because although allocations for research and development expenditure (% of GDP), GDP fell, the rate for growing has values smaller than 0.3.

From these calculations and observations, we can estimate that there is no explicit dependency relationship between the two indices, which means that you should take into consideration the other factors of influence.

3.2. HDI and Index of cognitive skills and educational attainment (2012)

In the calculation of an Index of cognitive skills and educational attainment data do not exist for the following EU Member States: Cyprus, Estonia, Finland, Latvia, Lithuania, Luxembourg, Malta and Slovenia.

If OECD has dates of from national statistics, depending on the degree of completion of each countries education participant, the data has been checked, then used and analize where it is considered that they can be comparabile. In some cases, there are no data on upper-secondary and/or tertiary graduation rates were not available. In this case, the country has been attributed to the average score for this indicator. A disadvantage for the country to get the average score is that if, in reality, this low average in this, his score boosts Index and vice versa. However, this was considered to be the most fair and transparent. This is true for literacy rate.

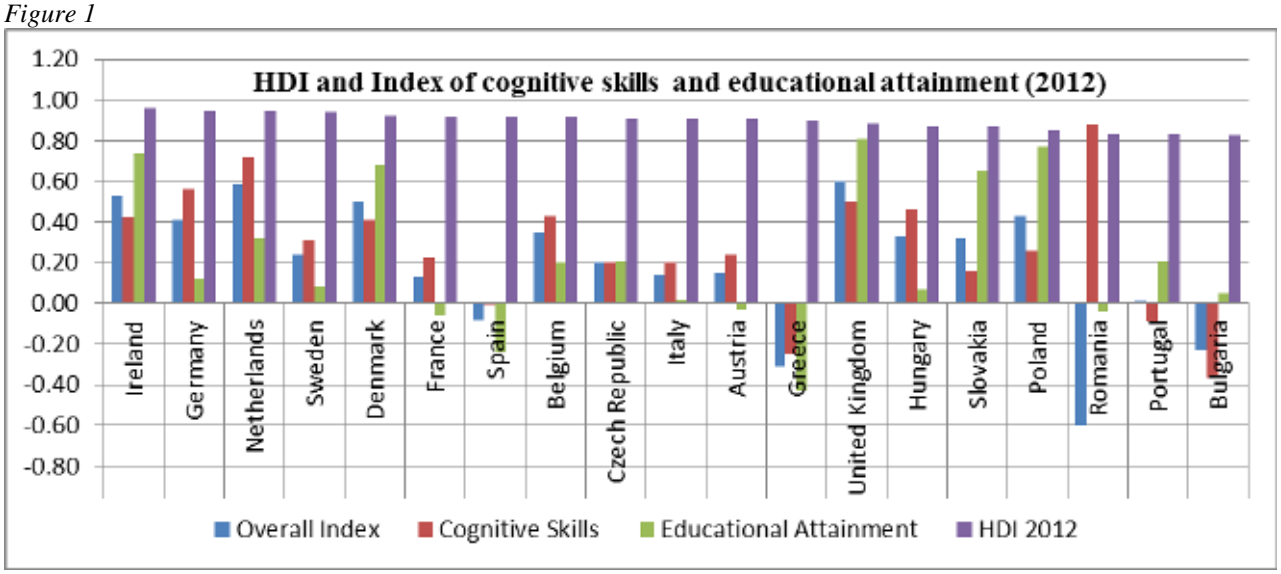
Relevant in comparing the two indices is an educational framework of the HDI index

with "z-score" Index of cognitive skills and educational attainment. The latter indicates how many standard deviations an observation is above or below the mean.

To complete the z-score first calculated each indicator's mean and standard deviation using the data for the countries in the Index, and then the distance of the observation from the mean in terms of standard deviations.

For countries like Ireland, Germany, the Netherlands, we can see clearly the existence of a correlation between the two indices.

Figure 1



Source: http://hdrstats.undp.org/en/indicators/104706.html; http://thelearningcurve.pearson.com/index/index-ranking

3.3. HDI and Unemployment Rate (2012)

The lowest rate of participation in the labour market is recorded among people with incomplete secondary education, and studies that assessed in the case of persons with undergraduate and graduate studies. The unemployment rate is highest among people with low levels of education.

Here we can say that the HDI is obviously influenced by Unemployment rates. But a careful analysis of the data shows that regardless of the level of HDI, Unemployment Rates can be as high. If we take the example of the two countries at the opposite pole: Ireland – with the highest HDI in Bulgaria, and the lowest point (both at the level of the year 2012), note that the Unemployment Rate reveal things exactly backwards. Here we can consider that it is related with the HDI hazard component in this framework.

4. Conclusions

From the above relations is evident connection between the four indices. The GDP is higher so we see a better score on the human development index, and the index of income we can associate with the higher education.

Analysis of the degree of correlation between the HDI and other indicators reveals a number of positive and negative aspects about the way they are designed. Each of the indicators analyzed have strengths and weaknesses in terms of contributing to the formation of an inclusive economy.

Also note the average and high productivity in some countries that there are people with a higher educational level. In other words, we can say that the productivity and, why not, with the development of the latest trends and technologies, and innovation, are directly proportional to the hope of life to more than average school with a clearly superior quality of life and with an unemployment rate as low as.

In conclusion, as the Professor Schleicher said: "It is not a question of if you are rich, you can afford a good education system... . You may need to build a 40-year time gap between investment and economic outcomes, but the causality of the link is established." [4]

Table 1

Country	HDI		Global Innovation Index rankings						Index of cognitive skills and educational attainment				Unemployment Rate
	Rank	2012	Score (0-100)	Rank	Income	Rank	Region	Rank	Notes	Overall Index	Cognitive Skills	Educational Attainment	Dec-12
Austria	18	0.908	53	22	HI	22	EUR	15	1,8,10	0.15	0.24	-0.03	4.7
Belgium	17	0.917	54	20	HI	20	EUR	14	1,4,8, 10,11,15	0.35	0.43	0.20	8.2
Bulgaria	57	0.826	41	43	UM	6	EUR	27	1,4,9,11	-0.23	-0.37	0.05	12.4
Cyprus	31	0.869	48	28	HI	28	NAWA	2	na	na	na	na	13.6
Czech Republic	28	0.913	50	27	HI	27	EUR	18	8,12	0.20	0.20	0.21	7.2
Denmark	15	0.924	60	7	HI	7	EUR	6	8,10	0.50	0.41	0.68	7.4
Estonia	33	0.892	55	19	HI	19	EUR	13	na	na	na	na	9.9
Finland	21	0.912	62	4	HI	4	EUR	3	na	na	na	na	8
France	20	0.919	52	24	HI	24	EUR	16	2,4,8, 10,11	0.13	0.23	-0.06	10.6
Germany	5	0.948	56	15	HI	15	EUR	10	8,10	0.41	0.56	0.12	5.4
Greece	29	0.899	35	66	HI	43	EUR	36	3,6,10, 11,12	-0.31	-0.25	-0.43	26.4
Hungary	37	0.874	47	31	HI	30	EUR	21		0.33	0.46	0.07	11.1
Ireland	7	0.96	59	9	HI	9	EUR	7	8,10, 11,12	0.53	0.42	0.74	14.2
Italy	25	0.911	45	36	HI	33	EUR	23		0.14	0.20	0.02	11.2
Letonia	na	na	na	na	na	na	na	na	na	na	na	na	14.3
Lithuania	41	0.85	44	38	UM	4	EUR	24	na	na	na	na	13.3
Luxembourg	26	0.858	58	11	HI	11	EUR	8	na	na	na	na	5.4
Malta	32	0.876	56	16	HI	16	EUR	11	Na	na	na	na	6.6
Netherlands	4	0.945	61	6	HI	6	EUR	5	1,8,10	0.59	0.72	0.32	5.8
Poland	39	0.851	40	44	HI	38	EUR	28	10,11	0.43	0.26	0.77	10.4
Portugal	43	0.835	45	35	HI	32	EUR	22	10,11, 12	0.01	-0.09	0.21	17.3
Romania	56	0.836	38	52	UM	11	EUR	33	1,4,11	-0.60	0.88	-0.04	6.7
Slovakia	35	0.872	41	40	HI	35	EUR	25	8,10	0.32	0.16	0.65	14.5
Slovenia	21	0.936	50	26	HI	26	EUR	17	na	na	na	na	9.4
Spain	23	0.919	47	29	HI	29	EUR	19	10,11	-0.08	-0.01	-0.24	26.1
Sweden	8	0.94	65	2	HI	2	EUR	2	8	0.24	0.31	0.08	8
United Kingdom	26	0.886	61	5	HI	5	EUR	4	8,13, 14,15	0.6	0.5	0.81	7.7

Source: http://hdrstats.undp.org/en/indicators/104706.html;
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[3] INSEAD – The Business School for the World – as one of the world's leading and largest graduate business schools, INSEAD brings together people, cultures and ideas to change lives and to transform organisations. A global perspective and cultural diversity are reflected in all aspects of our research and teaching.
[4] Andreas Schleicher – Deputy Director for Education, OECD

Current Requirements for the Quality of the Environmental Factor "the Water" in the Area of Romanian Black Sea Coast

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Abstract

The industrial and human activities, in general, are entirely dependent on the existence of the water resource, putting important pressures upon those, both in terms of quantity and quality. The water resources from Constanta County comprise the Seaside water catchment area and the Danube water catchment area.

The measures for improving the quality of surface waters, presented in this paper, are based on a series of studies conducted during the period of my Ph.D. internship, being present in the thesis "Studies concerning the impact of industrial activities on the areas with touristic potential". In this regard, studies were conducted, in which we treated:

- *The surface water sources;*
- *The sewerage network and the wastewater treatment plants;*
- *The lakes system for pisciculture and irrigations.*

Key words: surface source, wastewater treatment plants, pollution source, wetland technology, protection policies.
J.E.L. classification: Q53, Q56, R11.

1. Introduction

The Seaside water catchment area summarizes 64 river courses with a total length of 834 km and a surface of 5480 km², more important being: Casimcea, Slava, Hamangia, Teliţa, Taiţa, Ciucurova, Gura Dobrogei and Nuntaşi, to which we add the Danube-Black Sea canal with 67 km and Poarta Albă-Midia Năvodari Canal with 27 km.

In Constanta County, establishing the ecological and chemical state for rivers and lakes is realised according to the provisions: of Order 377/2001 concerning the approval of reference objectives for the surface waters quality, of the Government Decision no. 202/2002 for the approval of Technical Norms concerning the surface waters quality that need protection and improvement in order to support the fishery fund and of Order 161/2006 for the approval of the regulation concerning the classification of surface waters. According to the legislation in force, the evaluation of ecological and chemical state of surface waters are based on elements of biological quality, hydro morphological, chemical, physical-chemical indicators and specific pollutants that influence the surface waters state, under which five ecological states have been established for rivers and lakes: very good I, good II, moderate III, weak IV and bad V. The quality standards for biota for rivers and lakes are those provided in the Order 44/2004.

The situation of the quality of the potable water is regulated by the Law 458/2002, supplemented by the Law 311/2004 and the Government Decision no. 100/2002 for the approval of Quality standards that have to be accomplished by the surface wastewater in the process of making potable water – NTPA 013/2002 and the Regulation concerning the methods for sampling and analysing the samples from surface waters meant for producing potable water.

Evacuating wastewater resulted from industrial processes is regulated by the Government Decision no. 188/2002 for the approval of some rules concerning the conditions for discharging wastewater – NTPA - 011 concerning the collection,

treatment and evacuation of urban wastewater, NTPA – 001/2002 that refers to setting limits for loading with pollutants the industrial and urban wastewater, the evacuation in natural water collectors, NTPA – 002/2002 concerning the discharge conditions of wastewater into the towns sewerage networks and directly into the wastewater treatment plants; and the Government Decision no. 100/2002 for the approval of quality standards that have be accomplished by the surface wastewater for the process of making the water potable, in which are included NTPA 013/2002 and NTPA 014/2003.

The purpose

The purpose of conducting this paper is that of bringing to the attention of all competent factors and of those from the industry, the importance of the existence of a modern system for discharging wastewater. Also, the population must be sensitized in order to save and protect potable water sources.

The hypothesis

The hypothesis used refers to "the awareness of all economic agents no matter their size on the necessity of the existence of some personal systems for treating the wastewater". Through it, we can diminish the danger of polluting the sea water, as a natural water collector, but also the Black Sea coast area.

2. Materials and methods

The realisation of the strategy for improving the water quality is based on many studies, as for example, Studying technological flows at three big industrial agents: CET Palas Constanţa, Midia Nãvodari Petrochemical Factory and La Farge Medgidia Cement factory. The water pollution sources present in the area of Romanian seaside, or the situation of surface sources, respectively of sewerage network and of wastewater treatment plants.

2.1. The researched material

Galesu catchment is a water source coming from Poarta Albă–Midia Năvodari Canal, with an installed total capacity of 44151/s or 16650 m^3/h and a nominal power of 5930 kW, being used for obtaining potable water in the town and in the north area of Romanian seaside, the water produced being distributed towards Palas.

Galesu catchment, a surface source is important for supplying with potable water the Constanta County (figure 1).

Figure 1 Interconnected system of water supply



Source: Neacşu Gabriela, 2009, [4]

For Galesu catchment, it was determined the pH according to STAS 6325-75 and SR ISO 10523-97, fix waste according to STAS 9187-84, conductivity STAS 7722-84 and SR EN 27888-96, chlorides STAS 3049-88 and SR ISO 9297-98, phosphates STAS 10064-75, chromium STAS 7884-67, SR ISO 9174-98, SR ISO 11083-98, ammonium STAS 6328-85, the chemical oxygen demand for five days STAS 6560-82, lead STAS 6362-85, copper STAS 3224-69, cadmium STAS 1184-78 and SR ISO 5961-93, nickel STAS 10267-89, total ionic iron SR ISO 6332- 96, SR 13315-96 and STAS 3086-68, zinc STAS 6327-81, phenols STAS R 7167-92.

The evolution of the indicators tracked for appreciating the quality of potable water has shown that the majority fits into normal limits, some of them even being situated well under the admissibility limit. There are, though, two exceptions, the ammonium quantity which was situated above the admitted limit during the period 2005-2006, going down slowly under the limit in 2007, growing slowly in 2008 and the iron one, which had a growth during 2006, and then

decreased in 2007. Seeing it as a whole, we specify that the occurred overcomes are mainly due to facilities for treating the obsolete and worn out water.

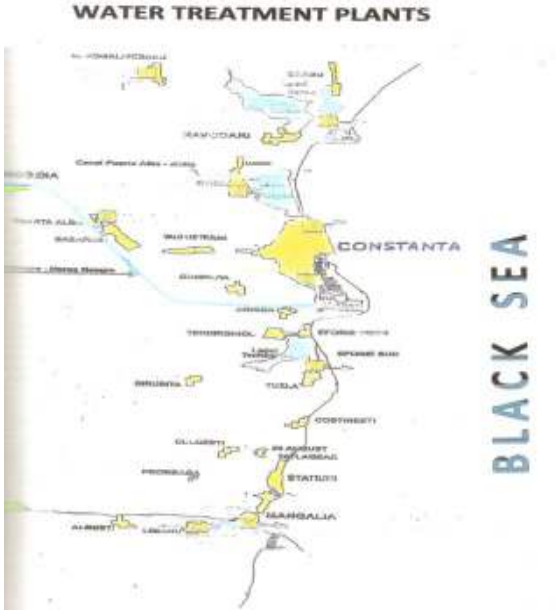
The *treatment* represents the complex process of restraining and neutralizing the dissolved harmful substances, in suspension or in colloidal form present in the industrial wastewater or domestic waters, in wastewater treatment plants [2]. The main purpose is that of improving the quality of these waters in order to be discharged in the emissary without affecting the flora or the fauna. After the water is treated in wastewater treatment plants, it can even be reused in certain fields or technological processes.

The wastewater treatment, depending on the water characteristics and on the requirements of the evacuation in the emissary, needs mechanical-biological simple wastewater treatment plants or complex wastewater treatment plants. The wastewater with mostly inorganic character will be treated in wastewater treatment plants only through physical and chemical means of restraint and neutralization: sedimentation, neutralization, precipitation, coagulation, flocculation, absorption onto activated carbon, ionic exchange. The wastewater with a mostly organic character is treated in a wastewater treatment plant through physical, chemical and biological procedures.

The waters treatment in wastewater treatment plants is tracked through determinations before and after the entering in the system for: pH reaction; fixed and volatile solid suspensions, BOD_5 – the biochemical oxygen demand for five days, in mg/l, necessary for the biochemical oxidation of organic matters at a temperature of 20^o C and in conditions of dark; COD – chemical oxygen demand, in mg/l for the oxidation of oxidised mineral salts and organic substances, based on potassium dichromate or permanganate; the nitrogen presence met under the form of free ammonia, organic nitrogen, nitrates and nitrites; the presence of microorganisms which are of different types, some of them contributing to the treatment process, and others producing diseases and infections to people and animals; their presence leads to the necessity of disinfecting the water when it comes out from the wastewater treatment plant [3].

The wastewater treatment plants present in figure 2 situated near the economic agents studied in the thesis mentioned above, are: Midia Năvodari-personal system that serves the Petrochemical Factory, CET Midia and Navodari town, Poarta Alba wastewater treatment plant and Constanta North and South wastewater treatment plants.

Figure 2 Wastewater treatment plants



Source: Neacşu Gabriela, 2009, [4]

CET Palas has a sewerage network of approximately 5 km inside the enterprise where the waters are taken by RAJA Constanta, the wastewater quality being of level I (source: Environmental engineer inspector Madalina Munteanu). According to NTPA 002/2002 "for the wastewater evacuated in the towns' sewerage networks", we tracked: the hydrogen ions concentration, pH according to SR ISO 10523-97, the matters in suspension STAS 6953-81, the biochemical oxygen demand for five days STAS 6560-82, ammonium nitrogen STAS 8683-70, sulphates STAS 8601-70, lead 8637-79 and cadmium SR ISO 5961-93 [6],[7].

The samples of wastewater discharged into the sewerage system, made during the months: March, July and September in 2009 at CET Palas, have emphasized the fact that in general the matters in suspension and the oxygen chemical content are situated well below the acceptable limit, the ammonium presents oscillations registering peaks in July and September, being situated though under the acceptable limit, as for the rest of the

other indicators, the lead and sulphates content is also very low, the only overcome registered is at cadmium in September.

The waters discharged near the Navodari lock are wastewater that came from the sewerage network of Navodari town, collected both from the economic agents present in the town, others than Midia Petrochemical Factory, and from the population. The sampling took place before the samples were treated in the Midia wastewater treatment plant. The wastewater discharged here come both from Midia port and from Midia power plant. Midia Petrochemical Factory discharge the wastewater in the emissary lake specially created for this purpose that is connected to another lake situated in Chituc sand bank and which is finally linked to the Black Sea.

As a general observation, we can say that we can't establish a connection between the industrial activity and the summer season, within the meaning of diminishing the activities with impact on the Black Sea coast during the summer season.

The lacustrine system Taşaul – Corbu (Gargalâc) in the wide bay found between Midia Cape and Pescariei promontory lie the lakes: Corbu (Gargalâc) and Taşaul. From Midia Cape to Constanta the relief is much flat, three steps being remarked. On the third step which is presented under alluvial, sandy form there are located the territories of Taşaul and Corbu (Gargalâc) lakes, isolated from the sea through well consolidated seaside. Tasaul and Corbu lakes have a reduced underground supply limited to the contribution from the underground and from the patches of limestone.

The samplings are made in the exit sections of Corbu lake, the connection with Tasaul lake and the centre of the lake. The lake Tasaul falls in the category of lakes with brackish water, with the mineralization between 1-24,7 g/l. Corbu lake can be used for fish being exploited by S.C. Pestom S.A. (Corbu arrangement), using annually a volume of 3194 thousand m^3 of water, quantity entirely returned. Tasaul lake is exploited by S.C.Pestom S.A. (Kogalniceanu arrangement), which uses 1300 thousand m^3 and R.A.I.F. Constanţa for irrigations. For example in the case of Tasaul lake, the two lakes Tasaul and Corbu have been provided with a common system of discharge into the sea, the pumping station being designed to allow when needed an exchange of waters between the two lakes for regulating the levels [1]. Through this common system, the control and the maintenance of the medium level of Tasaul lake became possible, avoiding the unwanted oscillations of level due to flow variations of the main affluent - Casimcea. After 1988 there was a general tendency of alkalinisation of Tasaul lake waters, the annual average values of pH registering increases of up to 8,8 and even more in the next years, fact that conferred the lake an alkaline aspect, which situated it to the superior limit of the acceptability for a lake with fishery destination.

2.2. Methods and instruments used

The evolution assessment of the waters pollutants in Constanta County was realized in virtue of sampling conduction, as well as of data provided by: Environmental Protection Agency Constanta, Dobrogea Litoral Water Directorate Constanta, S.C. R.S.J.A S.A. Constanţa and National Institute of Marine Research –Development „Grigore Antipa" tracking those water resources that were directly connected to the thesis subject and to the economic agents studied within the thesis.

3. Discussions and results

In the studies conducted on the polluting industries, we permanently considered the importance that the Romanian Black Sea coast has, as a curative and recreational factor for the development of regional and national tourism. In this context, we can highlight that in a relatively young economy, as the one from Constanta County, a balance between the industry and the tourism has to be kept, a symbiosis between the two branches in full development has to be created.

The water is an environmental factor just as important as the air. Therefore, the paper presents a series of measures with protection role, presented in table 1.

The plan elaborated as a guidance guide of the economic agents in view of sustainable development comprises a series of measures that targets the industry agents, whose technological processes affect the

environment.

Table 1 Measures to improve environmental quality water in areas with tourism potential

Pollution sources	Environmental factor upon which we act	Protection policies		Involved factors	The action/the project	Horizon of achievement			Results
		General	Specific			Short (5ani)	Medium (10 years)	Long (20ani)	
1.Industrial activities generating wastewater whose chemical composition comprises especially: chlorides, nitrates, phosphates, sulphates, benzene, phenols, heavy metals	W A T E R	1. Preliminary processing of wastewater before being discharged into sewerage systems or natural water collectors	1. Using systems of "active mud" type through which harmful chemical compounds to be neutralised	1. Economic agents; 2. Environmental protection agencies; 3. Local authorities; 4. Specialised enterprises	1. Project concerning the fundraising for supporting small and medium economic agents in order to fit them out with treatment plants for industrial waters		x		1. Increasing the quality of industrial wastewater discharged by all industrial agents and protecting the continental waters, bathing waters and underground waters
		2.The obligation of small and medium economic agents, classified according to the discharged wastewater quantity to purchase (under environmental investments form) individual systems for wastewater treatment;							
		3.Permanent monitoring of industrial wastewater for all economic agents no matter their size;	2.Purchasing wastewater treatment plants for each personal economic unity		2. Increasing the number of enterprises specialised in monitoring the wastewater resulted from industrial activity at prices that make possible the periodic monitoring of small and medium economic agents;	x			
		4. Use of wetland technologies, extended there where the relief and the position of the industrial objective allow it	3. European fundraising from environmental protection field that is used in order to create wetlands	1. Environmental protection agencies; 2. Economic agents; 3. Local authorities; 4. Specialised enterprises; 5. City halls; 6.City planning department; 7.Department of structural funds within city halls	3. **Project** concerning the study of the location of great industrial operators in order to apply the wetland technology by naturally or artificially creating such arrangements.		x		2. Mapping the territory in order to establish the perimeters for the location of new economic unities, the improvement of discharged wastewater quality, the extension of wetland systems;
			4. Initiating intercessions of economic agents in order to purchase the lands necessary for locating the wetlands						
		5. Protecting the biodiversity of the Black Sea	5. Feasibility study concerning the opportunity of building a treatment plant	1. Local authorities; 2. Environmental protection agency; 3. Audit companies; 4. Consulting firms; 5. City halls; 6. National and international bodies and organisations	5. **Project** concerning the building of a treatment plant in Costinesti area		x		3. Avoiding the overworking of pumping stations caused by the extension of living areas
			6. Feasibility studies concerning the location of new treatment plants or the transformation of those that already exist		6. **Project** concerning the implementation of the technologies based on modern techniques of treatment and recycling of waters discharged into the Black Sea, so that they renter in the production cycle.				4. Stimulating the scientific research in general and especially in small and medium enterprises 5. Rehabilitating the irrigations systems and extending the irrigated cultures;
									6. Protecting the Black Sea, using waters for other activities: irrigations, industrial water, maintenance of green spaces.
		6. Permanent monitoring of chemical composition of recycled waters designed for agriculture							7. Saving industrial water consumption;

Source: Neacşu Gabriela, 2009, [4]

But the lack of financial funds that are to be invested in the environment protection, and the rare check from the Environmental Protection Agency determine that most of economic agents cumulatively pollute (especially if they are concentrated in the same area, as in Constanta case) almost as big economic agents do [5].

4. Conclusions

An action that would especially concern the economic agents with financial power would be that related to applying investments programs that refer to the implementation of clean technologies, for examples wetlands extension, that are often used in the world, but very little known in our country, although Petromidia has such a system for 25 years, the emissary from Corbu village. Initiating some actions that lead to forming such lakes (we would rather recommend the artificial ones) would have as effect the territory mapping in order to track down the appropriate situations where they could be located (as close as possible to the economic

agent).

An important project is that of recycling the wastewater after its treatment. It was noticed on the basis of the studies conducted that the water treated in the tracked stations, doesn't always fit into NTPA 002/2002 regulations. Therefore, equipping treatment plants with modern installations and moreover researching the possibilities for recycling treated waters and reintroducing them in the production cycle or towards another destination, would be a good thing especially for the Black Sea (as a main natural water collector), but also for the Romanian tourism (being known that 4-5 years ago the most polluted sea area from Mamaia resort was at Parc – the entrance in the resort).

In this study we realised a ranking of factors responsibilities involved in protecting the environment. Therefore, the desire of realising a less pollutant activity must belong above all to economic agents, no matter their measure, who have to be aware of the importance of realising this desire, especially in a touristic area, such as Constanta County, thereby they were given a percentage of 80 %, in respect of their involvement in the industrial sustainable development.

Just as important in implementing the measures plan are the Environmental Protection Agencies (75 % weight) which have responsibilities in what concerns the economic agents' permanent monitoring, including the small and medium ones. Their activity has to develop based on a solid legislation (maybe a little different according to the type and quantity of discharged harmful substances), without discrimination, adopting right measures from case to case. A source good to be exploited, will always be represented by external structural funds, national development funds and personal funds created for the economic agents' sustainable development.

A problem that was tangentially analysed at the beginning was that of small and medium economic agents that raise as many problems as big economic agents do, because of the cumulative effect that they produce on the environment through their coexistence in the same area. Therefore, we considered necessary the control extension even at small and medium economic agents at short periods of time, in order to monitor them. Regular assessment of the quantities of harmful substances discharged into the air and water, spilled on the soil and subsoil could permit the forming of an overview on the pollution produced by these (known being the fact that great polluters of seaside area have made investments in modern installations that could protect the environment also because of the often checks made by the Environmental Protection Agency), but it could also permit the creation of a database that contains information about the concentrations of polluters discharged into air, water, soil and subsoil.

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Tourism in Maramureş, between Desire and Reality

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Abstract

Maramureş County is regarded as having the greatest potential for tourism, according to the study "Data about the cultural and tourism potential of localities in Romania", conducted by the Center for Research and Consultancy in the Field of Culture in Bucharest. So, approaching this theme is logical.

This paper presents the main tourism attractions of the county, its tourism infrastructure, the number of tourists, tourism investments. In this respect the latest information from the National Institute of Statistics shall be used.

Keywords: Maramureş, tourism, North – West Region.
J.E.L. classification: L83, R10.

1. Introduction

Maramureş County is regarded as having the greatest potential for tourism, according to the study "Data about the cultural and tourism potential of localities in Romania", conducted by the Center for Research and Consultancy in the Field of Culture in Bucharest. So, approaching this theme is logical.

Maramureş (MM) is part of the North - West (NW) Region, with Bihor (BH), Bistriţa-Năsăud (BN), Cluj (CJ), Satu Mare (SM) and Sălaj (SJ). After 1989, Maramureş, as well as the entire North - West Region, underwent major changes. Mining, metal processing (other than iron) entered into a continuous decline, which culminated in the closure of all mines in the county. The automotive industry, unfortunately, follows the same trend. Agriculture in the county is also part of the national trend of decline, the yields obtained per hectare being lower than the regional average, and the fleet of agricultural machines is inadequate. In these circumstances, the county's economic development perspectives are tied to the service sector, mainly tourism.

2. Tourism in Maramureş

Maramureş county's tourism attractions are a reality; we mention some of them [1]:

- wooden churches;
- monasteries;
- Merry Cemetery in Săpânţa;
- the Mocăniţa on the Vaser Valley;
- museums;
- mountain resorts;
- natural spas;
- protected areas.

Maramureş has 38 protected areas, namely:

- 3 scientific reserves;
- 1 national park - Rodna Mountains National Park;
- 17 natural monuments;
- 13 nature reserves;
- 1 natural park - Maramureş Mountains Natural Park;
- 3 protected areas of local interest.

Maramureş County ranks 2nd, nationally, in terms of protected areas.

Taking into account all these tourism attractions, Maramureş is hypothetically suitable for practicing various forms of travel:

- mountain tourism;
- cultural tourism;
- rural tourism;
- sports tourism;
- ecological tourism;
- spa tourism;
- business tourism;
- scientific tourism.

The services sector, which includes

tourism, has been constantly growing in recent years.

In 2010, in Maramureş, 2.37% of the total number of employees in the county were employed in 'Hotels and restaurants', according to data from the National Institute of Statistics [2]. The trend is towards increase, but the pay is low compared to other fields of activity.

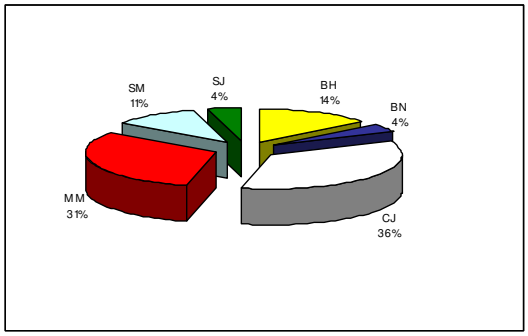
In terms of tourism infrastructure, there is 1 Tourist Information Centre in Maramureş. There are 5 such centers in the NW Region, the rest being in Cluj (3) and Bihor (1). There is also an association that promotes tourism in Maramureş.

The number of existing tourism agencies in the North – West Region in 2012 was 322, of which 39 were in Maramureş County. Most of these agencies have operated in Cluj (171) and Bihor (58), Maramureş being on the 3rd position.

In the North-West Region, in 2008, there were 585 tourist accommodation structures, according to data from the Cluj Regional Department of Statistics [3]. Of these, the majority were in Cluj (206) and Maramureş (183).

In terms of percentage, their distribution between the counties of the NW Region is shown in Figure 1 [3].

Figure 1: Percentage distribution of tourist accommodation structures for the counties of the NW Region in 2008



Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013].

Tourist accommodation structures in Maramureş County had an upwards trend. For example, in 2006, 146 such units were registered, while in 2008 that number grew to 183. So, this year, tourists accommodation structures in Maramureş represented 31% of the total existing in the North – West Region.

Of the 183 tourism units most fall into the category farmhouses (110), followed by urban and rural tourist guesthouses (35), hotels and motels (27), as shown in Table 1[3].

Table 1: Structures of tourist accommodation in the North - West and Maramureş in 2008

Tourist accommodation	**NW Region**	**MM**
Hotels and motels	141	27
Inns	1	0
Chalets	20	4
Camping and cottage type units	12	0
Villas and bungalows	89	4
Camps for students and preschool	19	3
Urban and rural guesthouses	67	35
Holiday villages	0	0
Farmhouses	225	110
Hotels for young people	3	0
Hostels	5	2
Tourist stops	3	0
Sea accommodation	0	0
Total	**585**	**183**

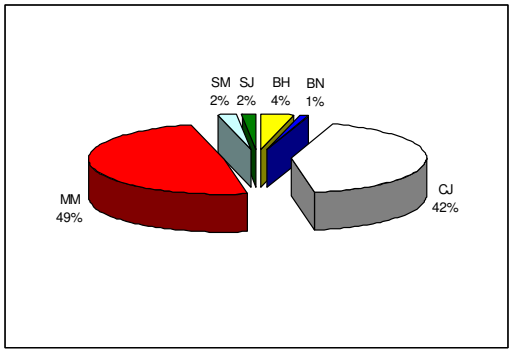
Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013].

The structure existing in Maramureş follows the regional trend. At regional level, also, most tourist facilities are farmhouses, which account for 38% of all tourist accommodation structures in the Region. However, in Maramureş, farmhouses represent a much higher percentage, i.e. 60% of all tourism facilities.

The number of farmhouses increased from year to year. For example, in 2006, there were 87 registered farmhouses in Maramureş County; in 2008 the number increased to a total of 110 [3].

Figure 2 shows the distribution of the 225 farmhouses existing in the NW Region, for the 6 counties [3].

Figure 2: Distribution of farmhouses in the six counties of the NW Region in 2008



Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013].

The overwhelming weight of Maramureş, with 49%, and Cluj, with a percentage of 42% of farmhouses, is obvious.

Also, in terms of urban or rural tourist guesthouses, Maramureş holds first place with a total of 35 guesthouses, from a total of 67 in the NW Region in 2008 [3].

The next representative item, namely "Hotels and motels" registers a number of 27 tourist units in Maramureş, 19% of the Region total, ranking 3rd after Cluj (51) and Bihor (36).

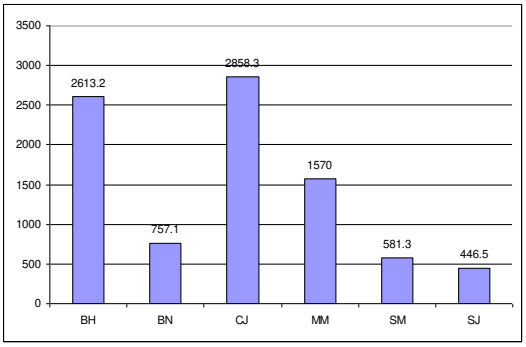
Also, it should be noted that Maramureş has null values for the following categories:

- inns;
- camping and cottage type units;
- holiday villages;
- youth hotels;
- tourist stops;
- accommodation on ships.

Regarding the existing accommodation capacity (number of accommodations), there has been a decrease in the NW Region. Thus, in 2006, the existing accommodation capacity was 26,816, reaching 26,484 in 2008. In contrast, in Maramureş, the existing accommodation capacity grew from 3,363 in 2006 to 3,995 in 2008 [3]. The indicator showed an increased in Bistriţa-Năsăud and Satu Mare as well.

Accommodation capacity in operation (number of rooms - days) has increased in the NW Region in recent years. Thus, in 2006, the value recorded was 7.371 thousand - days, reaching 7,760.5 thousand - days in 2008, and 8,826.3 thousand in 2011. Maramureş is part of the same trend, the value recorded in 2006 being 1.199 thousand – days, 1,454.8 thousand - days in 2008 and 1567.0 thousand in 2011. The values recorded for each county in the North - West Region in 2011 are shown in Figure 3 [3].

Figure 3: Accommodation capacity in operation expressed in a thousand people - days for each county in the North – West Region in 2011



Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013] and the North - West Regional Development Agency - *North - West Region Development Plan 2014 – 2020*, [Online], Available: http://www.nord-vest.ro/SERVICIIPentru-Dezvoltare-Regionala/PLANIFICARE-REGIONALA/Planul-de-dezvoltare-regionala-2014-2020.html, [April 04, 2013].

Maramureş is ranked 3rd in the Region after Bihor and Cluj.

The number of tourists arriving in the NW Region increased from year to year, except during 2009 and 2010. In 2000, there were 559,600 tourist arrivals, in 2006 the number grew to 781,000 tourist arrivals, in 2008 it reached a total of 908,100 tourists arrived, and finally 779,300 in 2011 [4].

Of the total tourist arrivals in Maramureş in 2011 (107,095 tourists), about 81% were Romanian and only 19% foreign (20,020 foreign tourists). The evolution of the number of tourists arriving in Maramureş is linear. It is shown in Table 2 [3][4].

Table 2: Evolution of the number of people arriving in Maramureş County from 2000 to 2011

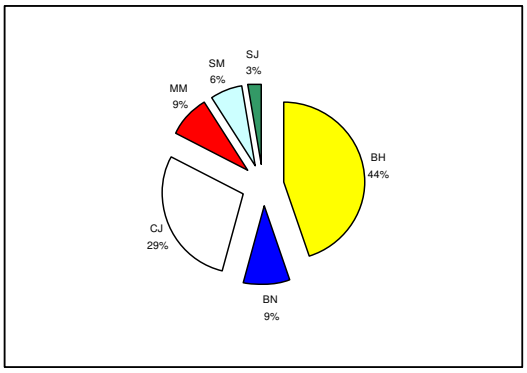
Year	Number of arrivals in Maramureş - thousand tourists -
2000	74.4
2001	93.8
2002	89.4
2003	86.0
2004	79.0
2005	91.4
2007	97.0
2007	108.8
2008	106.1
2009	91.5
2010	92.5
2011	107.1

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013] and the North - West Regional Development Agency - *North - West Region Development Plan 2014 – 2020,* [Online], Available: http://www.nord-vest.ro/SERVICIIPentru-Dezvoltare-Regionala/PLANIFICARE-REGIONALA/Planul-de-dezvoltare-regionala-2014-2020.html, [April 04, 2013].

In 2011, the number of tourists arriving in Maramureş was 107,100 persons, 32,700 persons more than in 2000 [4]. The highest value was recorded in 2007, when 108,800 tourists arrived in Maramureş. However, the values recorded in 2000 are lower than the ones recorded in 1995, when 123,200 tourists arrived in the county.

The number of overnight stays also increased in the North – West Region, reaching 2,536.9 thousand tourists in 2008, while the value recorded in 2000 was 1,960.8 thousand tourists. The values mentioned are still lower than the value recorded in 1995, i.e. 2,542.2 thousand. Tourists who spent the night in the North – West Region in 2008 chose Bihor as their destination, as can be seen in Figure 4 [3].

Figure 4: Overnights in the NW Region - weight for each county in 2008



Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013].

The evolution of the number of people who stayed overnight in Maramureş is shown in Table 3 [3].

Table 3: Evolution of the number of people who stayed overnight in Maramureş from 2000 to 2008

Year	Number of people who spent the night in Maramureş - Thousand tourists -
2000	185.1
2001	216.3
2002	192.8
2003	191.0
2004	186.0
2005	208.7
2007	211.0
2007	229.0
2008	215.9

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013]

The number of tourists who stayed overnight in Maramureş was 215,900 tourists in 2008, a value higher to that recorded in 2000, 185,100 tourists. During this period the highest value was recorded in 2007.

Regarding the of net use index of accommodation capacity in operation (number of overnight stays compared to the accommodation capacity in operation), it had a fluctuating evolution in recent years in the

North – West Region. In the county of Maramureş, this index had a downward trend. In 2008, it recorded the lowest value in the region, 14.8%, placing the county in the last position, while the other counties had values between 36.8% (Satu Mare) and 29.2% (Bihor and Bistriţa – Năsăud).

The evolution of this indicator in Maramureş County is presented in Table 4 [3].

Table 4: Evolution of net use index of accommodation capacity in operation in Maramureş from 2000 to 2008

Year	Net use index of accommodation capacity in operation - % -
2000	27.8
2001	32.0
2002	31.5
2003	29.2
2004	27.7
2005	21.4
2007	17.6
2007	17.4
2008	14.8

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do [March 31, 2013]

The low value of this index in the county of Maramureş is explained by the fact that guesthouses, present in large numbers, have a low net use index of accommodation capacity, much lower than hotels. And tourists prefer hotels as accommodation structures.

In terms of gross investments in the hotels and restaurants sector, the highest values were recorded in Cluj and Bihor, followed by Maramureş at great distance, as shown in Table 5 [5].

Table 5: Value of gross investments in tourism in the counties of the NW Region in 2008-2010 – million lei

	2008	2009	2010
BH	101	128	111
BN	16	17	12
CJ	108	117	112
MM	43	26	33
SM	31	23	17
SJ	9	22	9

Source: National Institute of Statistics, *Regional economic and social benchmarks: Territorial Statistics*, 2012.

3. Conclusions

Maramureş County's tourism potential is certain due to its numerous tourist attractions. Existing protected areas in Maramureş offer numerous trails for hiking lovers. The county has potential in terms of cultural tourism due to existing monuments. Rural tourism is supported by the large number of rural farmhouses.

The existing material base can support the development of tourism, given its modernization. However, the county's infrastructure is underdeveloped and requires major investment.

Thus, in terms of tourism potential, the strengths of Maramureş are:

- cultural heritage - rich and valuable history;
- attractive landscapes, diverse landforms;
- uniqueness of wooden churches;
- preserved traditions, especially in rural areas;
- road, rail or air access;
- the existence of border crossing points with the Ukraine;
- existence of craftsmen that pass on their knowledge to young people;
- traditional methods used to cultivate land;
- development of agricultural tourism as a valve to absorb labor force in urban areas.

Its weaknesses are:

- underdeveloped tourism services;
- poorly diversified agro services;
- poor access to sightseeing;
- reduced number of foreign tourists;
- fluctuation of workforce in tourism, explained by a reduced salary level;
- tourism products that are poorly promoted by travel agencies;
- underdeveloped transport infrastructure.

Tourism in Maramureş is far from being exploited to its potential, the difference between reality and desire being obvious to anyone.

There are many things to be done before tourism will represent a significant percentage of the county's GDP. The downward trend in the net use index of accommodation capacity in operation shows

a regression of tourism in Maramureş in recent years.

For tourism to be able to develop and fulfill its potential, it must be supported by:

- improving accessibility in the county by upgrading and rehabilitating existing transport infrastructure and improving access to modern communication systems;
- development of rural areas by preserving cultural and historical values;
- helping the economic environment in order to improve the quality of tourism services and make investments, especially in hotels and restaurants that are preferred both by Romanian and foreign tourists;
- increasing service quality in farmhouses;
- training tourism personnel in order to improve the quality of services provided;
- development of human potential in order to increase capacity of design and implementation of projects carried out with outstanding funds.

We believe it is crucial to increase the quality of tourism services in Maramureş. Quality is the safest way to attract tourists.

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The Exposure of Chinese Higher Education to the Development of International Education System

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Abstract

The education of the People's Republic of China is in constant growth, development and change. Characterized by its size, throughout the country there are over 2,000 universities and colleges that sum up over 6 million graduates every year. Having originally supported ideas and principles of Confucianism universities impose an organized, focused towards performance, but at the same time aimed at providing equal opportunities for people wishing to attend the courses of higher education institutes. Directly influenced by developments in global education, the Chinese University system has to adapt and evolve to meet the requirements and the needs of market economy and hence to be able to directly compete with the major universities of the world.

Key words: analyses, public finances, perspective, quality
J.E.L. classification: H52, H75, I21, I23

1. Introduction

Although China's University system has a long history, traditions and it is principle-based, with the passage of time it has undergone significant changes mainly due to Western influences.

The first of the higher education system could be dated by experts from 771-221 B.c. Until the years 618-907 there have developed a whole series of institutions of higher education as well as school for sons of the emperor or lifelong learning schools of Confucianism. In addition there were also professional schools of law, medicine, mathematics, literature, calligraphy and dentistry. However, these institutions were organized more in the form of libraries that have subsequently become academies and research institutions. The modern history of higher education in China is relatively young compared with the education in Europe or the Middle East [1].

Although aristocratic families have benefited of higher education from the earliest times, higher education for all population classes has become accessible only from the last years of the 19th century. The first University established in modern China, Tiajin University, created in 1895, plays an important role in the development of the education system of Chinese higher education.

2. Chinese higher education in the last century

Soviet influence in the 1950 played a crucial role in the development of the Chinese University System. During this period, all higher education institutions have passed under the control of the Government, they clearly distinguished between the research and the teaching programs and a national curriculum of study was adopted.

Another shock suffered by the higher education in China occurred during the Cultural Revolution, in the period between 1967- 1976, the number of high school

graduates has fallen dramatically, from 674400 students to 47800. This had a major impact on universities, the decline being profound. The reforms introduced after this period managed to stabilize and revitalize the system. Structural reforms have been initiated in respect of the management of the institutions, investment, labor recruitment or management measures between institutions [2]. These measures were designed to give universities greater autonomy and a greater opportunity to respond to the needs of students.

One of the largest structural changes to the higher education system occurred in 1985 when the Government launched the so-called "3D" and "3C"reforms [3].

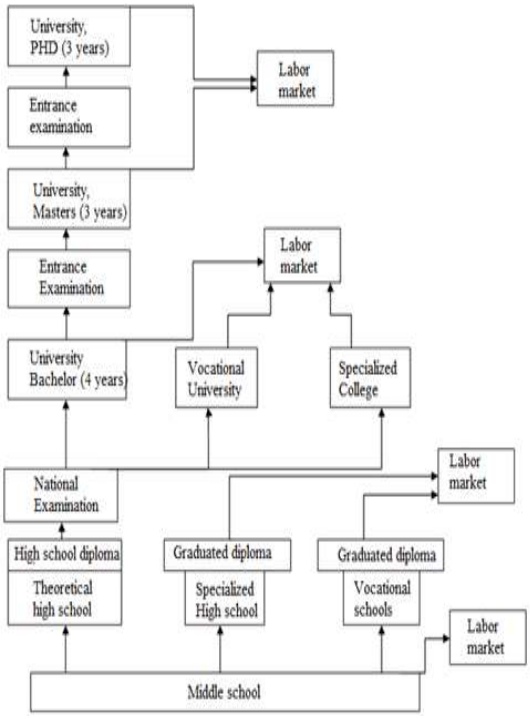
The Reform of the "3D" included depolitization, decentralization and diversity in the University System. Once this reform implemented, the control of the University has returned to local administrations in order to obtain a much better cooperation between education institutions at the local level and the needs of the communities. Educational institutions were given greater autonomy with respect to organizational management. The phenomenon of depolitization held more at the curriculum level and in terms of diversity, it was felt primarily through the establishment of private universities. With the implementation of this reform amounts allocated from the State budget to finance the universities began to fall, which has forced the management of the educational institutions to obtain additional sources of funding from research contracts, tuition fees or donations.

The second part of the reform, entitled "3 C", is referring to commercialization, competition and cooperation. The first term, commercialization, refers to the acceptance of the idea of imposing tuition fees and the ability to provide market research and development services. When it comes to competitiveness, this refers not only to the competitiveness of institutions but also to the one between students, employees or researchers. With regard to cooperation, it is necessary to establish partnerships both at institutional level as well as between universities and public or private environment.

These reforms had the desired effect and also revived the Chinese higher education system. However, in 1993, the idea of a new reform appeared on the Government's agenda, intended to optimize University system and trying to make it compatible with the economic situation. The process was long; the first steps were taken in 1998 aiming to achieve economies of scale. Once this reform implemented, the administration of universities has returned almost entirely to local administrations. But perhaps the most important measure has been that the education institutions were brought together. Thus, by 2002, 637 universities were merged to create 270 new institutions of higher education. In addition, 317 universities have signed contracts of cooperation for the formation of 270 conglomerates.

In 2010 the Chinese higher education system was formed by 797 institutions which offer only postgraduate programs (research centers), 2358 institutions of higher education, 368 centers offering undergraduate adults and 836 private institutions (there establishment was approved in 1980). The programs offered are divided into classes of license, master and PhD programs and are available both to national students and foreigners.

Figure 1 The Chinese educational structure

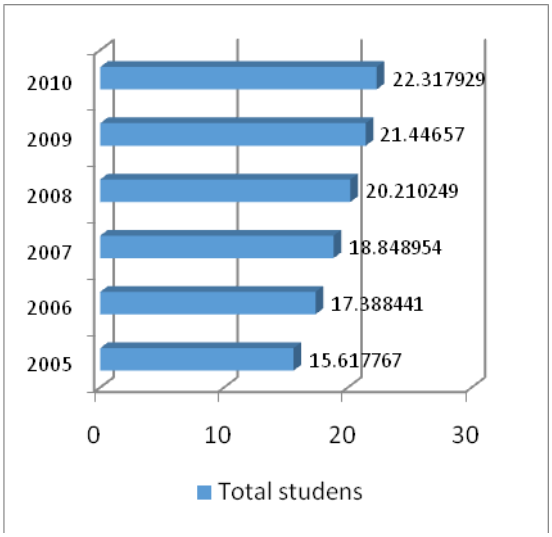


Source: authors' processing based on the date presented by Finnish National Board of Education

It can be seen that the Chinese education system has a complex structure which gives

students the opportunity to follow the most advantageous type of preparation. At the end of high school, those who wish to attend the courses of a higher education institution must take a national exam for admission. This system is maintained since 1977 when, for the first time, it was introduced such a review because, the number of high school graduates was very large compared to the much smaller number of places in universities.

Graph1.The evolution of students in China, 2005-2010 (millions persons)



Source: authors' processing based on the data presented by the Education Ministry from China

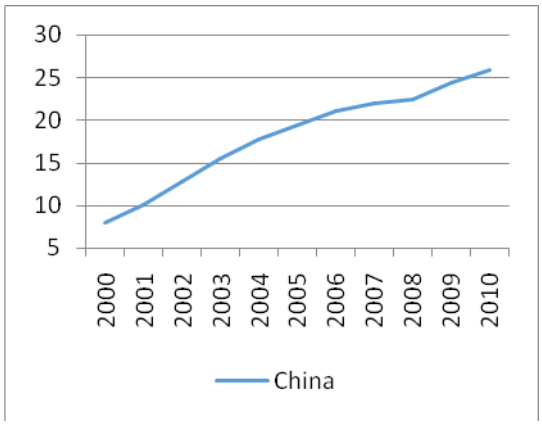
The number of those who attended the courses of higher education institutions is growing from one year to another. In 2010 more than 20 million students were enrolled in the different programs of study. Compared to 2005, their number increased by over 40%.

Admission to higher education turns out to be demanding and difficult. To prepare for this exam, students have special preparation courses for almost a year before the exam. Due to the large number of students currently enrolled in high school, more than 100 million, the government allows those who want to study at home to do so. Thus, with 11 million people who study individually they were considering to support the admission Examination.

Between 1999 and 2003 the number of those who have completed higher education has grown from 1.6 million students to 3.82. This trend has been maintained in the years that followed. The number of graduates is currently rising to over 6.3 million. This increasing trend has been seen also among international students. In 2011 the number of those who decided to travel to China to study for the first time has exceeded the threshold of 290,000 students, their number increased over 10% compared to 2010. Students desiring to go to China to study come from countries like Korea, Japan, Thailand, South America, and Russia. From European countries, most students come from France and Germany.

This high interest that students from all corners of the world provided to the educational system in China may be placed and on behalf of international prestige that this system offers. In the Academic ranking of World Universities-man Chinese education system consists of 28 universities, of which four are in the top 200. The most well-established institution is Peking University followed by the Jiao Tong University and Tsinghua University.

Graphic 2.The share of higher education graduates of total population in China, 2000-2010 (%)



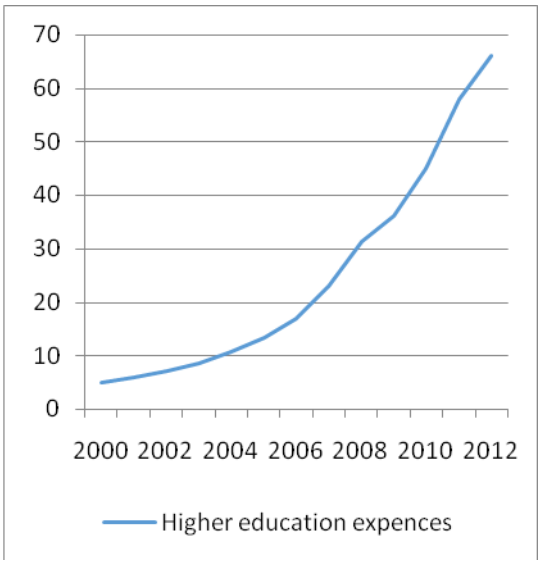
Source: authors' calculation based on World Bank data

The reforms implemented at national level in China motivated citizens to participate more extensively in academic life. This can be observed on the basis of the increase in the weight of population who attended higher education in total population in the last 10 years. If in 2000, less than 10% of the population, i.e. approximately 95 million people, were graduated from university programs, in 2010 this percentage increased considerably exceeding the threshold of 25%, about 335 million inhabitants. These figures indicate that over the past 10 years the number of higher education graduates increased over three times.

3. Chinese higher education at present

Such an educational system, mammoth from all points of view, requires a consistent financial effort. Reforms in education were meant to give a series of freedoms for universities in particular especially to be able to attract new funds. Even if initially it was proposed that by the end of year 2000, the total amounts allocated to education to be increased from 2% to 4% of GDP, this could not be achieved until now. Authorities estimated that this percentage will be attained by the end of 2013. Although this percentage has been increasing in recent years, the share of government spending with the University system has remained steady, in some years with even some decreases [4]. Chinese statistical institutions do not provide an accurate statement about the funds allocated from the State budget in order to finance higher education institutions, but according to UNESCO data, this value is around 20% of total expenditure on education.

Graph 3. The evolution of public expenditure with tertiary education 2000-2012 (bln. Dollars, current prices)



Source: authors' calculation based on IMF and UNESCO data

Even though, as we could see, the public spending on higher education in the total expenditure on education has remained constant, due to the sharp increase in gross domestic product of China, in nominal values, the amounts have increased considerably. If we take as a reference the year 2010, when the higher education system in China accounted for more than 20 million students, for each of the student's government spent from the State budget just over 2,000 dollars.

The analysis carried out shows that the Chinese central authorities provides greater attention to pre-universities studies where, funding has increased from one year to another. These results are due to the reforms implemented in the last period, reforms intended to give the University system a certain autonomy and hence the ability to attract funding from other sources

Table 1 The share of funds allocated for universities (%)

Period	State based funds	Tuition fees
1996	80.3	13.7
1997	78.3	14.8
1998	65	13.3
1999	62.5	17
2000	58.2	21.1
2001	54.2	24.2
2002	50.6	26.3
2003	47.9	28.8
2004	45.5	30.4
2005	42.8	31.1
2006	42.9	29.2
2007	44	33.7
2008	47.6	33.7

Source: authors' calculation based on data released by the National Bureau of Statistics from China

From the above we can see the dramatic fall of the share of funds from the State budget in the incomes to the universities. In just 5 years, these funds have been reduced from 80% to 50%. This decline has been felt heavily by higher education institutions, since this has not been matched by a proportional increase in tuition fees. Thus, in 1996, over 94% of the funds were coming from fees and funds from the State, budgets of universities being covered by only 78% of these sources of income at present. To cover the shortfall, universities had to be creative in the process to acquire the necessary funds from the private sector.

Even though tuition fees have increased considerably in recent years, they are far below the average in the developed countries, these varying depending upon the program of study and the educational institution. For example, Peking University, the Chinese University rated at international level,

requires a tuition fee of up to $ 2,000 for a bachelor degree and between 2,000 and 4,000 dollars for a Masters program. Even if these amounts do not seem to be very high, for a Chinese citizen they may represent the whole income for one year.

In order to be helpful for the students with limited financial possibilities, the State initiated a support program, through which over 5 billion dollars are spent annually in various forms of grants, loans and tax exemptions. These measures come especially to help students from rural areas, where the standard of living is very low. In 2009, students have benefited from 622000 aid programs. However, this number is very small compared to the total number of students, 5.27 millions, coming from poor families [5].

Benefits in the form of scholarships are awarded to students and foreigners. In 2011 the number of those who have benefited from a program with over 25,000 has exceeded 14% more than the previous year [6]. Many of these funds are allocated in the form of loans, which students must pay back after graduation. In daily life this can become a burden in light of the fact that only one percent of the 63% of graduates are able to find a job [7].

To be able to still have an educational system, the Chinese State has approved an action plan for the period 2010-2020 which aims on one hand to increase the quality of the education system and on the other hand to extend the population's access to education. Thus, by the year 2020 it is desirable that at least 20% of the working-age population to acquire higher education, aiming to a doubling of the percentage recorded in the year 2009. It is also desirable that by the end of this period the structure of higher education to become more balanced across regions, to promote and to recognize the talents, to focus on research and increased social services adjacent to the educational process.[8]

4. Conclusions

The higher education system in China is characterized by permanent structural changes. These changes can be put on one side at the expense of international pressure to which the country is conducted by the need to open up to the world economy, and on the other hand changes in socioeconomic conditions nationally.

With a growing population, an educational system that gathers hundreds of millions of people annually, the financial effort in the national budget is consistent. In order to increase the competitiveness and the quality of the reforms implemented that meant to boost both educational institutions and students to become more competitive both nationally and internationally. Reduction of funds assigned to universities and increase of direct or indirect support to students represents a form of long-term investment in human resources.

We cannot take into account, when conducting this analysis, without talking about a country that is based on a centralized system. Although officially a decentralization of the education system was imposed, it is important that, through the measures, China would not intervene in the institutional management and it would allow universities to adopt policies in line with the requirements and needs of the market.

China, the second world economic power, must obey to the economic systems imposed by the international economy. In order to maintain this level, it must possess a competitive advantage also in terms of education. This can be achieved only through the creation of a system of educational quality, giving the economy the experts it needs. Investment in research and development cannot be neglected either. The allocation of funds in order to create innovative products and services can generate results that will maintain China among the most powerful countries in the world.

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Economic Aspects of the Aging Population. Case Study on the Czech Republic

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Abstract

This study on the basis of data from the environment of the Czech Republic examines the future impacts of a generally ageing population connected with low natality (which does not even secure the mere reproduction of the population) on the economy. The issue of the pension system is basically left aside as this is a partial problem which has in the majority of developed countries been solved over the past several decades on the basis of political agreements. On the contrary, the study focuses primarily on solving the impact of changes in the structure of the population in key areas of the economy, on its ability to innovate, on impact in the area of creative industries and the influence on the future composition of economic activities. Furthermore, attention is drawn to several other facts connected with the process of the ageing population, i.e. on the issue of intergenerational transfer of experience. Also examined are issues surrounding the development of general added value in the economy as this datum is influenced by household consumption at a time when significant shifts in the structure of the population are expected.

Key words: demography, gross domestic product, creative industries, fertility, population, labour forces
J.E.L. classification: J11

1. Introduction

The ageing of the population in developed countries, connected with long-term natality well below the level of mere reproduction of the population, is the most underestimated economic problem of the present. Although this has been heavily occupying sociologists, psychologists and to a significant extent politicians as well as doctors and philosophers, the economic impact of these processes is dealt with only in the relatively narrow context of pension systems. The direct economic impacts of the ageing population are not analysed whatsoever.

At the same time, it is immediately evident that these impacts will be significant and very demanding on the economy. This does not even refer to difficulties with financing pension systems and or even quite neglected problems such as the future financing of healthcare systems. These will in fact grow to enormous dimensions over the next few years, which will force developed countries to reform the manner of financing healthcare similarly to the way these countries are being forced to gradually change pension systems in spite of the constant aversion to such measures on the part of the population.

However, the main difficulty caused by the ageing of the population in the next decades will be the lack of qualified and highly qualified manpower, the reduction of the innovative abilities of the economy, the weakening of creative industries, disturbance of systems for intergenerational transfer of experience – in other words, the dismantling of the functional systems which are the main movers of the competitive edge of developed economies and are the creators of high added value.

To summarise this problem succinctly, it could be said that the ageing of the population, together with a long term fertility

rate below the level of simple reproduction of the population brings collateral problems from the angles of both public budget expenditure and income.

As far as expenditure is concerned, we are speaking primarily of the above-mentioned pension systems [19] and of healthcare expenditures. We should, however, also remember the pressure on other social expenditures which will appear especially in connection with the growth of the population in the 80+ age group.

As regards income, this concerns primarily a decrease in the general gross domestic product or other similar aggregated data expressing the entire economic volume of a given country. This will also be connected with a decrease in tax revenues – on the one hand, influenced by a general decrease of economic volume; on the other hand, insofar as the amount of taxed persons will diminish, as will income from taxed businesses. Whether this will occur as a result of their decreased profit or transfer of production to other countries not affected by these demographic complications is irrelevant.

Economic systems of developed countries which have been referred to over the past twenty years as new economies or knowledge economies and which place their hopes in the development of creative industries will, instead of assumed economic growth, arrive at a historically unknown situation (at least unknown in peacetime), to which we will refer as the "old-age trap" for want of a better expression.

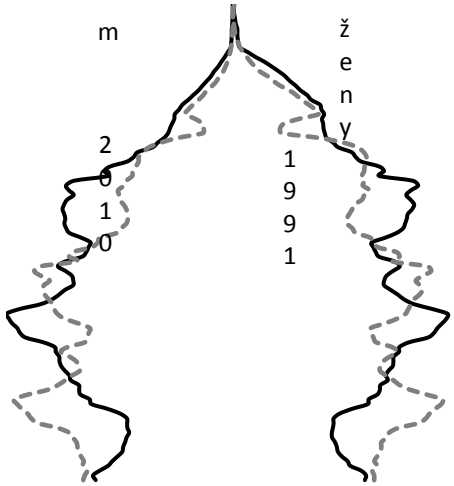
2. The "old-age trap" in the Czech Republic from the angle of expenditure

As a departure point, let us use the premise that the demographic development of developed countries is basically similar, which is in very approximate terms a true notion confirmed also by data (UN 1982, 1999, 2002, 2010, World Bank 1994). In reality, however, this development varies quite considerably in individual countries. From our point of view, the most important issue is direction, and in this regard we can assert that it is truly very similar, regardless of the above-mentioned differences in numerous details. If we do not include the United States, the demographic development of which is somewhat better than that of European countries, the differences between developed countries lies more in the extent to which they have become caught in the problem. For instance, at any time in the past, the population group aged 0 to 14 years was always more numerous than the 65+ population group. This means that there were always more children than pensioners (expressed in today's language). At the beginning of the second decade of the 21st century this ratio, however, reversed in numerous states. We can name Italy, Germany, Spain, Portugal or Greece. Over a small number of years the remainder of Europe will find itself in the same situation. In the Czech Republic, this will evidently come to pass in 2014 or 2015; in 2020 society will comprise of approximately 16.2 percent children, whereas the ratio of people over 65 years old will be almost 17.2 percent. In 2050 this will be approximately 14.3 percent children to 29 percent of people aged 65+ years.

We basically see two highly significant phenomena: Firstly, a deceleration in the global dimension of population growth (International data Base, 2011); secondly, the precise opposite of catastrophic predictions regarding the complete overpopulation of our planet is taking place [8]. We can with a pinch of salt say that if our planet is indeed threatened with overpopulation, this will be an overpopulation of "pensioners" in a best case scenario, in which these people have and will have created sufficient reserves for their old age. A more likely scenario, however, shows a population of people past productive age, whose prolonged lives will be financially secured only in the most inadequate way [10].

If we examine this demographic development more closely, this shift can adequately be shown by the so-called demographic tree. In the first picture we can observe the shift between 1991 and 2010 and, as we can see, the tree has substantially narrowed in the lower section of the youngest population groups, although the change in the other age groups are not yet marked.

Figure 1: The age structure of the population in 1991 and 2010 (on 1. January)

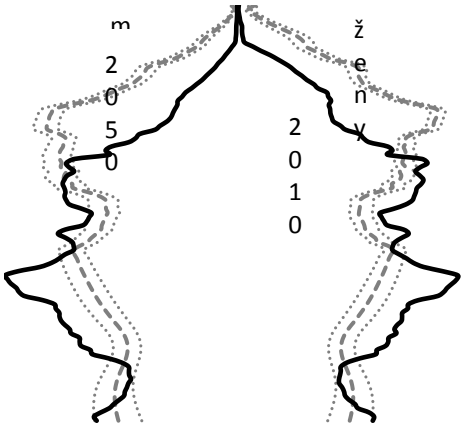


Source: CSA (1992, 2010)

The second image shows the outlook on the basis of data known in 2010. As we can see, dramatic changes will arise according to these views. The narrowing of the tree in the lower section of the estimated state in 2050 is not so significant – besides, fewer children than in the second half of the nineties and the first decade of the new century could not be born. In certain years of the above-mentioned timeframe, fertility (the number of children born alive to one woman in fertile age) decreased to a level slightly higher than 1.1 children. Simple reproduction, however, is achieved at a level of 2.1 (sometimes 2.14 children per woman of fertile age is given). If we look again at the second image, it is necessary to carefully observe the view of the age group from fifteen to forty years. Here, the decrease in population numbers in this age group is plain to see. To serve as an example – approximately sixty thousand men will celebrate their thirty-fifth birthdays in 2050. In 2010 the number was roughly 98 thousand. Or we can also express it thus wise: in 2050 there will be 300 thousand less men and the same numbers of women in the 30 to 40 year bracket in the population living in the territory of the Czech Republic than there were in 2010. Thus, in 2050, there will be roughly 600 thousand fewer workers in productive age between thirty and forty than was the case in 2010. There will be a decrease of about 500 thousand potential workers in the innovative age group between twenty and thirty years. The reason for this is simple: If fertility does not reach the level of 2.1 children per woman of fertile age, but around 1.1 to 1.5 children, then each successive generation will decrease by a quarter or even a half.

In the groups above seventy, eighty and ninety years, the development will be exactly the opposite. The higher the age, the more distinct the multiple assumed by this view on the development of inhabitants in the Czech Republic as regards the number of given age group representatives in comparison to the present state.

Figure 2: Age structure of the population in 2010 and its estimated level for 2050 in the lower, medium and high variants



Source: CSA (2009, 2010)

The age composition of the inhabitants in the Czech Republic according to the view of 2050, one cannot fail to observe the dramatic growth in the amount of people in the 80+ age group. If this group composed 2.5 percent of the inhabitants in 1990, this figure will be over four times as high in 2050 – somewhat more than ten percent of the inhabitants. This is a known fact and the Czech government regularly negotiates material concerned with the concept of active old age. Nevertheless, these are documents concerned with areas such as lifelong learning, which is certainly a significant aspect, but which in fact does not solve economic questions connected with this "old-age trap". Entirely missing is a notion as to how to choose a concept of financing healthcare at a time when healthcare expenditure is unsustainable even now and the sector is being burdened by persistent

cash flow problems and, most importantly, is financially unstable. Moreover, costs for healthcare dramatically grow with the progression of age.

Another aspect is the prolonging of time over which the older generation will draw higher expenses for healthcare due to serious or relatively serious illness. Let us note that in certain countries – e.g. in Hungary or in Germany – the average citizen will clearly fall ill or will face significant health problems as early as ten years before he becomes entitled to old-age pension.

Generally, we can summarise these observations into a contention that demographic development will exert considerable and systematic pressure on state budgets, whereas this pressure cannot be estimated at the given time and we have no method at our disposal that can quantify it. This pressure will arise from two highly sensitive political areas – from the need to finance the pension system and the need to finance healthcare for the population. European countries arrived at a complicated state of affairs at an early stage when (while developing the concept of the social state) they took it for granted that the government is responsible for the pensions of the inhabitants and also that the population were to be provided with healthcare which we could deem as state-of-the-art in the world context. As we know, reforms of the pension system are in progress and are primarily moving in the direction of responsibility for individual living standards being transferred to individuals because countries are gradually declaring that only basic and rather low pensions will be paid from public resources. It naturally took over twenty years before the European public grew accustomed to this idea, yet this still does not mean that it has fully accepted it. Problems with healthcare are not being discussed for the time being – aside from occasional observations from the economic field that the present concept of highest possible standards paid by state-organised insurance is unsustainable.

Thus, as far as estimates regarding the growth of state health expenditure are concerned we can expect that the retention of the present system and standards will in the next two decades double the costs for this system; they will, however, probably triple (not including inflation). Let us consider it absolutely certain that among developed countries there is one which could afford to do this without transferring a significant portion of the expenses to the population – for instance, by means of increasing so-called health insurance or, more likely, by means of a significant reduction of the guaranteed level of healthcare.

But here we are moving beyond the limits of our reflection as expressed in the introduction of the text.

3. The "old-age trap" of the Czech Republic from the angle of income

The problem of the "old-age trap" from the angle of future income of the public budget and thus from the angle of creating the gross domestic product is analysed far less than the problem of future expenditures. It is known that capital does not suffer from over exaggerated sentiment, so it cannot really be assumed that it will remain in countries that will in the coming decades begin to be simultaneously confronted by several kinds of negative pressure as a result of their demographic parameters. It is necessary to properly understand that this strain (from the angle of capital) will begin to transform into significant risks with the passage of time. We can summarise these as follows:

Strain on the expenditure side of the budget (the pension and healthcare system) will transform into risks of increased labour costs and into risks of higher taxation which affected countries could resort to as a reaction to the unsustainable state of public finances burdened by forced payments in the context of the pension and healthcare system.

The lack of manpower in the area of creative workers will lead to a growth of salaries in these fields, the same development will occur among manual labourers also, especially among those who need high qualifications to perform their duties.

Demographically exhausted countries with a small proportion of young inhabitants will not provide sufficient innovatory potential.

The entire field of creative industries will on the one hand suffer a lack of creative forces. On the other hand, it will be especially drastically affected by a reduction of domestic demand as the increased ratio of

inhabitants 65+ to the population as a whole cannot be an assumption for stable demand in these fields. Creative industries are based on new methods, new experiences, constant change and development. Age groups falling into the general appellation of 65+ will not be the natural consumers of products from the creative industry.

The entire area of domestic demand will undergo significant changes and will be transformed in the direction of demand for other merchandise and services than those that have been in demand until the present. There will be a substantially greater demand for pharmaceutical products, dietary supplements, services of a social character. On the contrary, there will be a reduced demand for services and products consumed more by the younger generation. This natural reform of domestic demand (whereas we are in the context of the term *domestic demand* now thinking of demand in developed countries as a whole) will be costly for entrepreneurial subjects and will also be accompanied by complications in the area of buying power of the growing numbers of the 65+ age group. These will be caused primarily by problems with the securing of the pension system and by a marked growth of costs among these consumers in terms of securing their own health as a top priority.

4. Conclusions

A significant drop in available manpower will manifest itself in the whole economy; the impact on individual fields will vary. From the angle of gross domestic product, the processing industry is the most substantial in the Czech Republic (1.242 million employees) and commerce (0.631 million employees), followed by construction (0.497 million employees) and transportation (0.331 million employees), whereas the total number of those employed in the entire national economy was 4.934 million people (2009). At the same time 0.352 million people were unemployed (in the sense that they were registered at the appropriate employment bureaus) of which over two thirds were people without education or only with secondary education without matriculation. As regards qualification assumptions, the most marked were the processing industry, which requires several specific qualifications and the ratio of posts for the unskilled or uneducated is not at all marked.

High recruitment of workers from abroad between 2005 and 2008 showed that, as far as the education structure and measure of qualification is concerned, the Czech Republic is not in a position to attract highly qualified workers. It is probably not possible to expect an improvement from this direction. Thus, during the time of the greatest economic growth, 290 thousand people worked in the country legally (in the second half of 2008), their numbers dropped sharply during the crisis. Roughly seventy percent of these legal (but temporary) workers were employed in blue-collar professions, and in this context in less skilled professions. This is not to say that many of them were uneducated. Often well educated people were in question, though their true qualification is completely different and mostly unusable outside of their countries of origin (the classical example is teachers of national languages).

On the other hand, qualified employees came almost exclusively from the Slovak Republic. But because the Slovak economy has been growing faster than the Czech economy for several years, whereas the demographic development in the Slovak Republic is similar to that of the Czech Republic, a further influx of workers from this region can probably not be expected.

The change in the demographic structure of the population and the general drop in the number of inhabitants – even if these phenomena are partially alleviated by a positive migration balance – will lead to extensive changes in the structure and performance efficiency of the economy in the Czech Republic. This shift can be expected in the imminent twenty years, that is, until 2032, whereas pressure for changes and especially the depth of these will steadily grow stronger.

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Local Government and Sustainable Economic Development

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Abstract

In the current conditions of Romania, the public sector needs to rethink its role as economic hub, to contribute together with the private sector to sustainable economic growth, and not least in the resumption of *investment process. Administration is one of the most useful human activity, being found in any area and at all levels of government, in the complexity of all social life.*

Keywords: local government, sustainable development, strategy
JEL classification: O40, Q57, R11

1. Introduction

Investment activity in economic zone have a central place, being the factors that influence demand and offer simultaneously, whatever the sector of activity is implemented. The role of investment in the company is known worldwide as the permanence of investment activity across all socio-economic structures, including local government.

This paper examines the need to involve local authorities in services and public investment to achieve sustainable regional development. News of this theme is accentuated by the fact that in perspective, investment process from our country, both at central and local level will increase, so that the Romanian economy be able to cope the current economic crisis that manifests as intense in all areas.

2. The necessity of state intervention

At the community level, the investments are based on social needs and refer to those needs felt by citizens and that cannot be met by individual action, but only through the efforts of all its members. In many papers have discussed these 'social needs', differing mainly those related to ensuring community defense against invaders and domestic law enforcement. Subsequently, strengthening the organization determined the increase empowering and strengthening of leader and the financial power of the state.

Over time, the state has evolved since diversification collective needs of its members, thus becoming the modern state and executive decision-making power required to achieve public goods necessary to meet those needs. Once accepted the presence of the public sector is trying his intervention efficiency by finding the best answers on areas of intervention, extent or volume of work and modalities of public action. The meaning of the public service activity is the activity organized by the village, town, city or county authority, designed to meet general interest, under the legal regime of public law. If the private sector is characteristic ensuring competition, stimulate interest and increase the quality of goods and services distributed to public sector provision of goods and services has the main advantage that it allows control of the distribution of government policy, and their normal fair. If the private sector is not possible subsidies for poor communities government can subsidize some of the costs of public services.

The state was faced with the difficult choice between freedom and control from the moment of its emergence to the present. The difficulty arises when the choice to opt for modern society or self determination. Inability of successive governments since 1990 to the present, the institutions involved, to developed and implements strategies, policies and programs consistent and realistic economic severely damaged the interests of Romania and on sustainable development. It is an undisputed fact that, macroeconomic policies developed exerts a profound impact

on investment activity and hence locally and on meeting the priorities set out in the general interest of citizens (combating poverty, improving living conditions)[1]. Consequently, the administrative choice is influenced by political factors and this element is the substantive difference between public and private investment.

With foundation for the rule of law, that the separation of powers, decentralization of public services and local autonomy, organizational and functional structures of government are located both at the state (central government and state territorial administration) and in the communities local (local government). Local government is what form of organization best suited to the idea of autonomy, being associated with it, through the principle of decentralization unlike state administration of the territory, which has little autonomy, through the decentralization principle that characterizes it. We can say that the basic function of local government is the needs of the communities of administrative units, always having a continuing relationship of proximity with citizens.

3. Conceptual approaches regarding local administration

Administration is one of the most useful human activities are found in any area and at all levels of government, in all its complexity of social life

Etymologically speaking, the term "administration" comes from Latin and is composed of the prefix "add" which means "to" or "to" and "ministry" which means "servant", "help" or "caretaker"[2]. The word "administer" means a state of inferiority execution of one or even help tool, tool.

Explanatory Dictionary of the Romanian Language provides for the verb "manage" explanation "drive", "to rule" or "to administer an enterprise or institution" and the term "administration" means all of a state administrative organs [3] . Romanian administrative system comprises 41 counties and in Bucharest, 320 cities in 103 municipalities, 2,860 or 12,951 villages common [4]. The large number of common and there are three levels of local government in our country meets the requirements for the organization of local government in the implementation of decentralization for local autonomy.

Local authorities are becoming more involved in the development of local public investment to improve the quality of life of that community. This is based on the tendency in many countries registered decentralization, which involves giving greater responsibilities to local and regional authorities. They know best as interest in the areas they control and will do everything possible to achieve local development objectives.

Local autonomy in the administrative territorial structure is achieved by regulation and decision (council) and the operating structure (town hall). It can be said that the government is self because local autonomy is actually an expression of the principle of administrative decentralization. This independent regional and micro regional administration assumes an organization of communities and local structures complementary central government organization. In the "European Charter: local autonomous exercise of power", adopted by the European Council on 15 October 1985, the essence of this principle is found linked to local communities both local (communes, districts and departments) and in regional communities (regions) [5].

Networking relations between central and local authorities, and also inside of local authorities, have been changed by the revision in 2003 of the fundamental law of the state, emphasizing the two concepts in line with the developments of European Member: local autonomy and decentralization of public services. Relations between structures representing local level (institution mayor and council) and local representatives of the central system (prefects) are subject to the principle of local autonomy.

Local autonomy attributes symbolizing the existence of local political structures and debt capacity to solve problems in the community interest. In fact, it made the transfer of powers from the central administrative authorities operating at the level of municipalities; there are a number of problems with providing limited support necessary to fulfill their material (material resources, logistics, human resources and providing financial resources).

Many time local government actors have expressed concern about the limited capacity of financial autonomy, and the criticism regarding central government decisions have shown that the application of decentralization is not possible without financial resources because is maintained dependent to the central authority.

4. The involvement of local authorities in sustainable development

The National Strategy for Sustainable Development of Romania Horizons 2013-2020-2030, our country's authorities have as specific indicators of this type of development to be within the EU average by 2030 by taking the preliminary two stages: 2013 - principles and practices specific to 2020 - framing main indicators specific environments within the EU.

Economic growth, based on a sustainable development strategy must take into account the following aspects [6]:

-economic growth with preserving and safeguarding natural resources;

-integrative perspective on growth and energy needs of mankind when strict preservation and environmental protection;

-work-related needs, food, energy, water, shelter and medical care for humanity;

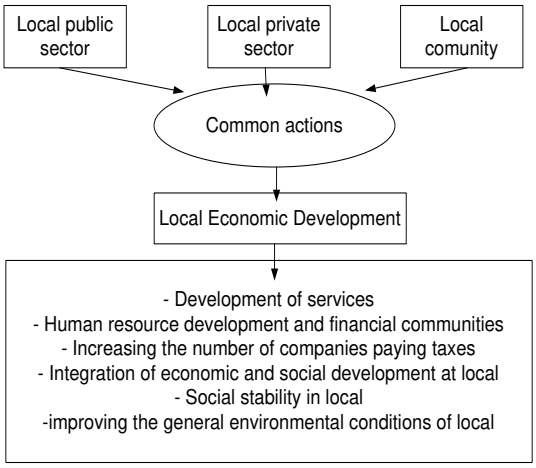
-actions-new levels of growth;

-controlling the pace of growth of population, conservation and where possible increase the reserves of natural resources and energy;

-technological reorganization and keeping under control the potential risks.

The process by which local and community managing existing resources and enter into a commitment to partnership with the private sector to create jobs and stimulate economic activity in a well defined area is economic development aspect shown in Figure 1.

Figure1. Local economic development agencies



Source: processing after Porojan D., Iftimoaie C. „ Dezvoltare locală durabilă în contextul globalizării", Editura Irecson, Bucureşti 2008, p. 27;

The role of local involved in local development is particularly important infrastructure projects, attracting investors in Romanian / foreign by providing various facilities etc. Speaking of benefits occurring in the community through local development, these are: the possibility of other jobs, a positive promotion of the city, increasing the standard of living for residents, strengthening cooperation between local authorities and the private sector.

Each local development actors plays an important role in improving living conditions for the entire population in the area, but it must be understood concretely the concept of sustainable development while mutations involved in all areas (economic, social and political).

If the economy of past centuries was dominated by the classical type of development, nowadays must think of a new kind of economic growth that is sustainable, which is required to use Earth's natural resources, conventional and unconventional forms of energy, while with protecting and preserving our environment, so as to ensure an appropriate level of welfare, not only short or medium term, but long term. So development is sustainable if it responds to current needs, identified of society.

Event concerns about sustainable development, referred to the vast majority of

today's professionals, took place in the early 1970s after the feeling of shock due to energy crisis. Significant is the first use of "sustainable development" by the Prime Minister Gro Harlem Brundtland in 1987 in the report regarding the future of mankind but the imposition concept materialized with the United Nations Conference on Environment and Development held in Rio that VUT de Janeiro in 1992. The specialized literature covered by someone can give meaning endorsed as sustainable development: meeting the current needs of society must be made without compromising the ability of future generations to meet their needs [7].

Synthesizing and many approaches to achieving sustainable development concept early on, we can say that natural resource belongs to a generation within cause and effect, that any social unit should not be more debt than it can pay to her during life. In other words, sustainability is a property set to operate in a perpetuum mobile, i.e. indefinitely without exhausting resources to major. Solving this problem requires the involvement of all stakeholders; it is a burden multisectorial and multiple stakes. Meanwhile, her approach should be a cooperative manner with holistic methods.

Sustainable development is actually at the moment emergency doctrine that economic development should not be seen only in the short term but have a time constant taken to infinity. Green jelly should be well respected by all communities, their actions should not be above the biosphere, the laws of physics and chemistry that have made our life on earth. Lately were debated and adopted international convention that applies scale on biological environmental restoration, so basically the sustainable future development. Main negative effects produced by previous economic activity that must be addressed by future developments are biodiversity conservation, protection of forests and limiting the use of certain chemicals.

Although they seem antagonistic concepts, economic development and environmental protection should be consolidated and seen together so adversely affected the environment in a given time and space to be always followed by an adjustment measure. Another element that has a negative role on sustainable development is given the explosive growth of population. Specialists are very worried because although developments in food production and population are both progressive, one has an arithmetic progression while the other geometric. In this context, the overall amount of food will always be less than the demand for the planet's population.

The existence and perpetuation of sustainable development is possible where environmental characteristics overlap with the culture and spirituality of the community that is also part of the ecosystem, where people take care of the surrounding nature. What you need to do a community concerned with the future is to have long-term policies and very long interconnected and integrated, taking into account both economic and social issues as well as environmental ones. In light of this reality is an abundance of natural resources does not always ensure a positive development of the economy, not to talk about environmental damage compensation provided. Inability to achieve a positive effect by exploiting plentiful biological resources is determined either by mismanagement of resources, either by inefficient management. The inefficiency may be allocative or productive, that meaning do not exist a proportional allocation between different establishments or there do not consistent combination of production units.

All concepts of development in our country must be affiliated to restore and maintain the ecological balance in the short, medium and long term. Therefore, the resources must be the energy, but in an amount and over a period to ensure the restoration of values. In conclusion, sustainable development must satisfy two conflicting goals: ensuring the standard of living of the population without affecting the standard of living of the biosystem. As can be inferred and the present role of public investment in solving problems such as environmental protection, restoration of ecological balance where it was broken, etc. The natural consequence is that in almost all areas of life will make drastic changes and managers of administrative units will require excellent managerial skills to be able to translate the legal and practical paths to this goal and achieve desired results society.

They both consumer habits have changed and people's conception about the economy, society and politics. When we, Romanians, need a steady transformation of mentality, permanent and active participation in local life in all its aspects, cancellation excessive bureaucracy and secrecy at a constant awareness of our actions and the impact on the present life and future. For sustainable growth, we all need to think unselfishly if we could achieve our personal interests would coincide perfectly with the interests of the community, so that it will reach a modernizing democracy.

Local government is the body itself from the administrative point of view and one that manages the welfare of the community he leads by actions leading to economic growth of the area. It is the guarantee of a positive development of the unit by creating opportunities for local economic stimulus initiatives in the particular system: policy development on which to create new businesses or develop existing ones, ensuring local fiscal policy to encourage businesses in the area, achieving optimal urban plan that meets the needs of development, sale or entry into concession - based on the favorable situation for the community, land or services. Thus, actions that contribute to the welfare of the population are [8]:

a. the study of the economy of the area and making a complex and interrelated political development of the region;
b. coordination of economic development in the area, so as to achieve interoperability between public and private in the whole economic resources;
c. as coordinator of local economic development, local authorities establish plans and strategies in the short, medium and long;
d. project management, the foundation of local economic development programs and policies (for proper strategic planning, local budget instruments and financial management are critical);
e. providing local public services (water supply, transport, sanitation, public lighting and fire prevention, protection and security of citizens, health care, etc.);
f. provide attractive area increases as the quality of local public services;
g. promoting public welfare and local economic units by maintaining a favorable local climate.

Achieving the ultimate goal of sustainable development of the area can be obtained by proper exploitation official use and development policies. Like any political action, it is an attribute of the authorities, this local time and are represented by the following factors: human resources; transport infrastructure; financial resource , Real estate assets; intake and division management duties; environment and lifestyle; organizational capacity.

Within the European Union, the objective of sustainable development is pursued in the regions because they can mobilize energies and resources. The core problem remains the establishment of competence in accordance with the principle of subsidiary, but that does not create problems of administrative structures, not anime ideas separation on ethnic solidarity and not touch.

5. Conclusions

Throughout this paper, we have presented concepts related to the management of local authorities in sustainable development of the area. Also considered important to involve local authorities in improving the quality of life of its citizens after making public investments in areas of general interest to the local community. I believe that local governments are better able to discern and to interconnect a whole puzzle consists of private economic structures of the area. Local government is the body itself from the administrative point of view and one that manages the welfare of the community, he leads by actions leading to economic growth of the area.

The effectiveness of the sustainable development takes place only if the local government and community consensus given the existing resources and enter into a commitment to partnership with the private sector to create jobs and stimulate economic activity in an economic area defined. In order to assess and manage potential situations of crisis management is recommended to prevent and combat insurance crisis in the administrative structures of logistics for the

prevention, management and mitigation of effects of a Romanian specialists interconnection networks by integrating community management experts Crisis and design, making plans, crisis situations and scenarios and options to address them.

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Mathematical Analysis Model of the Incidence of Local Government Investments on Economic Growth in the Constanta County

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Abstract

In the current conditions from Romania, the public sector must think at least for the near future subsequent investment requirements and their performance and not chaotic prosecution of this. As such, one can develop mathematical models on which it comes to shaping the future scenarios of the evolution of public investment and investment impact on the welfare of the community.

Keywords: unifactorial type model, public investment, economical growth.
JEL Classification: C25, C67, H54, H70

1. Introduction

In the substantiation of any local initiated public investment is necessary to take into account both the immediate and direct effects and the future, which acts on the community (by changing the level of education, health status, comfort, income, unemployment, etc). All these effects are difficult to identify and quantify the social and territorial. The approach we tried to estimate correlation at the county level consists of local public investment and GDP per capita welfare indicator and analytical modeling I used unifactorial type.

2. Starting dates of the mathematical model

Local government investments in areas of interest to communities of Constanta default condition and increase their standard of living, which in my opinion implicitly affects GDP growth / capita. Statistical information from national and regional sources are not homogeneous for the period under review (2006-2011). If a business model is built on false data or affected by measurement errors, it will get these shortcomings compromise the operational aspect. Analyzed period covers a period of growth trends revealed by the indicators between 2006-2007, the national economic crisis began in late 2008 and 2009, with a delay of about 1 year to global economic developments and stabilization in recent years You interval. The year 2006 is considered as the reference year because it ended most economic restructurings.

Given the weight estimating the effects of public investments implemented due to their specificity, in the county of Constanta, we chose the period of discussion during 2006-2011. During this period, Constanta County Council conducted public investment in different proportions in infrastructure (roads, utilities), tourism, environment, health, welfare, education, agriculture and therefore, in my opinion, I appreciate that they have had an influence concrete on the living standards of the community. Vast majority of specialists believes that local investments have the effect of economic growth and are included in income to the following realization, i.e. macro indicators GDP /capita [1].

Building a suitable model of the relationship of interdependence between public investment made and their effect on the macro indicator is relevant, but should consider the default memory side of social and environmental ethics.

Local public investments often lead to imperceptible effects on growth may occur because during off factors that hinder direct and obvious implications. If we look at studies undertaken on increasing, per capita incomes find certain conclusions on the occurrence of growth processes in the course of public investment in the current period.

Other schools of thought refer to late manifestations of achieving public

investment leads to increases in per capita income. I think that in our county, local government investments characteristics specific current first because they are manifested in all areas (infrastructure, tourism, education, health, etc.) and are made in terms of split funding and timetable. So the investment made concrete takes place during a calendar year effects on living standards experienced by the community.

Social utility of public investment projects gives us goals that question is not really recover invested funds but create a revenue stream to allow the administration to maintain the objective of providing community benefits. When referring to the highway such as Constanta -Medgidia, after the project has made it possible for road transport in the area to be faster and cheaper. I think it is important to know the amounts invested in the local government to get the most relevant results in terms of welfare experienced by the population.

3. Develop of mathematical models unifactorial type and their utility

The analytical model involves primarily a function of output Y as the dependent variable that accounts for the impact of independent variables X and associated parameters [2]. How to materialize these items when forecasting the evolution of GDP / capita in Constanta County determines the type of model to be used.

Linear regression by the method of least squares modeling method is most often used. Initial assumptions are:

1. Array of experiences, observations in variable p is fixed: X_{nxp} is stochastic and n> p. In other words, the data obtained correctly (without systematic errors of observation) are sufficiently large, so that solutions to provide stability.

2. X is of rank p (columns are linearly independent - form a basis of a vector space p - dimensional).

3. Value of residual variable are independent (not correlated). Residual variable has a spread (dispersion) for various segments of equal value x_i. Disturbance vector *u* consists of *n* random variable with average 0 and below, even asymptotically, a normal distribution.

Based on the above, I limited the study with the basic unifactorial mathematic model type selecting independent variable as local public investments in Constanta *and* the dependent variable we considered relevant GDP / capita in Constanta.

In determining equations, we used the software package EXCEL and MS Office 10 applications listed in: Data Analysis and Regression command.

Will be introduced for each regression following:

Entry X - vector of public investment Constanta County Council, the independent variable;

Outputs Y - vector GDP / capita Constanta, i.e. the dependent variable.

Regression function must have a correlation coefficient as close to the value 0.95 to be considered representative. In the present model, we used a regression prediction error (α) of 5%. In studying the relationship between independent and dependent variables. However, in order to test hypotheses using F test and *t* test of global significance (Student) to verify hypotheses on simple averages to compensate for lack theoretical dispersions.

To study the interdependence of local public investments in Constanta and GDP / capita in Constanta County will use the simple regression:

$$Y_t = a_0 + a_1 X_{lt}$$

4. Unifactorial type model regarding incidence of public investments in welfare of citizens

For choosing mathematical function *f (x)* recourse to the graphical representation of the two rows of values presented in Table 1.

Table 1. Input data and model output GDP / capita in Constanta

Nr crt	Years	X	Y	Y estimated
		PI CCC	GDP/capita	GDP/capita
		mii lei (RON)	lei (RON)	lei (RON)
1.	2006	23434,906	20449	22599,49
2.	2007	52135,308	22637	23791,12
3.	2008	75760,832	28630	24772,04
4.	2009	134310,466	27649	27203,00
5.	2010	156190,612	28245	28111,45
6.	2011	231684,044	30113	31245,91
7.	2012*	275961,057		32940,40

Source: Stignei Veronica"Alternative de finanţare a investiţiilor publice locale şi eficienţa lor", Teza de doctorat suţinuta la FEAA Iaşi, 2013

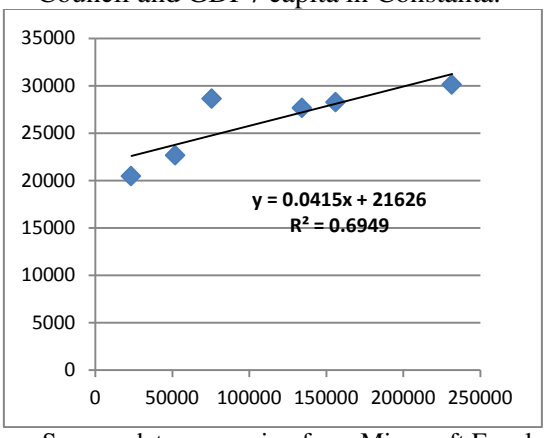
Note: * - estimated

PI CCG – public investment made by Constanta County Council

GDP / capita - GDP / capita for the county of Constanta

To achieve this you can use Microsoft Excel inserting the diagram by dots. By choosing the trend line that best approximates the function can identify the equation.

Figure 1. Diagram by-point correlation between the investment made by the County Council and GDP / capita in Constanta.



Source: data processing from Microsoft Excel

If open dialogue Data Analysis, Analysis Tools, Regression (Excel), the analysis of the resulting regression function determined in the following form:

To check the correlation between the two variables y and x have linear correlation coefficient R (0.8336) that the more close to 1, the relationship between the two variables is stronger. Coefficient of determination (R^2) is 0.6949 (close to 1).

Table 2. Correlation coefficient of the regression function

Regression Statistics	
Multiple R	0,833600002
R Square	0,694888963
Adjusted R Square	0,618611203
Standard Error	2363,296466
Observations	6

Where:

Multiple R - multiple correlation coefficient. **R Square -** coefficient of determination (is equal to the square of multiple correlation coefficients). It may be thought, expressed in percentage, as the proportion of the variance of the dependent variable explained by the variation of independent variables: in our model the variable x explains 69.5% of the variation in y.

Adjusted R Square - the corrected coefficient of determination. Is introduced to offset (partially) the effect of mechanical growth of R^2 together with the increasing number of independent variables..

Standard Error - standard error of the estimate. It is calculated as the standard deviation of residues (for the number of degrees of freedom used ANOVA will see picture, below) and standard deviation error estimate u.

Table 3. Analysis of variance - ANOVA

	Regression	Residual	Total
df	1	4	5
SS	50880796,09	22340680,74	73221476,83
MS	50880796,09	5585170,186	
F	9,109981		
Significance F	0,039229718		

Source: data processing in Microsoft Excel

To test the hypotheses will interpret table analysis of variance (ANOVA). Columns of this table have common meanings in a painting ANOVA:

Source of variation - total variance decomposition shows the variation explained by regression and residual (unexplained)

df - number of degrees of freedom;

SS - sums of squares under decomposition;

MS - average sums of squares: SS divided by the number of degrees of freedom respectively.

Value on the second line (Residual) is the estimation error variance for the distribution and squared standard error of estimate;

F - value statistics Fisher-Snedecor F test; Significance F - is unilateral critical probability.

The first test used regression analysis - Test F - is a global test of significance of all coefficients (except the constant term). The two hypotheses are: H_0: $a_1 = 0$; H_1 : (∃) i thereby $a \neq 0$.

Number of degrees of freedom (df) attached to each sum of squares (SS) help us identify the value of *F* (Fisher-Snedecor table value, according to annex. 1). Thus, p - 1 = 1, n - p = 4, n-1 = 5;

Where: p - plus free term variable x (1 +1) and n - number of observations (6).

The calculated value of F is 9,11, which is higher than the table value $F_{0,05;1;4}$ = 5,625, which rejects the null hypothesis. Rejection of null hypothesis would lead to the conclusion that the observed data does not identify a valid linear model, thus regression is not appropriate for forecasting, originally proposed.

As well the value of Significance F – 0,039 (unilateral critical probability) should be less, and it is, as good as significance step of 0,05, rejecting, thus, the null hypothesis in favor of the alternative hypothesis.

Given the situation - the null hypothesis is rejected, it is accepted that the regression equation is globally significant, indicating that it may be that some coefficients are not significant. Thus, the second test that each coefficient t test the hypotheses: H_0 : a,b = 0 and H_1 : a,b ≠ 0.

Table 4. Estimate of model coefficients and statistics needed to verify assumptions

	Intercept	X Variable 1
Coefficients	21626,4768	0,041519626
Standard Error	1820,791756	0,01375608
t Stat	11,87751248	3,018274561
P-value	0,000288	0,03923
Lower 95%	16571,14844	0,003326625
Upper 95%	26681,81	0,079713

Source : data processing in Microsoft Excel

Table columns refer to variables in the model, including the constant term. The table columns are: (first column) - existing names are displayed in the data panel or automatically created for independent variables involved.

Intercept is the name for the constant term (constant) model, *t State* - T statistics;

P-value - the probability of critical bilateral t test with the assumptions set out in t State; *Coefficients* - contains estimates of the coefficients. The distributional assumptions of the linear model, the calculated values of the coefficients from normal distributions, making possible statistical verification of coefficients.

Standard Error - Standard deviation of the distribution coefficient

Lower 95% Upper 95% - lower and upper limits of the confidence interval for the parameter. The 0.05 threshold limits are calculated automatically, regardless of the initialization procedure Regression.

From Table 4 it follows aspects:

- Value of *t Stat* calculated in table - 3,018, to exogenous variable and the constant term is above value $t_{0,05;4}$ = 2,134 (theoretical value of t for n-p degrees of freedom and a significance level of 0,05), which rejects each time the null hypothesis, the model variables are significant;
- Critical probability bilateral t test with the assumptions set out in t state (P-value) is below the materiality threshold of 0,05 rejecting the hypothesis of nullity.

5. Conclusions

Modeling as a means of substantiating scientific economic policy decisions, it is useful and applicable when targeting a timeframe that does not produce major changes in the evolution of economic phenomena studied.

With the data available for the period 2006 - 2011 on the development of local public investment, the GDP / capita and the number of firms in Constanta and using them unifactorial econometric model, we set the value of the dependent variable by the County Council budget projection Constance in 2012. Comparing with the data provided by the National Prognosis Commission,

which has a multitude of indicators and monitoring and vast experience in this field, we see a GDP / capita in 2012 to 35,501 Constanta lei, close to the result of modeling study. This entitles me to say that specialist's county council may appeal to this type of modeling for the coming years, not forgetting to analyze the impact on the citizens of the village, as managerial practice proves that performance evaluation is still one of the weak links in public institutions [3].

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National Competitiveness and Its Measuring

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Abstract

The global economy faces significant and interconnected challenges, being characterized of economic uncertainty. Policymakers ask for ways to manage the current economic challenges and to establish the fundamentals that underpin economic growth for the long term. All the countries should correctly identify their real sources of competitiveness and minimize the negative consequences on the economic development in certain contexts. For this, the first step is to know what really means national competitiveness and the way it is measured. The main objectives of the paper are to outline and discuss the relevant issues and challenges from a theoretical viewpoint related with the concept of national competitiveness and to show how it is measured by one of the most important institutes among those which realize it, contributing to a better understanding of the key factors that determine a high standard of living.

Key words: national competitiveness, stage of country development, measuring of national competitiveness, key economic pillars.
J.E.L. classification: E00, E01, O11.

1. Introduction

One of the main concerns of the society, in general, but especially of the economy, is the limitation of the resources. In this context, the concept of opportunity cost always is put into discussion because the decisions must be taken so that the resources to be spent as efficiently as possible to maximize the standard of living and the economic wellness. So, the countries should correctly identify their real sources of competitiveness and minimize the negative consequences on the economic development in certain contexts. The national competitiveness is related in most studies to productivity and the capacity to sell the national products on the international markets. National competitiveness indicators and its determinant factors haven't been widely analyzed and the necessity of these concepts studying and compression is accentuated by another present reality: the present is defined by the correlation between the scientific knowledge, the new economy and the globalization, correlation which complicates the national economic sphere, so, a high level of national competitiveness is more and more difficult to achieve. Also, the global economy is forced to face one of the biggest challenges till now, the greatest global recession. In this context, the economic environment imposes the condition to not neglect the fundamental aspects of national competitiveness, prioritizing the short term urgencies. As Krugman advocates, competitiveness has all the necessary characteristics to be in research and debates center from the public area, but, also, from the business zone [4]. The concept tries to explore and to measure the level of every country's economic wellness using a construction which makes possible the comparison between nations with the main objective to evidence separately the success level obtained by every nation.

2. National competitiveness

The extension of globalization process has as direct consequence the increase of the competitiveness between countries. Although the process of competitiveness is not new, the actual context and the sources which nurture it are different. According to this idea, the concept was redefined to cover the new requirements, but still no standard definition exists and the authors hire the concept between different limits.

„The World Economic Forum's Annual Global Competitiveness Reports have studied and benchmarked the many factors underpinning national competitiveness" [15]. In this report, the competitiveness is defined as „the set of institutions, policies, and factors that determine the level of productivity of a country". Instead, the productivity fixes the level of prosperity and the rates of return obtained by investments in an economy. The definition reveals the significance of the national environment for the process of doing business; environment which is determined by the conduct of the institutions and the policies established by them. In this way, to be competitive means to be able to have positive satisfactory results at the macroeconomic level.

Porter tried to integrate all the theories about the concept of competitiveness and to create the *Diamond Model* which was compound by four important factors of competitiveness and the relations between them: factor's conditions, demand's conditions, the supported and connected industries and the strategy, structure and rivalry of a company, creating, in this way, the environment in which the companies appear and learn to be competitive [13]. Macerinski and Sakhanova consider that, in this model, competitiveness is defined as the capability of a nation to create the environment which helps companies to innovate faster than the foreign competitors, assessing the extension of the productivity as being the most important national strategy [5]. In addition, Onsel and Ulengin underline that although many authors consider that competitiveness is equal to productivity, these two related concepts are different one by another. Productivity represents a feature of the state and competitiveness refers to the position of a country compared with others [7]. Stateskeviciute and Tamosiuniene identify a list of nine national competitiveness determinants, underlying that a country is competitive when it has a high standard of living, high rate of employment, high productivity, commercial equilibrium, high national attractiveness, high ability of objective implementation, healthy politics, high flexibility and ability of sustaining growth [14]. All these determinants reveal different aspects of macroeconomic performance and, according to this idea, Balkyte and Tvaronnaciene, also, sustain that the notion of national competitiveness refers to the economic performance of a nation measured as the ability to offer to its citizens high standards of living built on a strong and solid basement on the long term and a high possibility of choosing the work places for those who want to work [2]. Another competitiveness definition is given by Subarna and Rajib, who consider that national competitiveness represents the ability of a nation to create and maintain an environment which offers plus value for its companies and more prosperity for its citizens [12].

Economic literature identified a consistent list of important factors influencing the national competitiveness. The social infrastructure, including education, health, public assurance and politic institutions, including monetary and fiscal policies which the institutions promote define the wide context in which the productive economic activity evolves [3]. Also, national resources, geographical position, country size and national culture are important determinants which make a country to be more competitive than another [11].

Different from these perspectives, Porter sustains that national competitiveness doesn't depend only of politic, legal, social, macroeconomic conditions, because these are necessary, but not sufficient to generate opportunities for wealth creation. This is created at the microeconomic level, on the basis of operational strategies and advanced practices of the companies, underlying, in this way, the importance of the microeconomic level [10].

3. The measure of national competitiveness realized by World Economic Forum

It was observed that different points of view exist from the perspective of understanding the concept of competitiveness. This lack of idea uniformity is also met when the specialists want to measure it. The existent models select and group different competitiveness factors and include them into a general system. So, the results can vary depending on the used model of measurement.

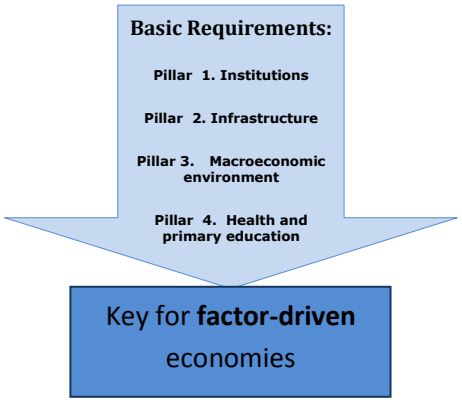
Different international organizations calculate competitiveness indexes and,

among them, *World Economic Forum* publishes *The Global Competitiveness Report* every year. It is based on the Porter's approach, professor at Harvard Business School, which is the basis for the *Global Competitiveness Index* (GCI) construction. Since 2005, the *World Economic Forum* has based its competitiveness evaluation on this GCI, „a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness" [15]. It has many different components, involving static and dynamic perspectives, reflecting aspects of competitiveness and being grouped in twelve pillars of competitiveness: *First pillar: Institutions; Second pillar: Infrastructure; Third pillar: Macroeconomic environment; Fourth pillar: Health and primary education; Fifth pillar: Higher education and training; Sixth pillar: Goods market efficiency; Seventh pillar: Labor market efficiency; Eighth pillar: Financial market development; Ninth pillar: Technological readiness; Tenth pillar: Market size; Eleventh pillar: Business sophistication and Twelfth pillar: Innovation*. The pillars are aggregated into a single index, but they are also presented separately, providing a sense of the specific area where a country needs to improve. It is underlined the interrelation between these pillars: although the results are reported separately for each pillar, they are not independent, tending to reinforce each other [15].

All of the pillars matter for all economies, but they affect national economic environment in different ways. It depends on the stage of development of the analyzed country. The Global Competitiveness Report classify countries in 5 groups – 3 concrete stages - *Stage 1: Factor-driven*; *Stage 2: Efficiency-driven*; *Stage 3: Innovation-driven* and 2 transition stages – *Transition from stage 1 to stage 2* and *Transition from stage 2 to stage 3.* For this classification, there are used two criteria: *the level of GDP per capita at market exchange rate* as a proxy for wages and *the share of exports of mineral goods in total exports*, assuming that countries that export more than 70% of mineral products are to a large extent factor-driven.

The importance given to different criteria in measure is different from country to country depending on the national stage of development. Onsel and Ulegin consider that although the evaluation was tried to be corrected in this way, the weight of this importance is subjectively determined [7].

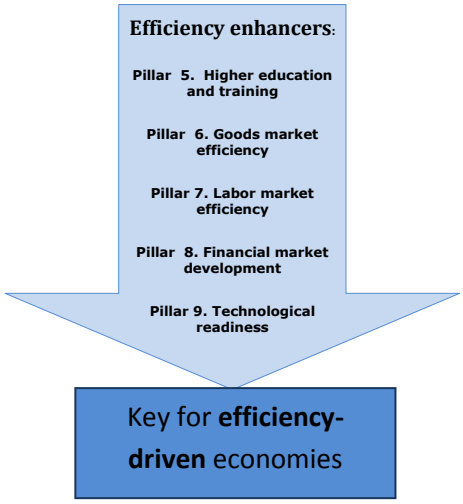
Figure 1. The key pillars for factor-driven economies



First pillar analyses institutions on two levels: public and private. On the level of public institutions, it wants to find out what is the situation in every country referring to property rights, ethics, undue influence, government efficiency, security. For private institutions, there are underlined two aspects: corporate ethics and accountability. So, it also takes into consideration the microeconomic level, using microeconomic indexes to evaluate national macroeconomic contexts. In the second pillar, the infrastructure is studied from the transport infrastructure point of view – quality of roads, of overall infrastructure, of port infrastructure, available airline seat kilometers, etc., and from the electricity and telephony infrastructure point of view – quality of electricity supply, mobile telephone and fixed telephone lines. The third pillar is about macroeconomic environment, underlying the importance of government budget balance, Gross national savings, inflation, government debt, country credit rating. The fourth pillar explores the subject about *Health and primary education*, wanting to find out the impact of malaria, tuberculosis, HIV/AIDS, infant mortality, life expectancy on business and the quality and enrollment rate of primary education. This first four pillars are named as being basic requirements for a competitive country and they have the greatest weight for the evaluation of the countries in the factor-driven stage (60%), 30% for the efficiency-

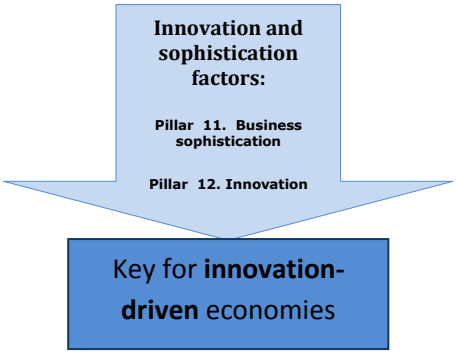
driven stage and 20% for the innovation-driven stage.

Figure 2. The key pillars for efficiency-driven economies



The next six pillars are called efficiency enhancers and they have only 35% weight from the total GCI in the factor-driven stage, 50% for the efficiency-driven stage and 50% for the last stage – innovation-driven stage. *Higher education and training* treats the quantity of education, the quality of education and the training from the job; *Goods market efficiency* analyzes the domestic and foreign competition and the quality of demand conditions; *Labor market efficiency* explores the flexibility and the efficient use of talent; *Financial market development* treats technological adoption and ICT use; domestic and foreign labor size are analyzed in the *Tenth pillar*: *Market size*.

Figure 3. The key pillars for innovation-driven economies



With a weight of 5% in the first stage of development, 10% in the second and 30% in the innovation-driven stage, the *Eleventh pillar: Business sophistication* and the *Twelfth pillar: R&D Innovation* try to find out the quantity and the quality of the local supplier, the nature of competitive advantage, the value of chain breadth, the extent of marketing, etc. and the capacity of innovation, quality of scientific research institutions, intellectual property protection, etc.

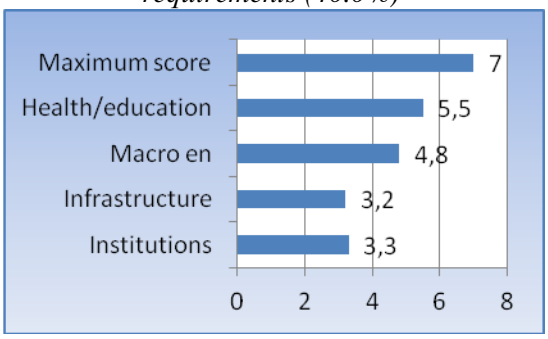
To achieve the measurement in an objective way, there are used statistical data such as enrollment rates, government debt, budget deficit, life expectancy, obtained from the United Nations Educational, Scientific and Cultural Organization (UNESCO), the IMF, The World Health Organization (WHO). There are also used data from the World Economic Forum's annual Executive Opinion Survey.

4. The case of Romania

Romania is also included in the list of analyzed countries. With a population of 22.1 millions of people and 189.8 US$ billions as GDP, our country is on the 78th place on the national competitiveness aspect among 144 countries included in the research. It has a 4.1 score that means a little up than the medium in the situation that scores are between 1 and 7. Its rank declined with one position than the last year and with eleven positions than the rank from 2010-2011.

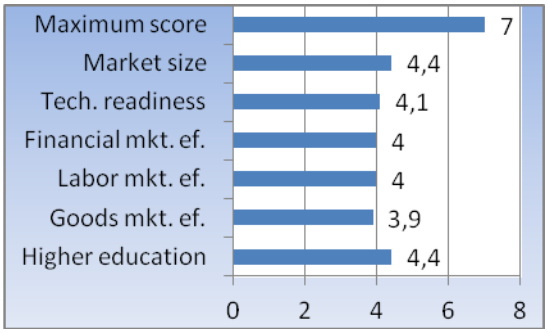
Romania is included in *The Global Competitiveness Report 2012-2013* in the Efficiency-driven stage of development. For the Basic requirements, its rank is 90 and the score is 4.2, underlying that on the first pillar – Institutions, it is between the latest countries on the list, being on the 116th place. This means that diversion of public funds is very common (2.5); that public trust in politicians is very low (1.8); that irregular payments and bribes are common, but not very (3.7); that decisions of government officials almost always show favoritism (2.4); that government spending is wasteful (2.5); that legal framework in settling disputes is inefficient (2.6); that the obtaining of information about changes in government policies and regulations affecting business activities is almost impossible (with a 3.3 score and a 136 rank), etc.

Figure 4. The scores for Basic requirements (40.0%)



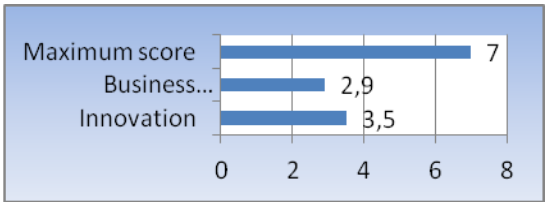
Speaking about the key for efficiency-driven economies, efficiency enhancers (50.0%), Romania is placed on the 64th position and the most problematic aspect at this discussion level is the *labor market efficiency* with a score of 3.9 and a rank of 113. The situation is presented on the next figure. The most problematic factors for doing business are corruption, tax rates, inefficient government bureaucracy and access to financing among other twelve identified factors.

Figure 5. The scores for Efficiency enhancers (50.0%)



At the level of *innovation and sophistication factors* (10.0%), Romania is almost on the latest positions, ranking 110 for *business sophistication* and 102 for *innovation*.

Figure 6. The scores for Innovation and sophistication factors (10.0%)



5. Conclusion

Many determinants drive competitiveness. Understanding the factors behind this process is of crucial interest because, as it was shown in this paper, competitiveness means a high standard of living, a high rate of employment, high productivity, commercial equilibrium, high national attractiveness, high ability of objective implementation, healthy politics, high flexibility and ability of sustaining growth.

National competitiveness is created and developed by the actions of institutions, policies and public investments which direct the evolution of the total economy. In this way, it is observed the major role of the public institutions in the competitiveness process. Unfortunately, Romania has a lot of work to do for improving its national competitiveness scores and to be placed on a better position. For this, as the results show, first it has to improve its Institutions. In actual economies, the public goods multiply and their importance in the economic environment amplifies. The local, national and global programs for the illness control, against the pollution and violence, the judicial, monetary and for the environment protection regulations, good quality governance, the individual and collective security, the actions for influencing competitiveness (legislation, context-conditions, economic politics) represent significant categories of public goods. Without these elements, the market isn't able to function and to generate and regulate them. The unity between public goods and the market is organic, but those who produce such goods aren't always selected taking into consideration the rigor and the qualities of the market criteria. The regulatory market functions acts in correlation with those of different organizations: companies, civil society structures, professional and public administration associations. The public institutions model the market using the norms from the basis of its function, watch to the conformation of the economic actors to these norms and correct the functional market mechanism. When the self-interest is over the social interest, these functions degenerate and income inequality, illegitimate economic biases, disadvantageous conjunctures

generating negative externalities inevitably appear. The conclusion is that it is very important how these institutions develop their activities, the equity of this actions being crucially for the economic wellness.

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Section II
Business Economy and Administration

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Subsection 1
Economy and Economic Informatics

Aspects of Romanian Education during 1990-2011, by the Principal Component Analysis

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Abstract

Education has been the object of appreciation and research since ancient times, statesmen, great scholars, philosophers, men of culture and art, school people carefully investigating this area with profound implications for the development of present and future society.

Regarded as a cultural, social or civilization factor, the importance of education is widely recognized in the intellectual and moral training and development of people and society, in general. Education begins in childhood and, in terms of contemporary society, it becomes a permanent activity.

Given the importance of this area, in this paper I have proposed an analysis of the situation of the education in Romania during 1990-2011, using representative indicators such as: the number of educational institutions, the school population, the number of pupils, the number of students, the number of teaching staff and the birth rate. For this study, I have used the principal component analysis method and, for the statistical data processing, I have used the SPSS software.

Keywords: multifactorial analysis, principal component analysis, education, correlations
JEL classification: C38, I21, C81

1. Introduction

The principal component analysis (PCA) is a descriptive method of multidimensional analysis which is applied in the study of numerical variables.[6] The Euclidean distance is used in order to calculate the distance between two points in PCA.[2]

The PCA method is one of the most used methods for multidimensional factor analysis, for quantitative variables. The application of PCA illustrates the statistical relations (correlations) between the variables considered, and it highlights and explains the similarities and the differences between the statistical units taken into consideration.[3]

If the original variables are expressed in different units, their standardization is needed; by means of this operation, there are no longer shown the differences in size between the values of variables but only the value deviations recorded by a statistical unit in relation to the average level. The fact that a unit records the lowest values for both variables, unlike another unit that records the highest values, will be viewed through a graphic representation where the position of the point represented by the first unit will be found at the greatest distance from the position of the point represented by the second unit.[5]

2. Methodology

Based on the *p* variables studied, the PCA method highlights the *p* hierarchized lines, called factorial axes or principal components, whereon the individuals and the variables will be projected, depending on the degree of difference between them. These axes, which are linear combinations of the original variables, have the advantage of not being interrelated unlike the variables analyzed. In other words, considering that the origin in an area with "n" dimensions is the centroid defined by the points whose coordinates are represented by the average values, each point moves away from the centre in a particular direction so that we obtain a point cloud centred to "0". The direction of the line where this cloud moves away the most from the centroid highlights the dominant feature of the analyzed phenomenon. This line is the first factorial axis.

In PCA data analysis, each factorial axis is associated with some of the information contained in the original data table. This part is called inertia or variance explained. Each of these axes can be also interpreted in terms of the correlation with the original variables. The factorial axes (F_j) determined by the PCA are ranked in descending order, according to their discriminatory "power". Thus, F_1 differentiates most of the individuals between them, F_2 does it less etc. Data analysis will be limited to the first factorial axes which concentrate most of the initial information, thus obtaining a simplified representation of the original table, easy to read. In order to analyze the statistical units, it is necessary to consider the similarities, the distance between them. Thus, two units are similar to each other if they have similar values for all the variables considered. In order to calculate the distance between two statistical units in PCA, there is used the Euclidean distance defined by:

$d^2(a,b) = \sum_{j=1}^{P} \frac{(x_{aj} - x_{bj})^2}{\sigma_j^2}$, where: $d^2(a,b)$ is the distance between the statistical units *a* and *b*; X_{aj} is the value of variable X_j, regarding individual *a*; X_{bj} is the value of variable X_j, regarding individual *b*; σ_j^2 is the variance of variable X_j. [4] [6]

In order to analyze the relationship between the two variables (X_i, X_j), there is calculated the correlation coefficient between them, as it follows:

$r_{X_i X_j} = \frac{\mathrm{cov}(X_i, X_j)}{\sigma_i \cdot \sigma_j}$, where:

$\mathrm{cov}(X_i, X_j)$ is the covariance between variables X_i and X_j; σ_i, σ_j are the standard deviations of variables X_i and X_j.[1]

Each statistical unit can be represented as a point in the vector space of dimension *j*. All statistical units form the point cloud whose centroid (G) is the origin of axes. In this space, the distance between the two units is the Euclidean distance. The units that resemble most are those for which the distance between them is minimal. The point cloud shape analysis involves finding the maximum elongation direction of the cloud, and it defines the first factorial axis.

It is impossible to visualize the representation of the cloud of statistical units in an area of more than three dimensions (for a number of more than three variables).

PCA involves highlighting certain factorial axes (principal components), which represent a linear combination of those variables that are correlated with each other. The first factorial axis corresponds to the line situated the closest in relation to all the points of the cloud, using the least squares criterion. It is defined by the component that distinguishes most individuals between them. In order to determine it, it is necessary to calculate the distance between a point and a line. The method used in order to determine this distance is the method of least squares. The axis situated closest to all points simultaneously is, according to this method, the one for which the sum of squares of the deviations from the point distances in connection to this line is minimal. We add that, in PCA, there is used the orthogonal projection of a point on a line.

The variance or the inertia explained by the first principal component (factorial axis) represents the highest eigenvalue of the correlation matrix. The eigenvalues are ordered downwards and their sum is equal to the number of the original variables. This amount indicates the total variance of the point cloud. The principal vectors corresponding to the factorial axes are the eigenvectors of the correlation matrix associated to the eigenvalues λ_k. These vectors are unitary (the sum of the squares of its components is equal to 1) and orthogonal (the sum of the products of the same rank components of the two vectors is null).

The eigenvector associated to the largest eigenvalue of the correlation matrix is the vector that defines the direction of the maximum elongation of the point cloud, or the first factorial axis. This vector is a new variable which is a linear combination of the original variables. The coordinates of this eigenvector represent the coefficients associated to each variable considered in the equation defined by the first factorial axis.

3. Data and results

The analyzed indicators are: the number of educational institutions, the school population, the number of pupils, the number

of students, the number of teaching staff and the birth rate. They are annual indicators, drawn from the official statistics provided by the National Institute of Statistics, for the period 1990-2011. [10]

After processing the data in SPSS, there are obtained the following results regarding the statistical variables: the correlation matrix, the calculated value of statistics χ^2 and of the KMO statistics, the variance in variables, the eigenvalues and the variance explained by each factorial axis, the variable coordinates on the factorial axes, the contributions of variables to the inertia of factorial axes and graphics. [7]

a. *The correlation matrix* shows the values of correlation coefficients between the variables, considered two by two. It is a square matrix, symmetrical towards the main diagonal. The correlation matrix form is as follows:

Table no.1 Correlation Matrix

	Unit	PSchool pop	No.of pup.	No.of stud.	Teaching staff	Birth rate
Units	1.000	.832	.942	-.917	.687	.437
School pop	.832	1.000	.951	-.799	.469	.717
No.of pup.	.942	.951	1.000	-.937	.528	.674
No.of stud.	-.917	-.799	-.937	1.000	-.414	-.649
Teaching staff	.687	.469	.528	-.414	1.000	-.162
Birth rate	.437	.717	.674	-.649	-.162	1.000

The analysis of correlation matrix coefficients allows the assessment of the possibility of applying the principal component analysis: the high values of these coefficients (higher than +0.5 and lower than -0.5) show that there are statistically significant connections between the variables considered. In this case, the principal component analysis can be applied. The low values of these coefficients show that there is no correlation between the statistical variables and, therefore, the principal component analysis cannot be applied.

A feature of the correlation matrix is that the number of correlation coefficients increases significantly when the number of the variables included in the analysis increases, regardless of the size of the statistical community. This significant increase in correlation coefficients shows the impossibility of interpreting the connections between the variables only by analyzing the values presented in the *Correlation Matrix.*

b. In order to test the hypothesis of the independence between the statistical variables, I have used the χ^2 test statistic (*KMO and Bartlett's Test* output). To that effect, the following statistical hypotheses have been made:

H_0: the independence hypothesis (the correlation matrix is a unit matrix);

H_1: the dependence hypothesis.[8]

In order to test these hypotheses, SPSS provides the calculated value of the test statistics ($\chi^2_{calculat}$=219,734) and the probability value associated to the calculated test statistics (*Sig.*).

Table no. 2 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.681
Bartlett's Test of Sphericity	Approx. Chi-Square	219.734
	df	15
	Sig.	.000

A *Sig.*<0,05 value associated with the calculated value of χ^2 test statistics shows that the hypothesis H_0 is rejected and the hypothesis H_1 is accepted. It can thus guarantee (with a probability of 0.95) that there are statistically significant connections between the statistical variables, and the correlation matrix is not a matrix unit. The calculated value of the χ^2 test statistic is sensitive to the sample size: when *n* increases, the chance of rejecting the null hypothesis is very high. However, this does not guarantee that there are statistically significant connections between variables.

The simultaneous analysis of the results obtained from testing the independence hypothesis using the χ^2 test statistics and the correlation matrix determinant value allows identifying the properties of this matrix which present an interest to the PCA. [9]

Identifying the existence of the connections between variables is facilitated by the calculation statistics Kaiser-Meyer-Olkin (KMO), measure of sampling adequacy. The KMO statistic can take values in the interval [0,1]. A value greater than 0.5 indicates that there are statistically significant connections between the statistical variables and, therefore, the PCA can be applied. In our case, a value of 0.681 shows that the solution obtained from the application of PCA is a good one.

c. The variance of variables (*Communalities* output)

The standardization of variables leads to new zero average variables and to variance 1. The variances of the statistic variables are

presented in the *Communalities* output:

Table no.3 Correlation Matrix

	Initial	Extraction
Units	1.000	.963
School population	1.000	.900
No. of pupils	1.000	.995
No. of students	1.000	.891
Teaching staff	1.000	.952
Birth rate	1.000	.958

The variance of values after extracting the factors is calculated on the basis of the *Component matrix* output. For example, for the variable *Number of students*, there is obtained:

$\sigma_4^2 = 0{,}941^2 + 0{,}079^2 = 0{,}891722$. The low values of the variable variance after factor extraction (Extraction column) show that these variables can be eliminated from the analysis itself because they are not correlated with the factorial axes.

d. *The eigenvalues* λ_k associated to each factorial axis and the variance explained by each factorial axis (*Total Variance Explained* output)

The eigenvalues of the correlation matrix are presented in the *Total Variance Explained* output, in the Eigenvalues column.

Table no.4 Total Variance Explained

Comp	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Var	Cum. %	Total	% of Var	um. %
1	4.426	73.773	73.7	4.42	73.7	773.7
2	1.233	20.553	94.3	1.23	20.5	494.3
3	.251	4.188	98.5			
4	.071	1.184	99.6			
5	.016	.274	99.9			
6	.002	.029	100.0			

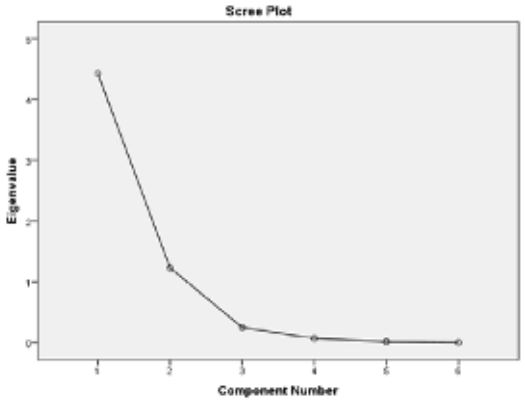
In the output above, the eigenvalues of the correlation matrix are: $\lambda_1 = 4{,}426$; $\lambda_2 = 1{,}233$; $\lambda_3 = 0{,}251$; $\lambda_4 = 0{,}071$; $\lambda_5 = 0{,}016$; $\lambda_6 = 0{,}002$. The eigenvalues correspond to the inertias explained by the factorial axes. Their sum represent the inertia of the point cloud equal to the number of statistical variables in the original data table, i.e. with the sum of the main diagonal elements of the correlation matrix: $\sum_{k=1}^{n} \lambda_k = I_n$, where I_n is the total inertia of the point cloud. Considering the values in the *Total Variance Explained* table, we get: $\sum_{k=1}^{n} \lambda_k = 5{,}999$.

SPSS displays these values as absolute (*Total* column) or relative (*% of Variance* column), i.e. as a percentage of the total inertia and as relative cumulated dimensions (*Cumulative%* column). As it concerns our data, the first factorial axis explains 73.773% of the total variance of the point cloud and the first two axes together explain 94.326% of the total variance. The number of the factorial axes which is going to be interpreted in the PCA is chosen according to several criteria:

• The Kaiser criterion, which involves choosing that number of the factorial axes for which the corresponding eigenvalues are higher than one; for our data, according to this criterion, there are selected 2 axes ($\lambda_1 = 4{,}426$; $\lambda_2 = 1{,}233$);

• The Cattel criterion, which involves the graphical representation of the eigenvalues (*Scree Plot* chart) and the tracking of the sudden "fall" of the inertia explained by them. There are chosen the axes prior to this sudden change of the eigenvalues slope graphic.

Figure no.1 The number of the factorial axes interpreted in PCA



The diagram in figure above shows that the number of the factorial axes interpreted in PCA is two. It is noted that there are significant differences in size between the first two and the last three values.

• The Benzecri criterion, which involves choosing the number of axes explaining over 70% of the total variance of the point cloud.

e. The eigenvectors associated to the eigenvalues of the correlation matrix allow obtaining the coefficients of the variables in the linear equation of the main axes. The eigenvectors coordinates do not appear in the PCA results but serve to calculate the coordinates of factorial axis variables.

f. The coordinate of variables x_j on the factorial axis *k* (*Component matrix* output)

shows the position of the variables on the factorial axis.

Table no.5 Component Matrix

	Component	
	1	2
Units	.951	.241
School population	.943	-.104
No. of pupils	.997	-.025
No. of students	-.941	.079
Teaching staff	.556	.802
Birth rate	.666	-.717

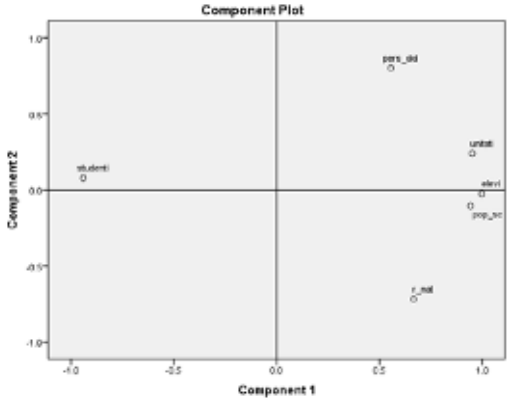
For example, the variable *Number of units* has a highly positive coordinate on the first factorial axis (0.951) and a low positive coordinate on the second factorial axis (0.241). The variable *School population* has a highly positive coordinate on the first factorial axis (0.943) and a negative coordinate on the second factorial axis (-0.104). This indicates that the variable will be graphically represented in the positive values quadrant of the first factorial axis in the negative values quadrant of the second factorial axis.

The high values of the coordinate of the variables on the factorial axes show that those variables are strongly correlated with the respective factorial axis.

For example, the variables *School population*, *Number of pupils, Number of students* and *Number of educational units* are strongly correlated with the first factorial axis, revealing that these variables significantly explain the differences between the statistical units (i.e., there are significant differences between the statistical units in terms of the values recorded for these variables).

The graphical representation of these two points in the system of the first two factorial axes is as follows:

Graph no.2 The first two factorial axes



The position of the variables in this diagram shows that there is a direct and strong connection between the variables *School population*, *Number of pupils* and *Number of educational units* and that there is a strong inverse correlation between the variables *Number of students*, on the one hand, and *School population*, *Number of pupils* and *Number of educational units,* on the other hand.The coordinates of the variables on the factorial axis represent the linear equation coefficients of the connections between variables. In our case, the first factorial axis is a new variable defined by the linear combination of the original variables of the form:

F_1=0,951*Units*+0,943 *School population* +0,997 *Number of pupils* – 0,941 *Number of students* +0,556 *Teaching staff* + 0,666 *Birth rate.*

In order to identify the variables explaining the second factorial axis, there are chosen the values in the column *Component 2*.[7]

g. The contribution of variable X_j to the inertia of axis *k* (*Component Score Matrix* output).

The high values of contributions show the importance of the respective variable in differentiating the statistical units considered.

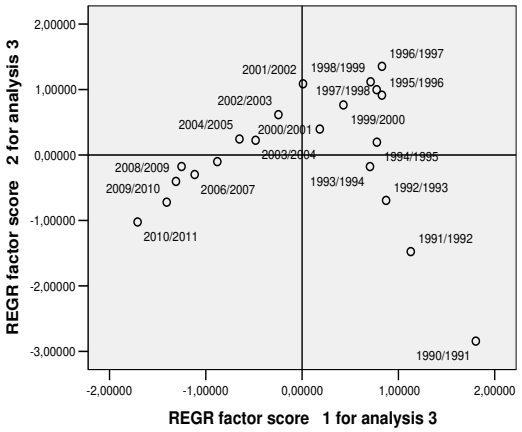
In our case, all variables contribute to the formation of the first factorial axis, while for the second axis the only variables which are contributing are *Teaching staff* and *Birth rate*.

Table no.6 Component Score Coefficient Matrix

	Component	
	1	2
Units	.215	.195
School population	.213	-.084
No. of pupils	.225	-.020
No. of students	-.213	.064
Teaching staff	.126	.650
Birth rate	.151	-.582

The interpretation of the position of the statistical units on the factorial axis has two main study directions: analyzing the closeness and the remoteness between the statistical units and explaining the position of the statistic units by integrating the variables within the analysis.[7]

Graph no.3 The position of the statistical units on the factorial axis



4. Conclusions

The educational system is the main subsystem of education, which refers to the institutional organization of education.

The European integration does not imply only the Romanian partners' access to databases and education policy documents of the European Union member states, but also the access of relevant European authorities (central institutions or specialized bodies, experts and decision makers etc.) to data banks and to any source of information on the education in Romania.

Unfortunately, Romania is labelled by many states as a weakly economically and socially developed country. The value of demographic indicators (population growth, total population) is decreasing, while the economic indicators (unemployment, inflation) reach one of the highest thresholds among the EU countries.

The first factorial axis, which explains the key differences, records a value of 73,77% of the total variance and shows two periods in the evolution of the main indicators of education: the first period consists of the 90's, respectively from 1990 to 1999, and the second period consists of the years 2006-2011.

The first period is a time when the number of educational units, teaching staff, number of pupils and of students were high, situation due to a high birth rate (the birth rate in 1990 was 13,6%; it reached 10,4% in 1999). However, in the 90's, the number of students was very low (192,110 students).

The second period is characterized by an important decrease in the number of educational units, the number of pupils and of the teaching staff and by an increase in the number of students. At the level of the school year 2007-2008, there have been recorded 907,353 students.

The drastic reduction in the birth rate after the 90's has led to a significant decrease in the school population and in the number of pupils. The economic crisis that broke out in 2008 and the reforms initiated in the educational system have significantly left their mark on all the analyzed indicators, which recorded significant decreases.

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The Estimation of the Students' Opinion Regarding a Certain Cosmological Model through Statistical Methods

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Abstract

The cosmological model is one of the elements of general knowledge. Nowadays, two of these models are dominant. The first model is the one which is generally accepted by the scientific international community, and the second model is the Biblical one. Each model is characterized by several principal aspects.

The aim of this article is to estimate the opinion of the students regarding the two cosmological models. For this, the correlation and association coefficients were used between the principal aspects of the two models

Keywords: cosmological model, association coefficients, correlation coefficients, contingency coefficients
JEL classification: C14, C40, C80, C88

1. Introduction

The first intersection of the religion with the modern science happened in the 17th century, being a friendly one, and most of the founders of the scientific revolution were Christians which were convinced that their activity studies the work of the Creator. In the following century, numerous researchers believed in a God that was the maker of the universe, but they did not consider Him a divine person that actively intervenes in the world and in the life of the human beings. In the 19th century, most of the researchers were hostile towards the religion, even though Darwin himself was a deist (considering that the species have evolved, but accepting the existence of the Creator). In the 21st century, the interaction between science and religion gained multiple forms, the new scientific discoveries debating again the classic religious ideas. In response, some authors defended the traditional doctrines, whereas others abandoned the tradition, and others reformulated in the light of the science old conceptions that were long supported. Entering the new millennium, this problem arises the interest of the researchers, theologians, journalists and the general public as well. Among the most debated topics today, in this article we are going to focus on certain significant problems: the origin of the universe and its age, the order of the apparition of the Sun and of the Earth.[1]

The two interrogation manners, from the religious and scientific points of view, offer us complementary perspectives about the world, without having a conflict between them. It can be stated that the science is the one that questions itself regarding the causality relations between the events, whereas the religion is the one that seeks to know the meaning and the purpose of our lives. Starting from these two approaches, the one of the international scientific community and the religious one through the Biblical model, the aim of this paper is to investigate the opinion of the students from two different departments of the „Ovidius" University of Constanta – The Faculty of Economic Sciences and The Faculty of Theology regarding the above mentioned issues.

2. Methodology

In order to answer within the best conditions to the objectives of the research, the data collection was done through a questionnaire that was undertaken by the

interview operators without mentioning the purpose of the research so as not to influence the opinions of the respondents.

The statistic interviewed collectivity is represented by the students from the „Ovidius" University of Constanta, the sample containing 474 students, 397 of them studying at the Faculty of Economic Sciences, and 77 of them studying at the Faculty of Theology, which determines a guarantee probability of the results of 95%, with an error margin of 5%.

In order to assure the representativeness of the sample, a random multistage sampling scheme was used and on its base the studied collectivity was divided, respecting the proportions that are occupied by the groups, considering 4 criteria: the sex of the interviewed, the age, the specialization and the faculty. It is the best method for obtaining the representativeness of the sample. The used procedures for determining these segments were calculated starting from the edited data from the site of the „Ovidius" University regarding the statistic situation of the students.

The editing of the data with the view of the centralization and systematization of the information, the calculus of the indicators that describe the intensity of the connections, as well as the testing of their significance was done with the help of the SPSS informatics product.[4]

The bonds between the variables were estimated through the Pearson correlation coefficient and the nonparametric correlation coefficients (φ, Q and the Cramer contingency coefficient).[5]

The correlation coefficient, used in the case of the simple linear connection standardizes the average of the product deviations. A value close to zero shows the lack of the linear connection between the variables.

The nonparametric methods are especially used for the study of the association between the quality variables.[6]

The φ and Q coefficients are calculated on the basis of the following frequency table:

Table no. 1 The frequency table

	Y_1	Y_2	Total
X_1	n_{11}	n_{12}	$n_{1.}$
X_2	n_{21}	n_{22}	$n_{2.}$
Total	$n_{.1}$	$n_{.2}$	n

The φ coefficient has the following formula:

$$\varphi = \frac{n_{11}n_{22} - n_{21}n_{12}}{\sqrt{n_{1.}n_{2.}n_{.1}n_{.2}}}$$

The Q coefficient (the Yule coefficient) has the following formula:

$$Q = \frac{n_{11}n_{22} - n_{21}n_{12}}{n_{11}n_{22} + n_{21}n_{12}} \text{ [11]}$$

These two association coefficients take values near to zero for the variables that do not depend on each other; a value close to +1 or to -1 shows a dependency between the variables.[7]

The Cramer contingency coefficient is calculated on the basis of a frequency table with *„r"* lines and *„c"* columns. If there is a dependency between the variables, this coefficient has values close to zero.[12]

3. Data and results

The following interpretations use the hypothesis that students have seriously dealt with the questionnaire, meaning that they did not give random or intentionally contradictory answers.

The first question in the questionnaire refers itself to the beginning of the universe, namely whether the universe has a beginning or not.

Table no.2 Does the Universe have a begining?

Does the Universe have a beginning?	Frequency	%	Cumulative %
It does	400	84.4	84.4
It does not	65	13.7	98.1
I do not know	9	1.9	100.0
Total	474	100.0	

Out of the students that completed the questionnaire, 84,4% consider that the universe has a beginning. This conception is in accord with the modern scientific theories and it can indicate that the students are aware of these theories.

Moreover, it is also in accord with the orthodox Dogmatic, and the clarification of the situation is done through the second question of the questionnaire. Only 13,7% consider that the universe does not have a beginning. This response may be a consequence of an older conception, which is

still present in some older textbooks, according to which „the matter is eternal; it cannot be created, nor destroyed". [3] 1,9% of the students (9 individuals) answered with „I do not know", which shows that the students are either unaware of the above mentioned options, or that they did not adhere to any of them.

The answer to the first question must be correlated with the answer to the second one, which refers itself to the manner in which the universe emerged. [8]

Table no. 3 How did the universe appear?

How did the universe appear?	Frequency	%
Through the Big Bang	133	28.1
It was created by God out of nothing	246	51.9
It was created by God out of raw materials	56	11.8
It did not appear because it does not have a beginning	32	6.8
I do not know	7	1.5
Total	474	100.0

After processing the answers, we drew the following conclusions:

- 51,9% of the students consider that the universe was created by God out of nothing. This conception is according to the orthodox dogmatic.
- 28,1% of the students consider that the universe appeared through the Big Bang, according to the modern scientific theories.
- 11,8% of the students consider that the universe was created by God out of raw materials. This conception is not accepted by the orthodox Dogmatic.
- 6,8% of the students consider that the universe did not appear, in the sense that it does not have a beginning in time.
- 1,5% of the students (7 individuals) answered „I do not know". It is interesting to note the fact that 7 students said that they do not know the manner in which the universe emerged, considering the fact that 9 students stated that they do not know if the universe has or does not have a beginning.

Therefore, the 2 students that affirm that they do not know if the universe has or does not have a beginning adhere to one of the following possibilities:

- the universe was created by God out of nothing (therefore it does have a beginning);
- the universe appeared through the Big Bang (therefore it does have a beginning);
- the universe was created by God out of raw materials (therefore it does have a beginning);
- the universe did not appear, in the sense that it does not have a beginning in time.

Apparently, the contradiction can be avoided if the creation of the universe out of time is accepted, but, in this situation, its entrance in time can be considered as a beginning. As a result, this interpretation leads to the fact that the universe does have a beginning in time.

Another interesting aspect is the fact that 65 students answered at the first question that the universe does not have a beginning, whereas at the second question, 32 students stated that the universe did not appear, in the sense that it does not have a beginning in time. Consequently, there are at least 33 students that consider that the universe does not have a beginning, but they adhere to one of the following possibilities: Big Bang, creation of out nothing, creation out of raw materials, or „I do not know". This inconsistency shows that the notions are not clear for those individuals.

In this sample there are 302 students (63,71%) that accept the fact that the universe was created by God and 133 students (28,05%) that consider that the universe appeared through the Big Bang. Both variants imply the fact that the universe has a beginning in time.

As a result, there must be 302+133=435 students that clearly affirmed that the universe has a beginning. However, only 400 students clearly stated that the universe has a beginning. The discrepancy can be explained in the same manner as in the previous case.

Out of 474 students, 397 students study Economic Sciences, and 77 study Orthodox Theology.

Table no. 4 Crosstabulation: The material Universe/ Faculty

The material universe	Faculty		Total
	Economic Sciences	Theology	
It has a beginning	337	63	400
It does not have a beginning	54	11	65
I do not know	6	3	9
Total	397	77	474

Out of the students that study Economic Sciences, 337 (84,88%) consider that the universe has a beginning, and 54 (13,60%)

consider that the universe does not have a beginning.

As a result, as a percentage, there are more students that study Theology that accept the version of the universe without a beginning, version which is rejected by the orthodox Dogmatic. However, the difference is quite small (0,68%).

Based on the 14,28% percentage, it can be affirmed that there is an influence of the conception according to which the matter is eternal, it cannot be created, nor destroyed, conception that is used in Chemistry, Physics and Astronomy.

This principle dominates the scientific Romanian world before 1989, as it can be seen in the following paragraph: „The matter is eternal. Taken as a whole, the matter is eternal and infinite through time and space; it does not have a beginning or an end". [9]

At ***the second question form the questionnaire,*** the Big Bang Theory is accepted by 132 (33,24%) students from Economic Sciences and by a single (1,29%) student from Theology, which can be explained by the fact that the students from Theology accept the creation of the world by God. Furthermore, we are going to study through comparisons the answers to the first two questions.

For the manner in which the universe appeared, we are going to consider 2 variants: the universe appeared through the Big Bang and the universe created by God (out of nothing or out of pre-existent matter).

Table no. 5 How did the Universe appear?

How did the Universe appear?	The Faculty	
	Economic Sciences	Theology
Through the Big Bang	132	1
It was created by God out of nothing	180	66
It was created by God out of raw materials	49	7
It did not appear because it does not have a beginning	30	2
I do not know	6	1
Total	Total	77

Furthermore, we are going to study through comparison the answers to the first two questions of the questionnaire.

For the manner in which the universe appeared, we are going to take into consideration two alternatives: the universe that appeared through the Big Bang and the universe that was created by God (out of nothing or out of a pre-existent material).

Table no.6 Symmetric Measures

	Value	Approx. Sig.	Exact Sig.
Phi	-.005	.918	1.000
Cramer's V	.005	.918	1.000
Contingency Coefficient	.005	.918	1.000
N of Valid Cases	429		

The association coefficient is ϕ=-0,005, which shows the lack of association.

It can be observed that 13 students consider that the universe does not have a beginning, affirming that it appeared through the Big Bang, and 28 students state that the universe does not have a beginning, but it was created by God.

The third question from the questionnaire refers itself to the age of the universe.

After the centralization of the recorded answers, the following results were obtained:

- 67,1% students consider that the age of the universe is higher than 16 billion years;
- 15,2% students consider that the age of the universe is lower than 16 billion years;
- 12,2% students consider that the age of the universe is 16 billion years;
- 5,5% students answered with „I do not know".

Table no. 7 Correlation between How did the universe appear and the age of the Universe

How did the universe appear	The age of the universe			
	16 billion years	>16 billion years	< 16 billion years	I do not know
Through the Big Bang	27	90	14	2
It was created by God out of nothing	23	163	43	17
It was created by God out of raw materials	6	37	10	3
It did not appear because it does not have a beginning	2	25	5	0
I do not know	0	3	0	4
Total	58	318	72	26

It can be observed that 79,3% students consider that the age of the universe is higher or lower than 16 billion years, according to some textbooks.

In order to study through comparisons the answers to the second and third questions, we are going to consider the following variants:

- for the manner in which the universe appeared: either through the Big Bang, or by God out of nothing;
- for the age of the universe: <16 billion years and >16 billion years.

Table no. 8 Symmetric Measures

	Value	Approx. Sig.	Exact Sig.
Phi	.107	.043	.051
Cramer's V	.107	.043	.051
Contingency Coefficient	.106	.043	.051
N of Valid Cases	360		

The association coefficient is ϕ = - 0,107 and the Yule coefficient is Q = - 0,106. Even though the value of the association coefficients is quite small, we observe the fact that out of 57 students that consider that the age of the universe is lower than 16 billion years, 43 consider that the universe was created by God out of nothing and only 14 consider that the universe appeared through the Big Bang.

As a result, 75,43% out of the students that said that the age of the universe is lower than 16 billion years consider that the universe was created by God out of nothing, which is according to the orthodox teaching, not only in regards to the age of the universe, but also in regards to the manner in which the universe appeared.

Out of the Theology students, 64,93% consider that the age of the universe is higher or equal to 16 billion years. Out of the students from Economic Sciences, 82,11% consider that the age of the universe is higher or equal to 16 billion years. It can be considered that this difference comes from the knowledge of the orthodox teaching, conclusion that is strengthening by the previous observation as well.

The fourth question from the questionnaire refers itself to the chronologic order of the formation of the Sun and of the Earth.

Table no. 9 The order of the formation

The order of the formation	Frequency	%
The sun is older than the earth	357	75.3
The earth is older than the sun	105	22.2
I do not know	12	2.5
Total	474	100.0

The systematization of the data shows that 75,3% of the students consider that the sun is older than the earth (according to the current cosmologic model) and 22,2% of the students consider that the earth is older than the sun (according to the Biblical model).

In order to study though comparisons the conceptions regarding to the manner in which the universe appeared and the conception regarding the chronological formation order of the Sun and of the Earth, the following data must be considered:

- 28,1% of the students consider that the universe appeared through the Big Bang, according to the current scientific theories. However, regarding the chronological formation order of the Sun and of the Earth, 75,3% of the students answer according to this theory.
- 63,7% of the students consider that the universe was created by God, but only 22,2% consider that the Earth is older than the Sun, according to the Biblical model.

The faith in God can be considered as being most influential in accepting the fact that the universe was created by God. In the same time, we can observe that many people that have this conception are diverging from the Biblical model, considering that the Sun is older than the Earth. The cause of this divergence must be looked for in the textbooks and in the science shows that present the accepted model in most of the current scientific community.

Out of 397 students from Economic Sciences, 318 (80,10%) consider that the Sun is older than the Earth; out of the 77 students from Theology, 39 (50,64%) consider that the Sun is older than the Earth.

The fifth question from the questionnaire refers itself to the chronologic order of two important moments: the formation of the sun and the apparition of the vegetation. The two models are conflicting again.

The first model is the Biblical and Patristic one according to which the vegetation was created in the third day, and the Sun in the fourth day. Saint Ioan Hrisostom comments as follows: „This is why it shows you, before the creation of the sun, the earth covered with everything, so as not to assign the sun the perfection of the fruit, but to the Creator of the universe" [10]

The second model is the one accepted by the current scientific community; according to this model, the sun is older than the earth, so the vegetation appeared after the formation of the sun.

Table no. 10 The apparition of the vegetation and of the sun

The apparition of the vegetation and of the sun	Frequency	%
the vegetation appeared before the sun	13	2,7
The sun appeared before the vegetation	452	95,4
I do not know	9	1,9
Total	474	100,0

An interesting point is the fact that 95,4% students consider that the sun appeared before the vegetation on earth; only 75,3% consider that the sun is older than the earth.

The explanation must be looked for in the intuitive character of these aspects. [2]

Some individuals that consider that the Earth is older than the Sun cannot accept the fact the vegetation appeared before the sun, due to the fact that they have in mind the photosynthesis process that requires light and they cannot understand any other source of light, except for the Sun.

Table no. 11 Symmetric Measures

	Value	Approx. Sig.	Exact Sig.
Phi	-.021	.669	.763
Cramer's V	.021	.669	.763
Contingency Coefficient	.021	.669	.763
N of Valid Cases	428		

The small values of these coefficients shows that there is no bond between the conception regarding the order of the apparition of the Sun and of the vegetation and the conception regarding the manner in which the universe appeared (through Big Bang or creation).

4. Conclusions

In general, the answers to these five questions are grouped into two categories. The first category is the one determined by the Biblical and patristic model.

The second category is determined by the accepted model in the current scientific community.

The individuals that completed that questionnaire did not give answers from the same category, being influenced, in some conceptions, by the Biblical model, and in other conceptions by the current cosmological model.

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A Survey in Information Systems: Integral Part and a Strategic Partner for Good Corporate Governance

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Abstract

Corporations expanded with no longer being controlled. The failure of multinational companies has become a topic of high interest. Good corporate governance is not only desirable but also a vital business practice. The purpose of this study is to analyse the architectural structure of corporate governance, the problems it faces and how information systems can solve these problems. The question is to what extent modern accounting, integrated in an information system based on current processing and prediction techniques (such as data mining, cloud computing, game theory, business intelligence) may lead to solving these problems in a timely and successful implementation of the best strategies and organizational structures to make a more competitive entity.

Keywords: Corporate governance, information system.
J.E.L. Classification: M14, M15.

1. Introduction

Deep crisis of capitalism is caused by the failure of multinational companies that have grabbed the global economic power, creating monopolies and their own laws that are different from those of the states [37]. The root cause of the recent turmoil is the failure of the dominant economic paradigm - global corporate capitalism. Corporations expanded with no longer being controlled. According to an AlterNet analysis [6], the invisible forces that acted behind them were caused by the failure of their dominant economic principle - global corporate capitalism.

2. Purpose

The purpose of this study is to analyse the architectural structure of corporate governance, the problems it faces and how information systems can solve these problems. A corporate information system is very complex, involving many stakeholders and transactional processes, technologies, procedures and codes of practice. Another problem is bureaucracy. Large corporations have created monopolies, which brought a huge bureaucracy, becoming inflexible and difficult to manage.

3. Question

The question is to what extent modern accounting, integrated in an information system based on current processing and prediction techniques (such as data mining, cloud computing, game theory, business intelligence) may lead to solving these problems in a timely and successful implementation of the best strategies and organizational structures to make a more competitive entity. Business intelligence has proven to be a valuable information system within the firm's strategy and data mining

technology can improve the operation of the business [9]. To ensure efficiency and effectiveness of corporate governance, in order to increase company performance and strengthen its position in the capital market, it is necessary to analyse the contribution of information technology in this field.
There are three key research questions that can be asked in relation to of IT:

- Are information systems able to solve the problems of corporate governance and how is this done?
- To what extent managers and board members are aware of the potential benefits of applying information technologies, such as creating value for the company?
- Are they well informed for good IT equipment in line with the company strategy?

4. General theory framework

Discussions on *corporate governance (CG)* and its importance began in the 1930s in the American academic world, while in Europe it began at least 10 years later [7]. The term *corporate governance*, or as defined in ISO FDIS 26000, *organizational governance (OG)* is the system by which an organization adopts and implements the decisions necessary to achieve goals. In other words, the term "governance" means the process of decision-making and the procedures by which they are implemented [8]. So the concept of governance includes how an organization is run. In accordance with corporate governance principles of the Organization for Economic Cooperation and Development (OECD), corporate governance involves a set of "relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors" and can be defined as a system that provides a fair and reasonable treatment for investors or more broadly, for the whole society [30]. Also, corporate governance can be defined as a structure used to determine the responsibility and authority of the various groups involved in the functioning of the organization [7].

Broad corporate governance is the set of rules and control mechanisms applied in order to protect and harmonize interests in many cases contradictory of all categories of economic actors (stakeholders) developed within firms. In good corporate governance is expected to pay attention to all stakeholders 'interests including those of employees, creditors, customers, suppliers and local communities [28]. The World Bank defines corporate governance as a combination of laws, regulations and codes of conduct adopted voluntarily and providing companies greater access to financing, lower cost of capital, better firm performance, and more favourable treatment of all stakeholders. Thus, World Bank client countries have initiated legal, regulatory and institutional corporate governance reform projects [36].

Information System can be defined as a collection of components that work together to provide information to management. It enables them to make decision which ensures the control of the organization [3].

Business Information System is a group of interrelated components that work collectively to carry out input, processing, storage and control actions in order to convert data into information products. This information is used to support the activities in an organization [27].

5. Research approach

A recent study on Corporate Governance in 14 emerging markets, found wide variations in performance among companies that apply different levels of governance. Generally, organizations' corporate governance was proportionally as strong or weak as their country's legal system [14]. Corporate governance refers to promoting fairness, transparency and accountability at the company level [5]. A greater focus on corporate governance is largely to answer the collapse of Enron [15], WorldCom, Anderson, Xerox, Merrill Lynch, Allied Irish Bank, Alder Hey, Sellafield, Maxwell, BCCI (Bank of Credit and Commerce International) which led to the subsequent adoption of legislation governing the form of the U.S. Sarbanes-Oxley Act in 2002.

Competitive success of an organization is determined to a large extent on the quality of management and in particular, the organizational, decisive, informational and last but not least by the methodical-methodological subsystems [13]. These subsystems involves the implementation of

appropriate tools and techniques to help diagnose problems with organization and to develop an appropriate strategy [24]. Literature associates theory agent with the notion of corporate governance (Agent theory) [12], first developed by Jensen and Mecking (1976), and the Fama and Miller (1972), which integrates modes of organizing complex decision-making process within the company and with signal theory (Signalling theory) [2], which analyses the impact of economic and financial information asymmetry on entity [7]. The Administrator theory describes management leadership role in maintaining and developing the organization's value [19]. Other theories underpinning corporate governance: stakeholder theory and business policy. In the interests of good governance, a company has to draw his own way, taking into account the purpose and objectives [21]. Other theories associated with the notion of corporate governance range from the agency theory and expanded into stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory, political theory and ethics related theories [1].

Continuous development of new IT technologies was followed by a rapid integration of their organizational level. IT has become an essential element in the strategic development and growth performance of any organization. Corporate governance extends in IT area. Therefore we can speak of IT governance as prerequisite for good corporate governance [18]. In this way, IT governance has become an important part of corporate governance [26].

Information Technology (IT) is an integral part of the business. Also, IT Governance (ITG) is an integral component of corporate governance. Especially after Sarbanes-Oxley (SOX) was passed in the U.S. in 2002, followed by similar regulations in many countries, corporate governance and ITG have become more and more connected as the IT control plan is integrated into the overall enterprise plan [28].

One of the problems facing corporations is the complexity of the information system. We live in the age of giant corporations. According to the classification [10], the largest is JP Morgan Chase, which has assets of $ 2,300 billion, i.e. triple gold and foreign reserves held by the European Union, 240,000 employees and offices in 100 countries. Inadequate information and the inability of understanding foreign cultures may cause the failure of a business. Thus, it is important a comprehensive information of value systems, norms of behaviour and to accept the existence of cultural diversity. The current economy has two main characteristics: abundance and complexity of data and speed of change, and thus of decision-making [23]. Information is regarded as one of the most valuable assets of a corporation [34]. Today, instant messaging, email, electronic documents have increased the flow of business [29]. In this context, the question is not whether the Board should take decisions on IT governance, but rather on how they should do so [28].

For years, great amount of data coupled with much insignificant and poor information have been known issues by the leaders of large corporations. The expression "elephant in the room" is relevant. But now, corporate governance and regulatory compliance have made the room smaller and more exposed the elephant bigger and much more noisy [11]. Whether working on a simpler architecture or other more complicated (matrix, conglomerates, strategic alliances), global corporations raises complex management problem - of their activities and the external environment, and this cannot be solved only through effective exploitation of interconnections . In this sense, information system is regarded as the backbone of modern business, playing an important role for a well governed company [20]. Such systems characterized by flexibility and adaptability to changes environmental, concern the poorly structured or unstructured problems that managers must deal [5].

According to recent studies, the implementation of IT governance / CG in corporate structures and corporate governance practices supported adoption of IT in governance leads to creating value for the organization [14]. As a result, many top executives of companies consider their business information technology priorities [20]. IT management has evolved now to include IT Governance (ITG). Thus, IT Governance (ITG) has now become a part of corporate governance [17]. An appropriate

information system must be able to establish a balance between the interests of all parties involved in the firm [28]. It involves a management system appropriate to company requirements [33].

In the interests of good corporate governance (CG), corporate information technology (IT corporate) are aligned with the information needs of members of the Board, in order to provide relevant and timely [31]. For good corporate governance (CG), corporate information technology (IT corporate) is aligned with the needs of the Board members, in order to provide relevant and timely information.

The recent economic turmoil forced firms to recognize that, even in good economic conditions, growth does not preclude the need for tangible, accurate data and reliable, transparent analytic processes. Data has the potential of enhancing the IQ of an organization, enabling greater agility and enhanced performance [31].

Thus, IT governance can be seen as an integral part of corporate governance and therefore requires special attention from the top management of the company. Integration of the two forms of government is desirable because it has been shown that both factors have a significant impact on good management [26]. According to a survey [22], 188 corporate executives in Canada indicates that IT plays an important role in ensuring good governance. Firms with integrated IT structure seem to obtain significantly greater profits, up to 20%, than those companies with similar business strategies, but without an integrated IT structure [14].

IT governance implementation may require organizations to rethink the governance structure and the people involved to revive the roles and relationships within the company [26]. IT solutions become more complex and powerful (outsourcing, third party contracts, networking, etc.), among others, due to the inclusion of a broader range of stakeholders [25]. IT solutions in accordance to its strategic objectives, provides flexibility in two ways: adaptation to each specific business environment and openness to change permanent, resulting in value creation for the company [28]. Government decisions usually involve several stakeholders who have conflicting claims, and they can be classified as potential stakeholders, permanent, active and uninterested [16]. Information system can effectively achieve these stakeholders to prioritize and classify them according to importance and role is the objectives of the entity [32].

In addition to the large amount of time spent collecting and analysing data gathered from different departments, business units within large companies are forced to communicate to higher hierarchical levels, an activity which is time consuming, inefficient and bears significant costs. It is also affected accuracy [25]. According to The Banker [35] there are many problems associated with reference data: poor data quality, missing standards, delays in data delivery, bad data coverage and high costs. Many of the challenges technology improve governance requirements imposed on companies and facilitate their application by the company [5]. Automated information flow helps business performance through standardization, automation, simplification and management processes across the enterprise and by providing better internal controls [9]. It would lead to a decrease of information asymmetry and would increase the transparency of all decision-making processes [4].

Information systems contribute to the ability of a corporation to successfully manage many governance requirements. Without the facilities offered by the new technologies available today, more staff and longer time would be required for database management. In addition to the time spent, the accuracy of the data would likely be questionable [25].

IT system is able to understand, in a complete and complex manner, information from production, accounting department, purchasing and sales, inventories, fixed assets. It can also to put together all these parts of the business and make them work together, eliminating incomplete or irrelevant information for the business. Business Intelligence is the key differentiation for business today. Business intelligence, analytics and performance management are top areas for a good management [38]. Database mismanagement may lead to contradictory results, distorting the truth, or a complete lack of information on important

areas of business [11].

Regarding the reference data, problems can be many: poor quality of their lack of standardization, delays in data delivery, coverage and high cost of processing data, the growth of data, the desire to improve risk management and compliance with regulatory requirements. Reducing errors and processing costs are often cited as key factors automation reference data within companies [6].

6. Conclusions

A corporate information system is very complex, involving many stakeholders and transactional processes, technologies, procedures and codes of practice. A major concern of managers is the investigation and analysis systems that lead to rapid and accurate diagnosis of the current situation, highlighting the negative phenomena that occur, and appropriate measures and decisions in order to increase companies' performance and to maintain a constant state of competitiveness.

In this context, Information Technology (IT) has become an integral part of the business, a key element in the strategic development and growth performance of any organization. IT system is able to understand in a complete and complex manner. It can put together all the components of a business and make them work, eliminating incomplete or irrelevant information.

So information systems are able to solve all these problems by modern methods of processing, storage, and retrieval and transmission databases. While executives and board members are aware of the potential benefits of applying information technologies, they are often not informed enough for good IT equipment in accordance the requirements of a good corporate governance.

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Globalization

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Abstract

The field of globalization has highlighted an interdependence implied by a more harmonious understanding determined by the daily interaction between nations through the inducement of peace and the management of streamlining and the effectiveness of the global economy. For the functioning of the globalization, the developing countries that can be helped by the developed ones must be involved. The international community can contribute to the institution of the development environment of the globalization offering resources, on the one hand, and opportunities, on the other hand, its advantages being further for everybody's benefit.

Key words: Globalization, streamlining, effectiveness
J.E.L. classification: F01

1. Introduction

The term globalization was used for the first time in the 80s to characterize the changes incurred in the national economies of the countries by the significant development of the international capital flows. The phenomenon highlighted the main discrepancies between the developed countries and those less developed, respectively the increasing power of the multinational companies related to the national authorities. The power of the globalization process has been given mainly by the contribution of multinational organisations which, in a constant and complex manner, have participated to the elaboration of the national policies, based on the experience and competence held.

The rapid technological developments incurred in the last decades in certain strategic industries (biomedicine, telecommunications, information technologies etc.), the permanent development of the third sector services, as well as the change of the global economical relations, constituted the determinant factors for a relatively recent process, namely that of the relocation of the activities of the productive companies. The main support of these processes has been related to the promotion of direct investments of the companies from the developed countries in countries with developing economies, the process being beneficial for both parties involved; the first category of organisations can reach their objectives of a more efficient achievement of some production/assembly processes, and the host countries can exploit better their natural, human or anthropic resources available.

The intensification of the international trade and the considerable increase in costs and risks associated to the product logistics also constituted intensification factors for the "invasion" of powerful companies towards emergent economies with a considerable development rate and availability of resources.

On the ground of the structural transformations of the national economies, the globalization process implied the performance of some complex actions related mainly to the limitation of industrial production in relation to the available workforce. This process has been favoured by the integration of information and communication technology in the current practice of the organisations. Similar mutations have also been highlighted on the workforce market by the increase in the mobility of human resources, both from the professional point of view, as well as regarding the practical experience in industrial fields with orientation towards research – development or the information technology. The areas with resource availability have transformed from

independent locations in regions or networks economically – socially interconnected, and the strategies of complex integration of the transnational organisations have materialized in the development of certain international integrated production systems.

The power centre of these systems has partially moved from the field of material and natural resources to that of intensive technologies based on knowledge, professional competences, flexibility and organisational suitability [1].

2. The mechanisms of globalization

It is easy to understand why the multinational corporations play such an important role in globalization: the coverage of the entire planet, bringing the markets, the technology and the capital of the developed countries to the same level with the production capacities of the developing countries require the existence of certain very large organisations [2].

The British economist Adam Smith, the founder of the modern economy, was a powerful advocate of both free markets and the free trade, and his arguments are very convincing: the free trade allows the countries to take advantage of it, because each of them specializes in the field it excels. The great commercial areas allow the companies and individuals to specialize themselves further and to become more competent in what they do. Imagine yourself a small village where there is only one baker, and then imagine a big village which might have two or three bakers. In a bigger town there could exist more bakers of which some of them would make only bread and others only cakes. In a bigger town there could be only bakers which make bread or cakes – its bakers would have so many clients so as he would specialize more and more, producing a large variety of very good cakes and bread specialties. Greater markets increase the effectiveness of each producer and amplify the possibilities of choices available for the consumers.

In the lack of a free trade, the capital and the workforce shall record different profits in different countries. In a country which has no capital, such as equipments and technology, the workforce shall be less productive and the wages lower. If the workforce migrates from a country in which the productivity and the wages are low to a country where they are high, the production shall be huge, and the global economy shall develop. The free trade removes the necessity to shift. The inhabitants of the developed countries can stay at home and they can buy cheap products from the Asian countries, where the workforce is cheap. In their turn, the Asian workers can stay within their countries and can have access to United States high-tech products, a country with a much more advanced technology, with a very specialized workforce and with high capital investments. Theoretically, this means that the demand for the Asian products increases with the demand for their unqualified workforce, and, finally, the wages of the unqualified workers within these countries shall increase. [2].

3. The improvement of globalization and democratization

The globalization itself is neither "bad" nor "good"; it simply exists. But, undoubtedly, the globalization must be governed.

Globalization is a phenomenon which implies risks and, as it is well known, the risks imply both opportunities and hazards. The good governance maximizes the exploitation of opportunity windows opened by globalization and abates the hazards which might have impact on certain categories of people from certain world areas.

The role of catalyser of the globally really free competition is, according to Antonio di Pietro, the key element for the understanding of which concrete policies must we put into practice and which action lines must we promote, in our quality of "global political class", in order to get a net benefit, at a global level, from this extraordinary process.

More shortly, Antonio di Pietro centralizes his analysis on the following preliminaries:

- The globalization must go hand in hand with democracy; otherwise, we cannot reach the free economical competition;
- This competition cannot be achieved if the fiscal paradises and the enclaves of money laundering are tolerated.

Even if the term "democracy" can be defined in many ways, we can assume that the level of democracy is given by the "amalgam" of moral imperatives spread within the society and by the way the social and political processes are organized [3].

The democratization is part of a distinct set of changes within the global order. It is particularly related to the establishment of a really global politic economy, to the occurrence of the institutions of global governance and to the establishment of a global communication network.

Strang considers the democratization a consequence of the establishment of the global political economy:

"Most of the recent changes of the global policy, regardless the level of their apparent despair, have mostly common roots in the global politic economy. We can see the same forces of the structural change responsible for the release of the Central Europe, the disintegration of the Soviet Union [...] and the radical changes of many governments of the developing countries, from the military or authoritarian governments towards democracy, and from protectionism and industrialization based on substitution of imports, towards the opening of boundaries and the promotion of export."

The establishment of the global political economy has its roots mainly in the globalization of production, trade and finances. The specialists agree that the current extension of the trade is higher than in any other point in human history and that we assist to the apparition of some finance and production markets that are really global. The globalization process is both the cause and the consequence of a seismic transformation at the level of the national economic policies and of the global movements towards economic deregulation and global integration. The development cannot take place anymore between pressurized or insulated national boundaries. This is the case of developed societies, but it can be even truer in the case of developing societies which do not benefit of enough capital, know-how technology and trust. Thus, globalization is an irregular process which affects the countries differentially. It has the greatest impact on vulnerable and weak countries, where the countries are less capable to moderate its effects.

The establishment of the global political economy is related to the democratization in various ways. First, it strengthens the authority of occidental capitalist centres over the developing world, reducing the political and economical options made available for the developing countries. The developing countries and the post communist ones have repeated and regular contacts with the agents or governments of the capitalist nucleus. This is a result of the support governments which are based on political conditioning, of the development of some humanitarian intervention programs in the former Yugoslavia or in Somalia, for example, as well as of the apparition of regionalized commercial blocks which started to dissolve the previously well-established boundaries which distinguished the North from the South and the West from the East. At present, the south countries or the post communist ones discover that they are "fixed" in a certain development model which depends of the formal democracy and of an open economy. They are caught in a series of political relations with the developed countries which includes a bond to the liberal democratic model of development [4].

The general meetings of the Club of Rome which took place in the last years continued to centralize on the problematics, globally considered, of learning, as one of the essential issues in the process of social development. The ignorance – synonymous to the absence of permanent learning in the contemporary period – was invariably identified as a serious major impediment both for the extension of the knowledge era, for the social development, as well as for the global abatement of poverty.

But the knowledge and globalization era continue to be current premises for the theses of the Club of Rome; as a matter of fact, knowledge has an undisputed role in all contemporary theories on globalization.

Within the meeting from October 2005, the Club of Rome brought into attention the central idea – the long term global thinking which must centre on the preoccupation for the future generations – in other words, the Club suggested that a new type of thinking is necessary (essentially global, long term, interdisciplinary), otherwise the social development and the eradication of major global problems (among which the poverty

and the conflicts) being impossible to be achieved. The educational issue came back powerfully in the fore within this meeting: to the question "What tendencies must the globalization define so as the human societies be progressively characterized by the economical and social development, and, at the same time, by the ecological balance?" the response given was that the key-role is held by education [5].

4. Conclusions:

The effectiveness requires transformations of the globalization and of the democracy which are reflected in the free market, being a fundamental characteristic of the political and social life. The territories are a key element of globalization in the economic exchange and in the market structure, encouraging the exchange, facilitating the communication which carries along complementary activities as natural or material resources, the labour market and the commercial market which are influenced by territorial factors.

Through a correct streamlining of the globalization for some areas of the world, the advantages are even higher in what concerns the economy and the development of the standard of living of the population, so as it functions not only for those that are rich and strong, but also for all humans, including those from the poorest countries.

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The Evolution of Clusters and Competitiveness Poles in Romania and the Chances of Succcess of This Process

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Abstract

In the global competition for markets, the chances of economic success of a country or of a region are based on the offer specialization and on focusing the development efforts to key fields where there already exists competitive advantages, resources and skills. In this context, the clusters represent the ingredient for success because it offers a combination of entrepreneurial dynamism, strong relationship between institutions and companies which have the'' know- how'' and pro-active synergies between the leading actors of innovation. Clusters' formation and their development are currently seen as the primordial pillars of the local development. The paper proposes to present a brief image about the process of creation clusters and competitiveness poles in Romania and to analyse and evaluate the chances of success of clusters/competitiveness clusters for increasing romanian economic growth.

Key words: clusters, competitiveness, competitiveness poles, economy
J.E.L.Classiffication: M21, O16

1. Introduction

The clusters represent a successful solution experienced in Europe in the last decade and have currently become the primordial pillars of the local development. The members of the cluster can keep their independence but in the same time can act in partnership to apply a common strategy of development created around some innovative projects that help the association in its whole and offer all the members tangible benefits.

The first economist who described the clusters from the "chain of suppliers" perspective was Alfred Marshall who analyzing the industrial agglomerations in England found out that these geographical concentrations of enterprises from a specific sector create involuntary positive economic effects. The essence of the cluster concept has its roots in work on what Marshall, as far back as 1890, called 'externalities of specialised industrial locations' [1].

Somewhat paradoxically in the current context of increasingly globalised markets, firm location and interdependence are significant explanations of their competitive performance according to cluster theory. At the beginning of the 20th century, two Swedish researchers Ohlin and Hecksher argue that the difference between countries is given by the production factors, and the products are different because of the production factors incorporated. According to the model (Ohlin – Hecksher factor proportion theory), a country holds a comparative advantage and thus will export the product that incorporates the abundant production factors in the respective country. Thus, the more abundant a production factor is, the cheaper it becomes. So, the difference in the production factors is given by the difference in their prices, generating the competitive advantage.In Romania there are many analyses and studies that aimed the identification of economic competitive agglomerations cluster type/ poles of competitiveness, even in an incipient form. But all these analyses, except for the last one, have merely identified the clusters and generated general recommendations regarding the development of a national cluster policy.

2. A brief history about the process of creation clusters and competitiveness clusters in Romania

So, in Romania the analyses didn't follow the advantages generated by these formations and the role they may have in the economic development, in the way we can find in other European states and not only.

In 1998, the Economic Development Institute of the World Bank ordered a study done by the International Center for Entrepreneurial Studies [2] regarding economic competitive agglomerations cluster type in Romania. The study, based on Porter's diamante competitiveness theory was focused on the Romanian economic sector competitiveness and was done on a panel of enterprises of all sizes from all of the 8th regions of development and identified three clusters in the incipient phase in the wood industry, shipping and software production.

In 1999, Marco Riccardo Ferrari, assistant researcher at the Department of Economics of Bocconi University in Milan, published a study focused particularly on small entreprises and on the data analysis based on regional and county level. The study identifies three so-called "proto-districts', but this time, in the wood industry, textiles and ceramics industry[3].

Valentin Ionescu [4] argues the existence of "proto-clusters" or "emerging cluster" and sustains his view by explaining different levels of development and knowledge of industrial agglomerations identified . Research finding confirms the presence of two "proto-clusters" in ceramics at Alba-Iulia and software industries in Bucharest. In addition, he underlines the differences in the methodological criteria apllied in the other studies and the vagueness of the clusters'definitions.

The VICLI3 project, developed within the European program INTERREG II C - CADSES4, between 1999 and 2001, tried to identify and support cluster development through regional exchange of know-how. This report identifies four potential clusters appeared in Harghita County (Harghita was the pilot area in the project) in woodwork, pottery, printing and switchgear industry. The emergence of these sectors is clearly related to the area's natural resources.

Between 2000-2006, the INCLUD5 project funded under the Interreg III B CADSES, European Initiative for European Regional Development Fund aimed at an analysis of existing clusters of potential partner countries in Central and Eastern Europe and then assisting these countries in developing such clusters, using the experience and know-how in Italy and Austria. Some potential clusters were identified in the textiles industry in North-East, in particular, Bacau County and West Region, particularly Timis, in the software industry in Timis, Cluj and Bucharest, in wood, steel and metal components industry in the Central Region.

From 2001 to 2004 the WEID8 Project financed by the European Commission in the 5th Framework Programme - FP5 on a period of 3 years investigated the relationships between clusters at European level using the study cases. The project involved partners from 7 European countries – Germany, Italy, Great Britain, Czech Republic, Poland, Slovenia and Romania - and 2 of the 15 study cases were related to Romania in the sports equipment industry, respectively, in the shoe industry. The results of the researches in the WEID8 Project reveal the existence of a more intense spatial agglomeration for the firms in the west and north-west of the country , areas (especially Timis and Arad) where there was also identified a high level of Italian investments that brought the Italian model of clusterring.

Due to the distortion of the socialist system under the auspices of which the Romanian economy was developed until 1990, the current orientation towards cooperative structures, public - private partnership and collaboration between industry and universities still suffer now being treated with suspicion and not very much confidence [5].

Michael Porter's economic theory was the starting point in the implementation of the cluster and regional competitiveness pole concept, namely that "a cluster" is an economic concentration of enterprises, small and medium sized enterprises especially, on a given geographical area, interconnected with its own nuclei (centers) of research, professional training centers, specialized suppliers, in a certain field, that are in competition with one another but also in

relations of cooperation and a competitive pole is a regional innovative cluster with national (an elite cluster) and international vocation or a cluster network (6). The economic reality in Romania required the presence of catalytic institutions (entities specialized in the innovation and technological transfer, consulting firms, chambers of commerce etc.) within the pattern called "the Four Clover" [7].

At the end of this studies survey, regarding the economic competitive agglomerations cluster type developed in Romania, we should also mention the most recent initiative in this field which consists in the process of ''cluster mapping'' (fig. 1) launched by the Ministry of Economy, Trade and Business Environment (MECMA) with the declared purpose of identifying the existing and the potential clusters in Romania. The project, launched in 2009, in the framework of the mutual agreement between the German (represented by GTZ) and the Romanian government (represented by the Ministry of Economy) was held during 8 months (June 2009-January 2010) [8].There were identified, based on the course of 8 regional workshops (held in Bucureşti, Iaşi, Timişoara, Râmnicu Vâlcea, Mioveni, Bistriţa, Sfântu Gheorghe and Constanţa), whose results were validated by analyzing the questionnaires completed by the most important regional actors and in conjunction with regional development plans and regional development strategies developed by RDAs.

3. The Current Analyze of the Romanian Cluster Process. A Real Success?

The "Triple Helix" - a model that fits well cluster structures in many other European countries and in which the three actors (universities and research institutes, industries and public authorities) cooperate voluntarily very well, must be adapted to work in the Romanian realities. This way emerged The "Four Clover" model where, in addition to the three actors listed above has occurred a fourth actor whose role is to facilitate the cooperation of the other three, the fourth actor is the institution catalysts: specialized service providers, technology transfer centers, chambers of commerce, consulting services in the field of cluster management, etc.. This new model is applied to the emerging innovative cluster in the woodworking and furniture industry created in the region Brasov - Covasna by FP7 project "Pro Wood".

In the policy of clusters, poles of competitiveness, Romania is interested in the following:

- Attracting foreign investment and investment funds in clusters / poles of competitiveness in Romania;
- Exchange experience with entities which develop cluster policies and strategies;
- The development in partnership of Benchmarking;
- Exchange of experience and best practices with other clusters both in business and economic cooperation;
- Romanian clusters include transnational and cross-border networks;
- Preparation of cluster managers and study visits, trade missions, etc..;
- Supporting the participation of Romanian clusters in Innovation Tours, international fairs and exhibitions to promote regional brands;
- International cooperation (public-private) in creating theme parks like Technopolis, Copernicus and so on;
- The Participation of Romanian innovative clusters in projects of the Danube Strategy, of the South East Europe Transnational Programme, INTERREG IV C etc..

The clusters that form will represent the nuclei of competence which will contribute in future to increase the competitiveness of regional business environment and further development of some initiatives, benefiting from the support of local public authorities, universities and other business support structures and research as well.

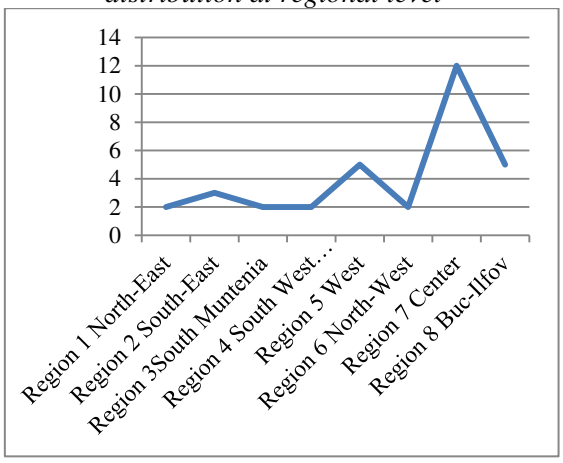
In the year 2012 in Romania were identified 33 clusters / poles of competitiveness which are largely functional since 2011, so we can say that this phenomenon is at the beginning, we take the previous experiences of countries with a tradition already in this phenomenon of creating clusters / poles of competitiveness.

Doing an analysis of clusters / poles of competitiveness on domains it is noted a concentration of 50% of these clusters in automotive, green energy, textiles and tourism. It is also argued that the

concentration is given by our country's tradition in these fields but one thing is certain, namely that the number of clusters / poles of competitiveness is under regional potential available to Romania.

If you were to analyze the regions where clusters are present or competitiveness poles are noted fig. 3 that region 7 Center has the highest concentration of economic agglomerations, respectively 12 (36%), in Region 5 West and Region 8 Bucharest-Ilfov were identified 5 (15%) each, while the North-East, South-East South Muntenia, South West and North-West Oltenia are the least represented in this sense, they have 2-3 clusters at regional level (6-9%).

Figure 1 Competitiveness poles/clusters distribution at regional level



Some of these clusters do not work, agreements are concluded between cluster members and some of them are applicants due to the call on projects within the Sectoral Operational Program - Increase in Economic Competitiveness - Operation "Poles of competitiveness". Most clusters are functional from 2011 and unfortunately we cannot speak of their development because we do not have a record of them.

4. Conclusions

Romania, during the 23 years after the 1989 Revolution tried to catch up, adapt and implement models of European economy at local level, often successfully, other times not because in terms of national policies and strategies of development the imported European models are not adapted to the Romanian economy. This is also the case of competitiveness poles model "Fabrique en France" (we consider it to be the most sophisticated model of economic concentration), taken by the Ministry of Economy, Trade and Business Environment and implemented with EU funds through the Sectoral Operational Program the Increase of Economic Competitiveness.

It is a concept developed successfully by France, indeed after 25 years of experience in which they went from the local production systems in 1987 to clusters and from clusters to poles of competitiveness since 2005 and this transition was based on a strong intervention of the French Government that allocated inter-ministerial funds for C-D projects, funds from the local authorities, regional directorates of industries, research and the environment, European funds. French clusters are smaller concentration of competitiveness poles, their funding is entirely private in comparison to the pole that is mixed and where the share of public funds exceeds 40%.

Romania is not ready to implement the concept of competitiveness pole as long as more than half of the identified clusters are not functional and are currently funded exclusively from European funds so the question which arises is what will happen after their exhaustion as long as there is no funding from MECMA or from the local authorities? In our country the job/profession of cluster manager does not exist, there is no culture of the cluster brand, and most importantly there is no public funding for innovative projects in the clusters, the clusters that are functional are financed by members' own efforts and other European funds if they applied to SOP IEC - "Operation Competitiveness Poles" according to the selection results.

We consider that the sophisticated French model of competitiveness poles is not functional in the Romanian Economy so it is not suitable for the Romanian economy; we believe that more appropriate would have been any other European cluster model that should be supported, developed, financed and implemented successfully.

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Keynesian Realism and the Present State of Economic Science

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Abstract

The aim of this paper is to illustrate a few aspects related to the shortcomings of the mainstream economics, and its unrealistic theoretic assumptions, as it completely failed to anticipate the current economic crisis. In the same time we intend to highlight the much more realistic theories provided by the Keynesian doctrine, which offer much more coherent and precise explanations about the economic mechanisms that cause deep economic recessions, like the one we are going through nowadays. The most important objective of this article is to emphasize the essential role of the psychological factors regarding the macroeconomic cyclical evolution. In the final part of the paper we provide a few scientific pieces of evidence that undoubtedly confirm the Keynesian hypotheses.

Key words: Keynes, economic crisis, animal spirits, uncertainty, behavioral economics.
JEL Classification: D84, D87, E12, G12.

1. Introduction

Since 2007 the world economy is facing one of the deepest economic crisis in history, comparable perhaps only with the Great Depression from 1929 – 1933. As we know now,its origins are related with the collapse of the speculative bubble on the American real estate market. And although the economists and the policy makers from around the world have tried different methods in order to restore the economic prosperity as quickly as possible,the economic situation is still very difficult in most countries. More exactly, the living standard has decreased substantially, the financial sector is still almost paralyzed and the unemployment rates are still very high. Though, in spite of these already huge problems, the economists have one more thing to worry about, and that is the present state of the economic science. This is because the dominant economic doctrine of the moment proved to be unable to predict the present crisis, let alone to explain it.On the contrary, during the time period that preceded the actual crisis the majority of the economists seemed convinced that many years of economic growth will follow. More than that, when the crisis came, they were taken completely by surprise and could not provide a satisfactory explanation.

From our point of view, this discordance between the optimism of those economists and the real situation of the economy was due to the fact that they were thinking according to the neoclassical theories that are very much "in vogue" nowadays.

2. A quick analysis of the neoclassical theories

As we have stated above, the dominant vision in economics nowadays is based on the assumptions of "perfect rationality" and "perfect competition" suggested by the neoclassical school of thought. According to this economic doctrine based on assumptions, like the "rational expectation hypothesis", the "real business cycle theory" or the "efficient market theory", the current crises should have never occurred.

To be more specific, the essence of these theories is that every economic agent present on the market has unrestricted access to every piece of information he needs, for the economic decisions he has to make. In other words everyone is perfectly informed, and as a consequence, the future is completely predictable. Thus, every event that might occur can be easily anticipated by using certain mathematical tools and probabilistic calculations. More than that, the neoclassical

theories argue that the markets will always have the tendency to self-correct almost instantly, every time minor and conjectural imbalances will occur. Therefore there would be impossible for an economic crisis, especially one of this magnitude, to take place. The historian Robert Skidelsky, accurately and appropriately summarize the substance of these theories, as follows:"by means of rational expectation and real business cycle theory economists came to believe that the future was certain, the unemployment was voluntary and the numbers could substitute common sense."[8]

Just by reading the point of view presented above, everyone should realize that the neoclassical assumptions are unrealistic, and that is the main reason which has determined, in our opinion, a crisis of the economic science itself. In the real world things happen in a different way and the economic science cannot afford to farther ignore the reality.

3. A Keynesian perspective on the causes of the current economic crises

The Keynesian school of thought offer, on the other hand, an entirely different perspective on the causes of major macroeconomic fluctuations like the one we are experiencing nowadays. In his works, John Maynard Keynes explicitly contradicted the assumptions of perfect rationality that were also highly appreciated in the time period that preceded the Great Depression. The lack of realism that characterize the neoclassical theories is best emphasized by Keynes in the following fragment: "The orthodox theory assumes that we have a knowledge of the future of a kind quite different from that which we actually possess… The hypothesis of a calculable future leads to a wrong interpretation of the principles of behavior which the need for action compels us to adopt, and to an underestimation of the concealed factors of utter doubt, precariousness, hope and fear."[5]

Thus, Keynes introduced in the economic vocabulary and analysis, notions like "animal spirits" or "uncertainty". He argues that people in general, and especially the economic agents, possess different levels of knowledge, and thus, most of the times they do not act fully rational. Because the information is "asymmetrical", most of the times, the economic agents are compelled to rely rather on instinct or intuition, in order to adopt economic decisions, than on probabilistic calculations.

One could ask what is the connection between these new concepts and the deep economic crisis that started in 2007 and that still appears to be far from over. The answer to that question is that, this economic crisis, like many other crises from the past, occurred precisely because of the instinctive behaviorsthatare adopted, especially by the participants on those markets characterized by very high volatility, like the financial markets. And we know that these markets have played a big part on the development of this crisis. The best example is that of the speculative transactions made with those "toxic" financial derivatives, issued by the many powerful financial institutions, like the American investment banks.

The prices of certain asset categories, like the well-known CDOs, seemed, for a while, to increase constantly and rapidly. As a result, many people perceived these price increases as a golden chance to become rich, in a very short period of time. Everyone wanted to buy this kind of assets and nobody seemed to realize that the price increases were not going to last indefinitely. This kind of behavior reveals at least two aspects, which are closely related to the Keynesian concepts of "uncertainty" and "animal spirits". First of all we can see that nobody really knew about the real value of the assets they were buying and secondly, that nobody seem to care about it. We know now that these assets were based, in a large proportion at least, on potentially non performing mortgages, but in those days the buyers were deliberately ignoringthis possibility, in the same manner as "a healthy man puts aside the expectation of death."[4]

The increases in prices of both, the real estate assets and financial assets were not caused by "pure rational" behaviors, but rather by that kind of "naive optimism" that Keynes had spoken about in his masterpiece – "The general theory of employment, interest and money" published in 1936.

Another aspect that perfectly illustrates the irrational behavior of the economic agents in the period that preceded the current

economic crises is represented by the ease with which the financial institutions granted loans even to the very risky customers. But, in spite of the fact that some bank managers have anticipated the difficulties that might arise when those customers would not be able to repay the loans, they continued to "play this dangerous game" arguing that it was the only solution to maintain the competitiveness on the financial markets, of the institutions they represented. More than that, even if they wanted to adopt different and more prudent strategies, they would not have been able to control the actions of every broker that worked there; the asymmetry of information would have prevented that. In conclusion, they had no choice but to do what everybody else was doing, hoping that the "judgment day"will arrive as late as possible.

This type of behavior has also been described by Keynes in his works. He named it – "herd behavior", and compared it with the game of "musical chairs", a game where everybodyhas to dance while the music is still playing.In a similar way, both the managers and the brokers had to "follow the crowd" if they wanted to keep their jobs. Otherwise they would have been fired or forced to resign. More than that, the situation of the financial system wouldn't have improved, because others would have taken their place instantly, and would have continued to lend carelessly.

In the recent years, the Keynesian concept of "animal spirits"has been developed by other influential economists, like Robert Shiller or the Nobel Prize laureate – George Akerlof. They divided this concept, which Keynes has defined as "a spontaneous urge to action rather than inaction"[4] into five subcomponents, namely: confidence, fairness, corruption, money illusion and stories.[1] They have also emphasized the role which each of these components has played during the present economic crises. For instance, a key role in the price increases that facilitated the formation of the real estate speculative bubblefrom the US market was played by "stories". More exactly, when the dot-com bubble exploded in March 2000, many investors have shifted towards the real estate market. This caused an initial price increase of this category of assets, which, in time, gave birth to the idea that owning a house or a piece of land was the best business one could dream about. Many journal articles and even books reinforced this idea, and the results were spectacular. Not only the experienced investors, but common people also, rushed to buy real estate properties. Moreover, this phenomenon extended on other countries as well. All over the world the real estate prices increased substantially, as well as the buyers' confidence.

Money illusion have also played an essential role in the "price explosion" that occurred on the real estate markets. That is because, buying or selling a house represent a transaction that most people only make once in a lifetime, and people tend to remember the nominal acquisition price. Thus, if someone had bought a house twenty or thirty years ago, the actual market value of that house would seem much higher. This creates the impression of an extraordinary investment. But this appearance is deceiving because in the given time interval, all the other prices had increased proportionally.

Even the "fairness" has played an important role in the development of this crisis, at least in the United States. That is because of the political pressures made by the leaders of the Afro-American community, in order to obtain less restrictive conditions regarding the access at mortgages, for its members. These advantages were obtained. The American government allowed certain public institutions, like Fannie Mae or Freddy Mac, to reduce the lending standards for the members of this community. However, the price that the Americans paid for that decision was rather high. That is because the private financial institutions were encouraged to adopt less restrictive credit terms for their customers, as well. After that we all know what followed…

A special form of corruption could be identified in another crucial moment of the crisis. That is the moment when the rating agencies were given the opportunity to evaluate the financial derivatives issued by the financial institutions. In spite of the fact that they were aware of the unorthodox methods used by the financial institutions to create these products, they preferred to look the other way and to give favorable ratings to almost everything. Of course they received consistent fees in exchange of their "generosity". In these circumstances we believe that it is safe to say that the rating

agenciesand their corrupt behavior have played a crucial role in the outburst of the current economic crisis.

4. Experimental evidence that confirm the Keynesian theories

In the previous sections of this paper we emphasized a few aspects related to the way that people act in the real world, and that are not taken into account by the neoclassical doctrine. In this section we intend to provide additional evidence that those types of behavior which we described in the above pages are indeed permanent characteristics of the human actions. In order to do so we will present the conclusions of a few experiments made by certain researchers in one of the newest fields of economics, namely behavioral economy.

The first example is not exactly an experiment but an "everyday situation" that Robert Shiller illustrates in one of his books, titled "Irrational Exuberance", in order to emphasize the Keynesian concept of "herd behavior". Professor Shiller presents the image of a person that has to choose between two similar restaurants that are situated close to each other. The only information that our hero has got about the two restaurants come from other people. He hears only good things about the first one, while about the other he receive mixed evaluations. Thus he decides to enter the firstone, because it is more appreciated by the people. However when he approaches them he observes that the one he was going to enter is almost empty while the other one is crowded with people. Seeing that, he changes his decision and enters the one that he intended to avoid. In other words, he ignores the information he posses and decides to "follow the crowd".[7]

A set of experiments illustrating "money illusion" are presented by the economists Eldar Shafir, Peter Diamond and Amos Tversky, in an article published in 1997. One of these experiments considers two individuals – Ann and Barbara – who have similar jobs. Both are receiving the same salary of 30.000 dollars, but while Ann receives a raise of 2% in the absence of inflation, Barbara receives a raise of 5% in the condition of a 4% inflation. In nominal terms Ann gets 600 dollars while Barbara receives 1500 dollars. When asked about who do they think was doing better in economic terms, 71% of 150 respondents "voted" for Ann. However the situation changed dramatically when the same respondents were asked who they think it was happier. To that question 64% voted for Barbara. More than that, to the question of who is more likely to leave her job earlier, 65% of 139 respondents thought that Ann is more likely to take such a decision first.[6]

The money illusion is also clearly emphasized by Keynes in his "General Theory", when he writes about the workers rigidity to nominal wages cuts.

There is also experimental evidence that people care about fairness, in the same time they suffer from money illusion. One of these experiments presents the situation of a small firm that has few employees and makes little profit. To the question about the fairness of reducing the wages with 7% in the absence of inflation, 62% of 125 respondents appreciated thatsuch an action would be profoundly unfair. However 78% of the same respondents appreciated that a wage increment of 5% in the condition of an inflation of 12% would be acceptable.[2]

Another example we will present in this paper that illustrates the fact that people do not act fully rational is given by Keynes himself in his book titled "A treatise on probability" and published in 1921. Here Keynes presents the following situation: there are two urns each of them containing white balls and black balls. Certain people that are asked to extract, for example, white balls from the two urns know that in one of them there are white balls and black balls in the same proportion. About the other urn they know that it also contain white balls and black balls, but do not know anything about the proportion. If they would act in a perfect rational way, they would not care from which urn they extract. The probability to extract a white ball is exactly the same, namely 50%. However, in reality, the great majority of people would prefer the urn that contains an equal number of white balls and black balls. [3] Keynes explains this attitude by the fact that people "suffer" from what modern psychology calls "the ambiguity aversion".

Another recently established economic sector, namely neuroeconomics, provides us with even more experimental evidence about the "irrational side" of the real people. Tests

conducted by the experts in this field have shown that people use different parts of their brain in order to make different economic decisions.When there is the possibility of an immediate gain, the brain area that responds to stimuli is that corresponding to the center of emotions. On the other hand, when we have to make a decision that could bring us a financial reword, but only after a longer period of time, the brain area that responds is the reasoning center.

A classical neuroeconomic experiment has revealed different behavior by potential investors when they were presented withthe same question but which was differently formulated. Thus, they were inclined to invest whenwere told about an investment with 60% chance of winning, and to hoar the money when they were told that the chance of losing their money would be of 40%.

5. Conclusions

The economic history has showed us many times that the recession periods are a part of the economic evolution. They could not be avoided so far, and, in our opinion, this the situation won't change in the future either. The reason is that the economic crises are caused by the emotional component of the human behavior, as Keynes anticipated almost a hundred years ago. But maybe the major crises can be at list anticipated, or even "sweetened" as much as possible. However, in order to make that possible, the economists need to let go of the old habits. They need to renounce at using mathematical tools for analyzing a world composed by real people, who are not fully rational most of the times.

On the other hand, a better analysis of the psychological factors that decisively influence the human behavior, by using the appropriate tools, will determine the real progress of our science. John Maynard Keynes has taken the first steps towards a "healthier" scientific approach on the realities of the economic life. Moreover, the researchers of the newest economic branches have confirmed his theories. Now, all that remains to be done is to adjust the dominant economic theories according to the findings of the great British economist, and thus, to make them more realistic. Let us hope that the necessary adjustments will be finished until the next major economic crisis arrives.

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The Balance between Flexibility and Security in the Labor Market in Romania

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Abstract

Balance between flexibility and security in the labor market is essential for the achievement of performance criteria both employer and employee. In Romania populism characteristic of the period of transition to market economy and found an unfortunate reflection Labor Code - Law 53/2003, which established settlement in legal obvious imbalance between the interests of unions, very strong at that time, and the interests of employers represented employers' associations without a definite decision making power. Almost paradoxically triggered by the global financial crisis in 2008, accompanied by accelerating the privatization process led to the change of forces which allowed a number of amendments to the new Labour Code adopted by Law 53/2011. This study aims to identify the elements of balance between flexibility and safety in Romania and if we talk about adopting flexicurity work righteousness, as being implemented in developed countries in the European Union.

Keywords: flexibility, security, contract labor, continuous training.
JEL Classification: D04, J24.

1. Introduction

Flexible use of labor in Romania is manifested primarily in the length of the working day, so in Romania in terms of employment with:

- full time during an average working week is 41.1 hours, while the EU 27 average duration is 40.4 hours and the euro area the average length of the working week is 39.9 hours;
- part - time, the average length of working week is 9.7 hours, while the EU 27 the average is 18.5 hours and the euro area countries the average working week is 19.9 hours.

Under the law 53/2011 - Labour Code, working time shall mean any period during which the employee performs the work, is available to the employer and shall perform the duties and tasks, according to the individual employment contract, collective agreement applicable to his / or legislation. For full-time employees during the normal working time is 8 hours per day and 40 hours a week. For young people aged up to 18 years working time is 6 hours per day and 30 hours a week. Distribution of working time in the week is usually uniform, 8 hours per day for 5 days, two days of rest. Depending on the specific business or work done, you can opt for an unequal distribution of working time, subject to the normal working hours of 40 hours a week.

The new Labour Code [12] brings an increase in labor market flexibility by introducing the individual part-time employment and work at home.

2. Individual employment contract part-time

In accordance with the individual work part time, "part-time employee is the employee whose normal working hours number, calculated weekly or monthly average is less than the number of normal working hours of employee time comparable full". The employer may fall part-time employees with individual contracts of indefinite duration or on fixed-called individual contracts of part-time employment.

An individual employment contract shall be concluded only part time in writing. Comparable employee is full-time employee in the same establishment having the same

type of employment contract, providing the same or a similar activity to that of the employee's employment contract employee with part-time, taking into account other considerations, such as seniority and qualifications or professional skills. When there is no comparable employee in the same unit, have regard to the provisions of the collective agreement applicable or relevant legal regulations.

The individual part-time employment includes, besides the items in the individual employment contract for full time:

- hours of work and allocation of working hours;
- conditions that may change work program;
- ban on overtime except in cases of force majeure or for other urgent works to prevent accidents or eliminate its consequences..

3. Work at home and teleworking

Under current regulations are considered \ "work at home employees to those employees who, at their home, the specific responsibilities of the position they hold. In carrying out their respective duties, employees set their own work at home program work \ ". The employer has the right to verify employees work at home job, as determined by the individual employment contract.

Individual employment contract ends mandatory home in writing and contain the elements laid out by individual employment contract full time:

- to provide explicitly that the employee works at home;
- program under which the employer has the right to monitor employee activity and practical way of achieving control;
- the employer's obligation to provide transportation to and from the employee's residence, as appropriate, raw materials and materials that are used in business, and the finished products they carry.

Work at home employees enjoy all rights recognized by law and by collective bargaining agreements applicable to employees whose job is at the employer. By collective agreements or individual employment contracts may establish other specific conditions on home work in accordance with the law. What customizes contract work is the work at home is not the employer, but the employee's residence. ILO Convention no. 177/1996, whose ratification was held in 1998, the European Commission recommended Member States of the European Union since its provisions establish that the work place is not only home employee but any other place chosen by the employee. Employer control over the activities of his employees is manifested by making periodic visits to work. If the employee does not allow representatives of employers, workplace, he commits a disciplinary offense.

Current regulations to reduce parental leave from two years to one year requires flexible working hours greater compliance with the conditions of balancing parenting responsibilities with career training. When negotiating union confederations current labor laws to ensure safety at work of employees, insisted to conclude fixed-term contracts only in exceptional circumstances nature. Most EU Member States widely used fixed-term contracts, their conclusion is left to employers and employees in relation to their specific needs.

Teleworking is a new and flexible at the same time the organization of work, job duties are performed by using information technologies. Teleworking is an unusual way of organizing work. Between employers and unions with European representation ended at European level, an agreement - Frame on teleworking. The EU member countries are widely used on-call contract (upon request) contract that provides greater flexibility of employment contracts, but still unenforceable under any labor law in Romania.

4. Continuous professional training

New technologies change job content and status of the profession and the institutional changes require ongoing vocational training through lifelong learning throughout life. In Romania, the reform of the education system was established by Ordinance 36/1997 National Council for Continuing Education and Training no.129/2000 Government Ordinance, as amended and supplemented, the regulated activity CVT law practice to ensure compatibility between Romania and

the European Union.

Professional bodies: The Body of Expert Accountants and Licensed Accountants of Romania, Chamber of Financial Auditors of Romania, Chamber of Tax Consultants, National Union of Evaluators in Romania, National Union of Insolvency Practitioners of Romania through continuous training programs provide training of professionals in various fields as a result of compliance with national regulations in the field with EU regulations. There is a strong correlation between continuous professional training and macroeconomic performance if we consider that Romania and Bulgaria ranks last in the European Union in the GDP / capita but also to lifelong learning. Neither 1.5% of people aged 25-64 years in the two countries did not participate in a program of continuous training, while in the Nordic countries average more than 30% of the same age segment.

Correction of deficiencies in the system of education and training throughout life may influence expanding and strengthening the principles of flexicurity labor market in Romania. To achieve this required implementing the following measures:

- involvement of universities in non-formal education;
- involvement of social partners in the education and continuous training;
- the involvement of professional bodies in the education and continuous training;
- tax incentives for companies that invest in raising qualifications of employees;
- increasing role of different forms of formal, non-formal and informal learning in creating and developing professional skills and work habits. Achieving that goal requires fostering a culture of lifelong learning since the period of initial training and awareness by individuals of the benefits of such an approach;
- adoption of a coherent legislative framework on the functioning of the education and training opportunities;
- preparation of studies on medium and long term impact on the effectiveness of different forms of adult education and continuing vocational training in particular;
- correlation of program education and training trends of technological change;
- stimulating the development of adult education services in rural areas and small towns;
- increasing role of information technology in learning throughout life;
- increase the professional competence of trainers involved in processes adult education;
- increase skills levels of employees and finding ways to recover costs under continuous training flexibility.

Objectives of the Europe 2020 agenda on economic policy and social dialogue on flexicurity is asked to answer a number of objectives such as:

- a real flexible contractual relations in the labor market by removing restrictions on fixed-term employment, collective redundancies and other contractual agreement of the parties;
- guaranteed minimum gross salary payment to help overcome poverty line as it is defined by international bodies;
- unemployment benefits be linked to employee and employer contribution and to participate in its level to reduce the number of people affected by poverty;

Encourage young people who want to continue and to complete university, and at the same time to engage in employed part-time, including by promoting a system of training vouchers.

5. Conclusions

After 2020, it is possible for Romania to join the euro area should continue the liberalization of the labor market and especially will be corrected social security long term, under the impact of pension withdrawal demographic peak in July of last century decade (between years 2032 to 2036). Lifelong training should not remain only in the texts of the Labour Code, but must contribute to improving performance in the interests of the employee and the employer. Provisions of collective and individual employment contracts must contain elements of flexibility in terms of working hours. Alignment is necessary not only to European legislation and best practice but in the sense that the majority of EU Member States widely used fixed-term contracts, their conclusion is left to employers and employees in relation to their

specific needs. Balance between flexibility and job security is dynamic and it reflects the balance of power between employers' associations and trade unions, progress towards social dialogue and ultimately lead to the modernization of the labor market. For increasing social dialogue would be useful to consider the following conditions:

- union leaders do not hold equities / shares in the capital of economic entities, have no interests in companies in which an employee, and not political enrolled;
- Government representatives not to hold shares / shares in the share capital economic entities, are not represented on boards and committees of auditors, audit committees,
- representatives of employers will not be in conflict situations provided by law.

It is expected that in the next period social dialogue to build the legal framework already established in the interest of all institutional actors. For it must be observed basic rules of dialogue, namely, the ability to listen and understand the positions of dialogue partners, especially the science of compromise in accordance with their best interests. Economic dialogue between the management entities or employers and employees on improving labor must consider the periodic evaluation of the impact of new technologies and innovations have on labor employed in the unit.

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IT Service Management- Key to Success in Business

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Abstract

This paper presents several issues of the management of IT services and their evolution, with focus on ITSM methodology. It includes a short description of the methodology, together with the costs and benefits it brings, as well as several strategies aimed to increase IT organization performance.

Key words: IT Service Management, Knowledge Management, Information Professionalys
JEL Classification: L10, L21, L25, L86

1. Introduction

IT service management has become increasingly more complex for IT managers. Outsourcing and modularization of IT services have led to new developments in the field of IT services such as IT services „on demand". The current trend of the management of companies is to use the services of an external partner, thus IT managers are forced to work in partnerships.

Service Management enables the service providers to better manage and understand both the usefulness of services offered by them and the costs and risks associaated with these services.

„Service management can be defined as a set of specialized organizational capabilities for providing value to the customers in the form of services. These capabilities are actually processes, methods, functions, roles and activities that enable a service provider to deliver a specific service" [1]. The aim of IT Service Management (ITSM) is to support the business targets of the companies taking into account the life cycle of services and its continual improvement.

The concept of IT Service Management appeared in a project carried out by the Government of the United Kingdom in the mid-1980's, during a serious economic downturn. The British Government was compelled to reduce the costs and better manage IT service delivery.

So the Government has established the British Central Computer and Telecommunications Agency (CCTA) in charge of a project to develop innovative ways to improve IT service efficiency.

The CCTA knew it could quickly increase efficiency by focusing on improving IT processes. The team was drawn the consultants, suppliers, and users to fix a set of best practice–based IT processes, using a common glossary of terms. Then these were published in an integrated series of 40 books. This series has recently been updated. It was edited in seven books and is now called the IT Infrastructure Library (ITIL).

ITIL is the most complete documentation for the organizations wanting to implement IT Service Management. The companies and governments worldwide have adopted ITIL [2,3].

There are the organizations such as the IT Service Management Forum (ITSMF), an independent, international ITIL users group, which help to share ITIL best practices.

The organizations can be assessed and certified with regard to the quality of IT

Service Management on the basis of some standards.

The following public frameworks and standards [1] are noteworthy regarding the quality of IT Service Management:

- ISO/IEC 20000: IT Service Management
- ISO/IEC 27001: Information Security Management (ISO/IEC 17799 is corresponding Code of Practice)
- Capability Maturity Model Integration (CMMI®)
- Control Objectives for Information and related Technology (COBIT®)
- Projects in Controlled Environments (PRINCE2®)
- Project Management Body of Knowledge (PMBOK®)
- Management of Risk (M_o_R®)
- eSourcing Capability Model for Service Providers (eSCM-SP™)
- Telecom Operations Map (eTOM®)
- Six Sigma™.

2. Main components of ITSM and their functions

IT Service Management [4] contains two main elements: Service Support (day to day operation) and Service Delivery (long-term planning, improvements).

The functions of the Service Support are the following: Service Desk, Incident Management (provided by Service Desk), Problem Management, Configuration Management, Change Management, Release Management.

The client requests are taken by the Service Desk which offers first-line support. Also, it has end-to- end task for Incident Management and provides the informations to the end–user domain.

The Problem Management takes the requests which cannot be solved at the first-line, identifies the weaknesses and negative trend of the IT infrastructure trying to correct them according to the quality management system for ISO 900 IT services, and establishes the areas of interest in service support processes.

The Change Management controls that changes taking place in IT Infrastructure have no negative impact on services.

The application of changes is ensured by the Release Management function.

The Configuration Management with its associated database supports every function of the Service Support.

Also, the Service Delivery contains the following functions: Service Level Management, Financial Management for IT Services, IT Service Continuity Management, Capacity Management, Availability Management.

The Service Level Management assures continuous monitoring of the Service Level Agreements (SLAs) so as the parts of agreements be satisfied.

The role of the Financial Management is to determine and control the service costs.

Ensuring adequate IT Infrastructure and planning the acquisition of software and hardware to provide convenient service levels is the task of Capacity Management.

3. Costs and benefits of ITSM

The main costs related to IT Service Management are [5]:

a. Staff expenditure: The implementation of ITSM can lead to the creation of new work places in IT Department to do various tasks. Usually, in large organizations specialized personnel is necessary while in small organizations, the existing staff is sufficient. Although the staff expenditures are high , however, by increasing the efficiency generated by the Service Management functions, in the end, the total costs are reduced.

b. Expenditure on training: The training costs of the staff involved in the ITSM are inevitable.

c. Consultancy costs: Sometimes the specialist consultancy is needed to implement one or more functions of the ITSM.

d. Costs of tools and equipment: Different equipment and tools are required for the Service Management activities.

e. Cultural change expenditure: Costs on senior managers are required as a result of the ITSM implementation.

Implementation of the IT Service Management leads to the following benefits [5]:

a. High efficiency: The IT resources must be guided so as to improve the performances of services which are most beneficial for the customers.

b. Higher quality IT services: Spare components are included to insure a lower

risk of failure and a faster restoration to the normal service levels, in case of failure.

c. Services are better matched to customers needs.

d. Better management information and metrics: A key requirement for effective work processes is to continue the collection of informations regarding the service management.

e. Cost savings: An appropriate management involves final lower costs with an optimal use of IT resources.

4. Strategies to increase organizational performance

An IT organization must know the strengths and weaknesses. Otherwise it will not be able to establish what services must have priority on the market and what have to be removed.

Usually, IT respectable organizations call the *benchmarking* [6] for their services in order to:

- Compare the services of the IT organization with the services of one or more IT organizations, identified as reference.
- Establish the prices of services in relation to those of alternative providers considered leaders in the field.
- Bring in IT organizations the best practices that lead to performance using the successful experiences of the alternative service providers.

Service –based benchmarking is different from traditional benchmarking.

Traditional benchmarking uses average data and classification of existing firms working is the same field, and so realizing a number of comparisons in order to improve the productivity, efficiency and costs.

Service-based benchmarking performs comparison with the alternative service providers. It uses the bottom-line costs, meaning all contributions that lead to greater productivity and added value.

Of great value to service-based benchmarking is the specification and assessment with accuracy and comprehensiveness of the services and prices of other service providers.

Service-based benchmarking requires significant effort, thus, the IT organizations need to use it only when there is an alternative supply for services and when there are serious problems at the level of the provision of services related to the added value.

The services that an IT organizations provide, do not have the same degree of importance, so it is necessary to establish priorities.

Prioritizing services [6] depends on the characteristic of the company and of its purpose. So, IT organization can focus on its strategies in order to meet the expectation of clients. However, this classification does not give information about how the services of external providers may be used. In this situation a service provider – customer matrix, a practical tool to help IT organizations in making decisions, is built.

Due to the present economic crisis, IT organizations are restricted to accomplish as much as possible with few resources.

So, IT organizations must focus, as their principal objective, on identifying the services that give the highest value to business.

5. Role of information professionals in ITSM

Nowadays the IT systems provide broad opportunities to develop information services (IS) in different economic and social domains. The efficiency of these services, both for provider and user/beneficiary, is strongly dependent on the management of all the phases of their construction: IS and its infrastructure design, support development, service implementation to the user and maintenance [7]. The management of IS development and maintenance requires qualified peoples and infrastructure. The key professionals involved in IS management programs are the *information professionals* and the human resource managers. Generally, the information professionals are traditionally recognized as good managers of explicit knowledge [8].

An information professional is a person involved in recording, processing, managing and distributing information. He/she is skilled in the information storage and retrieval of recorded knowledge.

The information professional establish the connections between those who have information, and those who need it [9].

He/she must be well prepared in meeting the challenges of the current and the future information environments. Some necessary abilities for the information professionals are:

- to have knowledge and skills in various areas of information services like: knowledge management and technological systems;
- to integrate information services with the needs of business;
- to provide a wide range of services in different areas;
- to provide valuable information to customers rather than just data;
- to participate to a continuous training in order to improve their professional skills and competencies;
- to have the required knowledge, skills and competencies in order to manage information services effectively [8].

Today the traditional market for information skills and services is continuously changing, as *new skills and services are being developed*. Due to this market dynamics the information environment must be open to new and challenging opportunities. The changing nature of the current information environment calls for new skills and competencies on the part of information professionals [9]. They must be well grounded in ICT related competencies such as core hardware and software skills, web design, internet searching and evaluation of electronic information.

Also, the information professionalshave to bewell trained in new related fields, as: information society, knowledge management, internet based technology, digital world, globalized information access, networked resources, new learning and research systems and the high demands of the user communities, knowledge about information strategy [7]. Also they must be in the same time facilitators, advisors and consultants for IS users. They must helping users to find solutions and answers to their problems and teach them how to use the information product [7-9].

It is important for these people:

- to provide the right information to the right user at the right time;
- to develop relationships with users ;
- to engage in strategies that bring on market information products and services to the audience;
- to resolve customer complaints and win their satisfaction and loyalty;
- to use the complaints to improve their services and customer relations;
- to focus on a core group of products and services which is essential to the organization;
- to become an expert in the tasks that are valued and expand those products and services that are critical by assisting the organization in becoming more competitive [8];
- to direct all their energy to better and focused information services based on customer needs and satisfaction and continuous improvement;
- to response as quickly as possible to user needs and demands;
- to improve professional competence;
- to bring new products to market, and reducing cost of business operations;
- to meet the information needs and support improvements in information transfer services;
- to understand socio-technical systems, resolve conflict over and negotiate plans, and to communicate effectively.

The crucial role of information professionals is to ensure proper management of information services, which is the tool connecting the information systems and the information managers. They must face challenging information environment in terms of demand, user expectations and technological innovations. Also, they need to stay competitive in any information-intensive and highly dynamic market. *In conclusion they must be agents of change and progress in information accumulation, assessment, assortment and access*[8-9].

6. Conclusions

- The recent development of IT infrastructure and IT related services resulted in an increased demand to effectively manage this sector in order to provide high performance products.
- An important guide in the management of IT services is the IT infrastructure library (ITIL), developed in Great Britain.

- This represents a set of principle to be followed in order to effectively develop and run an IT organization.
- Today the information professionals have an increasingly important role in IT Service Management.
- The continuous technological developments, raised important challenges for information professionals, involving significant efforts to enhance their abilities to learn, adapt and change by acquiring new skills and competencies.

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Supply Chain Metrics

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Abstract

Over the last few years having a strong and well defined metrics system has earned an increased importance in supply chain management. Supply chain metrics serve for defining and quantifying supply chain's performance, so that a well-designed metrics system helps in addressing supply chain risks and ensures a valid and accurate basis for making management decisions. In the same time, there is known aspect that supply chain metrics systems help organizations to achieve higher profitability levels by improving their operations as an effect to what metrics highlight: supply chains can align their operations among different actors in the chain, or can adopt strategies like cost reductions or product differentiation, thus gaining advantages. In this research paper we will address supply chain metrics in regards to the new requirements, we will then present some steps in creating a valid metrics framework and in the end the SCOR model will be detailed.

Key words: supply chain metrics, SCOR, performance
J.E.L. Classification: D39, L14, M2

1. Introduction

When a supply chain company wants to improve its operations and performance it has to take into account many obstacles raised by the actual global markets in which it operates. The trend of becoming more and more globalized comes up not only with opportunities, but also with a baggage of risks, complexity and uncertainty – most of them determined by the increased probability of disruptions and their effects on supply chain – like natural disasters.

I order to face these new challenges and to cope with the possible risks a supply chain needs to have a clear view over its own performance and the supply chain's performance. This so called visibility can be established by using the right set of metrics which give an accurate snapshot of the opportunities and threats that the company is facing.

While a good metrics system helps companies to achieve superior performance levels, not having defined such metrics at all drives supply chains to failures in meeting their objectives: customer satisfaction and operational excellence. There are quite a few factors that impede the design of supply chain metrics like: lack of visibility and orientation, difficulty of defining metrics and collecting data, complexity of supply chains, adversity of some partners in sharing information etc.

2. Supply chain metrics new requirements

The research studies done so far are focusing mainly on a single company's performance addressed through metrics and not on the entire supply chain performance. Although there are researchers who understand this need, they don't give a general framework for designing such metrics, so they don't find those areas/ processes that drive performance through the entire supply chain. The recent findings deal with questions like what should be measured, when, how, by whom, which are reasonable questions that will conduct the research to addressing supply chain as one entity. Here is where difficulties appear. The metrics systems need to provide a good overview of the entire supply chain [1] so that managers would see what sectors of the chain is performing bad or is very sensitive to risks and disruptions and would improve it in order to increase its overall efficiency and effectiveness [2].

There are many conditions under which new metrics requirements arise:

- Increased complexity of SC;
- Increased focus on sharing information in order to meet the objectives;
- As we said above – lack of measurement over the entire supply chain;
- SC expansion objectives;
- Product specialization/ differentiation;
- Risk and revenue sharing across partners in supply chain etc.

Performance measures for the full supply chain don't exist yet and the metrics addressing not only the focus company, but also the nearest neighborhoods (tier 1 suppliers and tier 1 customers) in the chain are only at the beginning and still need additional revision in order to cover the full chain. That is why the trend is considered to be towards a complete awareness and assessment of upstream, midstream and downstream partners in supply chain and supply chains will be the core systems.

4. Creating a metrics framework

Supply chain metrics frameworks include metrics for all the operational areas existing in the chain: demand planning, purchasing, manufacturing, inventory management, distribution, customer management. They need to be designed in such a way that managers would use their results in decision making for improvements. When designing the framework one should consider the supply chain area to which the metrics will serve and should align them to the overall supply chain objective.

First step would be to create the set of valid and useful metrics. One should incorporate in the set of metrics the following vital characteristics [3]:

- **Validity** – it applies to a specific concept in a specific business environment;
- **Reliability** – metric's results are consistent for a specific are of interest, as long as the external parameters don't change;
- **Accessibility** – metrics should be accessed in an easy manner and with fewer resources needed.
- **Relevancy** – the metric's definition and calculation should be in line with its objective and with the area addressed so that its results will provide valid information for managers in taking strategic decisions.

The second step would be to relate the set of metrics with the core objective of the supply chain. For doing this one must first determine which are the core objectives of the supply chain and then, for every objective, a sub-set of relevant metrics must be created on several layers – beginning with the overall purpose and going down until the operation based metrics.

In Table 1 a detailed representation of metrics is presented, highlighting the core supply chain objective they serve, their category and their definitions:

Table 1.Metrics categories

Metric Name	Metric category	Supply Chain core objective
Perfect order	Strategic	Customer Satisfaction
Manufacturing Schedule Adherence	Tactical	Customer Satisfaction
Machine Downtime	Operational	Customer Satisfaction
Supplier delivery schedule adherence	Operational	Customer Satisfaction
Cash-to-cash cycle time	Strategic	Operational Excellence
Total Supply Chain cost	Strategic	Operational Excellence

Source: Adapted after F. Tejas and K. Srikanth, "Building and Leveraging a Metrics Framework to Drive Supply Chain Performance," Infosys Limited 2011.Available: http://www.infosys.com.

When having this set of valid metrics liaised with the supply chain objectives the next and last step in creating the metrics framework would be to detail the metrics and their interrelations (what metrics are further influenced and what metrics influence them). For a better understanding one can take the *Inventory Carrying Costs* metric [3] and analyze it:

- Definition: inventory level (units) * unit cost;
- Frequency: monthly;
- Category: tactical metric;
- Characteristic: cost;
- It influences the total SC costs.
- It is impacted by the inventory level and unit cost.

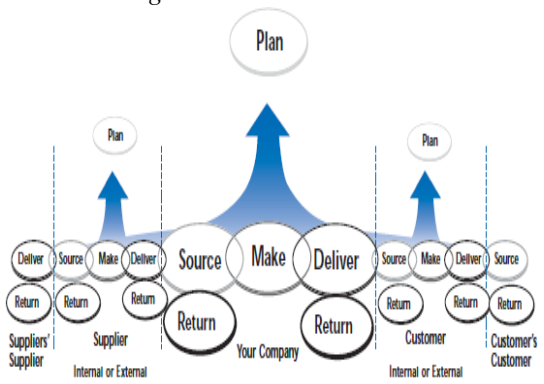
5. SCOR Metrics/ Model

Besides the advantages of having metrics systems mentioned above, the core characteristic of these systems is that they provide frameworks where everybody "talks the same language" – they offer standardized terms, processes and procedures to facilitate quantifying performance. Nevertheless, the value add comes from how the metrics results are interpreted, controlled and leveraged by supply chains to support good and strategic decisions.

There are many methods and models used in practice to assess a supply chain's performance through metrics, but probably the most used, complete and appreciated is the SCOR (Supply Chain Operations Reference) model.

Supply Chain Operations Reference Model was founded on 5 processes: Plan, Source, Make, Deliver and Return (Figure 1). It is intended to offer a framework with metrics addressing the key processes in a supply chain. SCOR was built on the concepts of business process reengineering, benchmarking and process measurement by integrating their techniques into a cross-functional framework that addresses management issues at the enterprise rather than at the functional level [4].

Figure 1.SCOR architecture



Source: Supply Chain Council, 1

SCOR has 4 levels. At level 1 SCOR model's objective and content is established. At this level organizations define their performance objectives in respect to their competing nature. The metrics used at this level are primarily metrics that can cross multiple SCOR processes, not only a specific one (i.e. order fulfillment, supply chain management costs, costs of goods sold etc.). At level 2 every generic process from level 1 is further described and detailed using approximately 30 core process types. Level 3 further details every process type using specific process elements, data inputs and outputs, metrics and best practices. This is the level where organizations revise their objectives and strategies and define management approaches. At level 4 every process is described using process decomposition, in a hierarchical method.

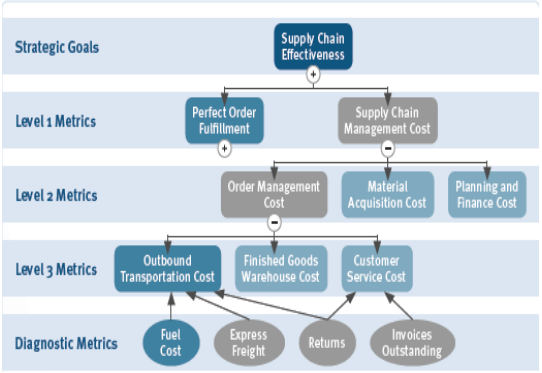
Besides offering a clear view over the performance of a company, SCOR model also signals possible risk sources, identifies opportunities and evaluates tradeoffs. For example, it makes little sense to set an objective of cutting supply chain costs by 6% if these same costs would have to increase to meet the corporate objective of increasing market share. But simply shifting the focus to revenue growth without regard to cost, risk, or strategic impact would also be incomplete.

SCOR model provides to companies the means to:

- Have an end-to-end view over all supply chain processes.
- Highlight the relations between metrics and how they are influenced by each other.
- Identify possible disruption on both short and long term and to address them in advance.

Defining the valid set of metrics (framework) as an important step of supply chain management means that organizations can break down company level objectives - order fulfillment, forecast accuracy, material costs – into department-level metrics - on-time delivery, plant utilization, or order processing time. Every company can establish and control those metrics that are really important for it, as can be seen in Figure 2:

Figure 2.Metrics break-down



Source: Supply Chain Council, http://www.supply-chain.org

As the metrics framework gives a though visual representation of the actual performance of a company, this was used to further transform metrics into good business insight, conducting to increased visibility and future performance. Many organizations (like HP or Dell) have implemented with success metrics in their operations, reaching high supply chain performance and driving ongoing improvement. The main result of using the SCOR model lies in the ability of companies to deal in a better way with the supply chain environment in a continuous transformation.

6. Conclusions

For a supply chain (company) in our globalized network, having good, valid and accurate metrics is essential and staying on the market and gaining competitive advantage. As highlighted in this paper, metrics are capturing vital information about the company's performance and not having a metrics framework in place most certainly would cause valuable information about own business and potential opportunities to be lost. Metrics provide the right support for taking management decisions on improving performance and increasing business' profitability.

It has never been so important for supply chain managers to have metrics in place in order to define action plans for straightening the processes which don't perform at the desired level.

Using a metrics framework and comparing the results to what has been identified in research studies and in real life as benchmark, managers will easily and more effectively:

- Combine supply chain performance with shareholder value.
- Discover which are the most important metrics for meeting the supply chain objectives.
- Redesign operations for dealing with improvement initiatives in a more effective and efficient approach.

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Optimization Techniques in Project Controlling

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Abstract

This paper explains how to build an adaptive enterprise that establishes a tight partnership between business and IT, and in turn delivers greater business agility. This paper highlights leadership in the areas of infrastructure technology, management software, and IT services and solutions— and spells out the role of independent software vendors and system integrators at each level of the enterprise. In addition, the paper explores the sourcing options available to enterprises for introducing these new technologies and best practices into existing IT environments without causing disruption to the business.

Key words: challenge, management project, information system
J.E.L. Clasification: C

1. Introduction

In the everyday course of business, decisions and changes—potentially thousands each day—trigger a series of IT events that ripple throughout the enterprise. Whether the change is expected or unexpected, infrequent or constant, small or large, the success of your enterprise depends on how well your infrastructure [10, 9 and 11] helps you capitalize on change.

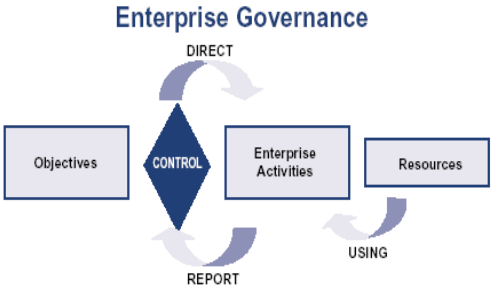
Every business decision triggers a series of IT events. In that sense, and especially in this business climate, an adaptive IT can actually enable agility. However, many IT infrastructures cannot keep up with the pace of change—much less turn these changes into an advantage.

2. The challenge with a vertical approach to IT

When rapid change is imposed on an IT infrastructure that is not designed to handle it, the only choices are costly redeployment of existing assets or, worse, adding yet another silo of incompatible IT. In such an environment, every change makes the business less agile (Fig.1).

System complexity slows down change—especially at scale—and increases the burden on management and maintenance. In fact, the cost of change is the fastest-growing component of infrastructure total cost of ownership (TCO), according to META Group's July 2002 report "How Do I Minimize Infrastructure TCO by Cutting the Cost of Change?" By any measure, the traditional organization and management of IT is incompatible with business agility. A new way of looking at IT assets is required for enterprise success.

Fig.1 Enterprise governance



Black F., Derman E. and Toy, A One factor Model of Interest Rates and its Application to Treasury Bond Options, Financial Analysts Journal, Jan-Feb 1990

3. Evolving toward a horizontal approach to IT infrastructure

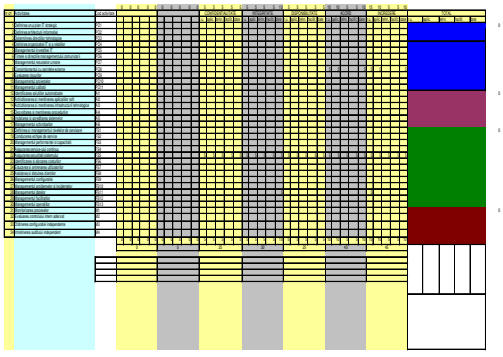
Infrastructure must now evolve from silos of technology to virtualized resource pools. Rather than focusing on supporting discrete applications, used by specific business functions or groups, the infrastructure must be organized to support the needs of multiple groups and

business needs across the enterprise, subsequently reducing the effort associated with administrating specific business processes and infrastructures. As the infrastructure becomes more adaptive, the enterprise becomes more responsive to change, and a new model is created that enables real-time information delivery that is less application-specific, more context-specific. Information is no longer confined to the perimeter of the enterprise, but can now easily extend to customers, partners and suppliers.[5]

4. What is an adaptive GES?

An adaptive GES is one in which business demand is constantly matched by IT supply. It operates on a consumption-based model— the business uses what it needs, then pays only for what it uses. In an adaptive enterprise, every cost is variable, resulting in an optimal use of the enterprise's assets. Ultimately, this serves the business well: it frees the CIO from focusing on the delivery mechanisms of information, to focusing on more business-strategic applications of the information itself. (Fig.2).

Fig.2 Form evaluation

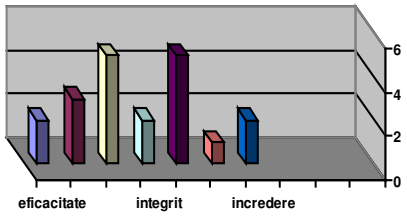


Cobit Standard

To support this kind of agility, the adaptive enterprise must meet three requirements:

• IT resources must be delivered in the form of services. Web services are moving the industry to a service-delivery model. In this model, infrastructure and IT services—including applications—are delivered, allocated and paid for when and where required (Fig.3).

Fig.3 GES report



Cobit Standard

• Resources must be virtualized. Virtualization means the management and control of physical servers, storage and networks to create virtual resources—computing, information and communications. Virtualization dramatically reduces adaptation time, advancing it from the purchasing or redeployment time frame to the millisecond world of intelligent management software.[1,3,9]

• The end-to-end environment must become business-process-based. Success today depends of the ability of the IT environment to respond and adapt intelligently to changing business conditions. This is a new and crucial requirement that is at the core of adaptiveness - the continuous analysis of business needs and intelligent delivery of managed resources to optimize business capability and flexibility.

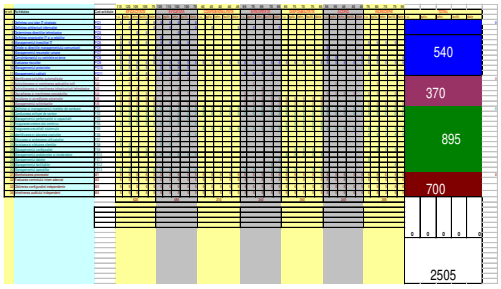
5. The key components of the GES

Adaptiveness is built in through consistent simplification, standardization, integration and modularity of the elements and aspects of the feedback loop.

Business processes are the day-to-day functions that keep the enterprise running. From human resources to accounting to supply-chain functions, the ability of the business to meet its customers' needs is the driving force against which the IT environment must

deliver. The business processes collectively and continually set and adjust levels of IT resources to meet changing demands. While the priorities for allocating resources to each business process are in constant flux, the supply of resources available to the business must always meet the demand. This is core to creating an adaptive enterprise (Fig.4). [2,5]

Fig.4 Activities control



Cobit Standard

Infrastructure services deliver the secure, continuous computing power and storage capacity applications require. In the past, resources were delivered by assigning servers directly to applications. But low utilization and high cost from "one application, one server" policies compel organizations toward shared, virtualized and on-demand solutions that make better use of processor and storage capacity (Fig.5). The GES adaptive infrastructure technologies and solutions accept requirements from and deliver infrastructure services to applications through open industry interfaces and web services.

Fig.5 Evaluation report



Cobit Standard

Virtualized resources provide the foundation for the adaptive GES, with computing power, information and communications delivered as services abstracted from their underlying physical servers, storage and network infrastructures. Sharing or pooling of IT resources helps eliminate overdeployed and underutilized technology components, reducing costs for hardware and software, and further reducing management complexity (Fig.6). Sharing IT resources across business functions also helps to increase business agility, enabling the rapid provisioning of new services or resources and scaling of established services. [7]

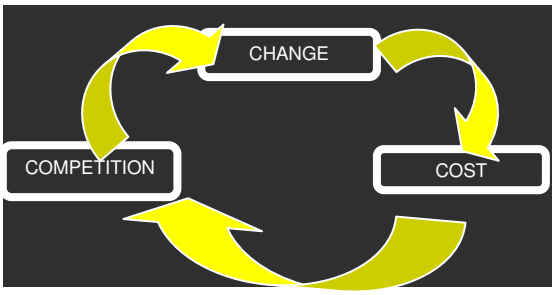
Fig.6 Cobit Standard



Cobit Standard

Business agility is realized when shared resources are dynamically allocated as needed by business procedures [10, 11 and 3]. The creation of this dynamic link between business and IT is aided by a clear assessment and measurement of the agility from the transformation of the underlying IT infrastructure. Management software analyzes demand signals from every part of the organization—from the infrastructure through the extended enterprise— delivering business insight while managing and optimizing the user experience in a secure, continuous infrastructure (Fig.7). [8]

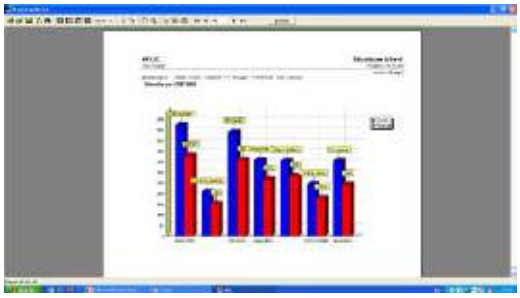
Fig.7 Business environment



Cobit Standard

Coordination and orchestration of infrastructure depends on moment-to-moment inventory and monitoring, planning, provisioning and maintenance. All management and control processes are driven by demands at the IT element level and the IT service and business levels, and are communicated according to open standards. By synchronizing infrastructure, application services and processes with business processes through automated and intelligent management and provisioning, HP enables enterprises to reduce the cost of change, reduce the total cost of ownership, simplify management complexity and provide the enterprise with the ability to rapidly implement the solutions that provide the corporation with a competitive advantage (Fig.8 and 9).

Fig.8 Efficiency report



Cobit Standard

Fig.9 Form report



Cobit Standard

The key to successfully building an adaptive GES is the ability to specifically measure how well the current infrastructure is able to respond to business change—and then diagnose the real barriers to agility. While every enterprise wants to achieve the ultimate state of business fitness, each is unique—differing by industry, business model, strategy, competitive landscape and existing IT environment (Fig.10). There is no "one-size-fits-all" solution to improving agility. [8,11,12]

Fig.10 Risk monitoring



Cobit Standard

However, there is a common approach that can be followed in building an adaptive enterprise to ensure the optimal level of agility. Running an effective adaptive enterprise requires both operational prowess—the ability to stick to IT fundamentals and run IT like a business—and technology expertise. HP delivers both to the enterprise through our fundamental design principles and processes.[6,2,7]

6. Conclusions

The time needed to implement or react to a business environment change Range—the range of implementation across geographies, business processes or operating units Ease—the breadth and scope of change that the infrastructure can support

These three measures are used to identify technology barriers within an enterprise that are limiting the ability of the business to respond to change. In particular, they must determine whether IT is supporting agility in their business, or holding it back.

Complexity—multiple, independent architectures each with its own requirements—is a barrier to adaptiveness. A complete replacement of existing assets is not usually appropriate or sensible. Simplifying existing

infrastructure through management and control reduces the risks of expanding or replacing current resources. When adding new elements, selecting assets with built-in physical and logical simplicity simultaneously builds added capability and adaptivity.

One approach to simplification is consolidation: underutilized, underpowered and overdeployed resources are identified and streamlined into an updated infrastructure. This infrastructure then contains fewer elements— making it easier to manage— and delivers results with improved speed and ease when executing changes.

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The Real Problems of Mergers and Acquisitions

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Abstract

A world dominated by a long difficult economic period is likely to have deeper negative effects on all business aspects.

Mergers and acquisitions sector is one of the sectors affected by crisis and the problems that will occur during

2013 are expected to be bigger and to represent a great challenge for this market.

The purpose of this paper is to identify the real problems that the merger and acquisition market will face this year and also to analyze the reason of unsuccessful mergers.

Representing a complete overview of the problems that the companies involved in

M & A encountered and the one that are estimated to occur, the paper will bring new knowledge in term of real life problems of transactions market.

Key words: Mergers and Acquisitions, Economic crisis, financial instruments.
J.E.L. classification: G34, G30, H.

1. Introduction

The business environment worldwide is facing a period in which a bad decision on a transaction can lead to substantial losses for the companies involved. That is why the players need analysis on which they can base the decisions. They have to know whether or not those mergers and acquisitions will bring value or the contrary. The question is available both for the company which wants to sell and also for the one wishing to purchase.

Two of the problems which caused decrease in 2012 were the uncertainty and economic stress. Those two aspects will be for sure visible also this year and will represent slowdown of the M&A sector.

2. Identified problems in M&A market 2013

There are many issues that can occur during this year and that can affect mergers and acquisitions market and cause the transactions failure.

Deloitte presented at the beginning of this year 10 big problems identified for the M&A market, problems that can cause a lack in evolution also this year. We will present those causes further on. [1]

Uncertainty and economic stress represented for the last years a slowdown factor for the companies, which refused to take the risk for transactions. 2013 started with positive expectations at least in some parts of the world, as US or emerging markets, which should lead to improvement in this sector worldwide. However, the economic slowdown affecting the emerging markets made expansion for the western companies difficult and tough. In addition, the Eurozone downturn conducted to a progressive decrease of the interest rates, following the US model. The natural response is a dissuading of investments in the area.

Transactions of high complexity are carrying a higher degree of uncertainty and of course, risk, that make the transactions impossible or are lagging the transaction. The solution may be hire of an external consultant to perform an independent due diligences that can short the time for decision making (analyze, negotiate, implement, etc.)

The private equity companies have increased activity due to the lower price and attractiveness of the cash flow achieved. This may be seen as speculations of M&A sector

that can cause market exit of some traditional companies with problems due to crisis. The historically cash-rich companies from developed markets may find opportunities for growth via horizontal acquisition (in other countries) or developing via vertical acquisition (integration of suppliers or customers from existing market).

The financial crisis made the regulatory entities around the world to pay more attention to complex instruments used by companies to achieve growth – financial or transactional. The consequence in M&A sector was a strengthening of control on capital requirements, which will limit the transactions freedom.

The valuation is still made under the old-standards, at least in the insurance M&A transactions. The opportunities that may occur in 2013 should not be missed; on contrary the valuation of the targets should be exceeded.

Alternative use of capital can be also issues that the decision factors of M&A should assess. If they judge that the capital should be used for other purposes, for example shares buying, the M&A transactions can be still declining. However, companies become more reluctant to invest in financial instruments, especially derivatives which carry a higher risk.

Emerging markets are an opportunity for bigger assets and new business. The problems that can occur from focus on emerging markets are related to the regulations for those areas on long term, as the economical evolution of those parts of the world is not known.

For insurance M&A activity, catastrophes are issues taken into considerations because their enormous impact on economic life.

Tax reform can also affect the M&A market, of course depending on the sector involved.

Last, but not least, the human factor is of high importance, as the talents from M&A sector should be discovered and of course encouraged. The specialists and also consultant's expertise should be used by decision takers.

Deloitte study shaped the configuration of 2013 M&A market under the most important real issues that may occur for different situations.

Furthermore, those issues are conducted also by the fear of failure of the transactions. This means that unsuccessful mergers and acquisitions history, energy and resources consuming, represents a cause of excessive precaution. Some studies demonstrate that approximately two thirds of the companies involved into transactions fails and the M&A result is a divesture afterward (Schweiger, 2003). [2]

The knowledge of the reasons of this lack of success represents a lesson that the decision makers should learn, or the consultants should teach.

3. Causes and studies of unsuccessful M&A

The importance of the information in this field of interest is known and the literature about the factors which caused the failure of the mergers and acquisitions is substantial.

3.1. Factors that determine failure

The most important root causes of M&A failures are the following:

a. Strategy - buying the wrong company
b. Price - buying to high
c. Implementation - execution of the transaction was improperly made
d. Unknown factor - everything done adequate, but unknown factor occurred

Those factors should be analyzed before the transaction decision is made by the decision makers:

a. The target strategy represents the strategy of an acquirer to buy a target. This should be done taking into consideration the compatibility between the two companies in terms of field of operations, finance and demands, the long term goals of the acquirer

b. The price strategy, overpayment, has bad consequences as the high price leads to forecast of high synergy. This leads to additional pressure on the higher profitability, even if it is not possible.

c. Implementation strategy is also a phase that should be analyzed and planned before the transaction is closed. Of course all the operational terms should be planned, from

communication to business ethics. If all those compatibilities are checked from the planning phase, then the premises of un-failing M&A are met.

d. Unknown factor - as mentioned in the first part of the paper, even if everything is done properly and really well planned, unexpected can occur and can lead to failure of the transactions. For example, a catastrophe appears unexpected, and is a cause of a huge slowdown worldwide.

The value for the acquirer is given by the synergy created, which is usually as economy of scale or scope. The economies of scale are obtained in horizontal mergers (transactions between companies in the same industry or similar domains), while economies of scope in vertical mergers (transactions between companies in different stage of production's activity).

3.2. Studies of unsuccessful M&A

In literature, there were some studies created to analyze the value and the performance made by the transaction. The event studies examine the abnormal results around the time of announcement of transaction. This means the difference between the change of share price and a given index. All of those studies demonstrated a negative or below expectations evolution, related to the period of time analyzed. For example, the study of Jensen and Ruback, from 1983,[3] based on a 1 year analysis, revealed a return average of -5.5%, while the studies of Magenheim& Mueller, from 1987,[4] for a long-term 3 years show a return of -16%. From the literature studies it can be said that the return shares are oscillating.

Around the time of announcement those are positive, but the long term analyze shows that the acquiring firm shares declines even for a long period of years. The study of Andrade, Mitchell and Stafford, from 2001, goes further on, and examines the share of the shareholders of both target and acquired company. [5] The conclusions are surprising, as the performance of targeted company have in short term a positive growth, bigger than the acquirer company shares on long term.

Other papers go on, and verify if the performances depends on the method of financing the merger or acquisition. For example, the one of Loughran and Vijh, [6] from 1997 demonstrates that if the transaction is cash financed, the results are better than the same situation but stock financed.

Another type of performance studies, the accounting one, compares the financial statements of the acquiring company before and after the transaction. Goughan, in 2007, verified using this method if the acquirer performed better than the non-acquirers. [7]

All the study from literature, even for UK market (Meeks, 1977 and Dickerson, 1997), US (Ravenscraft and Scherer, 1987) or Indian market (Kumar, 2009) demonstrated that after the mergers or acquisitions, the profitability did not grow, just slightly improved for few cases.

The third type of the studies, the executive surveys, based on questionnaires completed by the managers of the companies involved in transactions, offered a different result. This may be, in opinion of the authors of the studies, for example Bruner, a cause of CEO's ego.

Another type of analysis, which revealed better results and insights, are the interviews with the managers involved in transactions, called clinical studies. Many studies were realized and found the causes of success and failure of the transactions. For example, Bruner in 2001 found that one merger failed because of disbelief in merger synergies and transfer control of the two parts, while another study had three clear conclusions: the objectives of the management team is not the wealth of shareholders, hubris (overconfidence of the managerial team) and ignorance of the information available.

This hubris is also the reason of high premiums. The companies acquired with this high hubris of the executive management usually do not reach the synergy projected.

Usually, hubris transactions ignore the information provided by due diligence process, as Hill paper demonstrated in 2001. So, the management team uses all the usual analysis but do not take it in the consideration compared to the self-confidence.

3.3. Solution for failed M&A

A hard decision about a merger or an acquisition that failed is inevitable. Extension of the period of time is just extended agony, as all the real life example demonstrated that sooner the decision is made, sooner the losses decreased.

The solutions can be divestitures or Liquidations.

Divestitures occurs when the organization decide to sell a business unit to another company. This division can be "spun off", and this mean the creation of a new business organization with the tracking of the initial issues. One example is the case of divesture is Daimler-Chrysler, when Chrysler assets were divested, with losses compared to the payment made to acquire Chrysler.

Usually this decision must be taken by the same CEO and this can represent a psychological decision. Hitt, in his paper from 2005, found that the acquired companies which are afterward divested have some common points, as low performance, desire to maintain the acquisition is low, the acquired company is young and small, or the acquirer has a lot of experience in divesture. [8]

Another solution is closing, or liquidations, when a division is shut down, assets are sold and the personnel are fired.

4. Conclusions

This paper represents an overview of the causes that lead to failure of merger and acquisitions. The economic literature considers that only 40% of the transactions are successful while for the others, the results are under the planned level of synergy or profitability.

The study presents actual reasons of failure, from the business environment to personnel point of view.

Presenting a range of studies on these subjects, we lead to the conclusion that the most important results were brought by the clinical studies. Those studies, combined with accounting studies can be a base for decision makers' managers in order to proceed or not to a transaction.

2013 will be a year where real life will have to face also big issues, and that is why decisions based on analysis are likely to be more successful.

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A World of "Seniors" – The Effect of the Crisis?

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Abstract

People's aging has represented the consequence of a complex of factors, amongst which: the low living standards, the moral pressure on satisfying the biological needs, the stress caused by non-fulfillments and the non-contentedness, on which the crisis related to Romanian economy of the last years is added, fact that brought towards the lowering of funds allotted on protecting the people's health and health state. The correlation of GDP on inhabitant by the weight allotted on sanitary sector from the public budget and the life expectancy have been significant. As result, after evaluating the effects related to the demographic phenomenon over people's aging, one might establish that this has been accompanied by the fertility diminution and general death increase.

In such conditions, the massive growth of old people will be firstly reflected towards the diminution of active labor force, having an immediate effect over the economic growth.

Keywords: demographic phenomenon, aging, fertility diminution, demographic politics, infant mortality
J.E.L. classification: A13, D60, E24, I15, J11.

1. Introduction

The old people's wisdom was so appreciated long before, since a wise-word became well-known, saying that: "Who has no elderly people, should buy". This saying seemed to be quite wise, since the elderly people's advices had the value of "a golden ball", for people that were willing to hear and take into account such advices. Some thinkers mentioned that aging doesn't signify a simple phenomenon, but a very complex one, which includes a set of both positive and negative aspects, as well.

On the other hand, the aging has brought away a high level of experience, thus offering the possibility of a rich volume of advices. Simultaneously, the elderly people can offer high precious information, about all kinds of events that were not registered anywhere or that were not known by many people, such as the following: family events, various labor places events, of the childhood community or places where they lived, and the elderly people can talk about all kind of experiences or happenings from the nation's past.

Elderly people have been able to maintain the traditions, as well as transmitting them to younger generations. On the other hand, as an old saying was mentioning, the aging has "weighty coats", and meets various tough situations. Elderly people have started to lose their physical strength, their intellectual abilities being reduced, as well as their flourishing aspect that they had when they were young; thus, they lost the chance of being hired and lost a part of their incomings, as well. Many elderly people have been always ill, poor, being isolated by other members of the family or friends, and thus they have been gradually demoralized. Some others are getting old in totally opposite conditions, since they dispose of good physical, psychic and financial conditions and maintain strong relationships with family or friends, being always in a good mood and happy.

The two images of old-age have actually proven that the process of aging has taken

into account two different issues: a social aspect and a persona aspect. Philip J. Lonmen, known researcher at New American Foundation-Washington D.C., affirmed into a report as regards the world economic situation and the people's progress that "the world of today is getting older and older".

The demographic prognosis accomplished by various specialty institutions of more countries have confirmed the people's progress of the world registered up to the half of this century; in this way, the progress analysis as regards the people's aging process has been simultaneously emphasized (see Table 1).

Table 1- The people's growth prognosis related to different continents between 2010 and 2050 (Millions of inhabitants)

Year	People's all-out on world level	Africa	North America	South America	Asia	Europe	Oceania and Australia
2010	6.843	1.007	346	599	4.130	726	35
2015	7.219	1.115	361	634	4.351	721	37
2020	7.578	1.228	375	667	4.554	715	39
2025	7.905	1.344	388	697	4.728	707	41
2030	8.199	1.463	401	722	4.872	698	43
2035	8.463	1.584	411	744	4.992	688	44
2040	8.701	1.705	421	761	5.092	677	45
2045	8.907	1.823	429	774	5.168	666	47
2050	9.076	1.937	438	783	5.217	653	48

Source: World Urbanization Prospects, Revision in 2005

As can be noticed on the wide-world, people is going to grow in numbers, fact reflected into the existence of over nine milliards of inhabitants registered at the half of this century. The increase rhythms of people have been varying from one continent to another. While Africa's people will be doubled in numbers in the next forty years (for instance, from 1.007 million to over 1.900 million), the Asia's people will know an increase of about 12.6%, as the North America's population. The South America will know an increase of over 13%, while the old European continent will be the only one affected by a diminution of people with over 9%. Many demographers have considered the diminution of European people as being determined by the birthrate reduction, as well as being accompanied by a fast aging of people.

2. Demographic issues of Romania

The demographic issues of Romania, related to people's number diminution, can signify the result of various cumulative factors: a negative external migration, to which the natural diminution was added, diminution achieved after the occurrence of general mortality recrudescence, the massive stroke of birthrate, as well as the temporary external migration, not statistically registered, the demographic politics or the changes coming from the last history century, and so on (therefore, as regards Romania, while reducing the youth people determined the pyramid's basis straitening, the increase of old people weight determined the burying of pyramid's pin).

The consequences of reducing the birthrate on short and mean terms will be neutral, as regards the demographic impact, and preponderantly positive, as regards the economic point of view. These represent an introduction to the future demographic and economic development, which can be extremely complex and underlying negative. The predictable consequences of this situation cannot be stopped by means of setting up the growth of "immediate" fertility; such issue will have the effect taken into account in the second half of the century.

In order to repair such situation, applying a strategy in Romania has become necessary, as regards the measures of straightening of the birthrate. On improving the people's health state, as well as the people's demographic recovery, the governmental politics of the last decade have played a part (at all significant), foreseeing:

- ✓ the children's growth allowance, within a period of two years, after the children's birth;
- ✓ the motherhood allowance paid;
- ✓ introducing the parenthood allowance, which allows women to follow a career,

in order to compensate the family's incomings;

- ✓ Exemption from some taxes.

The access to the private medical services, owning a high quality and professionalism level, has contributed on maintaining and increasing the health's state of some people. One might mention that mother's mortality has continued to register a high level of occurrence, as comparing to the European standards (According to some recently studies, provided by the World Health Organization (WHO) , Romania has the highest rate of abortions in Europe - 520 pregnancy abortions at each 1000 live born, over the average double value in European Union.).

Though knowing some exceptions, a conception is taken into account, according to which the individuals best placed as regards the economic and social point of view might simultaneously enjoy of a better state of health. Such thing results from many studies and analysis that were carried out all over the time, proving that there is a strong connection between the social-economic status and the mortality rate [1].

The incomings disparities between the rich and poor countries, as well as between the individuals of the same nation, have confirmed that the first mentioned category of people pays a higher attention to health. In the same time, the existence of an inverse relationship between the GDP and the mortality rate is also confirmed, the last one being higher for the countries in progress of development, meaning countries of low revenues.

The countries having higher economies will always allot significant resources in order to finance the health sector, as a premise to a sustainable development on long term. As result, the evaluation of people's health state for nations will be emphasized by three indicators [2]:

- ✓life expectancy on birth;
- ✓infantile mortality (under one year old);
- ✓Mortality, under five years old.

These indicators have been influenced by the social-economic, cultural, behavior or sanitary factors and so forth, factors that are underlying the demographic trends that have been registered especially since the nineties and up to present. One might see that for the countries in progress of development, as Africa, the life expectancy is extremely low (people of 52 years old), and the infantile mortality and deaths within children of up to five years old will be relatively high (42.67 and respectively, 57 at 1000 live born children); in the developed European countries, such situation is much more improved (the life expectancy of over 80 years old, 13 deaths for children under 1 year old and 14 deaths for children under 5 years old, as regards 1000 live born children)[3].

Concerning Romania, the life expectancy on birth is of 73.5 (since 1970 and up to present, the average life expectancy increased from 67.33 years old up to 73.47 years old. As result, in the last 41 years, the average life expectancy was increased with 74 months, meaning being majored with an average of 7 weeks per year in the last 41 years.) [4] years old, though it is amongst the lowest countries in Europe, where the main causes are the infantile mortality, the youth mortality or the adults up to 65 years old mortality, as well as the down of birthrates. As comparing to the developed countries, the percentage of young people (15-34 years old) is low, and of adult and age people (35-65 years old) seems to be quite high in Romania.

Within the European Union, Romania is placed amongst the countries with the lowest levels of life expectancy on birth, although this has been continuously improved in the last decade, similar to the progress of European Union member states, thus remaining to a lower value of almost 6 years, as comparing to the EU-27 average.

The increase of life expectancy on birth signifies an important issue, as regards the life quality growth, and implicitly the economic growth of the country or region of the world, issue also confirmed by the studies elaborated all over the time. In this way, in 1997, Barro reached to the conclusion that an increase of life expectancy by 10% will determine an increase of the economic growth, from 4% up to 10% (Evaluation illustrated in paper of Richard M. Scheffer) [5]. Such influence has been emphasized by a report of the European Committee, entitled *Macroeconomics and health: investing in health for economic development,* specific to the macroeconomics and health fields, and coordinated by Jeffrey D. Sachs (2001). In this report, it is mentioned that an increase of life expectancy on birth by 10% will

determine an improvement of the economic growth, by at least 0.3-0.4% yearly; this occurs in case the other factors of growth will remain constant [6].

Regarded from the reverse way, a bad health state generated by various infectious diseases, as malaria and HIV/AIDS, will act as a real fracture on the society's level, thus reducing the economic growth and the human development. As result, the growth rate is two or three times lower as comparing to that registered, if the infectious diseases wouldn't have existed. Therefore, one might talk about the health state, regarded as a result of the development level, and depending upon the expenditures allotted to the sanitary system; it results that countries with a high level of the revenue per inhabitant allot in generally a higher weight of GDP to the health caring field, as comparing to the poor countries. The decisions as regards the resources allotment on the health field signify a major topic on national governments, and will remain a subject opened to debates and political research.

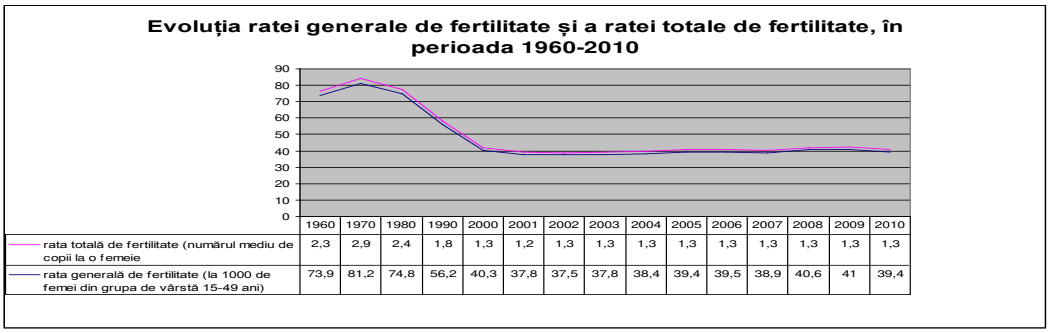
The specificity of this situation has his starting point, as according to Jean Claude Chesnais [7], to the demographic transition, which is manifesting y passing from a traditional regime of demographic equilibrium, with high levels of fertility and mortality, to another type of equilibrium, but with a low level of fertility and mortality. The transition starts by the mortality diminution, followed by the fertility reduction.

Making a particularization of these concepts for Romania, one might see that the demographic transition has proven specific features, also presented in studies of some well-known Romanian demographers, as V. Trebici, V. Ghetau, G. Retegan-Serbu, M. Balaci or C. Popescu. According to the authors, the transition in Romania has been carried out on a period of 120 years, and the recovering of fertility will signify for now, the only option that is able to bring towards the improvement of the country's demographic situation, and potentially, towards stopping the future demographic down.

A low level of fertility (Graphic 1 illustrates this indicator for Romania and some European countries) will also emphasize the phenomenon of demographic aging. One might see a diminution of the women generations of fertile age, and the level of conjuncture index of fertility is of 1.3 children per woman. The prognosis issued also emphasize that stagnation of fertility at this level will determine a strict diminution of active people (20-64 years old), which will be reduced at 9 million people in 2050. As regards the people unable to work, with age of over 65 years old, this will reach the numbers of 5 million in 2050.

Making an evaluation of Romania's people fertility in the last decades, one might see a trend of continuous diminution of this (started in the first years after the Second World War), with small oscillations (as result of straight politics applied as regards the birthrate field), but without the possibility of improving the already existing situation. The statistical data available for the interval 1960-2010 will offer the possibility of drawing up the graphic of the general fertility rate progress (at 1000 women included in the age group of 15-49 years old), and of the total fertility rate (the average number of children per woman). In the graphic below illustrated, one might see a comparison between the two indicators of Romania, meaning the general fertility rate as comparing to the total one, during the period 1960-2010. The result will confirm a trend, as regards the fertility diminution, from the level of 73.9 live born children to 1000 women of 15-49 years old (in 1960) up to 39.4 live born children to 1000 women of 15-49 years old (nowadays). As result, the fertility level registered in 2010 signifies almost a third from the fertility level in 1960, and the total rate of fertility was reduced in the same period of time, from 2.3 children to a woman, up to 1.3 children per women.

Graphic 1. Progress of the general fertility rate and the total fertility rate during 1960-2010



	1960	1970	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
rata totală de fertilitate (numărul mediu de copii la o femeie	2,3	2,9	2,4	1,8	1,3	1,2	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3
rata generală de fertilitate (la 1000 de femei din grupa de vârstă 15-49 ani)	73,9	81,2	74,8	56,2	40,3	37,8	37,5	37,8	38,4	39,4	39,5	38,9	40,6	41	39,4

Source: Statistical Year-Book, INS, Bucharest, 1980, 2000, 2011

As regards the infantile mortality rate related to residence environments, this is maintained as being higher in the rural environment (12.6‰, with 1.268 deaths in 2009), as comparing to the urban environment (8.1‰, with 982 deaths in 2009). The difference became obvious to death people of over one moth old (6‰ – 604 deaths in the rural environment and 3.1‰ – 376 deaths in the urban environment) and lower to death people of under one month old (6.6‰, respectively 664 deaths in the rural environment and 5.0‰, respectively 606 deaths in the urban environment). As comparing to the year 2000, one might see a reduction of 45 - 46%, and as comparing to year 1990, the diminution has the value of about 63%.

The above mentioned situation has been explained by the lack of sanitary education, as well as the inaccurate information of people, by a poor sanitary assistance in the rural environment, and not lastly, by the level of schooling or occupation that is reduced to mothers (homely mothers).

One considers that improving such indicator cannot only be solved on medical level, but an interaction amongst the factors previously emphasized might be essential.

As result to all these illustrated, maintaining low values of the birthrates and fertility rates, as well as aging of generations, will gradually bring towards a changing of structure, on age classes related to Romania's people. Table 2 illustrates the people's structure of Romania, on age classes, the current situation, as well as the strict conclusions that result from extremely pertinent prognosis, as concerns the demographic progress of Romania in 2050 (underlying especially on the prognosis of author V. Ghetau).

Table 2. Romania's people structured on age classes -thousands of people-

Age class (years)	2010*		2011**		2050**	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Total	**21400**	**100,0**	**19043**	**100,0**	**14849**	**100,0**
0-19	3200	15	4076	2140	2459	16,57
20-64	13800	64,4	11918	62,60	8280	55,76
≥ 65	4400	20,5	3049	16,00	4110	27,67

Source: * INS, Romania în cifre, 2010; **INS, România în cifre, 2011; Vasile Gheţău, *Drama noastră demografică. Populaţia României la recensământul din octombrie 2011. Reprofesionalizarea României IV*, Institute of Projects on Innovation and Development, 2012, p. 47

The development of the dependency report of elderly people in Romania seems to be starting in 2027, when the generations born after 1996 will enter into the old people class (over 60 years old). The prognosis for the next decades have been quite concerning, since they manifest an emphasized trend on reducing the youth weights (0-19 years old), and the increase of elderly people (over 65 years old). Until 2050, Romania will reach the first three countries with elderly population, since the dependency rate of seniorities will become three times higher in value.

3. Conclusions

Improving the people's health state, increasing the efficiency of using the resources and improving the quality of medical assistance given to people, have been prior when establishing the reform of the health system. In this way, the additional complementary investments in those regions that gave impact over the poorness reduction should become the essential condition of politics on economic and social development. In the same time, one cannot ignore issues, as: the transparency in financial resources allotment, organizing if services in accordance to the health needs, the access to quality medical services for the entire people, eliminating the inequalities as regards health, accomplishing comparative analysis between the European Union member states and regions inside them, in order to identify the possibilities of reducing the already existing disparities etc.

Data underlying the above mentioned analysis will make an emphasis over the following idea: elderly people should be ensured by the new generations able to work, as well as by the new employment positions. If a country owns a population with a high percentage of elderly people, the risk of wars launching will be surely lower, by such issue will not ever solve the problems directly connected to the life and its quality, as regards the elderly people.

Taking care of people and ensuring accurate living standards will emphasize a society at a high level of civilization and social progress. The way a society takes care of children, which signify the future, in the same way the elderly people should be looked after, since they represent the society's past. For any other nations, the past should be appreciated as emphasizing the future's protection, a foundation on which the future is built and developed, resulting that "this past" should not be neglected.

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Advantages and Disadvantages of Using Neural Networks for Predictions

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Abstract

Prediction is very important in business planning. The ability to accurately predict the future is fundamental to many decision activities in sales, marketing, production, inventory control, personnel, and many other functional areas of business. Time series modeling approach is one of the major techniques widely used in practice. In general, there are two approaches to modeling and forecasting time series: linear approach and nonlinear approach. Linear models [2] were used for a long time and are still very useful, but linearity assumptions underlying these models may be too restrictive. A nonlinear model more flexible is Artificial Neural Networks (ANN), which have received attention recently [19]. The major advantage of neural networks is that they are data driven and does not require restrictive assumptions about the form of the basic model. In this paper emphasize the strengths and weaknesses of neural networks.

Key words: Time Series, Prediction, Nonlinear models, Artificial Intelligence, Neural Networks.
J.E.L. classification: C 45, C53, C 63.

1. Introduction

In the past several years, information technology and the World Wide Web have created lots of innovations in the area of business. More businesses and organizations are collecting high quality data on a large scale. The huge amount of data can be a gold mine for business management [5]. It is therefore increasingly important to analyze the data. However, timely and accurately processing tremendous data analysis in traditional methods is a difficult task. The ability to analyze and utilize massive data lags far behind the capability of gathering and storing it. This gives rise to new challenges for businesses and researchers in the extraction of useful information [17].

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 [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, the model must be specified first. 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 neural networks are algorithms and techniques 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. Neural networks offer a number of advantages, including requiring less formal statistical training, ability to implicitly detect complex nonlinear relationships between dependent and independent variables, ability to detect all possible interactions between predictor variables, and the availability of multiple training algorithms.

Disadvantages include its "black box" nature, greater computational burden,

proneness to overfitting, and the empirical nature of model development. An overview of the features of neural networks is presented, and the advantages and disadvantages of using this modeling technique are discussed.

2. Neural networks definitions and brief history

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. The key element of this paradigm is the novel structure of the information processing system. It is composed of a large number of highly interconnected processing elements (neurons) working in unison to solve specific problems. ANNs, like people, learn by example. An ANN is configured for a specific application, such as pattern recognition or data classification, through a learning process. Learning in biological systems involves adjustments to the synaptic connections that exist between the neurons. This is true of ANNs as well.

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 [14].

Another definition is given by Haykin [9]: A neural network is a massively parallel distributed processor that has a natural propensity for storing experiential knowledge and making it available for use. It resembles the brain in two respects:

- Knowledge is acquired by the network through a learning process.
- Interneuron connection strengths known as synaptic weights are used to store the knowledge.

In 1982, John Hopefield published a paper [11] showing how neural networks could be used for computational purposes. In 1984, Teuvo Kohonen [13] introduced a new algorithm he called an organizing feature map, which allowed for a process of using neural networks for unsupervised learning. This opened a new branch of neural network research where no correct answer is required to learn or train a network. In 1986 Rumelhart, Hinton and Williams wrote a paper [15] on the back-propagation method, which opened up a flurry of activity in the late 1980s and 1990s.

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 [8].

Some of the well known types of neural networks are: Competitive Learning [6, 16], the Boltzmann Machine [10], the Hopfield Network [11], the Kohonen network [12], the Adaptive Resonance Theory (ART) [7], and back propagation neural networks [15]. Although there are many other variations of neural networks, the back propagation network and its variants, as a subset of multilayer feed forward networks, are currently the most widely used networks in applications.

3. Elements of a neural network

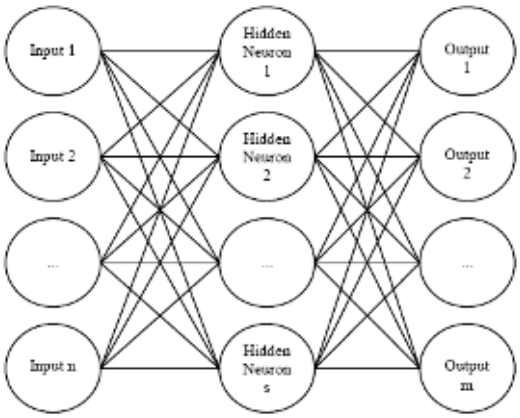
Neural networks attempt to mimic a neuron in a human brain, with each link described as a processing unit. Neural networks learn from experience and are useful in detecting unknown relationships between a set of input data and an outcome. Like other approaches, neural networks detect patterns in data, generalize relationships found in the data, and predict outcomes. Neural networks have been especially noted for their ability to predict complex processes.

Processing elements, or processing units are linked to inputs and outputs. The process of training a network involves modifying the strength, or weight, of connections from the inputs to the output. Increase or decreases in the strength of a connection is based on its importance for producing the proper outcome. A connection's strength depends on a weight it receives during a trial-and-error process. This process uses a mathematical model for adjusting the weights, and is called a learning rule.

Training continues until a neural network produces outcome values that match the known outcome values within a specified accuracy level, or until it satisfies some other stopping criteria.

Figure 1 demonstrates a neural network. Each of the processing units takes many inputs and generates an output that is a nonlinear function of the weighted sum of the inputs. The weights assigned to each of the inputs are obtained during a training process (often back-propagation) in which outputs generated by the nets are compared with target outputs. The answers you want the network to produce are compared with generated outputs, and the deviation between them is used as feedback to adjust weights.

Figure 1. A Neural Network model.



The process of readjusting weights is important to increasing a model's accuracy. Notice there are also hidden nodes, or middle layer nodes, in Figure 1. These hidden nodes are associated with the weighting process. The number of hidden nodes can be adjusted and there can be multiple levels of hidden nodes. The number of inputs, hidden nodes, outputs, and the weighting algorithms for the connections between nodes determine the complexity of a neural network, its accuracy, and the time it takes to create the neural network model. Because the configuration of hidden nodes and weights is so critical to neural networks, there are many approaches for finding the right number of hidden nodes and readjusting weights [8].

Network Design Parameters: Employing a neural network requires an understanding of a number of network design options. Be advised that there are no definate rules for choosing the settings of these parameters a priori. Since the solution space associated with each problem is not known, an number of different network runs must be undertaken before the user can determine with relative confidence a suitable combination.

Number of Input Nodes: These are the independent variables which must be adjusted to fall into a range of 0 to 1. The number of nodes is fixed by the number of inputs. Inputs must not be nominal scale, but can be binary or better ordinal. Such inputs can be accommodated by providing a separate input node for each category which is associated with a binary (0 or 1) input.

Number of Output Nodes: The number of output nodes depends on the purposes of the research and they are also adjusted to fall within the range of 0-1.

Number of middle or hidden layers: The hidden layers allow a number of potentially different combinations of inputs that might results in high (or low) outputs. Each successive hidden layer represents the possibility of recognizing the importance of combinations of combinations

Number of Hidden Layers: The more nodes there are the greater the number of different input combinations that the network is able to recognize.

Number of Nodes Per Hidden Layer: Generally all nodes of any one layer are connected to all nodes of the previous and the following layers. This can be modified at the discretion of the user however.

Initial Connection Weights: The weights on the input links are initialized to some random potential solution. Because the training of the network depends on the initial starting solution, it can be important to train the network several times using different starting points. Some users may have reason to start the training with some particular set of link weights. It is possible, for example to find a particularly promising starting point using a genetic algorithm approach to weight initialization.

Initial Node Biases: Node bias values impart a significance of the input combinations feeding into that node. In general node biases are allowed to be modified during training, but can be set to particular values at network initialization time. Modification of the node biases can be also allowed or disallowed.

Learning Rate: At each training step the network computes the direction in which each bias and link value can be changed to calculate a more correct output. The rate of

improvement at that solution state is also known. A learning rate is user-designated in order to determine how much the link weights and node biases can be modified based on the change direction and change rate. The higher the learning rate (max. of 1.0) the faster the network is trained. However, the network has a better chance of being trained to a local minimum solution. A local minimum is a point at which the network stabilizes on a solution which is not the most optimal global solution.

Momentum Rate: To help avoid settling into a local minimum, a momentum rate allows the network to potentially skip through local minima. A history of change rate and direction are maintained and used, in part, to push the solution past local minima. A momentum rate set at the maximum of 1.0 may result in training which is highly unstable and thus may not achieve even a local minimum, or the network may take an inordinate amount of training time. If set at a low of 0.0, momentum is not considered and the network is more likely to settle into a local minimum. A process of "simulated annealing" is performed if the momentum rate starts high and is slowly shifted to 0 over a training session. Like other statistical and mathematical solutions, back propagation networks can be over- parameterized. This leads to the ability of the statistics to find parameters which can accurately compute the desired output at the expense of the system's ability to interpolate and compute appropriate output for different inputs. To ensure that a back propagation neural network is not over parameterized, the training data must be split into a training and a testing set. It is the performance of the trained network on the data reserved for testing that is the most important measure of training success.

4. 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.

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 [1].

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 [8].

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.

5. Conclusions

Neural networks have broad applicability to real world business problems. In fact, they have already been successfully applied in many industries [3].

Some more specific examples of using ANN are the following paradigms: recognition of speakers in communications; diagnosis of hepatitis; recovery of telecommunications from faulty software; interpretation of multimeaning Chinese words; undersea mine detection; texture analysis; three-dimensional object recognition; handwritten word recognition; and facial recognition.

Depending on the nature of the application and the strength of the internal data patterns you can generally expect a network to train quite well. This applies to problems where the relationships may be quite dynamic or non-linear. ANNs provide an analytical alternative to conventional techniques which are often limited by strict assumptions of normality, linearity, variable independence etc. Because an ANN can capture many kinds of relationships it allows the user to quickly and relatively easily model phenomena which may have been very difficult or impossible to explain otherwise [4].

Combining multiple models to improve forecast accuracy has been extensively studied in the literature. The literature is vast and growing. The idea of association models is the assumption that the basic structure of real data is difficult or impossible to model by an exact model and the fact that different models can play a complementary role in capturing different data models. Effectiveness of combined forecasts was determined both theoretically and empirically.

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Aspects Regarding Quality Assurance, Acreditation and Certification of Romanian Universities

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Abstract

It can be said that quality assurance of education has become a major concern of those in charge of educational institutions, but also those responsible for quality assurance of education within the competent ministry (especially in higher education) since the 80s, but especially after 1990.

Accreditation and certification have become major objectives of all universities, no matter where they operate, the number of teachers and support staff, students and respectively graduates, geographical location and so on, especially after 1990.

Both the Academy of Economic Studies of Bucharest and "Ovidius" University of Constanta were institutionally accredited by ARACIS with "high confidence".

As teachers involved in teaching and also in the quality of education, not only in this abode of science and culture, we intend to present in this paper some of the most important issues concerning quality assurance, accreditation and certification of this university, the problems we encountered, but mainly the benefits of this complex process.

Key words: accreditation, certification, quality management, education
J.E.L. Classification: I20, I21, I23, I28.

1. Introduction

Education quality assurance, accreditation and respectively academic certification is among the top management the priorities of and not only from any university, college, department and / or division within an institution of higher education in the world.

According to the Government Emergency Ordinance no. 75/2005, Article 3, "the quality of education is a set of characteristics of a study program and its provider, through which the beneficiaries' expectations and quality standards are met. Education quality assessment consist of the multicriterial examination of the extent to which an education provider and its program meet the standards and benchmarks. "Regarding the quality assurance of education in the same document it is stated that "it is achieved through a set of actions to develop the institutional capacity development, the planning and implementation of programs of study, which formed the trust of the beneficiaries that education provider meets the standards of quality" [4].

Many quality assurance specialists believe that the starting point for improving the performance of an university should be to represent the implementation of a quality management system according to ISO 9000, by which it can ensure the premises to achieve performance excellence through the implementation of Total Quality Management [7].

2. Quality assurance in education. Concept. Statutory acts

In general, according to ISO 9000 [2], quality assurance refers to "that part of quality management focused on providing confidence that quality requirements will be met" other components of quality management are: quality planning, quality control and or improve.

According to CNCSIS, "quality assurance is achieved through procedures and tools for the description of qualifications in higher education, to promote some new skills and monitoring tools and procedures, periodic evaluation and updating of CNCSIS" [9].

On the basis of ensuring the quality of education, particularly Romanian higher education, are numerous acts (in our country in the period 2005-2011 were issued only about 25 legislative measures for evaluation - accreditation of universities), including [5]:

- *Standards and Guidelines for Quality Assurance in the European Higher Education Area, Bergen, third edition, 2009;*
- *Emergency Ordinance no. 75/14.09.2011 for the amendment of Ordinance 75/2005 on quality assurance in education;*
- *MER Ordinance 3928/2005 on the quality educational services in higher education institutions;*
- *Law no. 87 of 10.04.2006 for the approval of Emergency Ordinance on education quality assurance no. 75/12.07.2005;*
- *External evaluation methodology, standards, benchmarks and performance indicators list of ARACIS, 2006;*
- *ARACIS Guidelines for assessing: institutional, daily and at a distance bachelor programs, masters, periodic certification and accreditation requirements, 2006;*
- *ISO 9001:2008 - Quality management systems. requirements;*
- *IWA 2:2007 - Quality Management Systems - Guidelines for application of ISO 9001:2000 in education (adopted asRomanian standard in 2006);*
- *ISO 9004:2010 - Managing for the sustained success of an organization. An approach in terms of quality management;*
- *Criteria of some National Award for Quality: Education Criteria for Performance Excellence, Baldrige National Quality Program.*

If we talk about quality assurance through the ISO 9000 family of standards, we can say that this process focuses on continuous improvement of organizational processes through preventive action. Its components refers to the quality defined from the perspective of the client and the regulatory requirements, and the actions are aimed at increasing customer satisfaction and the continuous improvement in performance.

ISO IWA 2:2009 Standard. Quality management systems. Guidelines for the application of ISO 9001:2000 in education comes to assist in a clearer understanding of the requirements of ISO 9001:2008 and ISO 9004:2000 standards and how to apply them in education. IWA 2:2009 does not add, replaceand does not change the requirements of ISO 9001:2008, also is not for use in contracts for conformity assessment and certification [1, 3].

3. Accreditation of universities in Romania

In the opinion of a group of teachers from the "A. I. Cuza" University of Iasi and respectively ASE [8], accreditation is defined as" the process by the concerned unit / educational institution / organization , based on external evaluation, acquires the right to organize admission, conduct of the educational process for organizing the graduation examinations and issue recognized diplomas and certificates. "However, it can be said that it is "the process of evaluation leading to a formal and independent decision about the extent to which an educational program complies with the quality standards" or another point of view, "that method of quality assurance, through which is certified the compliance with predetermined standards for the establishment and functioning of the education institutions and their study programs; this is part of quality assurance" [9].

In our country, the accreditation of universities is carried out by a non-governmental institution, external to the university, created specifically for this purpose, namely ARACIS - Romanian

Agency for Quality Assurance in Higher Education.

The results of the accreditation process are made public, so that it can be known by all stakeholders, including: students, prospective students, teachers, partners of education etc..

If we talk about the role of university accreditation, it can be said that there are four aspects, namely [5, 8]:

- Quality assurance - a university that has the status of accredited university offers its customers and partners confidence in the sense that the institution meets the standards in force in this area on the act of education itself, related services for students, services from the library etc..
- Allows access to state funds - according to the legislation specific to the education sector, only accredited universities receive funding from the state budget, based on the results of the accreditation / reaccreditation.
- Builds and strengthens public and private sector confidence in the institution of higher education - academic accreditation means that the educational curriculum standards are met, the organizing of courses and seminars / practical assignments, organization of specialty practice, continuous training of teachers, etc.. All this leads employers / potential employers to be confident that the graduates of these universities are prepared (at least theoretically), have the necessary skills to handle a job in the field they were studying.
- Facilitates the transfer and mobility of students from one university to another - the transfer of students from one university to another is possible only if the universities involved in this process are accredited. An undergraduate student may take the exam / dissertation only at the an accredited higher education institution in the field.

Most of the time, in Europe, including Romania, entities exercise one of mixed systems of evaluation - accreditation of universities, namely:

- *Authorization - Accreditation - regular assessment of a study program* (with the possibility that the institution can make some changes in the program after the authorization / accreditation, subject to the regulations in force).
- *Authorization - Accreditation - regular assessment of the university*.
- *Other external evaluation* on the institution's research capacity, capability of teachers, doctoral supervisors - for example, rating EUA (European University Association).

The accreditation process involves three steps of specific activities (usually), namely [10]:

- The running of a self-assessment process, coordinated by the lead faculty / institution, and other members of the academic body or the departments in the the structure of the faculty / university. This stage ends with the development of a self-evaluation report in which reference is made to the criteria / standards imposed by the accrediting agency;
- The assessment visit, for the accreditation, to the faculty to which belongs the program submitted for the accreditation / reaccreditation. The evaluation commission members are selected by the accrediting institution so as to be compatible with the program evaluated. In the field, the evaluation team visits the locations specified in the self-assessment, evaluates the evidence in the particular file, interviews academic and administrative staff; based on the findings, the evaluation team prepares an assessment report which contains some recommendations to the accreditation committee at the level of the certifying institution.
- The accreditation commission's review of the evidence and respectively of the recommendations issued by the members of the evaluation commission which was in the field, based on a set of criteria on the quality of university education. This stage ends with the issuance of the decision on the accreditation of the academic program in question, a decision which is communicated to the institution subject to accreditation and, if applicable, all stakeholders in this regard.

3. Certification. General aspects

Broadly, "the certification is a procedure for attesting the conformity of a product,

service or quality management system of an organization in relation to a referential default (standard, technical specification)". [6]

"The process by which an association or an agency acknowledges the achievement of established quality standards and usually grants certain privileges to the target individual (student or teacher)". [10]

The quality management system certification involves a procedure to certify that the quality management system implemented in an organization (in our case, the university) complies with referential within the ISO 9000 standards standards or other normative documents which consider an appropriate quality system standards.

The certification body should be neutral and accredited by national bodies; it has the power to issue and respectively revoke a certificate.

Analyzing, in particular, the quality management system certification implemented at the level of an institution of higher education, we can say that among the benefits brought to the university by this process we find [6, 9]:

- Improving the image and hence the university's position on the market.
- Providing trust to the partners, especially students and employers, regarding the realization, constantly of services of high quality and respectively of sending well trained graduates on the labor market.
- Attracting as many candidates as possible to the entrance exams organized at the university and, in many cases, significantly increasing the number of students at both undergraduate and masters.
- Becoming a preferred education / graduates service provider.
- Mitigate the effects of competitive pressure.
- Alignment to international standards.
- Providing confidence to the top management that all activities / actions / processes of the university are controlled and operate at constant quality level.
- Greater involvement of employees (teachers, support staff, etc..) by constantly and continuously being aware of the improved quality.

4. Conclusions

The educational organization should strive to continually improve the effectiveness of its quality management and educational processes, allowing the entire staff to identify and establish improvement projects in its areas of activity [4].

Currently, academic credentials and respectively the certification are heavily regulated in our country, in accordance with recommendations of the ECB.

Analyzing the industry standards, we can say that the main objectives pursued by the Romanian higher education quality assurance are [1, 4, 5]:

- To maintaining and at the same time continuously improving academic standards;
- Accountability at all levels to create favorable conditions to achieve, maintain and improve quality;
- Developing a true institutional culture of quality in education;
- Demonstrating a high level of quality of the programs (bachelor, master, training, etc..) in all faculties within the university structure;
- Full information on the functioning of the Romanian educational system, including the results achieved, and possible ways to improve them.

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Events and Macros in Microsoft Access 2013

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Abstract

With interface macros you can perform actions such as opening another view, applying a filter, or creating a new record. There are two kinds: "embedded" UI macros, which attach directly to user interface objects such as command buttons, combo boxes, or the Action Bar button object, and "standalone" UI macros, contained in macro objects.

To avoid duplicating code, reuse standalone UI macros by calling them from other macros. You can see the standalone UI macros in the Navigation Pane, under Macros, but you can't run them directly from there. Use the Run Macro action to run a standalone UI macro from an embedded UI macro.

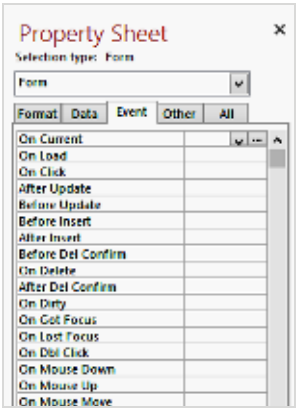
Key words: macro, event, database, form, report.
J.E.L. classification: C88.

1. Introduction

An event is the result of initiating an action on an object (**control**). Action can be done with the *mouse* (position even without clicking, left click, right click, double click, drag, drive wheel) or using the *keyboard* (pressing a key or a function key).

When an action is performed on a control, **the control must send a message to the operating system**, allowing it to know what happened. The operating system must then decide what to do, whether to respond to the message or send the message to another object. Obviously, for a message to accomplish its purpose, it must carry some information. Because there are different types of objects and there are various types of actions that can be performed on them, there are also various types of messages.

Microsoft Access provides friendly means to resolve events. The associating of events with a control from a *Form* or *Report* is made in *Design View*. In the Property Sheet window, Event tab, are displayed events that may be associated with the selected controls from a form or a report. The names of most events start with **On**, which means, "**at the time this is done**". In some cases, something must be done before applying the effective action (**Before**) and after the action was applied (**After**):



2. Events Categories

Some events are general and they are shared by most objects. For example, almost all objects can be clicked. Some events are based on objects category, such as only objects that can receive text. Some other events are very restricted because their object needs particular functionality.

➲ **Click Events**. Probably the most common event fires when an object is clicked. The event is called **On Click**. This event does not carry information about the source (not identify that was using the *mouse* or *keyboard*). Another common event of controls is fired when an object is *double-clicked*. This event is represented as **On Dbl Click**

➲ **Focus Events**. A user can place the cursor on a control with the *mouse* or by

pressing the *Tab* key (on *keyboard*) several times (without running *click*). In both cases, when a control receives focus, it fires an event named **On Got Focus**. These controls can generate events, for example, pressing *Enter* - **On Enter**. Controls may be focused successively using the *Tab* key. You can finally run events such as focus - **On Exit**, **On Lost Focus**.

➲ **Mouse Events**. *Mouse* and *keyboard* are working devices most commonly used. In fact, some applications can be completely used with the mouse only. *The mouse* is responsible for at least three events (**Down**, **Up**, **Move**). If the user positions the mouse on top of a control but doesn't *click*, the control fires an event named **On Mouse Move**. In connection with moving *the mouse* should be taken into account several elements: buttons, keys (**Ctrl**, **Alt**, **Shift**), cursor coordinates.

➲ **Keyboard Events**. There are several ways to use *the keyboard*. The user can press *Tab* to move focus from one control to another. A user can also *click* a text-based control and start typing. After pressing the key, when the user releases or depresses it, the control fires an event named **On Key Up**. The message of this event carries the same types of information as the **On Key Down** event. When the user presses a key, if you are interested only on the key that was pressed and not on any combination of keys, use the **On Key Press** event.

➲ **Form Events**. To use a form, the user must open it, either from the *Navigation Pane* or from another object you provide them. When the form is being opened, it fires an event named **On Open**. As the form is opening, it must occupy memory. As this is happening, the form fires an event named **On Load**.

To make itself known to the operating system and to other applications on the same computer, the form must draw its border. When this is being done, the form fires the **On Resize** event.

If the form was already opened more objects (forms, reports, tables), if the user wants to bring it to the front, she must click either its title bar or an area of the form. When this is done, the operating system must paint its title bar with a bright color. Either case, when a form comes to the front of other windows, it fires an event named **On Activate**.

Once a form has been loaded is currently the active form, the user can use it. After using the form the user can close (the user can either use the system close button or you must provide other means of closing the form). As this starts, the form must lose focus. If the form was the only object opened in *Microsoft Access*, the body of the application is emptied. If there are other objects, the form would be closed and another object would become active. As this is done, the form fires the **On Deactivate** event.

When the form is being closed, it must be removed from memory to release the resources it was using (so that those resources can be used by other applications).

While this is being done, the form fires the **On Unload** event. Once the form has been removed from memory, it (the form) fires an event called **On Close**..

➲ **Text Box Events**. As you know already, to use a *text box* or a *combo box*, the user can *click* the control and start typing. If the control already contained some text, the user can edit it using keys. When the text is being entered or edited, the control fires the **On Change** event.

➲ **Combo Box Events**. A *combo box* (*drop down list*) is a control that holds a list of items. To use it, the user can *click* the arrow of the control to display the list and select an item. Some versions of the *combo box* allow a user to *click the text box* part of the control and start typing. The control would then try to find an item that matches what the user is typing or has typed. Sometimes, after the user has finished typing (and press *Enter* or *Tab* to move focus), *Microsoft Access* (the database engine) may not find a match and would display an error. This means that the text the user typed did not match any of the items of the *combo box*. In this case, the control would fire an event named **On Not List**.

➲ **Records-Related Events**. Because *Microsoft Access* is a database application, it provides some event that, are particular to records and their fields on a form or report.

To create a new record, the user must move to an empty record on a form. The user can click a control such as a text box and start typing. When this happens, the form fires an event named **Before Insert**. If a record exists already, the user can open or access, *click*

one of its fields and start typing or editing. When at least one value in the record has been changed, the form fires the **On Dirty event**. After a record has been changed and submitted to the database, the form would fire an event named **Before Update**. It also might follow the situation after creating a new record (**After Insert** event). If a table contains more than one record, after the user has opened its corresponding form, the user can navigate from one record to another. When the user moves from record to record, the form fires an event named **On Current**.
We know that, to delete a record, a user can *click* the record and press *Delete*. This would display a warning message. Before that message comes up, the form fires the **Before Del Confirm** event. After the user has clicked one of the buttons on the message box, the form fires an **After Del Confirm** event. If the user decides to delete a record, before the record is actually deleted, the form fired an **On Delete** event.

3. Macros

A **macro** is an (automatic) action that must be performed on an object of a database. *Microsoft Access* provides an easy and visual mechanism to create and manage macros.

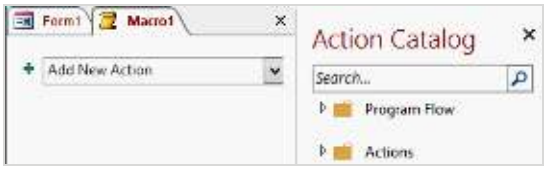
Macros in *Microsoft Access* have nothing to do with macros in other *Microsoft Office* applications. In fact, it should be fair to state that they are completely different. For example, macros in *Microsoft Excel* and *Microsoft Word* directly lead to actual *Visual Basic* programming. Macros in *Microsoft Access* don't write real (VBA) code: they are actions you create and the database engine executes them behind the scenes at the right time. If you want, you can convert *Microsoft Access* to VBA but then, they become code and not real macros anymore.

To create a macro in *Microsoft Access*, you can use an intuitive dialog box that allows you to select the action to be performed and the options the action needs. In reality, when you create a macro, *Microsoft Access* creates a type of script that contains names, expressions, and operations for the action, sparing the details. Still, if you know what is necessary for the macro, you can "**manually**" create it.

To create a macro**,** *click* the **Macro button** in the **Marros & Code** section. Macro created is given a name and will appear in the list on the **Navigation Pane:**



Two windows would display and they are separated by a split bar. To give more room to one of the window, position the mouse between them, click and drag in the desired direction. The left window presents a tab or a title bar labeled **Macro1**. By default, that window displays a *combo box*. The right window displays buttons with ▷. This means that they are nodes. To expand a node, *click* its ▷ button. When you do, the node would display its items:

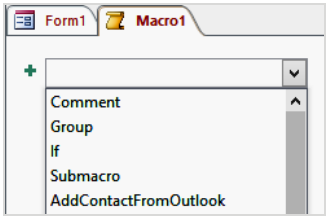


The **Program Flow** node allows you to create a condition.

The **Actions** node holds most of the actions you will create for your macros. If expand it, you will see that it organizes its actions in categories, each represented by a node.

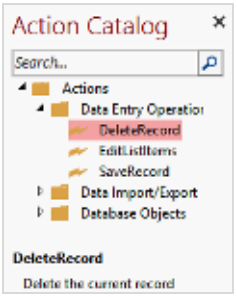
3.1. Creating a Macro

To create a macro from the left window, click the arrow of the combo box to display the available actions. The left window would display the objects (controls) needed for the options of the action you selected. The objects in that window depend on the action you selected:



To create an action using the right window, expand the node(s). Many names of actions are explicit or can be interfered

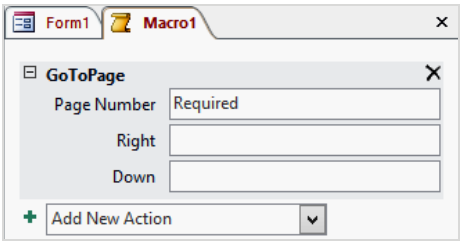
logically. Otherwise, you can *click* an action. The bottom section would show a description of the action:



If you see the action you want, *click and drag* it to the left window. In both cases, if you selected an action you don't want anymore, you can *click* the Delete button.

3.2. The Actions of a Macro

To actions its action(s), a macro may need some additional information. This information is referred to as the argument of a macro. The argument can be made of one or more values. The argument(s) depend(s) on the (type of) macro (can be **0**, **1**, **2** or more arguments):



An argument is said to be required if it must always be provided, otherwise the action cannot be performed. If you select a macro that takes a required argument, an empty text field would appear and you must type the necessary values. An argument is referred to as optional if it can be omitted, in which case the macro would use a **default value**. When an action takes more than one argument, some arguments can be **required** while some others are **optional**.

3.3. Using a Macro

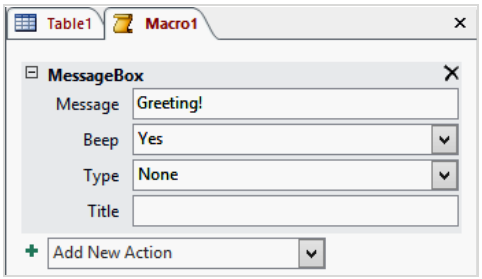
After creating a macro, you can use it. This is usually done by assigning it to an event of a form, a report or a control. To assign a macro to an object, access the **Property Sheet** for the object and access the Event.

Instead of first creating a macro before assigning it to command button, as another technique (in the **Design View** of the form) you can *right-click* the object and *click* **Build Events**. In the **Choose Builder** dialog box, you can *click* **Macro Builder** and *click* OK. The new macro would be automatically assigned to the control.

4. Examples

4.1. Creating and using a macro (the database object).

1. *Start Microsoft Access*.
2. On the *Ribbon*, click **Create**.
3. In the **Macros & Code** section, *click* **Macro**.
4. In the **Macro1** window, *click* the arrow of the *combo box* and select **MessageBox.**
5. Complement the text "**Greeting!"** in **MessageBox** action:

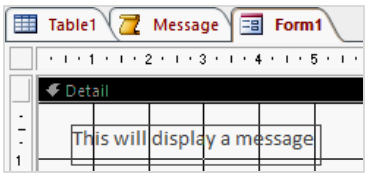


6. *Click* button to run **macro** - when asked whether you want to save, click *Yes* (this **Message**). Macro can be found in the list of objects, in **Navigation Pane**. It will display a message box:

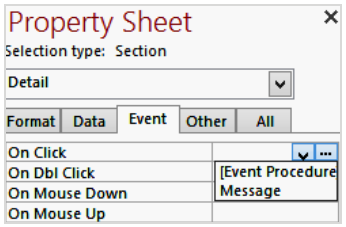


Next: assign **macro Message** to a control on a form.

7. *Click* button (**Form Design**) from the **Create** tab, *Forms* group. Insert the form controls *Aa* - *Label* with text "**This will display the text of the message"**:



8. **On Click** property of the label (the Property Sheet) choose the combination of **macro-Message:**

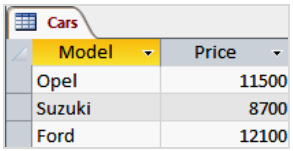


9. In **Form View**, *click* the text **This Will display a message**:

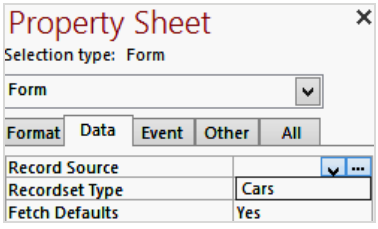


4.2. Creating Macros associated with the controls on a form.

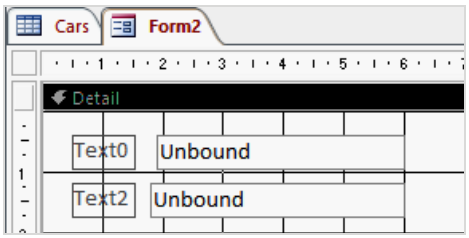
1. **Cars** table is created:



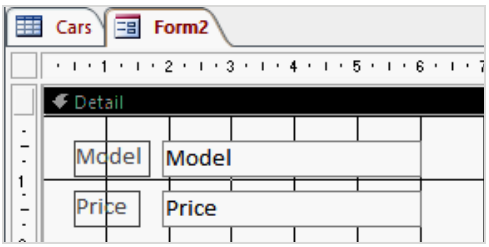
2. It creates a form with button (**Form Design**).
3. Data source of the form: **Cars** table (the **Property Sheet**, Record Source):



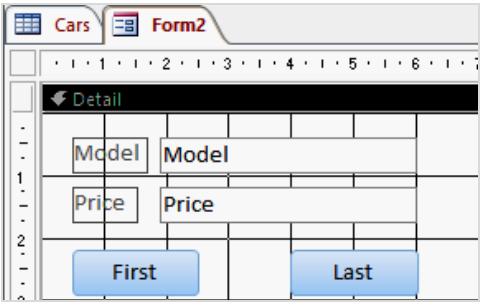
4. Placed on the form, two **Text Boxes** (with ab button, tab **Design**):



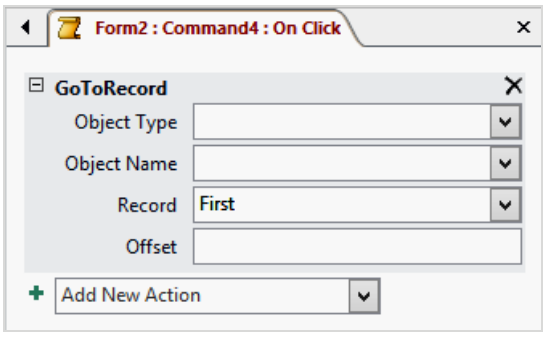
5. Change the labels and is fix the source - **Source Control** (**Model**, **Price**):



6. Placed on the form, two user buttons (with xxxx button, **Design** tab) - *Cancel* the **Command Button Wizard** window. Change **Caption** properties of the two buttons:

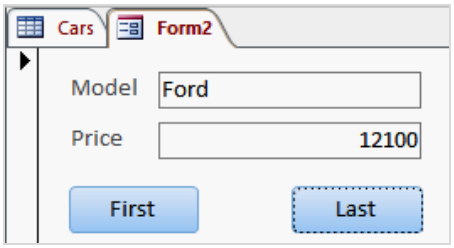


7. Run *right-click* the first button and choose **Build Event**, **Macro Builder**. Enable thereby editor **macros** (**Macro Builder**). Select the action to be associated with the first button (**GoToRecord** - Record box: **First**):



8. **Macro Builder** window is closed by pressing the button ✕ (macro is saved).

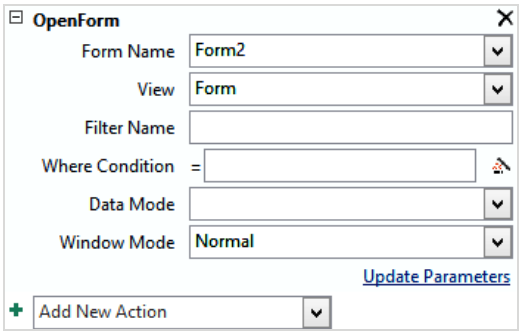
9. Proceed similarly for the second button. Actions these are **GoToRecord** (Box Record: **Last**) and **Beep**. Close the **Macro Builder** window for the button.
10. It displays the form in *Form View*, and finding its operation by pressing buttons **Fist** and **Last:**



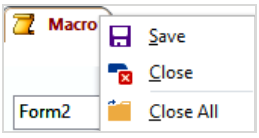
4.3. Creating an AutoExec macro

AutoExec macro is a macro that executes automatically when a database is open. For a database that contains several components, is often preferred activation from the beginning of one of these components. For example, you may want to display a specific form when the database is open.

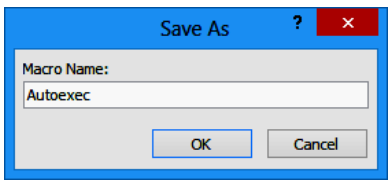
1. **Macro** button in the **Create** tab. Select **OpenForm** action:



2. *Right-click* the macro's name to initiate a rescue:



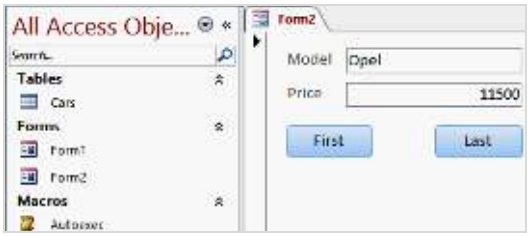
3. In the **Save As** window insert (mandatory!) the name **AutoExec:**



4. **Macro** created will appear in the **Navigation Pane**:



5. Editor *Microsoft Access 2013* closes (when closing the database is saved under a name that is meaningful, because in the next section will reopen).
6. Reopen previously created database and found activation in the **Form2** home:



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Weber and Mises: Views on Bureaucracy

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Abstract

Bureaucracy is not a recent phenomenon. Its beginnings go a long way back in history. Looking into the issue of bureaucracy is a good starting point for the study of two social systems – capitalism and socialism. Such an analysis must be built onto the comparison between profit based management and bureaucratic management.

Weber and Mises are two important names to mention when talking about bureaucracy. They both authored studies on bureaucracy, (Weber – Economy and Society in 1922, and Mises – Bureaucracy in 1944 and 1962). However, they each approached the topic from completely different angles and reached completely different conclusions regarding the nature and consequences of bureaucracy.

Key words: bureaucracy, bureaucratic management, profit based management, socialism, capitalism.
J.E.L. Classification: B10, B20, B25.

1. Introduction

Bureaucracy and bureaucratic methods have existed since ancient times. They have been associated to any government whose suzerainty covered large areas. Such was the case of Mesopotamia, Ancient Egypt, the Incas and the Aztecs, the Roman Empire, or China (the Han Dynasty). Medieval feudalism attempted to govern large areas without bureaucrats but the result was the disintegration of political unity which led to total chaos. The church and religious orders are another historical example of large scale administrative mechanisms. But it will take some time until bureaucracy per se emerges and spreads. The French Revolution made the law supreme in administration and made bureaucratic management legal and constitutional. The French model was taken over by other countries, including Prussia but not by England. The English common law was therefore very different from anything else. Bureaucracy carried on, it survived through the Second World War, it was later renewed and became much more flexible. [7]

The term bureaucracy itself was originated by Vincent de Gournay and had a huge success all through the 19th century.

Bureaucracy (the division of labor applied to administration) comes from the French word *bureau*, meaning desk, or by extension, an office; thus, bureaucracy is rule through a desk or office, that is, a form of organization built on the preparation and dispatch of written documents. In contrast to the commonly held view of bureaucracies, they do not rule in their own right but are the means by which a monarchy, aristocracy, democracy, or other form of authority, rules. [3]

Nowadays, the words bureaucracy and bureaucrat have a rather derogatory meaning or a negative connotation. They always imply criticism or even contempt towards the people, the institutions, and the procedures that are described as bureaucratic. It is usually translated into inefficient and inflexible administration and a more or less parasite social group. But this springs mainly from the fact that very few are able to give a clear definition of these terms.

Progressive critics of bureaucracy aim their criticism towards large corporations. In the past, when companies were relatively small, the entrepreneur was able to supervise all aspects of the business and to make all important decisions. Being the sole owner of company's capital, he was vitally interested in the success of the business. To this very end, he would use his abilities the best he could to avoid any waste and to get the highest results. But nowadays, large corporations are dominant. The owners – the shareholders – have no say in the

management of the company. Given their size, these corporations are divided into departments, divisions, and this brings about a rigid bureaucratic administration in the absence of a creative leadership meant to adapt and adjust production and distribution to the changes in offer and demand.

But the fact is that no profit seeking company, no matter how large it might be, is susceptible of becoming bureaucratic unless the government interferes with its management. [4]

We can say that looking into the issue of bureaucracy is a good starting point for the study of two social systems – capitalism (free enterprise, private property) and socialism. [6] And the analysis must be built onto the comparison between profit based management and bureaucratic management.

2. Weber's Theory on Bureaucracy

German sociologist, political economist and administrative scholar, **Max Weber** is considered to be the pioneer of the classic social scientific analysis of bureaucracy. His critical study of the bureaucratization of society is one of the most enduring parts of his work. He began the studies of bureaucracy and his works led to the popularization of the term. In 1922 he wrote a book titled *Economy and Society* in which he showed that, in a modern society with a specialized and highly complex division of labor, bureaucracy ensures collective social goals being attained and obstacles to economic development, social advancement and political stability being removed. In other words, it solves many of the shortcomings of the traditional system.

The powerful, centralized nation-states, business corporations and labor unions predominant in the industrialized world of the 20th century were direct creations of the bureaucratic organizational techniques.

Weber lived and wrote in a period when more and more people got desk jobs in large companies which were more of economic cartels. Germany at that time had the most advanced type of bureaucracy in all Europe. Weber drew the conclusion that bureaucracy was not specific only to Germany, but the entire modern society, springing from the extensive administrative needs of the modern state and of the capitalist business. The three – bureaucracy, the modern state, and the capitalist economy – were linked to one another in their evolution. As an administrative system, bureaucracy was to Weber a social entity both indispensable and rooted into the most prominent characteristics of modern society and a formidable structure of the power, able to control large scale actions, continuous in its manifestation, socially and morally cohesive through its expertise and control of information.

Observing the changes that were taking place during the industrial revolution, Max Weber saw capitalism as the rational way to organize activities: all decisions could be based on the calculation of their likely return to the enterprise. Weber's ideal bureaucracy was therefore devoted to the principle of efficiency: maximizing output while minimizing input. It was characterized by impersonality, efficiency and rationality. Also, it is a system based on discipline.

According to Weber, bureaucracy is a particular type of administrative structure developed through rational-legal authority. His rationale described it as being the ideal way of organizing government agencies.

Weber noted several **major principles or features of bureaucracy**:

- A formal hierarchical structure – in which each level controls the level below and, in turn, is controlled by the level above – is the very basis of central planning and centralized decision making. Subordinates follow orders or superiors, but have right of appeal (in contrast to more diffuse structure in traditional authority).
- Management or control by rules allows decisions made at high levels to be executed consistently by all lower levels.
- Very precise, inertial and abstract rules govern decisions and actions. These rules are stable, exhaustive, and can be learned, and decisions are recorded in permanent files.
- The specialists in the structure do the work being organized according to their skills and the type of work they perform.
- The organization aims at serving either the stockholders, the board or the agency (in which case it is said to be "up-focused") or the organization itself (then it is said to be "in-focused").

- Employees and customers are to be treated equally. No differences are to be made whatsoever.
- Employees are hired on the basis of their technical qualifications, appointed not elected, compensated by salary, not fired arbitrarily and given the chance to a life-long career. [1]

Weber made a clear distinction between administrative personnel and the organization that empowers them. A voluntary group – nation, union, political party, company – elects some sort of government to manage its businesses. The government, in turn, employs administrative personnel to carry out its policies. And this administrative staff, once constituted according to the principles above mentioned, will be known as bureaucracy.

One of **Weber's concerns** was how society would maintain control over expanding state bureaucracies. He felt the most serious problem was the increased power of public officials and ultimately the shift in power from the leaders of society to the bureaucrats.

He saw this expansion as a threat to liberal values on several levels. Firstly, he saw it as a threat to individual freedom. Secondly he questioned the ability of the leaders of an organization to set its goals. Thirdly, he called for a pluralism of bureaucratic institutions to avoid any monopoly. Also, the power of bureaucrats must be subjected to a coherent leadership and to an efficient control.

Over the years, there have been numerous **criticisms of Weber's bureaucracy theories**, especially his claim that bureaucratic organizations based on rational-legal authority are the most efficient.
There were voices who pointed out the fact that when Weber insisted on the superiority of bureaucracy, he only had old administration forms as elements for his comparison. Another aspect that was pointed out is the fact that, for Weber, the efficiency of bureaucracy was not a unique feature of the system, but a series of features to satisfy the wide and complex needs of an industrial society. Each feature of bureaucracy leads in fact to meeting an efficiency criterion.

Others have shown that, in practice, obeying bureaucratic rules and norms can limit efficiency as well as favor it. This is so because the principles of bureaucracy are much more ambiguous than Weber envisaged them and they can produce multiple dysfunctions: obeying rules can lead to inflexibility and formalism, impersonality can generate indifference and insensitivity, hierarchy can discourage responsibility and initiative. So, Weber is said to not have been able to seize the ambivalence of bureaucracy, having been influenced by the mechanical discipline examples of the Prussian army and by Taylor's scientific management system. Weber disregarded all aspects related to individual personalities, personal needs and hopes of those who are supposed to work together efficiently. Plus, Weber did not treat separately two types of authorities within the organization – the bureaucratic authority given by the position held within the hierarchy, and the authority given by the experience of the individual, regardless of his or her position.

3. Ludwig von Mises – free market bureaucracy versus statist bureaucracy

Originally published by Yale University Press in 1944, *Bureaucracy* is a classic fundamental examination of the nature of bureaucracies and free markets in juxtaposition to various political systems. Bureaucracy contrasts the two forms of economic management—that of a free market economy and that of a bureaucracy. In the market economy entrepreneurs are driven to serve consumers by their desire to earn profits and to avoid losses. In a bureaucracy, the managers must comply with orders issued by the legislative body under which they operate; they may not spend without authorization and they may not deviate from the path prescribed by law. Writing in an age of exuberant socialism, Ludwig von Mises here lucidly demonstrates how the efficiencies of private ownership and control of public good production ultimately trump the guesswork of publicly administered "planning" through codes and "officialdom." Although Mises aptly critiques bureaucracy and expounds thoroughly upon the immense power of law-like codes of commissions and administrations, he does not condemn nor dismiss bureaucracy but rather frames its proper bounds within constitutional democratic governments. [8]

In the foreword of the 1962 edition of his *Bureaucracy*, Mises stated that the objective of his work is neither to accuse nor to criticize bureaucracy, but rather to explain what is meant by bureaucratic management and profit management and the differences between these two ways of handling operations in a company or ways in which people work together.

In his view, the bureaucratic process is a symptom of a condition, the effect of socializing, nationalizing and market reduction (profit based management).

In his 1920 article "*Die Wirtschaftsrechnung im sozialistischen Gemeinwesen*", Ludwig von Mises proved that economic calculation is impossible in a socialist planned economy. The central idea in his article is that monetary calculation is the indispensable mental tool in selecting the optimum production plan within a system of social labor division. A society without monetary calculation is a society without an economic system. Therefore, socialism means eradicating rationality from economy. [6]

Bureaucratic management

Since a leader cannot be omnipresent, he will appoint some sort of deputy, governor, or administrator and will delegate some of his power to them but in order to limit the power and freedom of action of his governors, the leader will issue instructions, directives, rules and regulations showing them how to act when various problems arise. The governors' management will be affected by these rules – they will no longer do their best to solve a problem, but they will be mainly concerned will complying with these rules. They will become bureaucrats.

There were voices who claimed that bureaucratic management on the one hand and democratic government and institutions on the other hand are incompatible. But Mises claims this is not true: the two pillars of democracy are the supremacy of the law and the budget, and bureaucratic management is management in accordance with the law and the budget.

Bureaucracy, in its essence is neither good nor bad. It is a method of government that can be applied to different fields of human activity.

Any organization would fall to pieces for lack of restrictions.

The bureaucrat is limited by rules and regulations in his actions.

The objectives of the public administration cannot be translated into monetary terms and cannot be checked through accounting methods. In public administration there is no connection between income and expenses. Public services spend money. The little income they produce is absolutely accidental. Their source is the law and not the activity of the employees. Within public administration there are no prices and therefore results cannot be assessed.

So, all in all, bureaucratic management can be defined as the management method used in administrative businesses that have results with no market price (they are not sold or bought on the market) and cannot be subjected to economic calculation. We must not confuse price with value here – the successful management of public businesses does not have a price, but it does have value and importance.

The basis of bureaucratic management

Ordinary people consider bureaucratic management to be inefficient, slow, and formal. But what they identify as flaws and mistakes are in fact the very features of bureaucratic management. It is wrong to compare work within a governmental department (the aim is to obey rules and regulations) and work within a company which carries out its activity under the influence of the market (the aim is to make a profit).

Bureaucratic management of personnel

A bureaucrat works in a field in which his efforts cannot be assessed. Money is spent on his or her salary, on offices and what is used in them (materials, equipment), but the results of their work cannot be expressed in a sum of money.

When employed, the candidates have to have a certain age and certain degrees and they must pass certain examinations. Promotion (and higher pay) is received mainly on the basis of number of years in service plus further examinations. Competence is not always a criterion. The department heads are generally elder people with only a couple of years to go before retirement. Having spent most of their lives in subordinate positions, they have lost their

energy and spirit of initiative, so they tend to avoid what is modern and innovative.

Bureaucratic management of public companies

The objective of a public company is to provide useful services to the community. But who is to decide if and when a service is useful? How can we tell whether services cost more than their results? A deficit cannot be read as a failure and the manager is not blamed for it.

Any service, no matter how good it might be, can still be enhanced. But this is done by the manager out of public funds and according to a strict code of instructions from the government or the local authorities.

When profit is a company's sole objective, the company will never fall under bureaucratic management practices. No matter how large it is, the company will be ruled by the spirit of capitalism.

But the government can use different methods in its attempt to limit the profit of a free acting company: imposing a limit on profit (the excess profit is to be given to authorities, or shared among employees), imposing the price or a limit on the price of the company's goods or services, or setting high rates of taxes on the company's profit. What comes out of these situations is the fact that the company is no longer interested in increasing its profit, in cutting down costs and improving efficiency. [6]

Any interference of the government in the business of a company translates into disastrous consequences – they paralyze initiative and give way to bureaucracy.

In the 19th century, for example, in the heyday of European liberalism, the boards of directors used to include pairs, former ministries and generals, government officials, secretaries of state and councilors, politicians, or relatives of theirs, who had no business skills or experience but who ensured a smooth relationship with the government and with political parties. They had no concern about the prosperity of the company and, being used to bureaucratic management, they altered the company's management. They were not interested in producing better quality and cheaper goods, but rather in getting government contracts and other favors as well as tax protection in exchange for contributions to the political parties' funds and for positions given to persons favored by authorities. This kind of situation lasted for quite some time before efficient experts starting to manage companies. [2]

With the exception of Mises, economists had no or little interest in bureaucratic behavior prior to the 60s. It was only later that the internal mechanism of bureaucracy was properly studied especially in relation to political leadership.

4. Conclusions

Weber and Mises both authored studies on bureaucracy. They each approached bureaucracy from completely different angles and reached completely different conclusions regarding the nature and consequences of bureaucracy. Weber's theories are formal and typological, while Mises' theories are axiomatic. Both of them viewed bureaucracy as destructive to society (it reduces innovation and creativity, deepens compliance and obedience, destroys consumer-producer communication, and leads to waste as a result of resources misallocation), yet continually expanding. Though throughout his *Bureaucracy* there is no reference to Max Weber, Mises' discussion complements Weber's and improves upon it.

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Léon Walras and Social Justice

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Abstract

Mainly known as a pioneer of the general equilibrium theory, French economist Leon Walras was also a thinker on human nature, mores, scientific inquiry and knowledge and a great defender of human freedoms and social justice. His normative economic ideas on the distribution of social wealth were developed in his works L'Économie politique et de la justice (1860) and Études d'économie sociale (1896). He dealt with property, land, and taxes, wealth and poverty, freedom and equality, justice and equity and built a social system around the individual, the state and the society by referring to general social conditions and particular personal positions.

Key words: social wealth, freedom, justice, nationalization, taxation.
J.E.L. Classification: B 13

1. Introduction

Hailed by Joseph Schumpeter as "the greatest of all economists", French mathematical economist **Marie Esprit Leon Walras** (1834 - 1910) is well-known for having formulated the marginal theory of value (independently of but almost simultaneously with William Stanley Jevons and Carl Menger) and for having pioneered the development of the general equilibrium theory. As one of the founding fathers of the neoclassical model, he constructed a general equilibrium theory for the first time in the history of economics. For him, general equilibrium means that demand and supply are equilibrated in all markets (market equilibrium) and that all economic agents maximize their satisfaction under given incomes (subjective equilibrium). [1]

But he was also a great defender of **human freedoms** and **social justice**. For him **liberty** was the source of both society and morality. His **rule of equality** states that if every man is a free person, then all men in their capacity as free persons are equal in society (but only in a free, just and stable society). Still, men are unequal from the points of view such as the development of their faculties, merit and demerit. But this natural inequality based on equity does not pose any social problems. [2]

In his letter of application for the position of chair of political economy at the University of Lausanne, Walras made the following division:
- The study of natural laws of exchange value and of exchange or the theory of social wealth.
- The study of the most favorable conditions of agriculture, industry, trade, bank loans or the theory of wealth production, also called applied political economy.
- The study of the best conditions for property and taxes or the theory of wealth repartition, also called social economics.

Applied political economy is nothing but applied theory of industry and abundant production proportional to social wealth. Social economy is nothing but applied moral theory of property or of the equitable repartition of social wealth. Pure economy is the theory of exchange value or of social wealth. It is the science that studies social wealth by trying to determine the laws that rule it. As far as his pure political economy is concerned, it studies purely and simply the fact of the determination of price or the proportions of ex-change under a hypothetical regime of absolute free competition. [6]

Leon Walras decided, under the influence of his father, to devote itself to the political and social economy. His great interest and ambition was to develop the economic science on the same rational foundation as the natural sciences.

Walras originally intended also to write comprehensive treatises on social economics and on applied economics, but lack of time and bad health stood in the way of that plan. He presented instead two collections of his main publications on the subjects under the titles *Études d'économie sociale* (1896) and *Études d'économie politique appliquée* (1898).

In his *Études d'économie sociale* (1896), in which he applied economic theory to real problems, he presented the essence of his normative economic ideas and revealed himself to have also been a great thinker on human nature, justice, mores, and the structure of scientific inquiry and knowledge. *Études d'économie sociale* deals primarily with distribution considered from a normative standpoint.

Walras started his career as an economist in 1860, by publishing *L'Économie politique et de la justice (The Political Economy and Justice)*. He was only 26 years old at that time. This book was intended to criticize Proudhon and to show his own plan of scientific socialism by showing how the theory of property and that of exchange are related, which suggests the future definition of his pure and social economics.

He brought forth a number of social questions related to wealth and poverty in society. For him, poverty does logically results from laziness, stupidity or the reverse of good luck. There does not exist any other sort of wealth than that legitimately acquired by work, talent or success and proportional to these causes.

As Anghel Rugină pointed out, he drew a clear distinction between involuntary poverty produced by the social system and poverty produced by individual deficiency. In the spirit of social justice, Walras made a distinction between property legitimately acquired by work, talent or success, and illegitimate property acquired by deception, fraud, chance or corruption. [5]

In this book, Walras cited his father's conclusive remarks in *De la nature de la richesse* (1831) on the inequality caused by the increase in rent and land price in a progressive society. Based on this idea, Léon Walras showed more clearly his plan for the nationalization of land when he participated in a congress on taxation held in Lausanne in July 1860.

For Walras, the justification for **social economics** lies with the interest towards the study fields – economic agents, state, market, money. [4]

2. The individual, the state and society

In building his social system, Walras identified **four elements**: the individual, the state, the general social conditions, and the particular personal positions. He also identifies a series of questions: when does the individual have to act by himself and when does he or she act as part of the state? When and how can it be determined if the gain is individual or belongs to everybody? Should the forest belong to the most skilled hunter or to the entire tribe, community, or group? The answer to the first question lies with the conciliation between the **individual's freedom** and the **authority of the state**. The answer to the second question lies with the juxtaposition of equity between **conditions inside society** and between **individual positions**.

As Rugină noted, the social order envisioned by Walras theoretically represents a synthesis between the rights and obligations of the individual on the one side and of the state on the other side, with respect to economic and social matters. In any civilized society one cannot exist without the other. [5]

The starting point in Walras' analysis is the fact that nature has given the land to all of us and personal skills to each one. In terms of **natural rights**, personal skills and abilities (those we are born with and also those we develop by training and education) are the natural right of the individual, whereas land is the natural right of the state. Being the owner of his personal skills and abilities, the individual will also be the owner of his work, wages and the goods bought with his money. He will work when and how he will please and will have a standard of living according to his income and to his saving habits. Also, let us not forget that the ability to make efforts is unequally distributed among individuals. Since the individual is the sole owner of his skills and abilities (acquired by birth or by personal efforts) and of what these skills and abilities can produce, for Weber, taxes on wages are unjust. [8]

The distinction between **individual moral** and **social moral** springs from the distinction

between the individual action of the human being and the social conditions within which his activity unfolds. Individual action belongs to the economic sphere in which a positive economic freedom defined in terms of rights and not obligations. And this individual freedom is fully expressed through exchanges of goods between economic agents under restrictive conditions that are specific to the environment in which man lives: the society. These conditions are referred to as the social issue by Walras.

Individual moral rests on everyone's inherent responsibility to fulfill its goals, to properly use the necessary means to do so and finally accomplish their destiny. Everyone's role is to fully establish their particular personal position in accordance with their ambitions. **Social moral** insures equal chances for individuals and protects personal interests. Thus, Walras defines the role of the state: to build the environment for the accomplishment of individual destinies, to insure inner and outer security, to issue and apply laws and organize the conditions for the success of society.

Society exists independently of the generations that come and go. If we consider society as a simple aggregation of agents, it is difficult to give it its own authority and its autonomous existence. Such a holistic approach in which society is the acting element strips the individual of all responsibility for his or her actions.

Walras said that if each moral person is an essential element of society, than society is an essential element of each moral person. Each person lives and breathes surrounded by the conditions of moral society, the conditions of property and taxes, family and government. In other words, general social conditions can be defined as all the cultural, theological, moral and juridical rules common to all of us. Rules and regulations insure harmony amongst agents and represent the basis for commutative justice for which the state is responsible.

For Walras, the individual and the state are two equivalent social types, with the same value, based on a common ground – social wealth, both of them politically and economically independent. The state gets its revenue from the rent on its lands thus being able to function and to develop.

3. Freedom

The essence of justice in liberal thought is that each is free to accomplish their destiny. For Walras, freedom translates into individual responsibility. [8] Therefore, the state does not have the right to interfere in order to ease the misery of an individual who has not got insurance and has fallen ill and has no income. Neither does the state have the right to do anything for the individual's children since the sole responsible people for them are their parents. Thus Walras excludes the concept of public assistance. He only accepts private charity, which is, of course, optional. Walras believes that the state should stay loyal to its sole mission – to insure the general social conditions for the benefit of all people, the principle being that the state should offer the exact same services to everybody. He only agrees with a tax on land for everybody, both for the rich and for the poor. Since all citizens have the same advantages from the public services provided by the state, they should by consequence equally contribute to the expenses generated by these services. Freedom would be nothing but a mere word without the means to put it into practice.

Inequities are therefore just in the context of the justice of the market. Given the fact that the conditions of a fair competition are observed, the income of an economic agent is proportional with the services he offered: the more these services are appreciated, the more they are in demand and the income they produce is greater. There is no injustice as long as nobody is compelled to buy the services in question. The levels of consumption and the levels of income are indeed unequal, but no one is directly affected. [7]

One of the consequences of such a theory is the well-established distinction between freedom and the conditions for its manifestation. Freedom without obstacle is the best guarantee for efficiency. Man is a moral person only in and through society.

Walras draws the rights and obligations of the state both in the economic field and in the social field. Among his original ideas, he had valuable revolutionary propositions for reform in the field of education. He considered that **education**, both general and professional, was a condition for freedom.

4. Social Justice

At the core of Leon Walras's conception of the world lie the concepts of **justice and equity in exchanges**. He establishes a relationship between the terms freedom, society and equality. Free individuals are equal among themselves through their actions in society, and not necessarily through their talent. They have the right to set objectives, to attempt to accomplish their expectations, to use their abilities to reach their goals.

When Walras speaks of equality among individuals he does not mean identical and interchangeable positions among individuals, but rather positions to insure them fair and equal chances to succeed.

As far as justice is concerned, Walras defines **commutative justice** and **distributive justice**. Commutative justice (symbolized by a pair of scales) establishes that all competitors in a race start the race from the same point of departure. Distributive justice (symbolized by a victory wreath) establishes the order in which competitors reach the finish. Commutative justice has to do with the fact that all individuals are born equal. Distributive justice is founded upon the difference in skills, talent, perseverance and industry. Each and every individual enjoys his or her own success and is responsible for his or her failure.

Justice as seen by Walras legitimizes the status and position differences in society through each individual's free action, as an ex-post result of his or her own calculations.
The fact that not all individuals enjoy the same general social conditions in society goes against commutative justice. The fact that individuals do not enjoy particular personal positions according to their merits and are not responsible for their fate goes against distributive justice. [8]

At first, the state has to be strong, independent and to have a certain and legitimate authority to impose the points of departure in the race. Then it has to become discrete in order not to interfere with anyone's free action to accomplish themselves. Inequity, if allowed, it is not a fact of society, it results from each and everyone's efforts to reach their goals. In other words, inequity cannot be but the result of the confrontation between individual ambitions and means used according to their aims or rather the result of natural and physiological inequities. Society is nothing but the place where individual fates express themselves in their temporal existence.

As long as each individual enjoys the same social potentialities, inequity can only arise from individual physical or moral weakness. Social potentialities refer to the methods employed by the state to give agents equivalent means to accomplish themselves as individuals.

Léon Walras strongly believed that without an **equitable distribution of wealth** there could be no **social justice**. Leon Walras defines social wealth as being all material and immaterial things that are rare, which on the one hand are useful, but on the other hand are available in limited quantities.

He defended the right of private property, yet he considered that land was a special case and that it belonged to the community as a whole. He called for the nationalization of land, the abolition of taxation on wages, the curbing of monopoly power, and the promotion of a strong cooperative movement. He insisted that the only way the working class could regain their freedom was by becoming property owners.

5. Nationalization of Land and Taxation

We have to emphasize that the Walrasian proposal is one of **nationalization of land** but not collectivization of agriculture or society. As Rugină said, landowners would receive proper indemnization, so they would not sustain a loss. This land would be offered by the government to private entrepreneurs who would bid highest price as rent and it would be used as the needs of the people required for food and other purposes. The rent previously collected by private landowners would now go to the state.

As Rugină noted, Walras' nationalization of land is not an expropriation in the communist sense, but rather a repurchase by the government of all land in private hands and paid for by a special issue of public obligations maturing over a certain period of time and carrying the current rate of interest.
For Walras, the nationalization of land and **taxes** go hand in hand and insure the state's financial autonomy. [5]

By the nationalization of land and the abolition of taxes Walras believed that his ultimate goal – the realization of his double concept of justice of equality and inequality by preserving complete individual freedoms – would be achieved.

The starting point for his ideas was his view on private property: a person's property on a good gives the person the right to use that good to satisfy a need, even if it means consuming the good. Therefore, the owner of the good also owns the service provided by that good and the price generated by the good. As far as land is concerned, all people are moral persons and have to equally profit from the natural resources that are available. And this is applicable in the benefit of the state, in the name of commutative justice. An equitable division of land among the members of the society would not be a right solution as it would be detrimental to future generations. Land must be collectively owned by society in a stable and continuous manner. He goes even further and speaks of optimal allocation in dividing and using the land. And this comes as a response to considerations related to justice. But how does the state become the owner of the land? By simply taking away the land from its owners? This would be totally against the liberal principles. Or by repaying the owners? This would bring no advantage to the state whatsoever.

Once the state becomes owner of the land, it must not administer/manage it.

Walras questioned the legitimacy of **taxes**, both proportional and progressive taxes. They go against the principle of justice, they deprive individuals of part of their revenues and prevent them from reaching their ideal. Walras was totally against income tax, which he thought violates both social interest and social justice. [5]

The third stage or step, beside nationalization of lands and removal of taxes, would be to let the economy function by itself under the superior rule of competition as soon as the land has been nationalized and taxation has been abolished. [3]

6. Conclusions

Walrasian social economics are built around the individual, the state and the society. Leon Walras depicted a social system based on liberty, freedom, justice, and equity. In the distribution of social wealth, he stated that there must be a part made available to the community at the same time as a part made available to private ownership. In his theory of property, Walras assigned land and rent to the state after assigning personal faculties and wages to the individual.

He also made it clear that there is a social morality which is distinct from individual morality. As a consequence, to Walras, society cannot be viewed as the sum of individuals motivated solely by economic rationality.

For Walras, the state is a legitimate part of society. This inclusion in society should be rewarded by land ownership and land-rent should be its only source of income. In his view, government expenditure could be entirely financed by land rent, which translates into land owned by the society and not by individuals. And, if land rent is the sole source of state revenue, it may also replace taxation. Therefore, Walras called for tax reform. Taxes are unjust in the sense that they are a consequence of the opposition between the state and the market.

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The Emigrant "Identity" in the Current Global Context

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Abstract

The external migration of people is not limited only to geographic movement; it is also a much more complex process, which brings up for discussion more items.

The changes caused by migration in its various forms (internal and external) impact on the economic, political, social and cultural life.

They occur both at the place of origin, from where the potential migrants would leave, as well as at the destination, where they finally settle.

Key words: emigrant, economic costs, identity, migration
J.E.L.Classification:F22–International migration

1. Introduction

In a vast specialty literature, migration is treated as a movement, more or less organized, of a group of persons, moving on a certain territory or area of a country. This extremely controversial issue, the intensity of the migration's phenomenon, has become, in my opinion, in the last decades, a „delicate" issue, being often treated superficially or theoretically.

The main economic and social causes of this phenomenon are often debated, as well as the positive or negative impact on the countries involved. On the other side, the financial and social costs that leverage on the immigrants in the destination country are rarely discussed.

2. Migration – between present and future.

For as long as Homo sapiens have existed, the members of this species have migrated in search of food, shelter, or to run from disasters or conflicts. Population movements were a frequent phenomenon during each historic period, all of them having in common the migration's phenomenon. All these movements were related to searching for a better way of life, or to conquering new territories – the barbarian invasions in the middle Ages. **[1]**

Roberto Merlo in his work „Italian literature of Romanian migration – guideline and analysis" considers that „migration, by nature, goes beyond the political, cultural, linguistic and national barrier, and the literature of migration is written in a national language, which is not always free of difficulty and misunderstanding, if we relate to national literatures and their languages. " **[2]**

Through the years, the migration phenomenon came to the attention of not only the economists, but especially the sociologists, which have studied the problem of migration. The foreign immigrant, in Antonio Perotti's opinion, may be defined through his past, present and future. The author thinks that the immigrant may identify himself to his past, present and future. **[3]**

Antonio Perotti considers that the immigrant, through his past, feels like he has no „roots", arriving in a new country, facing a new culture. At this step he feels like a stranger in a new world, having a past of his own, a stranger in his adoptive country.

In this situation, the reasons and main causes (economic, political, and social) that determined his migrations play a secondary role.

Through his present, „he is newly-settled", resident for a certain period of time in a new country. In this phase, his interests come first and competes with the ones of the host-population, having common and even similar interests with the local community from which he is now part of, even sharing the same interests with other foreign immigrants living in the same country as he does.

Through his future, his „temporary" situation will gradually change in time, so that, in the end, he will be totally integrated in the new population, as a consequence of socializing and cultural and linguistic integration. In this phase, his personality changes radically, taking on fully and completely customs from the host country. For some immigrants, this phase is similar to ignoring their own and their parents' origin.

Migration leads to a good living for the people taking this decision, being preceded by the need of adventure and the curiosity of the young people, eager to discover new horizons and new parts of the world. This may be considered to be a reason for mobility: the mobility of human resources as a part of the development of the human capital **[4].**

3. The determinant factors of the external migration

One of the most important factors triggering the migration process is the economic and global context, meaning the economic crisis and the economic recession many countries are going through.

The economic cause gives migration a real, current meaning, also the most important at the base of the migration decision.

From the political, social, xenophobic and religious point of view, people leave an area where they feel oppressed or unsafe.

At macro economical level, migration leads in time to the destabilization of the labor force market, either through creating a surplus of supply in some areas in the host country, and also a deficit in some sectors and areas in the origin country of the emigrant.

The over saturation of the labor force market in a certain sector, well developed and with a real economic potential, may be seen as an aggressive phenomenon by the native population of the origin country of the immigrant.

At individual level, there are positive phenomenons that lead, in time, to an increase in the living conditions of contempt and the feeling of certainty regarding the workplace, but, at the same time, there are a series of negative phenomena regarding the relation of the immigrant with the group in the host country.

Dudley Baines tries to find an explanation for the dimension of the migration's phenomenon, and reaches to the conclusion that emigrants choose to migrate taking into consideration certain characteristics of their country. The author considers that we may talk about a so called selection of the migration's phenomenon, which takes place and forms according to the age and gender of the migrants. **[5]**

Regardless of the age or gender of the migrant, now, as it was 200 years ago, the main causes at the base of the migrating decision are economic and social in the host country.

The status of the immigrant when he takes the decision to migrate is unclear. By the nature and dimension of the phenomenon, the migrant is faced with, maybe, the biggest and the most important experience in his life.

4. The Romanian emigrant in the current global context – „Finding the identity, again"

If people migrate under serious political and economical constraints, such as the refugee emigrant, the migration would be, for the possible migrant, an option known as „the worst one", which may involve a real decrease in the good-being and the capacities of the pre-refugee. **[6]**

The main determinant factors worldwide generating the migration are: economic climate, together with the population increase in the migrant's country, and sometimes, with armed conflicts, religious persecution and xenophobic attacks.

The intention to migrate or to stay home is influenced by a series of factors: language, cultural barriers, personal opinions of the potential emigrant on changing the location, leaving the family and friends, changing the country and birth place.

Trans nationalization of the „migrants' life" led to the identification of models for the assimilation of migrants. It is more and more difficult to determine a clear distinction between the two already traditional terms in the specialty literature: „origin" and „destination", or between other terms, highly used: „temporary", „permanent" and „returning", because the migrants' life is characterized by circulation and simultaneous commitment between two or more societies (communities) they are part of **[7]**

Romania, after 1989 lived the migration's phenomenon in various phases and forms, our country being a supplier of cheap labor force for the countries in Southern Europe: Italy, Spain, Portugal and Greece.

Because of the fact that many Romanians transited these countries in the last twenty years, we may say that the Romanian migrant, once arrived in the destination country, „takes on" many profiles or personalities, depending on the destination place.

Sociological studies on groups of migrants showed that there is a migration culture, in which communication between the undecided, the ones staying at home, and the group of migrants is very important.

In time, the undecided will become more determined to migrate to other countries, this proving that the simple contact between the one staying home and the migrant returning home is sometimes vital in taking some decisions regarding the future of the potential migrant and his family.

Romania is not just a gate from East to West (such as Portugal, Spain and Italy – gates for South-North), our country being considered a heterogeneous labor market, which needs qualified workers, and maybe less qualified in various domains.

Romania is more prone to migrating than other countries in the EU, considering the defective labor force market, significant discrepancies in wages, several shortcomings and a rather high unemployment in certain regions of the country.

The Romanian citizen has a strong motivation for migration: poverty in certain areas of the country, low income, the lack of real professional opportunities, low living conditions for some part of the population; all these lead to the intensification of migration.

Most of the Romanians left the country in order to significantly improve the financial situation of the persons left behind at home, and the same time, to have a decent living.

The choice of remaining in the Western countries in full economic recession or to return home to increase the number of unemployed becomes a real issue for the Romanian migrant, who is now hopeless, in a completely foreign country.

Working abroad is most of the times a temporary strategy, many Romanians, as well as other migrants, not having any other choice. They have to take on such a strategy – compromise, for themselves and their families.

Many of the Romanians that leave to work and cross the border for the first time, and who bring with them the children, relatives, friends, start „colonies", which turn into diasporas, causing a real clash of civilizations and assimilation of a new culture, traditions and customs.

The countries in Western Europe have become so far a multi-ethnic environment, having important communities of non-European immigrants.

Never the less, EU was the promoter of such an „experiment", being a multicultural and multi-religious entity, from the very beginning.

Furthermore, the idea of „citizenship" and „national identity" are renegotiated in the mutual language of the actors involved in the migration process, as a normal reaction to the contemporary models of migration.

5. Expenses of the migrant abroad

The socio-economical determinants generate a series of factors that contribute to increasing the labor force mobility.

The most important are: labor force market segmentation, the need for much higher salaries, regional (country, continent) demographic changes, liberalization of the economic and labor force market, the development of multinational companies and

foreign investors which generate jobs, and last but not least, the development of the commercial exchanges between states and regional infrastructure.

On the other hand, the financial and social costs cannot be overlooked, these costs being paid by the main actors of this process: the foreign migrants arriving from different corners of the world, in much more attractive countries, from an economic and social point of view, hoping for a better life.

The financial costs paid by the migrants include: decrease of the migrants' savings, taking a job completely out of their study range, some migrants are forced to constantly move from one place to another, since they don't find a job in a certain region, this generating extra costs and additional expenses, immigrants are paid much less than the normal wage for the job, most of the time, employers take advantage of their migrant status and give them much lower wages than the official level of the market, foreign migrants are often forced to pay taxes, higher than the ones paid by the local population, most of the times the migrant work without legal forms in the host country.

The social costs paid by the migrants are also considerable: the feeling of frustration, of not being able to fulfill their goals in their own country and to be forced to work in a domain completely different than the one they specialized in. Making friends within the local population is hard.

This thing is mainly generated by the negative image that the local population has about immigrants, from local and international media.

In time, many migrants who are away from their families and their loved ones fall sick with certain diseases, depression, mental or heart illness being some of the most common ones. Many migrants feel discriminated at their job, and so do their children studying in the schools in the destination country.

The racism and xenophobia accentuate the personality of the migrant changes in time, along with his perception on his family or his own country. Most of the times, because of the significant income in the destination country, migrants are often seen by the communities at home as being snob, new-money people.

All these lead to the increase of the social discrepancies between the ones that stay at home and the ones that leave.

According to Costea Moarcăș Claudia, the intensity of the migration's phenomenon is seen as a result, a main feature, but also as a necessity of globalization, talking mainly about „different languages between developed countries – developing countries – poor countries", about a true „exchange or globalization of competences" for the mobility of employees in the developed countries, because of the rather similar high economic level, the desire to migrate in order to earn more doesn't exist. There is a replacing flow, consisting of foreign migrants. **[8].**

There is also a real „exodus or export of competences", specific for a long term or permanent migration, without any compensation by comeback, to earn much more and to balance the national budget, training human resources (specific for developing countries.) **[9]**

The economic crisis in the latest years has affected all the EU member states, having political, economical financial and social consequences, but especially on labor force migration between countries.

It is well known and proved that during economic growth, migration has also positive effects, for both the origin and host countries. But either we are in a new economic crisis or in strong recession, the Romanian is still willing to leave to work abroad, being ready to leave home the „Romanian dream" and to embrace „the European dream"

The Romanian is willing to „reluctantly leave at home the family, relatives, children, but, at the same time, he leaves behind a much darker social aspect: poverty, unemployment, corruption, red tape, and his own inability to perform, all these things do nothing but determine the fate of the Romanian migrant.

„The migrant is a man between worlds, he has needs and life strategies he strives to achieve by working abroad, and at the same time he is a man that tries to keep or increase his quality and name." **[10]**

6. Conclusions

Migration abroad, regardless the origin country brigs up for discussion different

opinions shared by the migrant's family members or by the persons that don not have anybody working abroad, creating two groups, for and against migrating.

According to the two sides: migration contributes to a certain development of the origin country, it helps the ones abroad achieve experience and broaden their horizons, but at the same time, migration breaks the families left a home, make the migrants more interested in money, accentuating the discrepancies between rich and poor, and many ''outsiders'' are seen as „snobs" by the ones not having relatives working abroad.

The persons involved must not be analyzed through the group they are a part of. They must be seen as individuals. People are different by nature, have different behavior, and have their own ideas, opinions. As a consequence, the motivations and causes of a certain behavior are different.

The migration of persons everywhere must be analyzed differently. Maybe, something that for someone is a choice or a life decision for another one may be something harmful.

Our choices are, most of the times, different, may they be subjective ones, or based on tradition. This differentiates us from the other members of the community we are part of.

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Controlling the Influence of Globalization on the Firm

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Abstract

Currently, the companies are obvious changes in activity mode of organization, type of development, behaviour towards the environment. There are different views about the causes of these changes, but all the authors mentioned globalization as one of the causes.

Focused on the relationship between globalization and method of organization and control at the micro level, this study develops the concept of interface and presents a working model of it.

Key words: microeconomics, globalization, interface, internal structuring, internal control, interface,
J.E.L. classification: D00, F60, F61, M10

1. Introduction

Current conditions in which must operate a business made it necessary to solve new kinds of problems. Currently, the company is developing more than ever linked to the conduct of the transformation of resources into sustainable results for clients. Undesirable effects of globalization, the crisis of raw materials, personal crisis and financial crisis are just sides of the same process: the erosion of quality and level of resources used at the micro level. Moreover, from the source of raw materials, energy, labour, business information and resources that transform society outputs required supply shocks occurred (in the broadest sense) to the firm adjusts in various ways. There might be problems in the future that may lead to profound changes in society. Nicholas Georgescu - Roegen said "Every human life born now are down in the future" which means that any change in the current structure leads to a more profound change in the future and ultimately to hasten the disappearance company!

Any form of adaptation is threatened by the interaction of the company in the short term, with its environment. To be consistent with the objectives of adaptation in the short term adjustment, we believe it would be useful following:

- Identify possible effects of globalization (as a specific form of manifestation of the external environment) on firm
- Analyze general trends of development of society, due to advances in science and technology
- Changes in the leadership change at the microeconomic level, using new tools for control.

2. Identifying the effects of globalization on firms

Globalization is a relatively vague concept of semantically because of its use in political contexts rather than journalistic or scientific contexts. Therefore, an assessment of the impact of globalization (that said, the impact of globalization) requires, first, a definition of the process. For this purpose, we use the definition of globalization proposed by a team of researchers from the Centre for Financial and Monetary Research - Victor Slăvescu led by PhD. Emil Dinga (project "Mix adjustment policies towards achieving sustainable Romania's economic convergence with the European Union "- CNCSIS - UEFISCSU, no. 821/2008 PN II - IDEI 600/2008): all type phenomena necessary, structural, and spatial-oriented fractal nature that occur in a horizon of time at a planetary level.

In this context, globalization, as a process, is generated by the action of all the phenomena of globalization taking place on the time horizon considered. So, there may be many phenomena of globalization, "contemporary" with each other, which

means that at every moment of the analysis, we have a certain "profile" of the globalization process as a whole given the composition profile of the process phenomena (for example, nowadays, global warming phenomenon is specific to contemporary globalization, while in the 18th century, the phenomenon of industrialization was the most visible and effective globalization). Also can be no question of globalization (or a limited number) which satisfies the lead in the overall process of globalization.

Among the effects of globalization most often mentioned in the literature mentions the following:

- The particular challenges of global economic governance, "Interdependence would cause when des-integration, that competing and conflicting regulatory agencies at different levels. Such a conflict would weaken on global efficiency of public governance. "[17]

- From multinationals to transnational companies: "The company will not rely on a single major national location (as in the case of multinationals), but will serve global markets through global operations. Unlike multinational, transnational companies will no longer be controlled or constrained by national policies of certain states. Rather, it will be subject only international regulatory standards imposed and agreed. National governments could no longer take any effective regulation against these standards "[17].

- Continued decline in political influence and economic bargaining power of organized labour;

- Increasing multipolarity in the international political system: "A number of organizations, international non-profit agencies to transnational companies will gain more power at the expense of national governments and using the global markets and the media could call and obtain legitimacy consumers / citizens. In this way distinct powers of national states will decline, even if the majority of their citizens, especially in advanced countries will remain attached nationally. In such a world national power would be less efficient and will not be able to be used to achieve economic objectives".[17]

Generally, it speaks about the seven sins of globalization and, in addition, about the globalization of economy. They are:

- Alienation. Leaders of the third world believe that their destinies are determined by the forces of globalization and tsunamis hope this turns into a beneficial force for reconstruction and development, not destruction and destabilizing force threatening. Experience Africa seems to be the most frustrating, because it continues to be the most favoured part of the world due to lack of economic cooperation within globalization.

- Selective action. Developing countries say NO selective globalization, i.e. liberalization of trade, investment and financial flows was done in an accelerated benefit only developed countries, while the momentum was reflected in a much weaker intensity for products imported from developing countries.

- Marginalization. Most developing countries consider that the only visible consequence of globalization is their own marginalization. Marginalization is the situation that best describes countries outside the "current". Countries that can not keep up with the rapid integration beg special attention not to fall back into the abyss of poverty and decay.

- Return to colonialism. Interests of developing countries are confronted by a series of international sanctions perceived as a return to colonialism. Colonialism returns as IMF, World Bank, other financial institutions and economic cartels and when necessary even military alliances. Globalization reinforces economic dependence, political and cultural.

- Imposition. Multiple options were completed and globalization brings dogma "one size fits all forms." The Cold War and the triumph of one party completely eliminated tensions, but broke the balance, and now the world's countries will have to choose one option. It will be an economic and political system, the drawing of one dominant system.

- Loss of national sovereignty. Shook the foundation's sovereignty and not due to objective reasons, but "due to the widespread arbitrariness in international relations". It produces an erosion of sovereignty with economic consequences, but also a reduction

in the viability of institutions and social stability.

- Loss of identity. New cultural values of globalization come with the system based on irrational consumption in rich countries. Globalization seems to cultural diversity "something old-fashioned." Globalization could lead to a single civilization, standardized according to Western culture. Global world as uniform and the variety will disappear.

- Globalization of economy. In the new era of globalization, the borders were opened, trade barriers were removed, and information flows with unprecedented speed. "Turnover of transnational companies and cross-border criminal organizations explodes. Colossal fortunes are often the result of drug trafficking and arms smuggling, prostitution, money laundering, all under the umbrella of corruption. Their opportunities to exploit the system they have never been so high because the world market was liberalized before creating global institutions needed to control and supervision."[5]

3. Trends in development of firms and knowledge society

The economy of the future, mutations will be much bigger than we can imagine at first glance. New types of electronic communication could be used as a platform for expression for political organizations, social and cultural. In the knowledge economy, the product, many changes will occur:

- Shorten the life of the product. To be competitive, companies are forced to constantly launch new products into the market. This means that the cycle "concept, production, presentation, abandonment 'is increasingly restricted. There are clear benefits in attracting companies that can promote new technologies, strong companies that can support complex research programs. The products will be cheaper and more competitive. Their quality will be better, and life will be determined by the design (not the materials used). Limiting the lifetime of the product means abandoning the idea of repairing and replacing it with the concept of reliability. This means that the products will be guaranteed to withstand a certain period of time without repairs (because it is impossible to maintain a stock of spare parts of dozens of products launched each year). However, products that will have a long life (which is likely to need repair) will be made modular. Thus, they, though they look different, according to fashion that year, will be built on the concept that will be kept for years.

- Valuation of high-tech products will tend to grow at the expense of simple, basic. This means that activities which include technical progress in a lesser degree: as agriculture, animal husbandry, production of metals, energy, fuel, etc. become increasingly less effective.

- More and more products will encompass intelligence technology. Mobile communications systems, micro-computers, multimedia systems will be incorporated into household products, in cars, in toys, etc. Future products will be almost entirely automated, robotic, so that physical work will be slowly replaced. On the other hand, the amount of knowledge necessary for people to be able to function normally in society will increase considerably.

- Latest trend of the information society is the idea of "communication" between different products. Example would be smart house that will automatically create living conditions by human presence.

And the companies will show many changes:

- Due to competition from increasingly powerful conglomerates will form big international companies? They will share the risk identification, production and launching new technologies. Strategic partnerships between these large companies will make to local small firms being disadvantaged against subsidiaries of multinational corporations. Competition will move from the local market at a much higher level landing at the international level. To reduce costs, multinational companies have already begun moving production activities in poor areas, where labour is cheap. They were kept in technologically advanced countries only conception and design activities. In this way they spread their branches in different countries, using local opportunities in terms of information resources, natural, human, and legal, to obtain a competitive advantage.

- In the future, companies will become less and less contoured organization. The organizational structure will change from one

pyramid to one network type. From this point of view, the future will resemble firms increasingly less with the current company. They may have no headquarters, do not possess a certain nationality, and employees do not even know each other. Thanks to the information revolution, most transactions will be conducted on-line, business meetings can be replaced with video conferencing and some employers will even be able to work from their own home at a terminal connected via the Internet to a fixed "virtual" .

- On the other hand, multinational firms will seek to eliminate their structure those activities they become unprofitable. As the passage of time and increased decentralization consortia will become more "brand" than what is now known companies. In other words they will be organizations that will produce goods to "mark" a certain quality, and the vast majority of business activities, from conception, promotion, bringing to market products will be subcontracted.

- The companies will develop more and more electronic commerce (e-commerce) in a virtual space with its own rules of procedures.

- It will develop new types of interfaces between the companies, people and artefacts evolved in society, so that the information is "merchandise" the most important in society.

In this context, we believe that means (at least in the current phase of development of concepts) for changing relationships between companies in a continuously changing environment, it is a special interface, an intelligent membrane included in the organizational structure of the company.

4. The concept of interface - tool control at the micro level

Any input or output is noticed first company interface with its environment. [10] In the context of open systems, the interface transfers made of matter, energy, information between the environment and business components with a role similar to the cell membrane.

In the context of this paper, this "membrane" is all the means, tools, techniques, mechanisms and procedures by which the company can make a transfer (controlled!) of material, labour, energy and information with the environment.

Any "membrane" defined in this way must be permeable enough to be able to exchange from and to the environment, but only within certain limits.

This includes: - a flow transfer - transfer channel - receiver to be part of the interface (membrane) and the entity receiving direct connection with the transfer channel (external receiver) - a receiver to be part interface (membrane) emitting entity which is directly related to the internal environment of the company (internal receiver) - a transmitter which is also part of the interface (membrane) emitting entity which is directly related to the transfer channel (external transmitter) - a transmitter which is also part of the interface (membrane) emitting entity which is directly related to the company's internal emitters (national broadcaster).

The flow of transfer is carried out continuously or periodically, and with certain amplitude. Transfer channel can be potential or active, its activation is achieved when one of the two ends of the channel and emits a stream at the other end, a receiver interface supports the feed (feed material, energy or informational).

Permeability is the fundamental property of the interface that allows the transfer flows from transmission channel in the internal environment of the company.

It is obvious that if closed systems, the permeability is zero, but if we can say that the open system tends towards a maximum permeability? We think not, because the interface by its mode of organization and operation does not allow maximizing permeability.

If maximum permeability as we have two extreme cases:

- Owned by the company would end up being the same as the emitting entities;

- Destroys the internal structure of the company and the entity receiving it disappears.

In both cases, no longer make a transfer and permeability referential disappears.

In general permeability P can be expressed as:

$Pm = f(\sum Ft, \sum Fi, N, O, G)$

where:

- $\sum Ft$ - cost for accepting a flow of a certain frequency transfer

- ∑Fi - the cost of accepting the transfer flow (and the type of feed) for a certain amount of
- N - cost "technology" for the construction or maintenance interface architecture
- A - The cost for providing a predetermined degree of organization of the interface
- G - the cost of providing a pre-absorption capacity of the internal environment of the company.

It is very important for the survival of the firm's internal organization of the interface to allow a transfer so as to ensure the functioning of the parameters set according to company strategy, plans and tactics adopted.

Shock may occur when:

- Transfer flow exceeds the capacity of the channel and then transfer lock can be turned in shock to the issuer;
- Transfer the flow exceeds the capacity of the receiver;
- Transfer flow is changed or turned off during transfer, because the issuer or change channel transfers properties.
- Transfer flow is blocked inside the interface, although it has a utility company's internal environment.
- Transfer flow past the interface and blocks the organizing company's internal environment.

From the point of view of the firm, shocks occur when flows exceed certain predetermined limits transfer of entity sets (or transmitters) and its impact on the organization.

It should be noted that the organization must be seen in two ways:

- The internal organization of the firm in general
- The internal organization of the interface. Usually overlooks the fact that an interface is organized in a certain manner, including items, relationships, actions, processes, mechanisms and right is carried out, but all are more or less noticeable depending on the size of the interface and / or company.

In this vision with shocks occurring on the interface can transfer to the internal environment of the company or be stopped with the interface and have a change in the organization of the interface, and then if the flow type shock moves forward, there is a change in internal organization of the firm itself.

Transferring a shock through all these "steps" - transmitter, transmission channel, the initial receiver of the company, working with the interface, the transfer to the company's internal environment and changing organizational status is a certain erosion of the "quality" of shock.

This erosion that is carried out in a suitable time frame, the receiving entity may be beneficial for the purposes of proper adjustment.

5. Conclusions

This paper tried to add some views on how certain specific concepts dynamic approach to business firms may alter the methodological level. One of the biggest obstacles reported by several authors [14,32] is the requirement to gather a large amount of data to characterize the dynamic system (as it can be considered a company). Taking them is very often hampered by the lack of appropriate measurement tools for dynamic variables, the excessive prolongation of the duration of the research, the reactions that may occur in some cases the subjects to repeat a task request a number of times (decreased motivation or fatigue, abandonment).

Our research is at the beginning, but what we do believe that efforts in recent years to integrate the concept of interface in economic theory will lead to proper management of firms in an unpredictable future.

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R versus Other Statistical Software

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Abstract

In this paper we intend to present an overview of the advantages of using R – the most powerful statistical software.

The statements on R are exposed versus SAS and SPSS – actually the most used statistical software in Romania. The study also focuses on comparing strengths and weaknesses of SAS, SPSS and R.

As an example on how R is much more flexible that the other software, we used a statistical analysis.

We will see how dominant R is already in the academia and how is predicted to be in the commercial. It is time now for open-source powerful software for official statistics as well as for companies and business.

Keywords: R, SAS, SPSS, statistical software, statistical analysis, variable selection
Clasificare J.E.L.: C46, C81, C82, C87

1. Introduction

The use of data analysis tools in companies and especially in official statistics offices has a high inertia to change, often because of the high aversion to change caused by the use of commercial software generally with a predictable cost.

This paper aims to set users wondering more about the different dimensions which can be used to compare statistical software and to compare the strengths and weaknesses of them.

R is the most powerful statistical language created by statisticians for statisticians. In the presented circumstances, it is necessary to re-shape the thinking at academia and official statistics level in order to expose R's advantages.

As an extra accreditation for R, it is appreciated the affirmation of Norman Nie, co-founder of SPSS in the 1960's: "R is the most powerful and flexible statistical programming language in the world". Currently, Nie is CEO and president of Revolution Analytics, a company that provides commercial version of R.

2. Literature review

In the last few years, the literature became wide as regards the statistical software; also regarding comparisons between the most commonly used statistical software: SAS, SPSS, R, Stata, Matlab, Statistica.

The technical report "Strategically using General Purpose Statistics Packages: A Look at Stata, SAS and SPSS" [5] draws a parallel between SAS, SPSS and Stata. There is also a section dedicated to R where it is characterized as hard to learn.

A real valuable study is "R for SAS and SPSS users" [8] because it presents in a

comprehensive and captivating way the use of R for users of SPSS and SAS; the book could be a real useful "translator" kit.

Also, for the ones who want to migrate from other statistical software to R and need further assistance, there is a special website [17]. Anyway, R stands in a continuous develop and release at academic level, growing list of print books and e-books.

3. The advantages of R

While SAS and SPSS have many things in common, R is different. It is a software with personality.

First of all, it is open-source, the cost of using it being related only with the training of users. Also, its numerous GUIs, IDEs and packages are freeware. R is working on various operating systems: Windows, Linux, Mac OSX and it is easy to install and configure.

The fantastic useRs community grows continuously. The users of R have a very enthusiastic behaviour and they consider the knowledge exchange a real challenge. The user support is based on a very active mailing list, blogs and dedicated forums.

R is used for statistical analysis, data manipulation, visualization and exciting applications in various fields like: statistics, economy, financial, business, genetics, engineering, biology and many more.

One of its big advantages is the linkage with the way statisticians think and work (e.g.: keeping the track of missing values).

It bears Excel integration via RExcel; SPSS has not this issue available. Other big easement is the use of mix-and-match models for best results and re-use and reproduce new discovered techniques on analytic operations that the user is going to perform – this is difficult in SAS or SPSS. R functions can nest inside one another, creating nearly infinite combinations of output, in this way it gives the warranty for the best result.

Also, R could be a threat for Geographic Information Systems (GIS) because it has great and competitive tools for a wide variety of map functions and projections. Also, R has interactive motion graphs and charts [11]; SPSS has not this feature available.

R supports connection with the main commercial software, such as: SPSS, SAS, Matlab and Statistica. It is also integrated in one of the biggest giant of databases: Oracle through Oracle R Enterprise [12].

R offers the freedom to use for teaching real-world examples from outside organizations, which is forbidden to academics by SAS and SPSS licenses (it benefits those organizations, so the vendors say they should have their own software license). R also gives many opportunities to the open-minded people that use it. The contribution users have to R is a real value-added for the software itself as well as for the contributors.

The wide area of use - statistics, journalism, mapping, finance, forecasting, social networking, computational biology and many more – makes R a common language for all the researchers and data analysts.

4. Variable selection for stepwise regression in R

4.1. Conceptual framework

When a multiple regression analysis has a large number of explanatory variables (exploratory studies) it is not feasible to fit all possible models so it is more efficient to use the variable selection method. Hence, if we do not know in advance what variables to be included in the model could be applied two algorithms (regression step): forward stepwise regression and backward stepwise regression.

In case of forward stepwise regression, all the predictor variables are added one by one in the model and are correlated with the variable of interest. The variable that has the highest correlation is introduced first in the equation. The next variable which is introduced into the equation has the highest correlation, after being eliminated earlier variable effect. The process continues until the predictor variables contribution is too small to be considered. At backward stepwise regression, all predictive variables are introduced into the model, being successively removed (in case they do not have a significant contribution).

4.2. Description of dataset and R procedures

We considered a dataset with 18

predictors and one response variable (y). The predictors refer to some socio-demographic characteristics: gender (male, female), age group (gr), activity (active), marital status (marst) and education level (edu).

In the next section we present two procedures developed in R which are able to perform the selection of variables from regression models.

The first one is included in MASS library that could be uploaded in R environment. The method used for the variables selection is **stepwise regression.**

The stepwise selection (forward, backward, both) can be performed using the stepAIC() function from the MASS package[10]. stepAIC() performs stepwise model selection by exact AIC.

```
>library(MASS)
>fit<-
lm(y~male+female+edu_inf+edu_med+edu_
sup+marst1+marst2+marst34+activ1+activ2+
activ3+activ4+activ5+gr_1+gr_2+gr_3+gr_4
+gr_5,data=mydata)
> step <- stepAIC(fit, direction="both")
Start:  AIC=-2592455
y ~ male + female + edu_inf + edu_med +
edu_sup + marst1 + marst2 + marst34 +
activ1 + activ2 + activ3 + activ4 + activ5 +
gr_1 + gr_2 + gr_3 + gr_4 + gr_5
```

Table 1. The variables selected in the final model

	Sum of Sq	RSS	AIC
<none>		8379.9	-2592455
- edu_med	0.21	8380.1	-2592442
- gr_4	0.22	8380.1	-2592441
- gr_2	1.37	8381.2	-2592358
- edu_inf	5.66	8385.5	-2592048
- marst1	7.36	8387.2	-2591926
- gr_3	9.33	8389.2	-2591783
- female	18.47	8398.3	-2591124
- male	24.54	8404.4	-2590686
- gr_1	74.42	8454.3	-2587102
- activ3	211.05	8590.9	-2577392
- activ2	233.56	8613.4	-2575807
- activ4	534.57	8914.4	-2555004
- activ1	954.71	9334.6	-2527111

Source: R output

The RSS represents the residual sum of squares. Akaike information criterion (AIC) is a measure of the relative goodness of fit of a statistical model:

$$AIC = 2k - 2\ln(L)$$

where:

k=the number of parameters

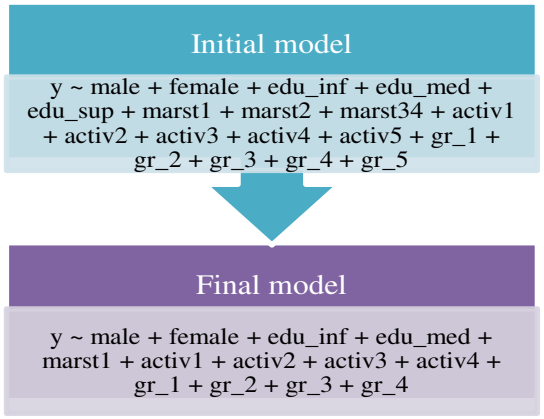
L=the maximized value of the likelihood function

The AIC is compared for every step in the regression and in the final will be considered the optimal model.

Hereinafter it is performed an ANOVA test in order to establish which is the final model. The command line and the output for ANOVA test are presented below.

```
> step$anova
```

Figure 1. Result of ANOVA test



Source: R output

The eliminated variables (gr_5, activ5, marst34, marst2 and edu_sup) are described also in the output of ANOVA test. They are out of the final model because the Akaike criterion is not satisfactory.

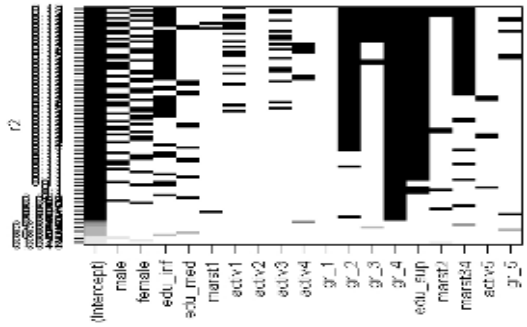
Alternatively it can be performed **all-subsets regression** using the leaps( ) function from the leaps package – which is more complex. In the following code the argument nbest indicates the number of subsets of each size to report. In this example, the ten best models will be reported for each subset size.

```
>library(leaps)
>leaps<-
regsubsets(y~male+female+edu_inf+edu_me
d+edu_sup+marst1+marst2+marst34+activ1+
activ2+activ3+activ4+activ5+gr_1+gr_2+gr_
3+gr_4+gr_5, data=mydata, nbest=10)
> summary(leaps)
Subset selection object
Call: regsubsets.formula(y ~ male + female +
edu_inf + edu_med + edu_sup + marst1 +
marst2 + marst34 + activ1 + activ2 + activ3
+ activ4 + activ5 + gr_1 + gr_2 + gr_3 +
gr_4 + gr_5, data = amigo, nbest = 10)
```

In this stage of the analysis 10 subsets of each size up to 9 are computed by an

exhaustive selection algorithm concerning the statistical significance of each variable.
Below it is performed a plotting of a table of models showing variables in each model. The models are ordered by the selection statistic.
> plot(leaps,scale="r2")
It gives rise to the output in the Figure 2.

Figure 2. Plot table of models showing variables in each model



Source: Processing of the authors based on dataset

The black in the plot indicates that a variable is included in the model, while white indicates that they are not. It is considered R-squared criteria. Other possible criteria that can be used are adjusted R-squared criteria and BIC, respectively, it can be typed:
> plot(leaps, scale="adjr2")
> plot(leaps, scale="bic")

5. Present and future of R development

Currently R is still a controversial software. Many people are still sceptic on it. Even so, R enjoys a great popularity among academia and companies. Some companies and organizations that are using it are the following: Google, Facebook, World Bank, Pfizer, Mozilla, Johnson&Johnson, Shell, The Economist and The New York Times. Also, R is used by some official statistic offices like: Austria, Australia, Italy, Netherlands and Canada.

In commercial companies R is in a similar position now to how it was in academia a few years ago.

According to the previsions of Patrick Burns [1], in 2020 R will be a dominant force in business similar to how it currently dominates in academia.

The Language Popularity Index [13] currently ranks R onward SAS.

Currently fighting with the three giants of the statistical computing – SAS, SPSS and Stata, R is in a continuous release and upgrade of its components. Some experts [7] have already forecasted that year 2015 will be the beginning of the end for SAS and SPSS. According to the latest data [6], there are 6,275 R packages in all major repositories, 4,315 of which at CRAN.

6. Conclusions

The selection of a subset of predictor variables from a larger set is a controversial topic. In this study the most efficient two methods are presented: stepwise regression and all-subsets regression.

R offers flexibility and has many cutting edge features. Those who are able to access its power would be able to access tools that may not be found in other software. This might come with a serious investment of time to sufficiently use R.

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Externalities, Public Goods and Natural Monopoly as Market Failures and Their Implications for the Consumer

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Abstract

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. 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 stop "undesirable" activities" [1], but also as any performance of the market which is considered less better than the best performance possible [2].

Specialized economic literature generally distinguishes four categories of market failures, namely: externalities, public goods, natural monopoly and information asymmetries.

The present paper will focused on the first three of these, 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.

Key words: market failure, consumer, externalities, public goods, natural monopoly
J.E.L. classification: D11, D49, D62, H41

1. Introduction

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.

They are suggested the following deal: if they betray their accomplice, the one who betrays will receive a gentler sanction, and the other the maximum penalty. If both betray, they will receive half of the maximum sanction, and if both choose to remain silent, they will be convicted for a minor crime. As the two suspects can not communicate, they must adopt the most rational decisions individually, respectively more advantageous for each one of them. In fact, paradox intervenes, consisting in the fact that each of the two prisoners will make statements in order to obtain individual acquittal, but a maximum penalty for the accomplice, by following the maximum of individual benefit. The final result will be that both will make simultaneous statements, thus reaching not to the optimum solution, but, on the contrary, to an equal punishment.

So, 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.

2. Externalities

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.

The classic example in supporting this point of view is offered by Steven N. S. Cheung, who analyzed the situation of reciprocal external externalities which arise between bee-masters and the owners of apple orchards in Washington state (apple growers offer valuable services to bee-masters by means of apple flowers which constitute a major source of food for bees, and bee-masters supply services to the former by the help of the bees which pollen naturally the apple flowers). The system of contractual relations developed between them, on the basis of voluntary agreements concerning the allotment of hives and honey flows, approximate rather well the functioning in optimum parameters of a free market in which resources are allotted efficiently.[4]

Following the same 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.

3. Public goods

A particular case of a positive externality which generates an imbalance within the market is represented by *public goods*. To this effect they can be defined, in opposition to "public goods" – "public evils", which generate negative externalities instead of positive ones (for example the pollution or the corruption of political class).

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 cannot 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 pre-requisite that the person who cannot 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 [11,12], 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 not the market managed always to allow individuals the maintenance of a long term productive use of public goods.[13,14] 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.

4. Natural monopoly

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.

5. 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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Information Assymetries as the Main Source of Market Failure Affecting the Consumer

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Abstract

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. 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 stop "undesirable" activities" [1], but also as any performance of the market which is considered less better than the best performance possible [2].

Specialized economic literature generally distinguishes four categories of market failures, namely: externalities, public goods, natural monopoly and information asymmetries.

The present paper will focused on information asymmetries 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.

Key words: market failure, consumer, information asymmetries
J.E.L. classification: D11, D49, D82

1. Introduction

Traditional economic analyses start from the supposition that rational individuals dispose of the necessary information in order to adjust the best decisions in their favor. Everybody has all the relevant information; everybody knows that everybody knows that information and so on. But, in order to locate, gather and assimilate the information, anyone needs time, effort and resources especially channeled on these lines; that is precisely why the information is nothing but a commodity, and those who want to obtain it must decide on the quantity of resources they are willing to give up for the benefit of it. Accordingly, there will be an information market where the price for which information can be sold, respectively bought, is formed, on the basis of a mechanism that is similar to that of forming the price on goods and services market.[3]

Thus, it is not surprising the fact that the occurrence within the market of a difference or irregularity between the information individuals have with regard to a specific article is imminent, these always tending to be concentrated in "the hands" of the person who is most interested in obtaining it and who will profit by controlling the way in which a specific transaction in which he participates may finalize, because, as George J. Stigler estimated, "information is a valuable resource: knowledge is power"[4]. All these *information asymmetries*, basically generated by the fact that different people know different things [5], only create significant discrepancies between the results obtained in practice and those visualized under the conditions of the existence of complete and correct information possessed by all market participants, affecting market equilibrium and generating its failure.

Unfortunately, consumers generally run against such a situation, because traders have most of the information connected to their offer, which they are not always willing to share, at least not entirely or correctly, with their transaction partners.

2. How information asymmetries work

Within the market, the main mechanism of transmitting the information to the consumers with regard to the available offer is represented by *prices*. However, economic reality discloses us that prices may differ not only from one good to another, but also that,

when the same good is targeted, its price may differ, not so much from one period to another, but especially, at the same moment, from one point of sale to another, for various reasons, such as: the situation or localization of the respective point, the transportation cost, the services which accompany the respective good etc. Thus it becomes impossible for only one person to know all the prices, reason for which any consumer willing to obtain the most advantageous price must embark on its searching action, by exploring the market.

Yet, the search of the best consumption alternative supposes specific time and money expenses the consumer does not always have, so that he will adventure in finding the information which concerns him in relation to a specific product or service until, in principle, the marginal cost of the search is equal to the expected marginal benefit.

For the mathematical determination of the expected benefit of search (*EB*) the value of each possible outcome will be taken into account (*Vi*), expressed under the form of possible prices the consumer might find, together with the probability that any given outcome would occur or that any given price would be found (*Pi*), respectively:

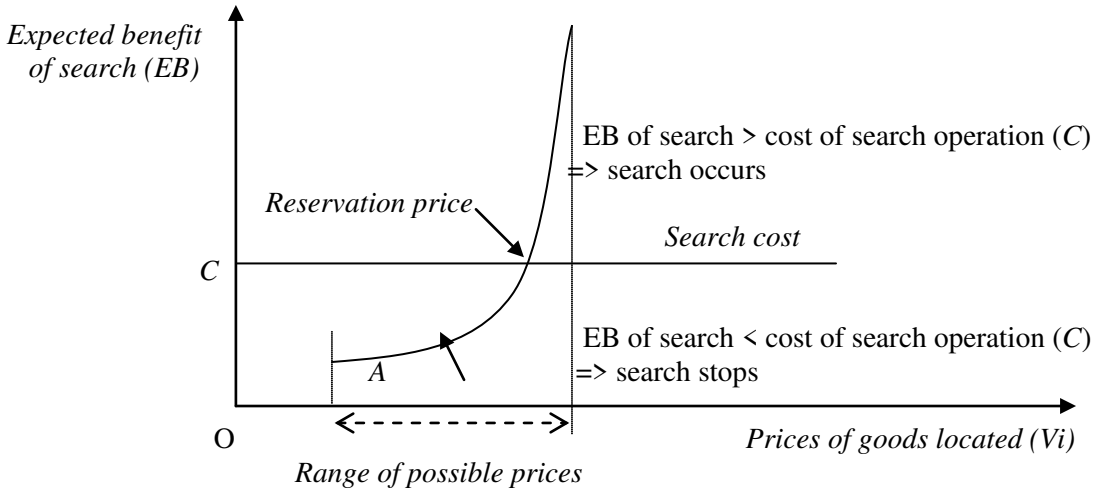
$$EB = \sum_{i=1}^{n} P_i \times V_i ,$$

where *i* - represents the set of possible outcomes, namely the number of prices that can be found by the consumer after searching.

Starting from this mathematical determination of the expected benefit of search, *the consumer's optimal search strategy* (*Figure 1*) can be graphically described in a system of two orthogonal axes, in which the evolution of the expected benefit of search is pointed out on the vertical axis, and on the horizontal one – the prices of the goods localized by the consumer.

In this graphic representation price is used for making the distinction between the more- and less-preferred outcomes, the expected benefit of search being determined as a difference between any newly located lower price and the price that the consumer had already located. Consequently, in the situation in which he has already located a low price (represented by point *A* in our chart), the consumer no longer expects much gain generated from the extended search, so the expected benefit of search is low; on the contrary, when he found only high prices, the expected benefit is high.

Figure 1. Consumer's optimal search strategy



Source: D. K. Round, J. Tustin, *Consumers as International Traders: Some Potential Information Issues for Consumer Protection Regulators,* International Trade Law Conference, Attorney-General's Department, Canberra, 23 September 2004, pg. 11

Considering the cost of search operation (*C*) that must be borne by the consumer, the optimal search strategy will be determined in terms of *reservation price*, corresponding to that level of the benefit expected after the search operation which allows the recovery of the expenses involved. Thus, when even consumer finds a price that is bellow or equal to the reservation price, he must stop the search and purchase the located good, as the cost of further search outweighs the expected benefit of search, although it is possible that the price of the respective good is not the lowest possible. Similarly, when even consumer finds a higher price than the reservation price, he should continue the search operation, as the expected benefit from further search exceeds its cost.

In practice, the level of the expenses involved by information search process in which the consumer must commit himself in order to adopt the best purchase decision, directly influences the prices established within the market. Thus, prices tend to rise along with the rise of the expenses implied by getting the information, a situation which confers sellers a specific monopoly power, due to consumers' limited mobility in finding better transactions, as to costs. This evolution is explained in that, in proportion as search costs rise, the gain obtained by the person willing to find the lowest price will be more and more reduced, and the extent to which companies will be able to exploit their monopoly position will be larger. Particularly, sellers can exploit the lack of information on the part of the consumers asking them scaled up prices for the offered products.

Consequently, as Stanford J. Grossman and Joseph E. Stiglitz reasoned, since in real economy information costs, prices can not reflect perfectly the information available within the market; or, those who would invest their available resources in order to get that information would not receive any type of compensation, so that the existence of some entirely efficient markets from the informational point of view becomes impossible.[6,7]

In addition to the prices, the transmission of information by the consumers also may take place in the market perimeter through other methods, respectively by means of advertising or the decisions adopted by the producers and the actions unfolded by them, which disclose information about them, but especially with regard to *the quality of their offer*, which is not always reflected by means of the prices. As a matter of fact, the information regarding the quality of the traded products and services within the market is most difficult to be obtained by consumers, reason for which it represents the main source of informational market failure.

On these lines, two types of asymmetries were developed in economic theory, which start from the pre-requisite according to which one of the participants in a transaction has at least a relevant piece of information in comparison to his partner. To a certain extent, this is inevitable, because any individual normally knows much more things about himself than somebody else. In the model of *adverse selection*, one of the parties involved in the transaction does not have all relevant information in relation to the characteristics of the good or service which is the object of the transaction, while in the model of *moral hazard*, the same party lacks for relevant information concerning the actions the other party may undertake.

- The term of *adverse selection* was initially used in insurances in order to describe the situation in which the persons exposed most to a certain risk are more inclined to sign an insurance contract, since the insurer cannot discriminate against them by reason of the lack of information with regard to the individual risks which are specific for each person. The problem of adverse selection was then generalized by economists to other markets, not only the insurance one, as motor car market, labor force market or capital market.

On these line, George A. Akerlof's remains famous with regard to "market for lemons"[8], where second hand car buyers can not know exactly their quality, respectively if they are good or bad (lemons), so that they will be inclined to pay for them a price that is situated somewhere between the price of a good car and that of a bad one. Owners will sell less good motor cars, being dissatisfied with the very low price received in exchange for them, but they will choose to sell more lemons, being satisfied with the good price they are repaid with. After a specific time, buyers will realize this and will not be inclined to pay the old price asked for

a lemon. Consequently, the price will fall even more, so that more less good cars and more lemons will be offered on the market. Ultimately, good car sellers will be taken out of the market. The conclusion is that *market fails* to keep lemons away because of imperfect information with regard to their true quality, these coming to overlap at the expense of good quality cars.

On such a market, the disposition to sell second hand cars or not at the practiced price reveals information about that car if it is a lemon or not, so that, those willing to sell cars at market price will actually be write-off owners, since they profit by them, unlike the owners of quality cars, who would rather not sell them at all, since they only lose.

Starting from this example, it is logic for us to think that some participants in the market, as lemons' sellers, will not be willing to transmit supplementary information that might jeopardize their image in front of buyers, or their gain diminishes considerably. On the contrary, other participants in the market, as quality car owners, will prefer to transmit information by which the quality of the offer can be perceived, in order to determine the consumers to buy their cars at the expense of lemons.

This imperfection can be rectified by providing the surplus of necessary information in the consumer's benefit in order to adopt the best decision. The undertaking may firstly come on the part of the more informed person, respectively the seller, by emitting signals toward the partner with regard to his credibility and the quality of the offer – a procedure which is known in specialty literature under the name of *signaling* and developed by Michael Spence[9]. Such signals take the form of guarantees; these, the more advantageous they will be, the better quality of the products they will communicate to the clients for two reasons: on one hand, the reduction of the risk of going to supplementary expenses by repairing possible failures, but, especially, on the other hand, the certainty that the seller would not have offered that guarantee if the chances of the product to get out of order had not been small.

Not lastly, an important signaling source on the part of the seller is also represented by advertising, whose main role, estimated in this context, is that of informing the potential buyers with regard to sellers' identity, the quality and the prices of the products offered by them. But, unfortunately, correct information connected to the offer is not always transmitted by advertising, a discussion on which we will go back immediately.

The initiative of rectifying the informational deficit can come not only from the most informed person, but also from the uninformed one, respectively the consumer, who can undertake search actions of some supplementary details concerning the seller and the quality of his offer, a process named by Joseph E. Stiglitz – *screening* [10]. However this solution involves certain limits which reside in the inherent expenses of previously analyzed search operation.

- A second model of informational asymmetries – *moral hazard*, was delimited by Kenneth Arrow and also exemplified for the first time in the field of insurance services.[11] The informational asymmetries which are the subject of this model are considered, in fact, as a problem connected to *incentives*, because when they are insured against a specific risk, the consumers of such services do not dispose of adequate incentives for undertaking actions that are meant for avoiding the regarded risk. Moreover, insurer's actions are for the most part imperfectly observed or even pass unnoticed by the insurer.

A special case of this model was developed by Stephen A. Ross and became known under the name of *principal-agent problem* [12], which may appear when employing by the consumer an authorized supplier in order to provide him certain specialty services. If their interests are not aligned, the agent will have the tendency to adopt an opportunistic behavior, trying to maximize his own utility, being advantaged also by the principal's impossibility of monitoring him at any step, and especially because of the lack of specialty knowledge, so that he will finally have more information compared to the principal regarding the intentions or the actions he undertakes.

Generally, the problem of incentives degenerates in a market failure when individuals are not gratified for what they do or when they do not have to pay the entire cost of a wrong action. This problem can be solved by the agency of the negotiation

between the interested parties, respectively between the consumer and the service provider, of some contracts in which should be specified very clearly all the conditions for the development of the transaction, especially the obligations which come to each one of the parties in any given situation and the eventual penalties to bear for the breach of contractual terms. However, it is impossible that such a contract comprises all the unexpected situations that may appear during the development of the transaction, and even if it were possible, the parties would lose a lot of time for stipulating them distinctively. Additionally, no matter how complex the contract would be, uncertainties and dispute still may appear, so that this only represents a partial solving of the incentives problem.

Another solution in offering incentives in market economy is constituted by *reputation* [13, 14], which can be gained by a company through reliability and the quality of products, respectively of the offered services. But in order for the reputation to be an efficient mechanism, companies must record losses if it would suffer. Consequently, in the markets where quality is maintained due to a reputation mechanism, price must be superior to marginal production cost (otherwise companies do not have incentives for maintaining their reputation), unlike the hypothesis of competitive markets with perfect information, where competition reduces the prices to the level of marginal cost. In fact, in the markets where reputation is very important, the necessity to establish it acts as a barrier at the market entry and limits the nature of competition; in order to become known, new-comers must offer a sufficiently small price, accompanied, in most cases, by powerful guarantees with regard to the quality of the offered products, conditions under which the access on such a market becomes extremely expensive.

Regardless of the source of origin and the cost of obtaining them, even when the consumer would ideally be in the possession of all the necessary information for adopting the best purchase decision, a different problem intervenes, namely the process of that information, an activity which implies a supplementary effort on his part in order to understand and interpret it. In fact, information process is dependent on several factors, respectively the time available to the consumer, his education level and the financial income, estimating that, generally, the consumers more educated and prosperous from the financial point of view tend to consult several information sources with regard to the offer, these being separately analyzed by comparison before making the purchase decision.[15]

Moreover, under the conditions of technological developments presently involved in communication filed, especially by extending the use of the internet – which firstly result in the reduction of information search cost, and secondly, the increase of its volume which is at the consumer's disposal - more and more the problem of informational overload is raised. On these lines, experiential proofs point out the fact that, although consumers feel more satisfied and less confused when they have a surplus of information, the decisions adopted by them are not always the most "inspired" [16,17], a tendency which can be explained by the limited time at his disposal in order to process the available information and which move them toward ignoring certain information sources. Accordingly, the more time and effort are spent, the less remains for processing it on purpose to make a decision, so that consumer's decisional process involves, in the end, a limited rationality.

3. Conclusions

The internal logic of functioning of market economy, approached from the perspective of the interests and motivations of the consumers in economic activity – producers and consumers, points out the fact that they are in an out of balance proportion, objectively, at the expense of the latter, even if the consumers, with their needs and necessities, should represent the origin and at the same the final point of the production activity. The existence of the "sovereign consumer", invoked by the supporters of free market, is jeopardized within the context of economic reality, by the failure of the action of spontaneous self-adjustment of the market.

Considering that information asymmetries represent the form of market failure which most often affects the consumers, this situation offers the traders the possibility of influencing their decisions, so that the

choices undertaken by the consumers are no longer guided exclusively by the principle of rationality, but they can be induced by the interests of transaction partners.

Such situations demand the deliberate intervention of public power towards the diminution of this relation which is unfavorable to the consumers up to an acceptable sustainability level.

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Economic Issues in the Wind Energy Development at World and European Level

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Abstract

Energy has become increasingly more a commodity we can not replace, a good without which modern life can not exist. Over time, sources of energy have experienced several stages of development. The quantitative involution of energy sources from fossil fuels, leading with climate change and a range of additional costs due to their scarcity, have led scientists to find them a replacement.

Like any large-scale technological innovation, electricity obtained from wind power required huge cost of implementation, turning out to be a real industry. Nowadays, the investment costs are still high, but the need of this type of power to operate, made the results worth the financial efforts of those involved. Increasingly used both in developed countries and in contries with developing economies, wind energy turns out to be not only in line with sustainable development, but also profitable for investors.

Key words: energy, wind, development
J.E.L. Classification: F18, P28, Q42

1. Introduction

Form of renewable energy, along with energy from biomass, solar energy, geothermal energy and water (hydro, tidal, osmotic), wind energy has been used for the first time in human history by the Egyptians as a means of propulsion on the Nile. Wind energy was also used by Christopher Columbus in the late fifteenth century, when he discovered America.[1]

Nowadays, wind energy is increasingly used worldwide, being the energy source that recorded the fastest growth in the last twenty years. Its scale is based on a number of considerations. Among them, the most important is the idea of sustainable development, based on respecting the environment for future generations, but also taking into accout the alarm signals drawn by holding powers of fossil resources about the sharp reduce of their quantity; this fact has determined a reshape in energy production for the purpose of obtaining it from inexhaustible sources.

Along with the purpose of sustainable development, wind energy has created a real market with multiple implications and sides, being involved in the production and commercialization both private enterprises, state and last but not least, the final consumers. The need to implement green energy policy has made this market experience a drastically increase in record time.

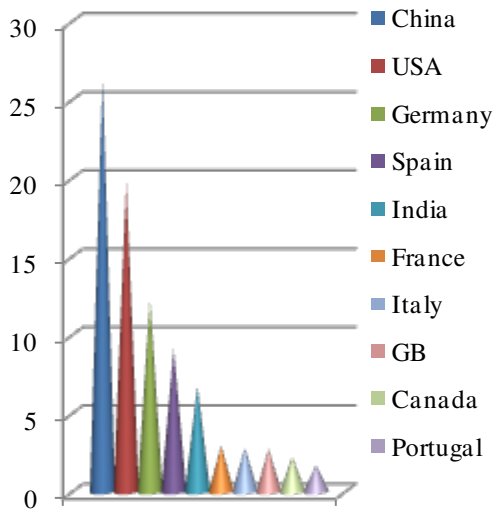
2. The current state of wind energy use

At a worldwide level, the use of wind energy has been conditioned by the existence of primordial energy source, in this case, the wind. The second issue of major importance is the ability of investment required to capitalize commissioning and production of wind energy. These are the reasons why the states that have nowadays the most important role in this sector are China and United States of America, followed by the first representative state of the European Union in this field, Germany.[2]

Germany has always been the pioneer state of the European Union in terms of energy drastic decisions. The decision to eliminate the use of nuclear energy until 2022, and the recent decision to readjust the few coal mines it has until 2018, in order to deter complete pollutive fossil energy production and replace it with a more effective one, determined Germany to invest

heavily in green energy production, this fact being also reflected in production of energy from wind sources.[3]

Figure no. 1: Top 10 market share of global wind energy in 2012



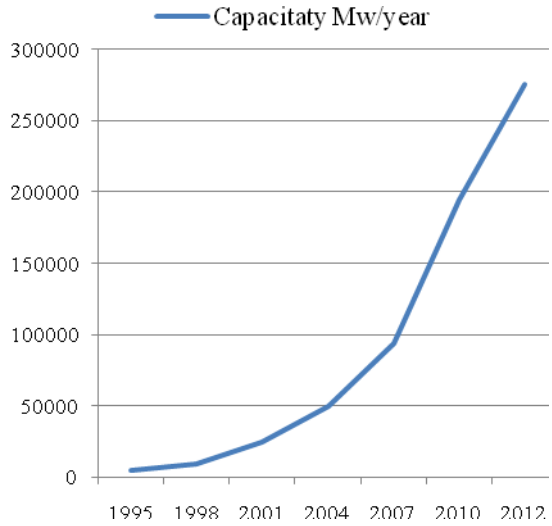
Market share of global wind energy

*Source: Own processing of the information in Global Wing Energy Outlook 2012 Report, available at http://www.gwec.net/wp-content/uploads/2012/11/GWEO_2012_lowRes.pdf.

Along with leading members of the wind energy market, a range of other countries with potential wind energy development joins in order to accomplish the target of gradual elimating the energy produced by fossil fuels, which on the one hand, are of a limited quantity, and on the other hand, they pollute most. All the states that are involved in energy production with wind fuel, made that during 1995-2012 the installed capacity of wind turbines to grow up to 57 times, being a relatively constant trend in rising year by year. As the issue of replacing the classic fuels is more acute, the increased use of renewable fuels is higher. Consequenly, the use of wind turbines is expected to see further significant growth.[4]

The European Union sustains this type of energy production with all possible means, assuring legislation and finance for different projects implying green energy. The need of replacing conventional fuel is so stringent that the European Commision established targets for the 27 states to accomplish and different terms regarding each one of them.

Figure no.2: Evolution of installed capacity of wind power turbines worldwide in 1995-2012



*Source: Own processing of the information available at http://www.thewindpower.net/statistics_world_en.php.

At continental level, the first place in producing electricity from wind power is occupied by Europe, closely followed by Asia. America has the next place and at a long distance, Oceania and Africa. From the technological point of view, the biggest engineering results in elements necessary for these processes were obtained from India.[5]

3. Wind energy between economic considerations and sustainable development

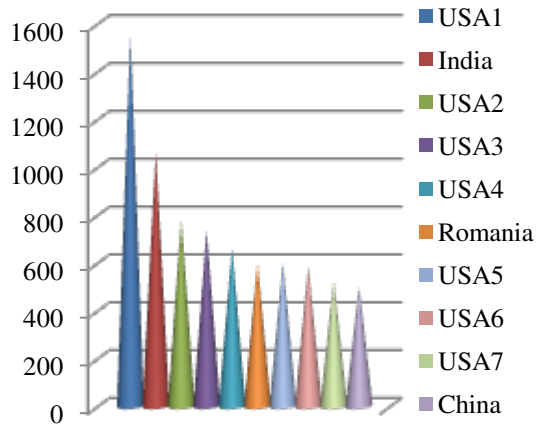
The starting point of using wind turbines for electricity production was the need of mankind to pay attention to becoming more considerate regarding sustainable development in the context of the sharp rise in the number of people in the world and the consequently growth of consumption and needs. These considerations, which were affecting the entire population of the globe, have required increased attention to all aspects that the initialization and development of this energy industry branch assumed and still assumes until reaching a maximum point of development.

Deeply involved in the process, the economic terms have been a priority for private companies that have decided to invest in this sector, but also for the states that subsidize a part of this process and especially for individual users that participate in the development of renewable energy through the green certificates.

At investitional level, the boom known in the development of wind farms demonstrate their profitability. At European level, one of the biggest investors in wind energy is the group British Petroleum. Looking strictly at the business part, British Petroleum has invested in wind energy since the beginning of the mass implementation of turbines. Wind energy's extensive development, in states where wind energy really matters in the energetic system, led to the price of MW to fall a lot.

Altogether with this reason, uncertainties in government subsidies, the discovery of new oil and gas fields and their increased profitability, prompted some investors to readjust. Consequently, British Petroleum has decided to give up all the stakes it holds in wind parks completed or almost completed in the U.S.A.. Along with multilateral developed companies, there are companies specialized in the development of wind farms and electricity production, companies constantly worrying about investing in areas of the world in which this business knows a high profitability.[6]

Fig. No. 3: Top 10 wind farms onshore worldwide (2011)



*Source: Own processing of the information available at http://www.energydigital.com/top_ten/top-10-business/the-top-ten-largest-wind-farms-in-the-world

The wind farms are located in areas with maximum and relatively constant wind power. This is why, although China is the main producer in the world, U.S.A. has the largest wind farms, China having several smaller parks. The same issue can be observed for the EU member states – they have large wind farms, but there are many smaller regions of location. It is also noted a sharp increase in households resorting to energy independence, less by installing wind turbines, but through solar panels.[7]

At the individual consumer level, amoung with increased quality of life through the introduction of environmentally friendly technologies, wind energy brings additional electricity costs. These costs are due to the introduction of green certificates, through which it is provided additional income for investors operating in an environment so risky, but absolutely necessary. It is estimated that half of the revenue from a wind farm is represented by subsidies provided by the state and the green certificates, and half by the price of electricity supplied.

4. Conclusions

The need to develop renewable energy is already a way too debated topic in the literature of specialty. However, the economic funds involved in this process are highly complex and often difficult to quantify. Strategic branch of the national economies of each state, the energy industry suffers permanent changes in „greening" its existence. Since 1980, when there was installed the world's first wind farm in New Hampshire, U.S.A., wind turbines have seen a sharp increase in use, being until now a great opportunity for investors.

Investments in wind power technology were based not only on commissioning as many turbines, but also to optimize them so that the resulting product - electricity - to be in high quantity. To the wind turbines located on land were added offshore turbines.

States that have a real history behind in this field, have managed to get through sustained efforts the cost per MW of wind power similar to a MW of nuclear power.

This has led some investors to readjust their investment in branches with greater profitability rate. However, for states where wind energy is emerging, the cost per MW is double compared to the one produced by nuclear fuel and 50% higher than the one produced by fossil fuel. This is why government subsidies are essential, especially if the European states have to achieve targets set by the European Union.

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[4] http://www.gwec.net/wp-content/uploads
[5] http://ww2.windpowerindia.in
[6] http://www.bp.com
[7] http://www.energydigital.com

The Influence of Income Changes on the Financial Performance of the Firm

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Abstract

In financial terms, firm performance is an overall result of the firm's activities. It consists of the profits generated by sales of the firm. Obviously, consumers play an important role in this sense, as they are responsible for creating demand for goods or services. They base demand on their incomes.

The present study aims to establish the relationship between firm financial performance and consumers' incomes. The research is based on an empirical study on Romanian companies within manufacturing sector. For the purpose of our study, a regression model was used. As a result, we constructed a linear model of regression outlining the impact of income changes over firm financial performance.

Key words: consumer income, consumer behaviour, financial performance, regression model.
J.E.L. Classification: C50.

1. Introduction

At microeconomic level, the consumer income is the essential factor which, by its value, type, dynamics, distribution in time, destination etc., is the material prerequisite of the consumer behaviour and the main restriction imposed to the consumer. The consumers income change obviously affects on the long-term their behaviour towards the goods and services they consume. Thus, a decrease in their income leads to a decrease in the demand for goods and services, with a negative impact on the financial results of companies producing such goods and services. In the analysis we have made upon, we have intended to see the *influence of the income changes on the financial performance of the companies producing goods and services*.

We think this is a topic of general interest, for we try to answer the economic contradictions emerged. As incomes increase, some economists note that people prefer to buy some new things rather than repairing the old ones, thus leading to increased consumption of certain goods, and consequently to increased business income for the producing companies. A second view shows that some consumers think about the future and even if they earn more, they do not consume for short-term, in order to do once an important investment. Another view is that of the consumption "of snobbery". If people's incomes grow, they buy more even if they do not need to, just to impress their neighbours and friends.

2. Methodology

It is generally accepted that consumption is determined by numerous factors, such as incomes, prices, demography, infrastructure, acces to information, individual preferences, etc.

Firms target profits as the rationalle of their existence. Hence, targeting profits means targeting consumers, as they are the main actors influencing firms' incomes. Consequently, we consider that consumption has a significant impact on firms' incomes, as consumer behaviour influences demand for

goods and services. All in all, we assume that consumer behaviour is an important factor influencing firm financial performance.

We define this issue as a simple regression model, of which endogenous variable is the financial performance, measured by a financial indicator, and of which exogenous variable is the consumer's income.

We take into consideration within present study the influence of incomes on consumer behaviour, with great impact on firms' profits - its financial performance. Collected data clasifies consumer incomes into two different groups:

- wage incomes, and
- non-wage incomes (e.g., annuities, dividends, rental incomes, etc.).

The data on the financial results of the investigated companies were obtained from the website of the Ministry of Finance. Financial performance of the selected firms was computed as a profitability indicator - return on sales (ROS). ROS was calculated for a period of 10 consecutive years. The data for the period 2002-2012 were applied transformations, i.e. they were denominated according to the law in force since 2005 by which the amount of 10,000 lei is 1 RON. The data series were also transformed by deflating, into comparable prices for 2002.

Given the above assumptions, variables considered within our regression model are:

- ✓ Financial performance, represented by ROS - endogenous variable named PERF;
- ✓ Wage incomes of consumers - exogenous variables named WAGE_INCOMES;
- ✓ Non-wage incomes of consumers - exogenous variable named NON-WAGE_INCOMES.

3. Research results

By means of the least squares method, we estimate the parameters of the regression model as $PERF_t=\alpha_1+ \alpha_2 NON\text{-}WAGE_INCOMES_t+ \alpha_3 WAGE_t + \varepsilon_t$, and, by introducing letter c in the equation, we estimated the regression model by also taking into account the free term α.

Based on the results of the calculations above, the regression model is estimated as follows:

PERF=-2.243084214+0.2536569766* NON-WAGE_INCOMES+0.2175918549*WAGE_ INCOME

Table 2 – Estimation of parameters using the Least Squares Method

Dependent Variable: ROS Method: Least Squares Date: 04/08/13 Time: 11:10 Sample: 2002 2012 Included observations: 11				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.243084	0.677498	-3.310837	0.0107
WAGE_INCOMES	0.253657	0.021916	11.57426	0.0000
NON-WAGE_INCOMES	0.217592	0.037888	5.743035	0.0004
R-squared	0.975084	Mean dependent var		9.631064
Adjusted R-squared	0.968855	S.D. dependent var		1.627265
S.E. of regression	0.287178	Akaike info criterion		0.569572
Sum squared resid	0.659770	Schwarz criterion		0.678089
Log likelihood	-0.132648	F-statistic		156.5403
Durbin-Watson stat	2.041761	Prob(F-statistic)		0.000000

Source: Authors' processing using SPSS

We used the t-Student test to verify the two hypotheses, the null one and the alternative one. We decided to also test the free term α although it shows the value of the explained characteristic, which is independent of the explanatory characteristic one.

For α_1 we tested:

H_0: $\alpha_1=0$

H_1: $\alpha_1=1$

From OLS, we have the following values: α1 = -0.243084, the standard deviation = 0.677498 and the t-Student value = -3.310837. Given the obtained value of the

significance marginal level (p-value) of 0.0107 (<0.05), we reject the hypothesis H_0 and accept the hypothesis H_1 by which α1 is significantly different from 0.

For α_2 we tested:

$H_0: \alpha_2 = 0$

$H_1: \alpha_2 \neq 0$

According to the parameters estimation by the method of least squares, we have the following values: $\alpha_2 = 0.253657$, the standard deviation = 0.021916 and t-Student value = 11.57426. Since the value of the significance marginal level (p-value) is 0.0000, we accept the hypothesis H_1, consequently α_2 is significantly different from 0.

For the parameter α_3 we have:

$H_0: \alpha_3 = 0$

$H_1: \alpha_3 \neq 0$

According to the parameters estimation by the method of least squares, we have the following values: $\alpha_3 = 0.217592$, the standard deviation = 0.037888 and t-Student value = 5.743035. Since the value of the significance marginal level (p-value) is 0,0004, we accept the alternative hypothesis H_1, according to which the parameter α_3 is significantly different from 0.

Also, in the case of the parameters for which we accepted the hypothesis H_1 we have in addition a relatively high value for the F statistics, significantly different from 0 (156.5403), which requires the acceptance of the hypothesis H_1 while rejecting the null hypothesis.

Model-specific hypotheses:

1. The residual variables of the multiple regression are random variables of mean 0; $E(\varepsilon i)=0$, for any i=1,..n;

This assumption is permanently valid for the parameters estimated by means of OLS.

2. The residual variables are not correlated: $cov(\varepsilon i,\varepsilon j)=0$, for any i different from j, namely the errors are independent;

3. The value of the Durbin Watson coefficient calculated in the table is 2.041761, which shows the non correlation of the residual values; but htis is not sufficient for the statistics value also depends on the number of exogenous variables, respectively on the length of the data series. We extracted from the table the Durbin-Watson values d_1= 0.83 and d_2=1.52, according to the significance threshold of 0.5, to the number of exogenous variables K=2 and to the number of remarks n=11.

Moreover, by comparing the DW value calculated by means of OLS with the values in the table, it resulted: $d_2<DW<4-d_1$, i.e. 1.52<2.04<3.17; this relation is verified and, consequently, there is no auto-correlation among the residues.

4. The residual variables variance is invariable. This assumption defines the homoscedasticity in regression;

Using the White test (no cross terms) via the Eviews, we obtain p-value equal to 0, less than the significance threshold of 0.05%, which urges us to affirm that the homoscedasticity hypothesis is satisfied. Moreover, the residue graph confirms that the hypothesis is fulfilled.

5. The residual variables are not correlated with the explanatory variables cov (X, ε) = 0. Given the fact that X is not random, this condition is satisfied.

6. The regression model is correctly specified (correct choice of explanatory variables, specifying the correct form of the regression function, the correct form of the residual term).

The explanatory variables are correctly selected, a fact proved by the parameters estimation by means of the OLS method and by the descriptive statistics, which have proved that there is direct dependance among the variables.

7. The residual variables are linearly independent; the residual variable is distributed according to a normal distribution.

To ceck up the normal distribution of the residual variable, we use the Jarque-Bera test with the following hypotheses:

a) $\varepsilon \rightarrow N(0,1)$

b) ε does not follow a distribution N(0,1)

Under the null hypothesis of the existence of normal distribution, the Jarque-Bera test is distributed Chi^2 with 2 degrees of freedom. The calculated probability is the probability that the Jarque-Bera test should exceed the absolute value of the null hypothesis (a low probability causes to accept the null hypothesis of the existence of a normal distribution). If we consider a threshold of significance α = 0.05 and the calculated probability equal to 0.055, we can admit that the distribution is normal.

8. The resident variable is distributed according to a normal distribution

In the multiple linear regression formula we note that the model linearity depends on

the vector of the parameters α. Consequently, this model defined as $PERF_t=\alpha_1+ \alpha_2NON\text{-}WAGE_INCOME_t+ \alpha_3INCOME_t+ \varepsilon_t$ is a form of the linear regression model of which exogenous variables are NON-WAGE_INCOME and INCOME.

To test whether, at the level of the linear regression model, there is at least one explanatory variable to justify the behaviour of the explained variables, the F test is used. By estimateing the parameters by OLS, the value of the F statistics is 156.5403 with a probability of 0.0000. Thus, the null hypothesis is rejected, which means that the model is correctly specified.

A qualitative indicator of the regression model is the coefficient of determination (R-squared). Values close to 1 of the coefficient of determination shows that the endogenous variable variations are explained by the changes in the exogenous variables. In our case, the coefficient of determination is 0.975084, which shows that this model adjusts better the sample data.

Since the coefficient of determination in this form is very little influenced by the number of explanatory variables of the model, we used another form of it, namely the adjusted coefficient of determination. In the case discussed here, the value of the adjusted coefficient is 0.968855. We note that the two coefficients of determination obtained for this regression model have similar values and we consequently may conclude that the model is validated.

Moreover, the obtained value of the Durbin Watson statistics (DW) indicates that, for the model considered, it does not appear the phenomenon of autocorrelation of errors.

The formulated model is statistically validated; consequently it may be used in forecasting.

4. Conclusions

The regression model being validated, it may be used to make predictions about the evolution of the companies producing goods and services. To verify whether the relationship between the variables of the model is correct for estimating the model parameters in general, it may be also used the method of the maximum verosimilarity or the method of moments.

The described model is validated, this being a linear-type model. The model illustrates the positive effects caused by an increase in the consumer incomes, both the wage-incomes and the non-wage incomes, on the financial performance of the companies in the manufacturing sector.

The value associated to the free term cannot be interpreted in economic terms.

We note that the influence of the non-wage incomes is higher, this being due to the fact that we are talking about non food goods. From their wages, people satisfy their basic needs first, while other incomes may bring more life satisfaction.

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Analysis of the Tourism Influence Over the Employment and the Persons' Income in the Constanta County Area

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Abstract

The present paper aims to reveals the result of a graphical analysis made over the numbers tourists nights spent in the Constanta County area and the evolution of employment and the monthly net average earnings in the same period. The time period was 2006-2012 and the analysis considered the data for every month of that period. The methodology used is graphical analysis considering that the economy was influenced by the financial crisis and any mathematical linear approach wasn't efficient. The analysis showed that, even if the tourist nights spent has a certain influence over the employment and income, it isn't the decisive element of influence for the entire Constanta County area. Also, the economic crisis influenced all three data considered, but with different evolutions.

Keywords: tourism, touristic reception, employment, monthly net average earnings.
Journal of Economic Literature (JEL) Classification: E24.

1. Introduction

Today tourism has reached, in people and in dollars, the top of the heap. More money, time and equipment are involved in tourism than in any other single business. In major tourism countries (see accompanying list) more than 350 million visitors intermingle annually, bringing billions into these countries while paying for airline, ship, hotel, entertainment and other services and goods.

Even with such massive numbers travelling, tourism remains mainly a business of the wealthier countries although some smaller and poorer countries manage to provide a livelihood for some citizens catering to visitors from richer countries. A recent phenomenon is the rise of a segment of the world population with the largest amount of disposable income - young Japanese women between ages 19 and 34 who, through a strange mix of tradition and the new Asian economic miracle, are far ahead in the new "world order" of tourism[1].

Because of the tourism specificity the Constanta County area is characterized by the sessional employment/unemployment. Thus, it is necessary to overcome the problems raised for population by the sessional earnings, especially in the winter when the unemployment is higher.

So how the tourism influences the local level of living through employment and net average earnings? This is a question that the authors try to answer in this paper, specifically for the Constanta County area.

2. Data

The analyzed data comes from the 2006-2012 (for 2012 only for the first 10 months) time period. The data were collected from the Romanian National Statistical Institute [2] and it states the 2006-2012 situations for the Constanta County area [3]. Also, the data was presented for every month of the considered period.

The data taken into account were, as follows:

1. The tourists spent nights in the

establishments of touristic reception with functions of touristic accommodation – ARR (in numbers of nights);
2. The Employee numbers (EMP) at the end of every month, for the entire considered period of time (in numbers). The employees' pool data was considered from the entire Constanta County area.
3. The monthly net average earnings (EAR) - in RON/person - for the entire employees pool data.

The EMP and EAR were considered for the entire pool data because the authors believe that both their values are influenced by the ARR.

3. Methodology

The methodology consists in graphical analysis of every considered data (ARR, EMP and EAR).

The general tendencies and certain specific evolution will be investigated. The results of this analysis will be followed by conclusion and recommendations for the employers and employees.

4. Graphical representation and analysis

For a better understanding and easier analysis of the evolutions and tendencies of the three data two types of graphical representation were used. First the yearly evolution of each data and second the comparison of monthly data values.

The spending nights of tourists (ARR) are represented in figure 1 and figure 2.

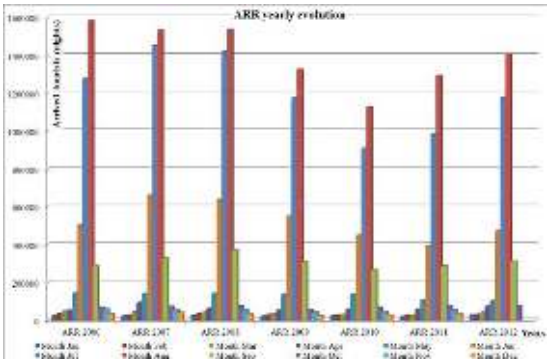


Figure 1. ARR's yearly evolution.

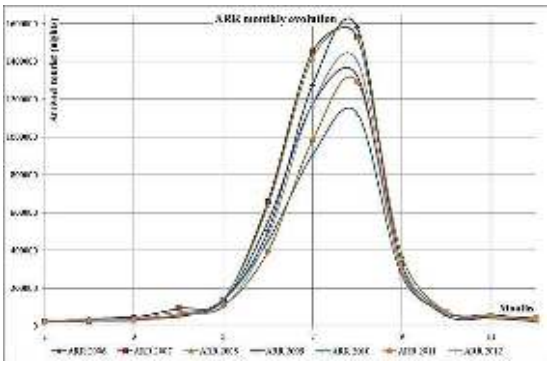


Figure 2. ARR's monthly evolution.

The employee numbers (EMP) are represented in figure 3 and figure 4.

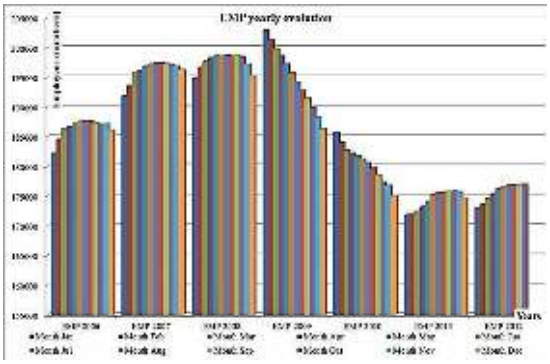


Figure 3. EMP's yearly evolution.

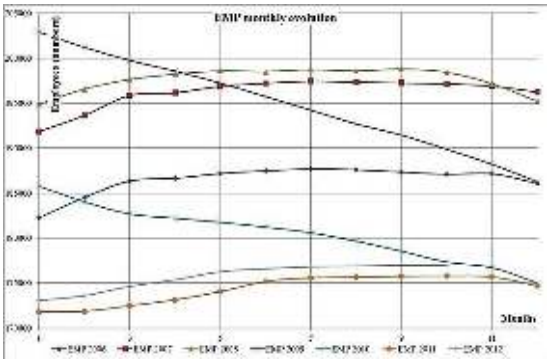


Figure 3. EMP's monthly evolution.

The monthly net average earnings (EAR) are represented in figure 5 and figure 6.

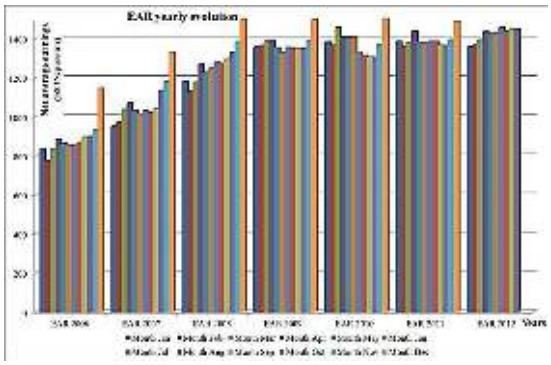


Figure 5. EAR's yearly evolution.

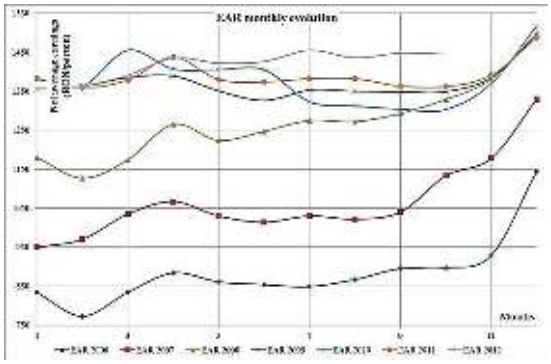


Figure 6. EAR's monthly evolution.

Considering the above figures the following specific conclusions were developed:

For the ARR evolution (figures 1 and 2):

- The year with the biggest number of spending nights was 2007 (4469418 number of nights) followed closely by 2008 (4435702 number of nights) and 2006 (4115909 number of nights);
- The month with the highest number of tourist was august 2006 (1581077 number of nights) and the worst month was January 2011 (19646 number of nights);
- The worst year by tourist numbers was 2010 (3166706 number of nights);
- The months with more than 200000 tourist are: June, July, August and September;

It is obviously that the tourists prefer the summer months (between June to September) to visit Constanta. Thus, the tourists are not interested to visit Constanta County in all others seasons.

The economic crisis influenced the numbers of number of nights by diminishing it in the years 2009 and 2010 with a small come back from 2011.

For the EMP evolution (figures 3 and 4):

- The month with the highest number of employees was January 2009 (202900 employees) and the worst month was January 2011 (171804 employees);
- The worst year by employees numbers was 2011 (between 171804 and 175783 employees);
- The employees best year was 2008 with an average employment of 197608 persons;
- The months with relative constant numbers of employees were from June to October, excepting years 2009 and 2010;

What most be considered here are the years 2009 and 2010.

First we must highlight the tendency that governance the evolution of yearly employment considering the analyzed figures. It is obvious that the employment is more efficient in the summer and early fall months. Also, the employment is smaller at the beginning of each year than is growing until the end of September, than is falling again. Furthermore, for the considered period the employment looks like it is increasing with each year.

But those conclusions don't apply in the case of economic crisis. This is what happened in the year of 2009 and 2010.

In 2009, the year with the highest employment (in January) the evolution decreases dramatically to levels of 2006. So after an increasing average employment because of economic crisis the numbers of employees decreases sharply to the smallest levels yet. Furthermore, in 2010 the employment still drops. This diminishing stops in February 2011. From this moment the evolution re-enter in the 2006-2008 evolution of growing.

For the EAR evolution (figures 5 and 6):

- The month with the lowest monthly net average earnings was January 2006 (773 RON/person) and the best month for monthly income was December 2010 (1517 RON/person);
- The best year for the net average earnings was 2012, even if we didn't had the

earning for the last two months;
- The worst year for the earnings was 2006;
- The highest level of net average earnings in the year is in December for each analyzed year.

Here it is necessary to mark out that the highest net average earnings were not in summer months when is the highest employment rate, but in December. Also, considering the financial crisis it was expected a decrease of net earnings after the year 2009. But as can be easily seen the amount of money earned each month remained relatively constant. The exception are the 2009 May to October with a slightly decrease and 2010 July to October with a more serious diminish of the net income.

As in the case of the EMP evolution the net average earnings constantly increases from the year 2006 until April 2009 when the economic crisis became perceptible.

5. Conclusions

The authors concluded that even if the nights spent in the Constana County area has a certain influence over the employment value and the monthly net average earnings, but it is not the most important one. In order to determine the evolution of the employment and monthly earnings we must consider others industries like agriculture or manufacturing. Also, the study should be extended to more specific area like the Mamaia resort from Constana seaside.

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Consumers' Behavior on the Insurance Market

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Abstract

Given that the limitations, the weaknesses of the economic activity in general have been enhanced by the financial crisis, the role of the insurance companies is undeniable.

This because enable households and businesses to manage their risks effectively, ensuring the recovery and even reunification their patrimony. The competitiveness of the insurance sector depends in particular on the knowledge regarding the consumer's behavior especially since the new realities brought about changes in his behavior. Therefore new strategies were imposed that would ensure a balance between the customer's consumption needs and the profitability of the insurance companies.

This is because the consumer has changed in recent years, he became more educated, consumerism behavior, adopted especially between 2006 and 2008, has been transformed into a cautious one, of individual and family protection.

Keywords: insurance, consumer risk, market
Classification J.E.L.: D11, D12, D81, G22

1. Introduction

At the base of Maslow's pyramid, life safety, as a basic need, represents a priority for all citizensProvided that the risk is a constant of human activity, insurances have now become products destined for covering these needs. But the transformation of the need for insurance into an actual demand, depends greatly on the position, the attitude on the market of the suppliers of such services.

Given the difficult economic conjuncture, the instability of the social, political, environmental factors and the fluidity pf the insurance services offer, namely, the permanent adjustment to the needs of the insurance carriers is an essential condition to ensure the efficiency of the insurance companies.

To this end, the systematic monitoring, the understanding of consumer's behavior as a consequence for knowing the objective and subjective factors that influence the purchasing decision, represent the key to success on the insurance market, and not only.

2. The risk – the premise for insurance emergence

Human activities (government action, corporate or of the current life of the individual) are more or less subject to risk and uncertainty.

It is therefore of importance the distinction between risk and uncertainty. Thus, uncertainty is the result of lack of information and occurs when the consequences of an action are not known and by default, neither the probabilities of their occurrence. If the occurance probability of an event and also of its consequences can be quantified, the decisions are taken under conditions of risk.

The ideal situation would be the one where future events are certain, the decision maker being able to anticipate in this situation, accurately, the results of his actions. At the opposite pole the situations where there is no information regarding future events, the effects of the decisions made under these conditions being uncertainIn practice, however, most often, decisions are based on the anticipation of certain results that may be obtained with different probabilities.

Under these circumstances, it may be said that nothing is certain, the activities with a high degree of safety are almost non existent, the concept of risk becoming complementary to that of activity. We live, thus, in a world of risk and, as stated by the physicist Louis de Broglie, we must accept the risk because it represents the condition to all successes.

There are several definitions of risk. Most of the definitions studied see risk as the probability for loss occurrence, due to certain unforeseen and unfavorable events.

The economist Raymond Barre, analyzing the characteristics of the market economy, has highlighted the growth tendency of risks in this organizational system, due to the social transformations economic agents' interdependence and technical progress acceleration.

Globalization also implies new opportunities as well as increased risks, given that all nation states are involved in various foreign relations, which makes them parties, to an greater or lesser extent to the effects of major international events. In this context, the risk has acquired a great importance in all fields of the economic and social life, taking risks becoming a common practice.

The existence of these risks, whose materialization may cause losses led, for that matter, to the emergence of insurance as a distinct activity.

Insurances have therefore become an instrument for risk management, facilitating the elimination or reduction of damage by transferring the risks to insurers.

However, not all risks can be insured (the risk must be of the future, possible, real and uncertain).

The oldest written proof, about the emergence of insurances is dated approximately 6500 years ago, when in the Lower Egypt, the stone workers have constituted, anticipated, an insurance fund, where everybody contributed, in order to compensate the different losses that could affect the members of their community.

Since then, the insurance market registered a continued dynamic. Thus in 1900 there were about 1272 insurance companies worldwide, and by 1969 it reached a number of approximately 9700, widespread in 71 countries.

Our country has a tradition in the insurance field of over 130 years. Although the insurance companies currently offer a wide variety of products and services that support individuals and organizations exposed to risk, the number of companies operating in the insurance market has dropped in recent years. Therefore, in 2011 an approximate number of 5000 insurance companies was reached, compared to the 5416 that existed back in 2005, for example. [1].

The situation accounted for in the last period of time is due to the challenges the companies have undergone- increasing competition due to globalization, the impact of the global economic crisis, consumers' demands and their continuously changing behaviors.

With a percentage of 36% of the global market, the insurance market in Europe is the largest in the world, followed by North America with a share of 29% and Asia with 28%.[2]

In contrast, the insurance market has increased in Bulgaria by 14%, becoming thus the fourth market in 2011.

All these differences regarding the insurance market, demonstrates that it is a complex market, which interacts with many aspects of people's lives.

Under these circumstances, the competitiveness of the insurance sector depends mostly on the knowledge of the consumer's behavior as a decision maker regarding the acquisition, and on the companies' ability to adapt to the new conditions.

3. Consumer - the engine of the insurance market growth

Consumer behavior represents thus an important vector in the trajectory of the insurance market..

Therefore, knowledge of the consumer's behavior and the repositioning of the products according to it, represent essential variables in the process of organizing and conducting effectively the companies' activities. The various points of view regarding the definition of consumer's behavior support the idea that it should be considered interdisciplinary (economics, law, psychology, sociology, theory of risk and even history).

Synthesizing these approaches led to the

conclusion that both the factors that influence the consumer behavior and consequently, the demand for insurance products can be grouped from this perspective. Thus, the increase / decrease in demand for insurance is determined by economic and financial factors (average standard of living within the specific area, current income, expectations of its evolution, interest rate, liquidity preference), cultural (besides the educational level, we include here religion, ethnicity, nationality), social (social status, group affiliation, family), psychological (beliefs, motivation, self-esteem), personal (age, occupation, life cycle stage, tendency for risk) and incidental.

3.1 The diversification role in ensuring the competitiveness of the insurance market

Considering that, besides the price of the insurance policy, the quantity demanded on this market is influenced by other conditions, objective, but the most part subjective, the insurer must include in his strategy, a permanent diversification of the portfolio, and even a differentiation of products and of distribution channels, with the purpose of providing personalized services depending on the customer needs.

The diversification idea had been formulated ever since 1952, by Harry Markowitz, who has formulated a revolutionary theory at that time for the business world, showing that diversity is gold for any investor or manager. In fact, he won the Nobel Prize for economics in 1990, following his theory from 1952 (Portfolio Selection) - the first notable attempt to quantify risk, showing that there is no gain without risk and that we should not put all our eggs in one basket, as it involves unacceptable risk.

Adopting the customer-centric strategy, the offerer will obtain competitive advantages and thus will achieve his goal - increased profit.

This approach is required because the new realities left their mark, also on the current consumer who is more educated, more informed and therefore more difficult to handle. In this equation should be included also those with a prudent attitude towards new, especially to new technologies. Consequently, the companies need to expand and optimize the distribution and information channels, combining new technologies (online distribution channels), with the traditional distribution channels, to ensure that they can be contacted by anyone interested.

Nevertheless, traditional distribution channels have retained an important role.

Thus, if bancassurance (introduced in Europe in 1980) is the main distribution channel in many countries, reaching a record of 92% in Malta (France 61%, Austria 63%), in Eastern Europe, the system is still widespread. Distribution is made, still, mostly through the two traditional channels – agents and brokers. In Romania, for example 55% of the insurance market is covered by agents, 21% brokers and only approximately 14% is covered by bancassurance. [3]

In terms of portfolio diversification in relation with the current context is has been imposed for example the growth of insurances with lower loss.

From the demand for insurance bearer, reporting to the same diversification theory, we can say that, purchasing more products represents a solution for risk reduction.

The complementarity idea between different financial products (the combination of banking products and insurances) was highlighted even in the 2009 OECD report.

Complete and correct information is thus a decisive step for establishing the action strategy on this market, both for the insured and the insurer.

However, market failure is felt also of the insurance market segment, in the form of asymmetric information, because each of the two parties hopes that they own more information than the other does, and thus a greater gain.

Thus, the insurer has better information due to the large number of clients and knowledge of its own products and, the customer has control over the information regarding their personal situation being able to provide false information about his health, financial situation, etc .) [4]

This situation reminds us of the classical issue on lemon, present on all free markets under the conditions of asymmetric information. Formulated by George Akerlof, in his article "The market for the Lemons: Quality, Uncertainty and Markey Mechanism", he argues that individual

rationality correlated with asymmetric information undermines the economic efficiency of free markets. He sustains his affirmation with a suggestive example from the used cars market. Because only the sellers know the true value of the automobiles, the prospective buyers assume that all are of average quality and are willing to pay the best price for a car of known average quality.

Of course, those with good quality cars are disadvantaged, and therefore the transactions are blocked. [5]

Considering this aspect, a mutual behavior based on ethical principles would bring benefits for both parties, but it is an aspect very difficult to control.

3.2 Current insurance market issues - comparative analysis

Based on the magnitude and multitude of changes that have occurred on the insurance market, Ernst & Young, along with an independent firm, Ipsos, conducted a study in order to identify, quantify and interpret the factors that have generated these fluctuations. [6]

The study was conducted between August and October 2011, on a sample of 24,000 consumers in seven regions around the world.

Have been observed, as expected, numerous differences in the consumers' behavior, depending on the geographical areas, demographic factors, level of development, competitiveness, but data analysis allows us to formulate the following general conclusions:[6]

- The consumer desires safe, sale purchase process to be simple and transparent in order to understand what they buy.
- Generally in non-life insurance sector, price is the most important variable in the decision making process (in Turkey, Canada price influences the choice up to 60%) but there are also areas where the brand, the reputation are decisive.
- Internet has changed the way people interact with insurers (insurance through internet became possible, including in our country). The transparent environment, rich with information, allows only those interested to make their own analysis, comparing the products and the prices;
- Even if the previous acquisitions were based on a good research, 70-80% of the respondents claim that they have this intention for the next acquisition;
- In general, in the non-life insurance sector, the price is the most important variable in the decision-making process (in Turkey, Canada the price influences the choice with 60% percent) but, there are also areas where the brand and the reputation are decisive;
- The interpersonal interaction is important in the purchase decision. Regardless of the region, 70-80% of those surveyed claim that, considering the complexity of the products, need the assistance of an expert (in Malaysia 95%). A greater independence is registered in the life insurance sector. Although there are people drawn entirely to the online services, most prefer to complete the information and online services with the information provided by the insurance agents. This idea emphasizes once more the necessity of continuous adaptation of the existing channels to new technologies.
- It is recommended to maintain the relationship with the client eve after the sale was completed, throughout the life cycle of the product, because it has been ascertained that the policyholders expect the insurers to contact them when the contract reaches its maturity or for the renewal of the contract. Most of the times, the buyers prefer to work with well-known companies, with whom they had a positive experience (in China 52% of the respondents have bought a new product from the same supplier, while in Europe 17%).

The resources limited character is in fact the economy's general issue, regardless of the place, time or institutional sector and thus, of the insurance consumers (we are considering both the economic resources and the temporary and cognitive resources). Under these circumstances, the optimum revenue allocation is brought into question. Therefore, the financial behavior influences the attitude towards insurance.

Thus, regardless of the living standard, preference towards liquidity suggest an aversion towards risk and thus a positive effect on the demand in the insurance market.[7]

4. Conclusions

Therefore, the suppliers of insurance products must adapt their strategies, according to the market segments, consumers' patterns because, even though there are common elements, consumer's behavior varies, from one area to another, due to differences regarding the development level, demographic factors, legislation, etc.

For example, in China the insurance market is dominated by state-owned companies, thus offering a limited choice, while in the US, the competition is much greater.

In conclusion, the new realities require new approaches, insurance companies' efficiency, depending on their capacity to manage the changes in their consumers' behavior.

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Investor's Perceptions and Financial Instability in the Emerging Countries

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Abstract

Due to the importance of the financial instability and of its negative consequences within the economies, especially in the emerging ones, it is important to sstudy the link between financial instability and investments, as a factor of economic stability. Therefore, the paper aims to analyze the relationship between the risk premium comprises by the financial instruments, the country-specific factors that influence spreads, the factors that influence the general perception of emerging market risk and the risk appetite, both having great influence on the investments level.

Keywords: financial instability, investment, emerging countries, financial instruments
J.E.L. Classification: D53, E22, G23, G32

1. Introduction

Risk perception of currency investments significantly affects the capital flows' direction, the domestic financial instruments' yields, and finally, the financial stability. Depending on the size of interest rate and exchange rate exposures, yields' volatility and the currency exchange rate affects the profitability of the financial intermediaries, determining the financial conditions of households and of the firms. Volatile capital flows, induce by the shifting of the investor sentiment, may endanger the financing of the balance of payments.

Market sentiment about investments is frequently affected by the risk perception regarding the investments, especially across emerging markets, which is illustrated by the size of the required risk premium and by the irregular movements in capital flows (which are usually uncorelated to the domestic fundamentals, being able to periclitate financial stability in the case of a significant contagion effect.

This paper aims to present a general description of country-specific and external factors related to the market sentiments across emerging countries. It also aims to analyze the perceptions' role on the emerging country risk and how does it leeds to the variation of the risk premium on currency investments. Finally, the paper aims to describe the exposure of financial instruments to contagion.

2. Estimating the risk premium on emerging country financial instruments

If the investors think that the emerging country financial instruments imply higher and more risks than the advanced market instruments, the yields on the emerging country financial instruments contain a risk premium.

The premium on investments that is denominated into the domestic currency, implies two main constituents. The first one is the premium required due to country-specific risk and due to the liquidity risk. The second one is the premium for exchange rate risk that investors demand in order to compensate the unforeseen exchange rate movements (the. uncertainty regarding the currency's future value).

The size of the risk premium that foreign investors require on the financial instruments, issued in the home currency, is given by the difference between the domestic yields to foreign yields differential and the expected nominal depreciation of the exchange rate. But the change of the expected exchange rate cannot be directly observed; thus, the numerical /quantitative definitions of the required risk premium are very uncertain. Yet, it may be possible to directly remark the difference between the spreads of a country's foreign currency denominated bonds and

other bonds in the same currency and with the same maturity, assuring a proper estimated size of the country-specific and liquidity premia, since there are no exchange rate expectations or other uncertainty components involved[6].

Sovereign bond spreads mainly mirror three types of risk. The first one is the *credit risk or default risk,* which describes the likelihood of the bond issuer to fail or to refuse to service the debt. The second one is the market risk, which is corelated to the variance within the secondary market bond prices.

These two risks are inter-linked, since one of the factors that leads to price changes is represented by the perceived credit risk. In addition, market risk is affected by other factors, such as the willingness of the investors to take risk. The third risk is the *liquidity risk*, which describes the likelihood that investors only sell bonds on the secondary market at a very low price.

Even if foreign currency bond spreads do not encompass any premium for exchange rate risk, it doesn;t mean that foreign currency bond spreads shifts do not provide indications regarding the risk premium on financial instruments that are denominated in the home currency. The country risk premium which is reflected in the foreign currency bond spreads and the ex-change rate premium are very linked. In the case of currency crises, it is a high probability that the government will do not meet its foreign liabilities; therefore, an exchange rate premium incerase is followed by an increase in foreign currency bond spreads. The effects of the changes in the exchange rate on the default risk is often very important for the emerging countries, where there is a large share of market participants' balance sheet liabilities denominated in foreign currency, implicating significant financial losses in the case of the home currency depreciation, raising the foreign currency debt. So, exchange rate shocks imply higher threats to the emerging countries than to the advanced countries, since the unforeseen depreciation in the emerging economies is regularly followed by an economic recession, while across developed economies the economic recession do not appear in this situations[2].

3. Country-specific factors that influence spreads

The emerging countries cannot be considered as homogenous. The average value of the spreads implies very wide gaps of levels.

It has to be verified if this difference in levels is due to the differences in default and liquidity risks, and to study the macroeconomic characteristics of these risks.

It may be helpful to analyze the relationship between credit rating and foreign currency bond spreads. Due to the fact that the countries' external debt rating mirrors the default risk, there is a link between the credit ratings and the spreads. It has been proven that a higher credit rating reflects a lower spread within countries and across countries. But spreads' shifts may only partially be taken into consideration forthe difference in ratings.

Macro-economic empirical research has shown that domestic fundamentals that better reflect the default risk are important to the spread evolution, both within and between countries. Liquidity indicators and solvency indicators (for example, the debt ratios, the international reserves, the ratio between the balance of payments and the gross domestic product, the share between the debt service and exports) and payment issues are also significant causes, as well as the gross domestic product growth and per capita gross domestic product. In addition, the issued quantity (an indicator of secondary market liquidity of a certain bond) has also significant effect on spreads.

Regarding the capability of economic fundamentals to predict risk, it has been demonstrated that the influence of fundamentals may be described by their role in predicting the probabilities of the default risk and of liquidity risk: spreads increase more during a currency crisis than is certified by the raise in risk probabilities. Lower credit risk (described by the state of domestic economic fundamentals) leads to lower risk premia, still these properties do not properly take into consideration the spreads' short-term fluctuations, which may be owed to other market factors[4].

4. Factors that influence the general perception of emerging market risk

Co-movement of foreign currency bond spreads underlines the nature of the shocks that affect the emerging economies. A strong correlation between spreads means that the perception of risk within emerging economies is influenced by common shocks, or by shocks that the investors think that the emerging economies have in common.

A weak correlation between the spreads means that the idiosyncratic shocks dominate. External shocks may appear as a spillover effect of a shock that affects a specific country or due to global actors that affect several emerging economies.

Country-specific macroeconomic characteristics often are unable to explain the changes in the risk premia on emerging country financial instruments, particularly during financial crises. Therefore, the analysis will focus on the external factors that may determine the market sentiment co-movement and the risk perception related to emerging economies[5].

5. Risk appetite

One of the causes for the general changes in market sentiment, which is not related to the country-specific fundamentals, is that the fact that there are some events that determines a shift in the risk appetite of the international investors, leading to changes in the risk premia among other separate markets. So, risk appetite affects both the emerging markets and the higher-risk instruments that are traded within developed capital markets. The occured events within these markets ussually are determined by the shifting sentiment regarding the emerging markets.

Risk appetite may lead to confusion. The yields of the risky instruments, relative to yields of risk-free instruments, may be affected by two factors: the beliefs regarding the distribution of expected yields (the perceived risk), and the preferences of investors related to risk-bearing. Risk appetite wrongly refer to the likelihood of preferences changing, which determines the investors to reallocate their portfolios, aiming to diminish the exposure. But the demand change for risky financial instruments doesn't mean that risk preferences vary in time[1].

The effect of risk appetite over markets is properly reflected by the high correlation between the developed market risk indicators. It has been proved that in the emerging economnies the shifts in global risk appetite have been mainly induced by the expectations about global economic growth, which has been affected the credit availability and the export prospects.

There has often been the case that changes in risk appetite, accompanied by growth expectations, have exceeded the measure of risks shifts. One cause for the risk appetite procyclicality is given by the fact that investors try to forecast the future outcomes, taking into consideration recent events, so that the probability of negative outcomes is disproportionately low during economic booms and disproportionately high during economic slowdowns.

6. Changes in reference rates

Regarding the effect of the reference rates on foreign currency bonds on emerging market spreads (with other words, of the developed country interest rates), there is no clear theoretical link. A drop of reference rates will reduce the debt burden of an issuer of foreign currency bonds, diminishing the default risk, so that the spread beomes narrower. But the effect may be different in the sitation of the global risk appetite decline, so that the fall in demand for higher-risk instruments is followed by an incerase in risk-free instruments demand (for example, the government bonds issued by the developed markets). Developed market rates and emerging market spreads are negative correlated even when the fall in long-term rates illustrates the expectations of a economic slowdown.

Empirical research on the reference rates' effects on the risk perception provide no additional information, so there couldn.t have been identified any certain relationship between reference rates and spreads. In addition, the coefficient of developed country rates is either negative either not significantly different from zero, but never positive. There hasn't been proven any correlation between the emerging market spreads and the short-term rates.

7. Contagion

One of the causes the correlated foreign currency bond spreads is the spillover created by financial shocks from a country to other countries. Contagion appears after a shock is propagated, regardless the state of economic fundamentals. The shocks are transmitted through various fundamental channels, which play an important role during financial crises. One shock mechanism is the trade channel, which may lead to the transmission of exchange rate crises. The currency depreciation/devaluation may discredit the competitiveness of trading partners and competitors.

Another shock mechanism is the financial channel, which comprises the international financial intermediation and the financial market links. A financial shock that affects a country and that shifts the market sentiment towards the financial instruments of that country is transmitted to another countries through the channel of international institutional investors, who reallocate their portfolios, and who might face severe losses that determines them to liquidate their investments across other countries.

„Pure contagion" implies the fact that the spread of financial shocks cannot be assigned to the fundamental channels. Related to this, the concept of „herd behavior" referres the tendency of the investors to trace other investors, but without a proper evaluation of fundamentals. Herd behavior does not unvoidably mean that investors behave irrational. If information is costly, to copy others' behavior may be rational[3].

One explanation for the shock transmission, related to risk appetite, is that a shock that occurrs in a country will cause investors to re-evaluate their positions in other countries. Thus, financial crises inform investors to the likelihood of negative outcomes.

Regarding contagion that cannot be explained by the economic fundamentals and by the incentive systems related to investments, an increase in volatility in a country will also raise the credit risk and the market risk in other countries that have faced similar volatilityt. Thus, shifts in market sentiment towards risk in one country will increase risk premia in other economies.

The trade channel may represent an important factor for trading partners countries or for countries that compete within third markets, while the contagion that has been transmitted via the financial channel mainly endangers the countries having a common creditor. The distinction between different mechanisms is a difficult task, so that empirical studies have been suggested that if contagion is large and widespread, then spillovers occur through more channels, so that the spillover of the risk premia is stronger. A proof of pure contagion is the fact that the correlation between the yields on the financial instruments significantly increase, so that the link between countries is different during financial turbulence than during normal periods.

Regarding the link between foreign currency bonds, intra-temporal changes in co-movement between emerging economies is quantified as the average bilateral correlations between changes in the countries' spreads. Investors make the distinction between the emerging markets and the events that do not lead to general shifts in market sentiment regarding the emerging markets.

8. Investors' perception of market risk

The relationship between the investors' sentiment towards risk and the country-specific fundamentals is illustrated by the correlation between the credit rating and the foreign currency bond spreads. During financial crises, since there is a general worsening in market sentiment about emerging economies, the downward trend in spreads has often been interrupted, leading to an upward shift in the general level.

The intra-temporal shifts of correlation mean that lows value cover irregular co-movements over time, so that country-specific factors may be more important for the investors' sentiment. It may be the situation when better-than-expected macroeconomic news (regarding the budget deficit and the balance of payments) may severly reduce the bond spreads. Moreover, wider shifts in market sentiment and the risk perception of risk within emerging economies investments affect the spreads.

Despite possible weak average correlation, the exposure to contagion has to

be taken into consideration, since there is no immune emerging country to contagion.

Even if financial contagion may have a limited impact over time, financial stability may be endangered by the shifts in the investors' sentiment regarding emerging markets (due to volatile yields and to excessive exchange rate fluctuations).

The correlation between the movements in the currency interest rate differential and the bonds' unweighted average lead to similar conclusions.

Even countries which have EU membership and which improve the credit rating (leading to a reduction in the impact of financial contagion) are unable to entirely avoid the exposure to these effects, which can be done only by abandoning the domestic currency.

9. Conclusion

Investments have a two-way effect on financial instability. Financial investments often lead to financial problems, which also have repercursions in the real economy. In the same time, (foreign) direct invetsment have a stabilizing effect in the economy. More important that the stabilizing effect is the long-term involved by this category of investments, compared to the short-term or even medium-term involved by the financial instruments.

In conclusion, policy makers within emerging countries have to encourage (foreign) direct investments by providing fiscal and financial incentives, a stable political climate and a proper legislation regarding competition and the rules related to the business environment.

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Current account deficit and financial instability in the emerging countries in the European Union

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Abstract

There is a strong link between current account deficit and financial instability. This paper aims to study this relationship, taking into consideration the following: the short and long-term developments in the current account; the factors that determine the cyclical developments in the current account balance; the finance of the current account deficits; the connectivity between the current account and financial instability, given by the long-term sustainability of the current account deficit.

Keywords: financial instability, current account deficit, emerging countries, crises
J.E.L. Classification: F32, G23

1. Introduction

Economic policy makers in emerging-market countries carefully take into consideration the evolution of the current account balance, due to the fact that financial crises are correlated to large current account deficits.

It has been proven that although a large current account deficit do not almost certainly determines a financial crisis, the costs of sustaining a large current account deficit are very large. There are few countries that are capable to sustain large current account deficits.

Regarding the welfare costs of the inversion of capital flows and the decrease in current account deficit, in most of emerging countries there have been a reduction in the investment and gross domestic product growth. Also, large deficits tend to increase the probability of financial crises.

Excepting some exceptional cases, large current account deficits imply risks.

It is important to clarify the meaning of the concept of "financial crises", as following: i) a *debt crisis* involves the fact that if the foreign lenders from an emerging country maintain their perceptions regarding the economic and financial developments taking into consideration the current economic fundamentals of the country, then the country will become insolvent. This doesn't mean that there will be bankruptcies, but the economic policy has to consider to undertake austerity measures, in order to prevent bankruptcy; ii) a *currency crisis* takes place if the national currency of an emerging country faces a *speculative attack*. due to this speculative attack, the economic policy has to give up to the existing nominal exchange rate target and to devalue or to depreciate the national currency, since the protection of the currency's value implies very high costs; iii) a *banking crisis* implies the collapses of the domestic financial intermediary system[3].

Debt crises and currency crises are known as "current account crises", since in types of crises the current account deficit and the foreign capital inflow decline severely.

The link between large current account deficits and debt crises is given by the fact that a durable and large current account deficit determines a raise in the country's debt, leading to the weakening of the investors' confidence in the country's capacity to service its debt. These crises imply high fiscal deficits; the most recommended solution to these crises is the fiscal restrictions and currency devaluation, which aim to diminish the current account deficit and to hinder the build-up of future debts (through savings increase and competitiveness improvement).

But current account crises are not inevitably linked to insolvency. The main

source of currency crises is the fact that investors star to believe that the costs of protecting the currency will be extremely high for the central bank, so they focus on foreign currency; the self-perpetuating process determines costs of defending the currency to increase, so the central bank permits the exchange rate to float.

If a central bank protects a fixed or narrow-band exchange rate regime through interventions, a large current account deficit may severely reduce the reserves of the central bank, so it abandons the exchange rate target.

But a certain exchange rate target has to be protected by both interventions and interest rate increases, even if there is a specific limit to the interest rate increases, due to the likelihood of a very excessive tight monetary policy that is able to lead to recession. Thus, there can be speculative attacks on the market, if the market believes that the macroeconomic costs of protecting the exchange rate will be very high (for instance, if the market believes that the interest rate increases will determine an economic slowdown that the economic policies are unable to manage). In addition, the ones that require the speculative attacks may be given by the self-perpetuating aspects rather than fundamental factors, in which case there may be various causes that may influence the future expectations. One such factor that moves expectations towards inflaming a crisis is the large current account deficit[5].

In addition to the causes of speculative attacks and to the current account crises, there are also other issues that have to be considered; for instance, the effect of crises on the real economy. In developed countries, speculative attacks usually do not affect the performance; in the contrary, a more lax monetary policy, accompanied by currency devaluation, may increase economic activity. But speculative attacks often determines recessions in emerging countries. One of the main causes for this is the fact that capital outflows are followed by a *bank crisis*[2].

There are two causal links between bank crises and currency crises. During a currency crisis, the monetary base diminishes (since the central bank reserves fall down), contracting the credit supply. But if the economy faces a bank crisis, the central bank will provide supplementary liquidity. But the loosening of monetary policy may compromise the credibility of the exchange rate targets and may cause speculative attacks.

2. Short and long-term developments in the current account

One factor that may influence the evolution of the current account balance on the long term is the fact that the ratio of per capita physical and human capital is lower in emerging economies than in the developed economies. Thus, the return on capital is higher, stimulating investors from developed countries to invest in the emerging economies. This induces a current account deficit.

In a utopia economy, without any uncertainties, where information is perfect and symmetric, the equilibration of returns on capital would entirely reflect the path of current account balance. But in reality the current account deficit is lower than the ideal one, since lenders do not permit to an emerging country's debt to increase above a specific level, due to uncertain and fragmented information. Depending on the circumstances, there is a certain level of debt at which investors believe that the future debt repayment is cannot be assured, so that they will no longer finance the country.

From a debt crises perspective, the long-term evolution in the current account balance is very important. Regarding the country that is able to service its debt, the main factors are the rate of gross domestic product growth and the rate of return on debt. Thus, in order to avoid future debt crises and to maintain the long-term sustainability of the current account balance, it is important to protect the balance of payments. The structure and methods of financing deficits are also important, since they affect the average return on the aggregate debt burden.

Cyclical movements in the current account balance are also important, since the expectations regarding the long-term evolution in the current account balance depends on the short-term balance variations.

Although the deficit size is critical, the method of financing is also relevant, due to the occurrence of currency crises. Regarding the evolution of the currency crises, the

cyclical position of the current account balance has to be studied considering its inter-connection with financing[9].

2.1 Factors determining cyclical developments in the current account balance

The cyclical evolution in the emerging countries' current account balance takes into account several exogenous factors: the evolution in the export demand of the non-residents, the non-residents' goodwill to supply capital, the evolutions in the basic materials prices and the supply shocks. Moreover, the economic policy has a significant influence on the evolutions in the current account balance through government spending and monetary policy. The two components of current account balance developments in the emerging countries may be classified as following: the period before stabilization and the period after the stabilization (characterized by normal economic cycles and political cycles).

The period before stabilization can be described by exogenous shocks: i) the large transitional supply shock, where there is a high level of worthless and useless physical and human capital stock (due to the market economy's conditions); ii) the foreign direct investment inflow that takes place after the market economy institutions consolidation, created by the durable positive productivity shock. Due to the initial negative supply shock and to pessimistic expectations, the investments fall. But due to the positive shock to the foreign direct investment inflow, the ratio between savings and investments increase. Deficit may also increase due to structural causes that may be connected to the transformation crisis. If deficits are due mainly to consumption and no to investment, there may arise sustainability issues[8].

Regarding the factors that may stop boom of the current consumption to lead to an excessive increase in the current account deficit, there have to be underlined the following: i) one long-term consequence of emerging countries joining the EU will be a restrictive fiscal policy, that may have positive influences on the consumption; ii) a prudent and proper-regulated financial intermediary system may adjust the self-ability of the economy (the worsening of the current account balance, generated by a consumption boom, will raise the foreign funding cost, reducing consumption); if shocks that affect the emerging countries and the European Union are widely synchronized, this may reduce the amplitude of the current account cycle. For example, if the European Union faces a positive productivity shock, it will increase the demand for the emerging country's exports. If the emerging country faces a similar shock, it will increase the country's import demand. Narrower fiscal policy maneuvers may EU and EMU accession will lead to the unification of the monetary policy, so the shocks of other emerging countries capital market will have no significant effect on the emerging country. In addition, the current account balance will be cyclically influenced by consumption and by productivity shocks. The higher the integration of the emerging country into the European economies, the lower the probability of asymmetric productivity shocks.

2.2 Financing current account deficits

So far the paper analyzed the cyclical movements in the balance of savings and investment, and thus the variations in the current account balance. It is also important to analyze factors that influence the financing structure on the side of balance of payments.

There is a strong correlation between the level of economic development and the role of foreign direct investment. The examination may be undertaken two steps: i) measuring the effect of the economic development of a country on the total capital flows; ii) measuring the effect of development on the ratio between foreign direct investment and total capital flows. It has been demonstrated that capital flows are larger among developed countries, followed by the emerging markets, followed by the low-income regions. The more developed a region, the larger the capital flow volume between countries, while the ratio between foreign direct investment and total capital flows is inversely proportional to the development level. One cause for this is the existence of *transaction* costs (costs related to the operations of markets and organizations). So, if the transaction costs are large within a country's financial market (as

in the case of under-developed economies), it is more advantageous for investors to internalize the investment transactions, and not to permit to the market to do that. Since in the developed countries the financial markets are more efficient and imply low transaction costs, it is profitable to invest capital among these countries. Within the less developed countries, it is more indicated to replace the local financial markets and the finance activity with corporate expansions and intra-company capital flows. For example, one common imperfection of emerging countries' financial markets is the concept of "original sin", which means that incomplete markets are unable to borrow from abroad in the country's national currency and that the domestic borrowing is limited to the short term, leading to difficulties due to the volatility of the exchange rate and due to the maturity mismatch. This situation can be avoided by the foreign investors that can establish and finance a subsidiary in the emerging country, taking financial resources from the mother company that operates in a developed country where the "original sin" is inexistent[1].

There are some main aspects related to financial stability: i) the degree to which foreign direct investments are volatile in comparison to other categories of investments; ii) the stability of the investments' behavior during financial crises. The general opinion is that foreign direct investments are a category of investments included in the physical goods, presenting the impossibility of mobilization during financial distress periods. But in fact there is no notable distinction between foreign direct investments and other foreign investments. This can be demonstrated by the convention used in the foreign direct investments computation: a foreign investment is considered a foreign direct investment if the investor buys at least 10% of the company's shares. The fact that investors do not withdraw their foreign direct investments during a certain period does not mean investors do not withdraw certain amount of capital from the country using other methods. So, the relationship between financial stability and foreign direct investments is very important. For instance, the short-term domestic borrowing undertaken by a foreign owner of a company and abroad fund-investing is not a withdrawal of foreign direct investments, although the company's owner has withdrawn capital from the country. It has been proved that different categories of foreign direct investment may lead to higher incidence of financial crises: the ratio between foreign direct investments and total investments within developed countries has no significant importance on the probability of financial crises. But, among developing countries, this ration has diminished the probability of financial crises, since foreign direct investments have involved higher stability than other forms of investment.

Therefore, a higher ratio of foreign direct investment means that financial markets are operating improperly. So, foreign direct investments have a significant role for the emerging countries, permitting to increase foreign funds, which are otherwise inaccessible due to improper market coordination. Foreign direct investments behave in a more stable way than other types of investments during financial crises. Foreign direct investments also have a significant role in financing the current account deficit, being a less volatile component of deficit financing.

3. The current account and financial stability. Long-term sustainability of the current account deficit

The relationship between foreign debt as a proportion of gross domestic product and the current account deficit and goods trade surplus is given by the equation:

$$(1+g)d_t - d_{t-1} = cad_t = -tbs_t + r_{t-1}d_{t-1}$$

where d_t represents the ratio between the country's debt and the gross domestic product, g represents the rate of gross domestic product growth, cad_t represents the ratio between the current account deficit and the gross domestic product, tbs_t represents the ratio between the goods trade surplus and the gross domestic product, r_t represents the return on debt, t represents the time index in years.

The current account deficit is seen as sustainable if it induces a debt level which is

expected to be serviceable, taking into consideration the expected performance of the economy. The debt burden can be computed as follows: it may be assumed a certain ratio between the debt and the gross domestic product that has been stabilized. So, this ratio implies that $d_t - d_{t-1} = 0$, so, taking into consideration the first equation, it results the following relationship: $tbs = (r - g)d$, where the time absence suggests that variables are constant.

The last equation allows defining the future burden on a country's liabilities and foreign debt. It illustrates the measure of the country's goods trade surplus at a certain return rate r and growth rate g, if, at a certain moment, the ratio between the country's foreign debt and the gross domestic product equals d, considering that the liabilities' size is stabilized in the future.

In addition, the last equation illustrates the following: the higher the rate of economic growth and/or the lower the return on debts, the lower the future burden on debt. In order to use this equation, it is necessary to use a proper measure of return r. It can be argued that the interest rate on a risk-free bond is not a proper discount factor, since it doesn't comprise the uncertainties related to the economic growth. One proper measure of return is the long-term average of equity returns, which can approximated to 8%.

So, the co-ordination of the investors' behavior is important, especially in emerging countries which are not allowed to have a debt-to-gross domestic product ratio higher than 80%. A 8% discount factor, a 4% economic growth implies and a 80% debt-to-gross domestic product ratio means that the debtor country has to meet a 3.2% goods trade surplus. In the case of a private mortgage loan, this is not a large measure. But in a sovereign country, where creditors are not capable of enforcing their rights, they are not willing to allow the debt burden to increase above this measure.

There are two main factors that are able to influence the investors' views regarding the degree to which claims are recoverable favorably, making possible the toleration of the debt-to-gross domestic product ratios above 80%. The first factor is the following: the larger the private companies' debt and the lower the government debt, the larger the capability of repaying the debt, since future governmental revenues are dependent on the political factors. The second factor is the following: if the debt composition comprises large equity investments, especially foreign direct investments, it is able to favorably influence the investors' behavior, since investors have a higher control over business activities that provide repayment guarantees[6].

4. Conclusion

This paper has analyzed the relationship between the current account deficit and different types of financial crises. A lasting and large current account deficit induces a severe foreign debt, which may lead to a debt crisis. If the central bank aims to maintain a given exchange rate target by allowing a high current account deficit and/or by allowing a reserves fall and/or creating adverse expectations, it may determine the emergence of speculative attacks and, finally, a currency crisis, which may imply negative real economic and welfare losses, especially if it is accompanied by a banking crises.

Speculative attacks on domestic currencies cannot be ruled out, since they are related to both the size of current account deficit and to the financing method. The likelihood of asymmetric shocks that affects a country and leads to a current account deficit and to negative changes within the financing structure is also important, even if a relatively flexible exchange rate mechanism is partially able to avoid this type of situation.

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Ways of Classifying Banking Customers Using Fuzzy and Crisp Algorithms

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Abstract

Customer care management has developed, mainly in the last years. The present level was reached as a result of implementing new information technologies. One of the sectors subject to these changes is that of classifying customers. Classifying clients has a fundamental function in communication, campaign development, elaborating new products, awarding existent customers. Having a portfolio of information regarding the customer with socio-demographic data and a history of transactions about each client, companies and banks may develop a new design of transaction profiles. [6],[5].

Keywords: customers, fuzzy classifying, crisp classifyng
JEL Classification: D80

1. Introduction

Customer scoring is a new analytic procedure to assign each client a score or metrics on one or more transaction dimensions. Following are some examples of the most common behaviour characteristics: transaction volume, level of commitment and predisposition to respond to campaigns and promotions. These behaviour characteristics have the fundamental function of assessing the risk level of the customer, the profitability and the life value of the customer. [6],[4]. The validity and pertinence of the scoring assigned to the customers are given by the precision of the information and the classifying algorithm used.

2. Decision Support Software

Our purpose is to create a system for credit allowing to customer natural person. This approach consists of carrying out a system which operates with a series of information considered relevant regarding the customer, offering the credit officer a support instrument in taking decisions.
Two types of algorithms will be used:

Fuzzy algorithm In this case each relevant information about the client is fuzzyfied, resulting in a degree of belonging to the referred domain. Throughout the inference system a customer classification will be obtained, the fuzzifying is not net, but the client will belong to different classes, with different degrees of belonging.

This approach consists of carrying out a system which operates with a series of information considered relevant regarding the customer, offering the credit officer a support instrument in taking decisions.

The starting point is the way in which the customers are rated by the banks in order to receive a credit. The method consists of granting a scoring to each customer. In the case of assigning a scoring to a customer for a specific category, the scores will be assigned or not, without have the possibility to refine this choice.

Regarding the fuzzy techniques, each relevant information about the client is fuzzyfied, resulting in a degree of belonging to the referred domain. Throughout the inference system a customer classification will be obtained, the fuzzifying is not net, but the client will belong to different classes, with different degrees of belonging.

To start with the following variables were considered to be fuzzyfied: income and work experience. The other variables were considered as eligibility variables. For

the income 4 linguistic terms (Figure 1) Small, Medium, Large and Extra Large and for work experience 3 linguistic terms (Figure 2): Small, Medium and Large. The rule basis is described in (Figure 3) and in (Figure 5) is described the way of applying the inference. The resulted information is basically a scoring between 25 and 75 (arbitrary limits). The advantage of this method is that it allows a continuous variation of the customer scoring.

Figure 1 Linguistic terms for income

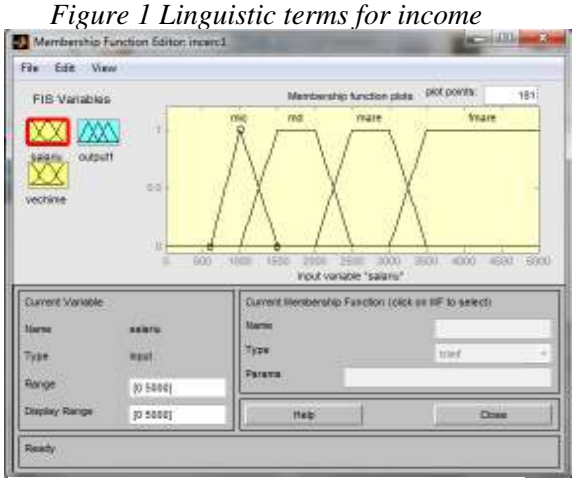


Figure2 Linguistic terms for work experience

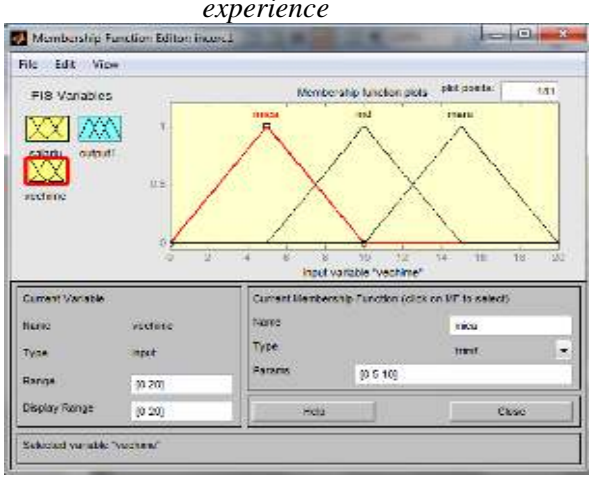


Figure 3 Scoring according to work experience and income

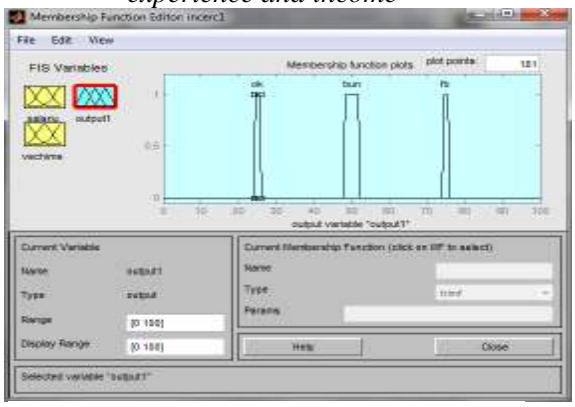


Figure 4 Rule basis

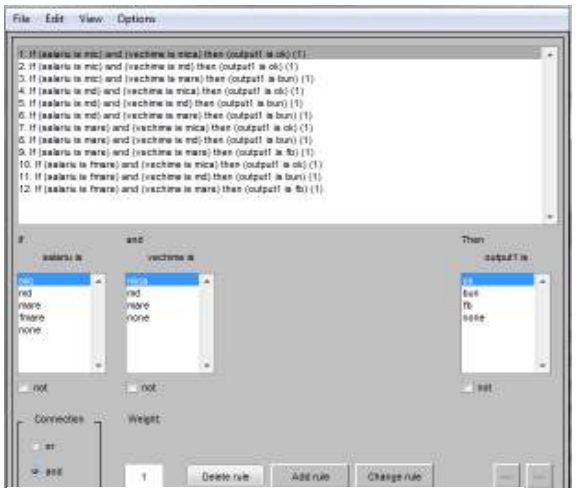
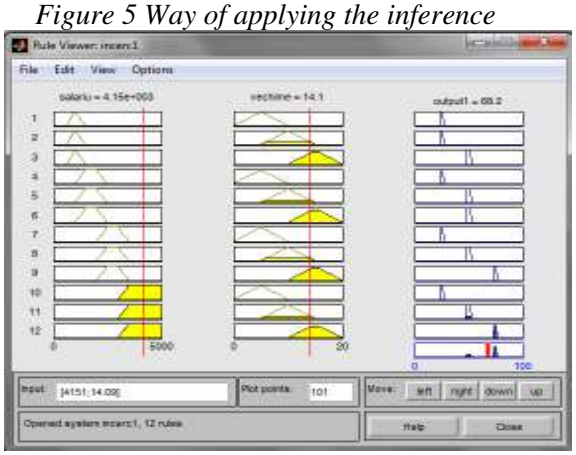


Figure 5 Way of applying the inference



Crisp algorithm In this case we use the approach from the classic sector of system for situation recognition. In this case, the customers will be classified in different classes, determined by relevant information gathered about them. Through data processing, related to class minimum distance, the customer will be included in one of the classes. Following the algorithm for situation recognition is presented and an example for the two-dimensional case, in which we have 2 entry information and 4 classes were considered (for examples with more entries the graphic representation is not possible).

The data processing algorithm is a part of the classic sector of the systems for situation recognition. The phases for implementing the algorithm are:

- normalizing measured variables, meaning bringing them in the domain [0,1]
- characteristics weight based on apriority information regarding their importance: $\tilde{x} = w^T x$ where vector

weight components are included in the [0,1] domain;

- defining some poles, $\boldsymbol{p}_{ik}, k=\overline{1,m_i}$, which describe each class $S_i, i=\overline{1,p}$, and also some radial functions (potential functions) associated with the poles: $K(\tilde{\boldsymbol{x}},\boldsymbol{p}_k)\equiv\varphi_k(\tilde{\boldsymbol{x}})=\dfrac{1}{1+\alpha\, d^2(\tilde{\boldsymbol{x}},\boldsymbol{p}_k)}$ (1)

- defining discriminant functions of S_i classes:

$$g_i(\tilde{\boldsymbol{x}})=\boldsymbol{\gamma}_i^T\boldsymbol{\varphi}(\tilde{\boldsymbol{x}}) \quad (2)$$

where

$$\varphi(\tilde{\boldsymbol{x}})=[\varphi_1(\tilde{\boldsymbol{x}})\ \ \varphi_2(\tilde{\boldsymbol{x}})....\ \varphi_M(\tilde{\boldsymbol{x}})]^T \quad (3)$$

and

$$\boldsymbol{\gamma}_i=[\gamma_{i1}\ \gamma_{i2}\ ....\ \gamma_{iM}]^T \quad (4)$$

Is the representative vector of S_i class. Vectors dimension

$$M=\sum_{i=1}^{p} m_i \quad (5)$$

- the decision rule regarding $\tilde{\boldsymbol{x}}$ vector belonging to S_i class is

$$\underset{i}{Max}\{g_i(\tilde{\boldsymbol{x}})\}=g_s(\tilde{\boldsymbol{x}})\Rightarrow\tilde{\boldsymbol{x}}\in S_s \quad (6)$$

The representative vector (prototype) of a class, e.g. S_i ,can be determined in two ways:

- *by bringing vector componentsr* $\boldsymbol{\gamma}_i$ to values equal to +1 or -1, depending on the belonging, not belonging of the poles $\boldsymbol{p}_{ik}, k=\overline{1,M}$ to S_i class. For example,for S_1 class, the prototype vector is:

$$\boldsymbol{\gamma}_1=[\underbrace{1\ \ 1...1}_{de\ m_1\ ori}\ \underbrace{-1\ \ -1....-1}_{de\ M-m_1\ ori}]^T \quad (7)$$

- *by adjusting in instruction duty the vector* $\boldsymbol{\gamma}_i$.

In this case, the prototype vectors are initialized according to the previous mentioned procedure (see example (29)), initially marked with $\boldsymbol{\gamma}_i^0$. Instruction is necessary if, after determining the prototype vectors, errors appear, that is assigning some $\tilde{\boldsymbol{x}}$ vectors to classes that are adjacent those they actually belong. To correct the class separation surface, the prototype will be adjusted through an instruction algorithm. In this case should be available, along with the M vectors initially used as classes poles, also a batch of instruction data, formed by vectors with known belonging. Considering N the number of vector from the instruction batch, the common instruction algorithm is:

$$\boldsymbol{\gamma}_i^k=\boldsymbol{\gamma}_i^{k-1}+\beta^k\left(y_i(\tilde{\boldsymbol{x}}^k)-\varphi^T(\tilde{\boldsymbol{x}}^k)\boldsymbol{\gamma}_i^{k-1}\right)\varphi(\tilde{\boldsymbol{x}}^k)\quad k=\overline{1,N} \quad (8)$$

where k is the current step of instruction iteration, β^k determines the instruction degree, and by $y_i(\tilde{\boldsymbol{x}}^k)$ is defined the $\tilde{\boldsymbol{x}}^k$ vector belonging, as follows:

$$y_i(\tilde{\boldsymbol{x}}^k)=\begin{cases}+1 & daca\ \ \tilde{\boldsymbol{x}}^k\in S_i\\ -1 & daca\ \ \tilde{\boldsymbol{x}}^k\notin S_i\end{cases} \quad (9)$$

In the case of the most simple version of the algorithm, the instruction degree is constant. In this case, choosing β metric takes into account convergent inconsistent requisites and ensuring stability.

A more efficient solution consists of using β^k as follows

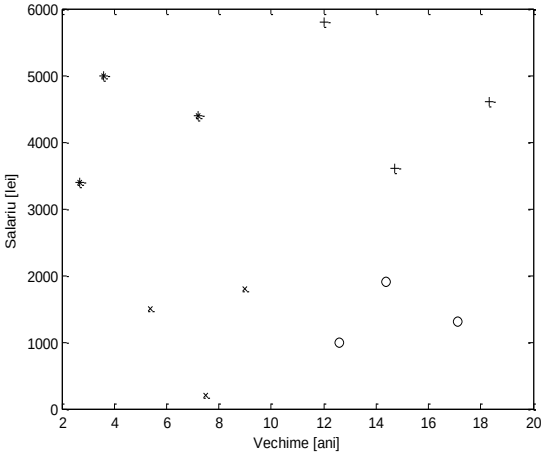
$$\beta^k=\frac{1}{\left\|\varphi(\tilde{\boldsymbol{x}}^k)\right\|^2} \quad (10)$$

which leads to error correction algorithm.

The structure of the situation recognition instructable system correspond with a RBF type neuronal network, emulated of the computer.

In order to use the situation recognition algorithm we will consider the same example used with the fuzzy algorithm. Therefore, two essential information will be considered when classifying the customers, income and work experience, and 4 classes, $C_j, j=\overline{1,4}$, where the customer can be included. For instruction, the data from (Figure 6) will be considered. Analyzing the figure we can observe a clear demarcation between the 4 classes.

Figure 6 Data used for instruction



In the instruction procedure the entry vectors, income and work experience, are graded, so as to obtain two vectors having values between $[0 \quad 7]$. Following the instruction it is obtained the belonging of the entry data set to the four classes, as it is represented in (Figure 7), class delimitation being presented in (Figure 8).

Figure 7 Data set belonging to the four considered classes

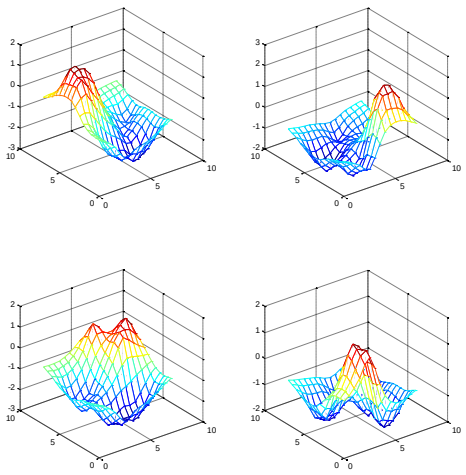
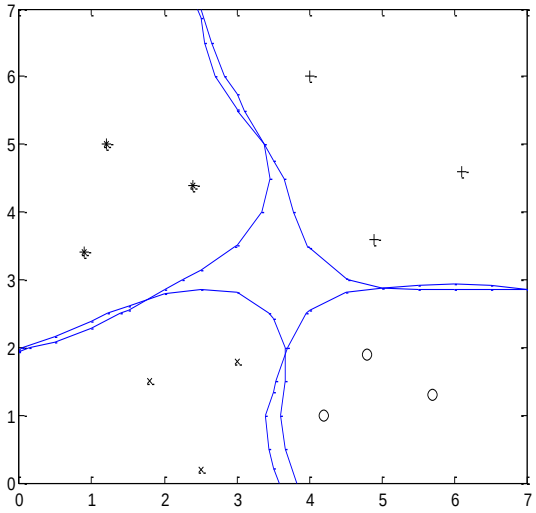


Figure 8 Space partition as a result of instruction related with the 4 considered classes

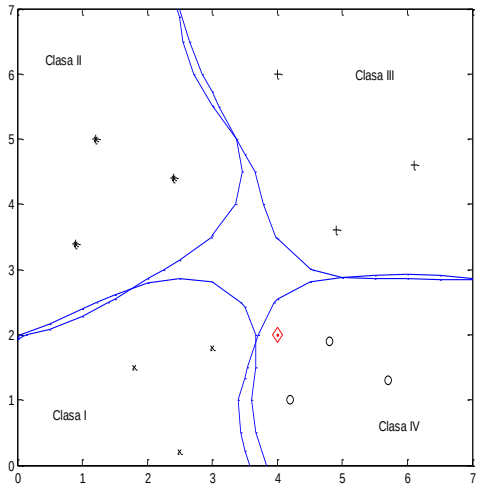


In order to verify the recognition algorithm we will consider the following entry data: income with 12 years work experience and 2000lei income. After grading the entry vector is $[4 \quad 2]$. By applying the recognition vector we will have the following class discriminant functions:

FP1 = -0.6510
FP2 = -1.9309
FP3 = -1.6513
FP4 = 0.5668

These discriminant function values show that the considered vector belongs to Class 4, corresponding to the maximum value of the resulted discriminant function. This situation is represented also in (Figure 9), where the tested vector is represented by the red dot.

Figure 9 Situation recognition example



3. Conclusions

Our software system is based on two algorithms Fuzzy algorithm and Crisp algorithm. In the first case each relevant information about the client is fuzzyfied, resulting in a degree of belonging to the referred domain. Throughout the inference system a customer classification will be obtained, the fuzzifying is not net, but the client will belong to different classes, with different degrees of belonging. In the second case we use the approach from the classic sector of system for situation recognition. In this case, the customers will be classified in different classes, determined by relevant information gathered about them. Through data processing, related to class minimum distance, the customer will be included in one of the classes. Following the algorithm for situation recognition is presented and an example for the two-dimensional case, in which we have 2 entry information and 4 classes were considered (for examples with more entries the graphic representation is not possible).

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Cloud Computing Information System for Attracting Banking Sector Customers

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Abstract

We have brought into effect the design of an application intended for attracting new customers, based on fuzzy algorithms and the integration in Private Cloud. Through customer classification techniques, based on fuzzy algorithms, through it's approach, the application represents a new information system.[4],[5] Basically the persons requesting a credit will replace the troublesome researches for the best lending offer with accessing the application available online and filling some documents.

Keywords: banking customers, cloud computing, information system
JEL Classification: D80

1. Introduction

The decision software used to allow a credit can be transformed into an application that can attract new customers through integration in Private Cloud field. In this manner the owner of the application can use an online interface to attract new customers. Through this application the necessary data to allow credits will be selected from potential clients. Based on the existent algorithm the customer is shaped using fuzzy elements and a scoring is obtained according to the scoring chart[6].

2. Cloud Implementation

Two types of algorithms will be used:

Fuzzy algorithm In this case each relevant information about the client is fuzzyfied, resulting in a degree of belonging to the referred domain. Throughout the inference system a customer classification will be obtained, the fuzzifying is not net, but the client will belong to different classes, with different degrees of belonging.

This approach consists of carrying out a system which operates with a series of information considered relevant regarding the customer, offering the credit officer a support instrument in taking decisions.

The starting point is the way in which the customers are rated by the banks in order to receive a credit. The method consists of granting a scoring to each customer. In the case of assigning a scoring to a customer for a specific category, the scores will be assigned or not, without have the possibility to refine this choice.

Regarding the fuzzy techniques, each relevant information about the client is fuzzyfied, resulting in a degree of belonging to the referred domain. Throughout the inference system a customer classification will be obtained, the fuzzifying is not net, but the client will belong to different classes, with different degrees of belonging.

Crisp algorithm In this case we use the approach from the classic sector of system for situation recognition. In this case, the customers will be classified in different classes, determined by relevant information gathered about them. Through data processing, related to class minimum distance, the customer will be included in one of the classes. Following the algorithm for situation recognition is presented and an example for the two-dimensional case, in which we have 2 entry information and 4 classes were considered (for examples with more entries the graphic representation is not possible).

The obtained scoring will be reported to the customer in real time, afterwards to the banks along with the information gathered. The information will be verified by the banks and used to draw up the credit offer. The banks will contact the customers using the using the information made available to the Private Cloud owner. In order for the application to run adequately, the following types of agreements must exist:

- A first set agreement is between the owner of the Private Cloud and the banks involved in the project. Based on it the banks are obliged to promote the solution Cloud type (the website of the Private Cloud owner), and the Private Cloud owner is obliged to provide the banks with information about the customers[2],[3]. For example, the banks can request that the Cloud supplier would release only information about the customers that have a scoring of 70 points. The banks will draw up the credit offer and send it to potential customers. In addition the banks are obliged to inform the Cloud supplier about the customers that have accepted the credit offer.
- Another mandatory agreement is the one set between the Cloud supplier and potential customers regarding the trueness of the information introduced and sending it to the banks.
- Financial agreements set between the involved banks and the owner of the Private Cloud solution.[2],[3] For example, a commission paid by the bank to the owner of the Cloud for each credited customer will be set

Application description Data insertion Data insertion will be made using four forms (Figure 1, Figure 2, Figure 3, Figure 4)

Figure 1Inserting personal information

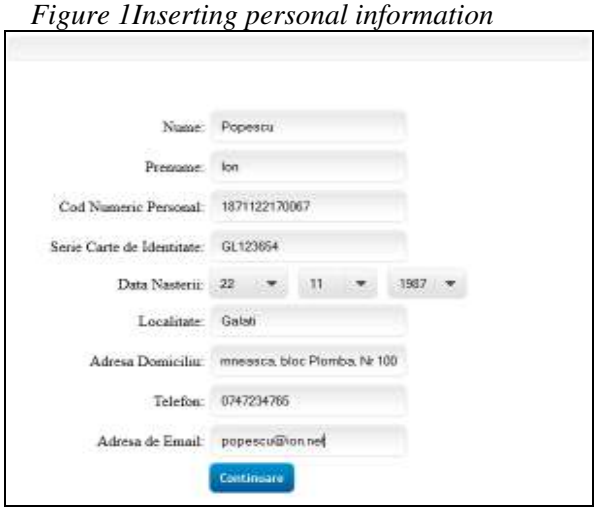


Figure 2 Inserting information regarding civil status



Figure 3 Inserting information regarding the employer

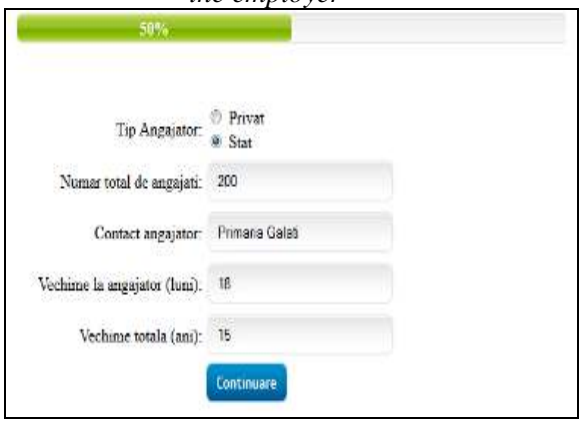
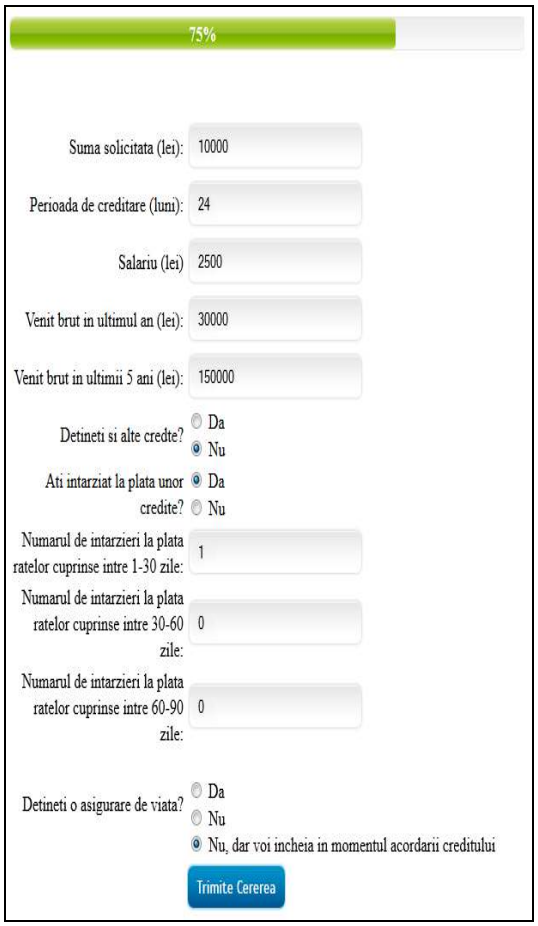
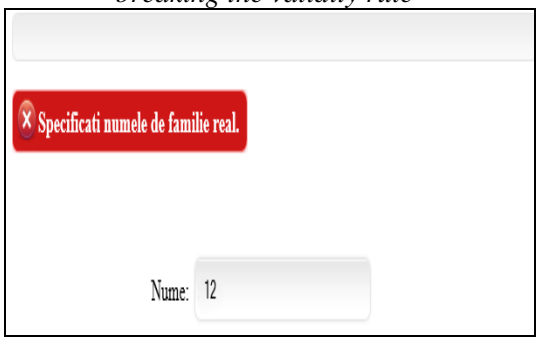


Figure 4 Inserting information regarding the requested credit and previous credits



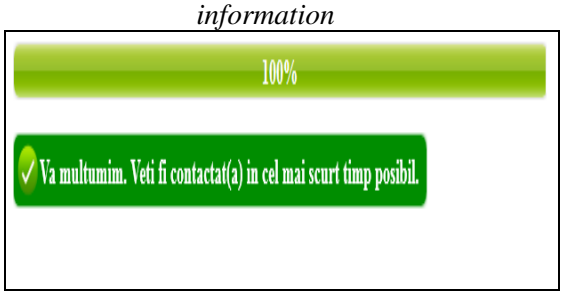
Passing from a form to another will be made by clicking the *Continue* button and only if the inserted information in the current form are valid (in case the inserted information are not valid an error message will appear like in Figure 5).

Figure 5. Error message posted in case of breaking the validity rule



After completing the four form the button *Send Request* in the last form will be clicked (Figure 1). After clicking the scoring will be calculated, in the same time all the information will be saved in the data base. After saving the information a message will appear (Figure 6).

Figure 6 Message posted after insering the information



Visualize the information The visualization of the information is available in other tab. The access will be enabled by using an user name and a password (Figure 7).

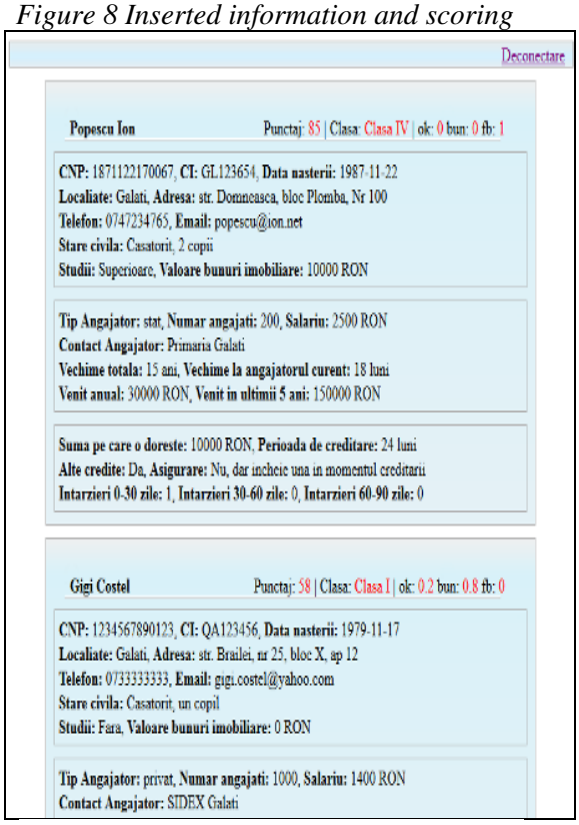
Figure 7. Password checking for data visualization



After signing in a page will be displayed containing a window with information about each person for whom the forms were filled in. The content of the window will include information inserted but also the scoring obtained by each person (Figure 8).

Information inserted are: personal code, location, phone, e-mail, marital status, education, value of property, employer type, number of employees, salary, employer contact, all age, all age for employers, annual income, income for last five years, amount requested, insurance, penalties.

Figure 8 Inserted information and scoring



In contrast with other existent applications, the suggested application has the major advantage that it facilitates the assessment of contractual relation between the customer and different banks in a short period of time. Basically by filling in some forms the potential client, if he/she acquires the scoring, can be contacted by tens of banks having the total freedom of decision. Nowadays, there are online application designed to attract customers, but sadly they can only be considered a bank lending website, for example www.vreaucredit.ro.

3. Conclusions

The mentioned example offers the visitors an ensemble of financial-banking information and establishes a relation between the client and the bank throughout a link. The visitor has the possibility to send the necessary information for a credit by filling in forms for each bank. In this manner he is in the situation of obtaining a credit in a classic way.

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Modern Tendencies of Information Systems Use in Trade Organizations

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Abstract

This article covers aspects of implementation and use of information technology in retail trade organizations.

Key words: information, technology, systems, implementation, necessity
J.E.L. classification: M15

At present the small and medium-sized retail organizations 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.

At this moment the predominant focus is to implement widely the informational and analytical systems to forecast demand, to plan purchases, to manage stocks, to merchandise effectively etc. [1].

In our view, the implementation of information technology (IT) is connected with:

- the technological necessity – when using of IT is dictated by the need to ensure complex manufacturing operations (e.g. processing 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;
- need to have analytical tools to measure the efficiency – if you have a large number of homogenous "production sites" (branches, sales managers, etc.), you need and you should to compare constantly the results of their activities. Thanks to the implementation of information systems, the assessment of enterprises situation, rapid orientation in trade and financial flows, covering all stages of the movement of goods cycle become possible.

There are five main causes explaining why it is difficult to implement information systems and to use them at the Belarusian enterprises of retail trade:

- superficial understanding of the concept by the enterprise managers;
- insufficient development of the IT-infrastructure of the enterprise;
- low qualification of consultants of the enterprise;
- 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 expansion POS-terminals functionality through program support of their functions. For example, viewing the status of stocks balances, visual identification of the product - ID Imaging, support of RFID- technologies for carrying out the 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 information:

- 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 the kind of information system in which 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 policy in the field of assortment, marketing and discounts management. In addition to the various CRM- systems, there are different IT-products to interact with clients via SMS and specialized programs that use bonus cards;
- Stores Commerce Management (SCM) that are asked by trading companies (for example, Visual Pos Manager (VPM) which allows to manage all the cash and discounts of retail chain from a single center, and which integrates with SAP Retail, Microsoft Dynamics AX, 1C, Oracle Retail, etc). Among the evaluation criteria, we can mention the registration of the needs in a 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, as besides standard operations of money acceptance and change giving, it needs to organize the non-cash payments, the discount and bonus cards service;
- "1 C: Retail 8" on the platform "1C: Enterprise 8" program supports geographically distributed information bases (DIB). This provides clear separation of documents circulation within shops, and the information on all shopping network is consolidated in the central node of the DIB. As a result, all processes requiring information exchange are realized not only with minimal effort, but also according to the schedule, 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. The connection of a wide range of commercial equipment of various types is supported– barcode scanners, data collection terminals, fiscal recorders, magnetic cards readers, cash registers, electronic scales, etc.;
- use of Pocket PCs or communicators (PDA), i.e. mobile commerce, RFID system. These devices are used as storage information data 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 large enterprises, in recent years have appeared the full-fledged mobile trade automation systems available even for small enterprises [4, p. 56-57].

On the modern market, competitive positions can be kept only by those who constantly develop and use new information technologies that results in a reduction of operation costs, obtaining additional revenue due to increased turnover and/or investment attraction of the company.

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Cloud Computing for Small and Medium-Sized E-Commerce Businesses. An Overall Look on the Benefits and Risks of Cloud Computing in E-Commerce

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Abstract

The purpose of this paper is to illustrate the importance of cloud computing to an E-Commerce business. This has been done by analyzing both the benefits and the risks implied by this technology, one which has been quickly developing for the past few years.

Firstly, we present the notions involved in this paper. Secondly, we present and detail the benefits and risks of using cloud computing. Lastly, we draw our personal conclusion.

Keywords: Cloud Computing, E-Commerce, Marketing, Business
J.E.L. Classification: M20

1. Introduction

Every year, numerous entrepreneurs come up with different ideas to start a new business. For the majority of them, there are nowadays various technologies and IT solutions that offer entrepreneurs solutions for the infrastructure and the management of a business. Nevertheless, information technology is a domain that is rapidly changing due to the fast-paced technological development, and as a consequence, these solutions can sometimes be replaced by other, more efficient and improved. For the past years, cloud computing has become one of the IT innovations that can improve a company or a business' activity; thereby, it can also be applied to E-Commerce businesses.

E-Commerce is "a type of industry where buying and selling of product or service is conducted over electronic systems such as the Internet and other computer networks"[1]. It is associated with notions such as: automated data collection systems, online transaction processing, electronic data interchange and Internet marketing[1].

Cloud computing refers to "the delivery of computing services over the Internet"[2] (the "cloud") and is beneficial especially for small and medium-sized businesses and companies.

The services offered by cloud computing can be applied to areas such as: project management (Paymo), customer relationship management (Salesforce), database (QuickBase, ZeusDB, Amazon SimpleDB), accounting and finance (FreshBooks, Intuit Payroll, QuickBooks), online storage and collaboration (Google Drive, Microsoft SkyDrive, Dropbox), risk management (PureCloud)[3].

The cloud offers entrepreneurs access to sophisticated technologies without the need of a trained IT specialist. Thus, it is beneficial especially for small and medium-sized businesses that do not have many resources available or specially trained people.

Cloud computing services providers can offer entrepreneurs various marketing solutions, such as: E-mail Marketing, Mobile Marketing, Targeting etc.

These providers of cloud computing services can help marketers to initiate and

develop marketing researches or promotional campaigns, using various promotional tools, such as: advertising and direct marketing, marketing events etc.

In the following paragraphs, we will present and detail the benefits and the risks of cloud computing for small and medium-sized E-Commerce businesses.

2. Benefits

2.1 Reducing Costs

One of the main benefits offered by the cloud technologies for small and medium-sized businesses is represented by the reduced costs. As the cloud provides access to various technologies without the need of trained specialists, staff or consultants, the company will reduce its costs by reducing the number of people needed in the business.

Moreover, using the services provided by the cloud can mean reducing the necessary material resources or licenses for the business. For instance, in some cases, an E-Commerce company may only need as little as a desktop PC, a laptop or even a mobile device (and may not need a specific server, such as a database server). Also, the material resources do not need to be very sophisticated or performant, because they will not support such complex programs anymore.

On the other hand, marketing services providers that are cloud computing customers can promote cloud computing services. This aspect could be beneficial for both parties involved, because they compensate the prices of their services.

However, the cost can be influenced by the chosen cloud infrastructure provider.

In regard to planning the budget of the E-Commerce company, it is important to know that using cloud technologies will mean a transition from capital expenses to operating expenses. Capital expenses of material resources may be replaced by operating expenses for running the system, monthly fees for the cloud providers[5].

2.2 Flexibility and agility

A key benefit of cloud computing is represented by "the independence from the office" [4]. Data may not necessarily be kept in in-house servers, so employees are able to access it from outside the office. As a consequence, work becomes more flexible and problems are easily and quickly solved.

What is more, it is easier to apply changes, test new features or improve the customer experience, as the E-Commerce company is not dependent anymore on a high-cost infrastructure and can revert back to the original system if the changes did not appeal[4].

In addition to this, updating and synchronizing product databases, for example, is easier and quicker to do and thus, more efficient. Data will be available to customers easier and quicker, which may result in higher revenue for the company. A slower performance of data access due to excessive traffic on the in-house servers is not an issue anymore when using cloud computing[6].

2.3 Reliability and security

Cloud services can be more reliable, due to the specially trained and experienced personnel and to technical support available, in comparison with an inner-company IT team, for example. Moreover, the cloud provider may have more experience and knowledge in matters of security issues than the staff of the E-Commerce company[4].

Also, with cloud computing, it is less probable to lose data. In the case of in-house servers, data is more likely to be lost, due to human errors or unfavorable events (local floods, fires etc.). Another advantage is represented by the ease of data recovery. Thus, even in case of such unfavorable situations as above, your data in the cloud cannot be lost[5]. Moreover, data can be duplicated across various virtual servers, which is also a plus for data recovery[6]; as an example, an E-Commerce company could store and duplicate its product and customers databases on different virtual servers to gain more stability and security.

3. Risks

3.1 Network dependency

The main disadvantage of cloud computing is the dependency to the network (usually the Internet). Thus, in order to

benefit from the innovations of the cloud, you must have access to the Internet.

Moreover, this implies that the system is prone to interruptions at any given time, without prior notification. For an E-Commerce business, this could mean that during a transaction or an auction, the system can suffer an outage and the action in course can be delayed or even lost. Inconveniences may also appear if the vendor's services or the provider's system goes down[4].

3.2 Security

Although data may be more secure and easily-recovered in the cloud, there are also some risks implied when storing it online. First of all, the fact that the data is "crossing more borders"[2] can make it more vulnerable to interception and hacking. Secondly, the company must be aware that the data entrusted to the cloud provider is protected and it is not available to other parties (for example, for advertising purposes) [2].

Conclusion

Taking everything into consideration, it seems that integrating cloud technologies into small or medium-sized E-Commerce business would bring rather benefits than risks. It is important to note that such a business is characterized by a limited budget or by few people involved.

First of all, an E-Commerce company could store its product and customers databases on a chosen virtual server, and also duplicate them using a different virtual server. Thus, the capital spent on buying expensive in-house servers is replaced with the monthly fee for the service provider (if required). This way, the company not only reduces its costs, but also gains more security over the data handled.

Moreover, the E-Commerce company could use cloud computing for services of project management, customer relationship management, accounting, IT solutions or risk management. Consequently, it would avoid costs associated with program licenses or specially trained personnel. The platform used would be more flexible and it would allow the company to change and update the system easier and quicker. This could be reflected in the company revenue and could even help attracting more customers.

From the E-commerce and marketing business point of view, a future prospect in cloud computing can be represented by the improvement of databases and marketing approaches, and the development of new marketing techniques, methods and instruments (especially in marketing researches, advertising or distribution policy areas).

The most important risks are related to issues of security and confidentiality of the clients' databases, and the high dependence to the provider's technology, stability and seriousity.

In conclusion, the activity of the E-Commerce company could become simpler and more efficient if the management decides to use cloud computing, this new innovation in technology.

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Towards a Knowledge-Based Economy

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Abstract

The aim of Lisbon Strategy is for European Union to become "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010".

Within this context, as Romania is part of European Union and adhere to the same goals, studying the evolution of the possibilities of knowledge development and the effective use of the environment that favors knowledge, in the past, between 1995 and 2007, to underline the contributions to the accomplishment of European Union's goal, is essential.

There is also of great interest the comparison over time of Romania, other European countries and also the first place country developments towards knowledge-based economy.

Key words: Knowledge-Based Economy, Knowledge Index, Romania
J.E.L classification.: O11, O19

1. Introduction

Within the Lisbon Strategy context, as Romania is part of European Union and adhere to the same goals, studying the evolution of the possibilities of knowledge development and the effective use of the environment that favors knowledge, in the past, between 1995 and 2007, to underline the contributions to the accomplishment of European Union's goal, the is essential.

There is also of great interest the comparison over time of Romania, other European countries, mainly its neighbors, and also the first placed country developments towards knowledge-based economy.

In order to highlight the accomplishments of Romania towards the knowledge-based economy there will be used an interactive instrument provided by World Bank, using a system of 80 variables to order 132 countries under two coordinates: index of knowledge (KI) and index of knowledge economy (KEI).

The World Bank Group methodology for determining the ability of a country to generate, adopt and diffuse knowledge, representing the possibility to develop knowledge of the analyzed country, is materialized into an index of knowledge (KI).

The index of knowledge economy (KEI) is aimed to quantify the effective use of the environment that favors knowledge for economic development of that country.

To have a complete picture of the present state of art in the field of knowledge-based economy regarding Romania, there will be conducted a SWOT analyze, straightening the conclusions drawn after applying the World Bank instrument.

Using this instrument will proof that Romania have registered important changes and important accomplishments towards a knowledge-based economy, proving that even before the accession it was prepared to support the European Union's goal.

2. Knowledge development in Romania

A knowledge-based economy is represented by the sum of firms practicing knowledge management and having been implemented a knowledge management system.

In particular cases, the development of different firms in their demarche for implementing a knowledge management system and thus sustaining the knowledge-based economy, is more or less visible, but as a whole, the development of this new economy, towards the way of using new resources – knowledge – may be estimated and monitored using the methodology and the instrument of World Bank.

Using the interactive instrument of benchmarking offered by World Bank Group [5, 6, 7] there were concluded the following facts, considering that there were used values reported to the number of people from each country for a more accurate relevance.

In 1995 data, Romania occupied the 51 place in the top (KEI = 5.37), compared with the country from the first place – Sweden (KEI = 9.2).

Compared to 1995, Romania obtained, based on most recent data, the 54 place in the top, with a value of 5.37, compared with the first on top, Denmark, with 9.23. Also, in 1995 Romania occupied the place 54 (KI = 5.41) and place 47 based on most recent data (KI = 5.58).

An analyze regarding KEI values over time was also developed in order to compare Romania and its neighbors in their demarche towards knowledge-based economy.

In 1995 Hungary had a KEI value of 6.99, Poland a value of 6.48, and Bulgaria a value of 5.81; according to the most recent data, Hungary has a value of 7.64, Poland a value of 7.24 and Bulgaria a value of 5.86.

The differences between Romania's KEI values and its European neighbors have increased in case of Hungary from 1.66 to 1.78, in case of Poland from 1.15 to 1.38 and have decreased in case of Bulgaria from 0.48 to 0.32.

3. SWOT analyze

The SWOT analyze is aimed to present the most important straights, weaknesses, opportunities and threats that Romania is facing towards its way to a knowledge-based economy [1, 2, 3, 4].

Romania acceded to membership in the European Union in January 2007. In the past, governments have lacked political will and have backed away from reform at the first sign of popular opposition.

The present weakness is lack of progress in reducing corruption, which had held up Romania's accession to the EU.

However, the EU has targeted corruption in Romania and is working with the government to address the issue in a concerted fashion.

In comparison to its EU Balkan neighbors Romania comes a distant third in terms of the World Bank's Control of Corruption indicator behind Slovenia, Croatia and Bulgaria.

The political weakness is also the state bureaucracy that is slow and cumbersome with the result being that some foreign investors may encounter substantial delays and problems in sorting through red tape.

Another weakness comes from the legal environment, which is unpredictable and there has been considerable legislative change throughout the past years in the lead up and following Romania's accession to the EU in January 2007.

Laws are in place to protect property and contractual rights, including guarantees preventing expropriation, but the enforcement mechanisms are weak.

From the economic point of view, the straight is a favorable attitude towards improving the investment environment and accessing European funds.

From the economic point of view, a threat is that the fiscal policy is understandable but disconcerting.

Most of the increase in planned spending is in public capital infrastructure, public sector wages and subsidies payments.

Projections of revenues net of EU transfers are fairly conservative, with only a small increase budgeted.

The threat is that an expansionary fiscal policy at this stage in the business cycle will only add to already high domestic pressures in the economy and will make very hard work for the NBR to maintain control of inflation.

From the social point of view, the most important threat is that Romania, as well as

other Eastern European countries, has a low level of social capital, as a result of the systemic destruction of the civil society and of private property.

Values and norm such as trust, transparency, reciprocity and participation have been undermined.

This is reflected in people's passivity, and inability to express adequate demands, inability to understand and accept the differences and to participate at community level in activities of common interest. From the point of view of technological environment, the use of computers telephones and Internet is increasing, this being an opportunity for the development of a knowledge-based economy.

In conclusion, the most important straights are represented by: highly qualified human resources; low cost of human resources; high flexibility of manpower; presence of IT companies from US and Europe.

Also, one must consider: sound software industry base employing over 25,000 people; strategic market location to serve EU; workforce with knowledge of English, French and German; inherent cultural and linguistic ability for rendering IT-enabled services.

In short, weaknesses are represented by the fact that: business environment lacks credibility; high cost of telecommunications infrastructure; lack of credible investment policies keeping foreign investors and companies; insufficient resources for marketing and brand building; lack of understanding of software quality, certification and development methodologies.

The opportunities consists of: Romanian market for e-business, e-governance and the developing knowledge society; fast growing West Europe IT market having cultural similarities.

Also, there has to be considered: large emerging global IT market for off shore development, R&D, IT-enabled services; e-commerce necessitating skilled professionals; IT deployment improving productivity of other sectors.

And the threats for Romania are: lack of a domestic market to enable industry to develop expertise; lack of communication between government and industry. Some other lacks include: lack of support programs for industry promotion; lack of a coherent industry image; too less employment in IT sector.

4. Conclusions

Romania have registered improvements, translated both through a better and effective use of the environment that favors knowledge (KEI), and through the increased possibility to develop knowledge (KI).Papers are written electronically, using a word-processing application.

Also it has registered important successes compared with its neighbors, also members of EU. But the fact that there is a social capital missing and that the legal environment is so changeable may affect the progress towards a knowledge-based economy.

Romania implemented strategies for using opportunities and eliminating threats, considering the high qualified work force and the interest for IT industry – as IT is an enabler for a knowledge-based economy.

Also, there is a great opportunity for Romania accessing European funds, designed to support the development of knowledge-based economy that it has to use.

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Knowledge Management Evaluation. Comparative Study.

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Abstract

The paper aims to present an approach in evaluation of knowledge management processes and systems, based on a case study regarding the development of knowledge management processes and knowledge management system within an IT corporation, which goal is to increase the use of knowledge, considering the context of the knowledge-based economy development.

The paper is focused on synthesizing the main aspects of applying a well-known model, McKinsey model, operational made by European Committee for Standardization.

Key words: Knowledge-Based, McKinsey, system
J.E.L clasification.: C00, C81, C83

1. Introduction

Knowledge management is a debatable subject for at least 20 years, some researchers and specialists considering it to be a fad, others a mean of development [3, 4, 7]. Considering the large number of organizations – public or private – that have applied successfully the processes and principles of knowledge management, many of them becoming case studies, we consider that knowledge management is a concept of which application is essential in order to win competitive battle.

Even considering scientific aspect of knowledge management, its development is a boom within last five years, consisting mostly in the interest for the development of instruments to measure the impact of knowledge management processes and knowledge management systems over the firms [10]. Over the years, many known and recognized organisms have established such instruments [1, 9].

The present paper is aimed to underline the importance of using such instruments in order to eliminate the subjectivism and qualitative feature of knowledge management evaluation. It consists of presenting and applying a quantitative instrument, McKinsey model in order to evaluate the knowledge management processes and knowledge management system for an IT company.

The instrument consists in a questionnaire applied on the employees of the corporation for a representative sample, the questionnaire being proposed by the European Committee for Standardization. The conclusions consist in straights and weaknesses, at the organization and individual level, regarding the processes of knowledge management.

2. The model of McKinsey

The model was developed by Tom Peters and Robert Waterman, consultants for McKinsey & Co. They have published an article called "Structure Is Not Organization" (1980) [5, 8] and also few chapters in the following books: "The Art of Japanese Management" (1981) [5] and "In Search of Excellence" (1982) [6], all of them regarding this model.

The authors consider that the organizations consists of seven elements, from which, three are called "hard S" and the other four, "soft S". The "hard S" may be found within the documents of the organization, and the "soft S" are determined mostly by human resource, this meaning that they are much more difficult to be planned or influenced, having a strong impact over the "hard S".

Hard elements are easy to be identified and consists of structure, strategy and system within the organization, meanwhile soft elements are difficult to be described are represented by skills, style, staff and shared values, their characteristics being presented in table 1.

Regarding the application of this model for evaluation in the knowledge management field of study, the CWA 14924-4 resolution of European Committee for Standardization presents an instrument, a questionnaire that made this model ready to be applied, in order to evaluate the development of the knowledge management processes. The questionnaire consists of 42 questions evaluated by the respondents with a scale between 1 and 5.

In the end, the important aspects are those regarding the questions that have obtained the highest or the lowest score, consisting in straights and weaknesses in development of a knowledge management system and/or knowledge management processes.

Table1: The McKinsey Model

Hard S	
Strategy	Actions that the organization plan in order to respond or anticipate the changes from external environment
Structure	The basis for specializations and coordination, determined by the strategy and the dimensions of the organization.
System	Formal and informal procedures for making operational the structure and the strategy.
Soft S	
Style	Managerial style: the way in which the manager motivates, coordinates, control and lead the employees.
Skills	Distinctive competencies that determine the success and strategic differentiation of an organization.
Staff	Human resources management: selection process, socialization, integration of new employees, career management.
Shared values	Organizational culture: values, beliefs, development norms along with the organization's life.

Data source: Peters, T., Waterman, R., In search of excellence, New York, London: Harper and Row, 1982, pg.113]

The authors say that the efficient organizations benefice from the capacity to harmonize all the elements, this criteria generating in time the other name of the model: organizational efficiency diagnosis model.

3. The methodology

The questionnaire was applied first in 2009 and then in 2012, for compaative results.

In order to apply the questionnaire, it was first established the size of the representative sample, formed by 384 employees. The sample was established using aleatory and systematic aleatory sampling techniques [2] at the level of the whole population represented by the employees of a big IT company from Romania – the name of the company remains unknown because of the agreement with the organization's management.

Base on the aleatory sampling, the sample was chosen from a list – the list of employees' name, then it was established the length of the interval – of the mechanical step – used for the process of selection. The length calculated was 2, the, aleatory, it was chosen a component from the collectivity – the starting point for the others – considering the length of the interval.

The starting point was, in this case, an employee having the surname starting with A, from a division chosen aleatory, then choosing the other elements for the sample from all the 8 divisions of the company. The level of trust was 95%, the accepted error was +/- 5%, the value of z factor was 1.96.

The preliminary check of the questionnaire, the pilot study and the viability of the questionnaire were considered implicit because of the reputation of the Committee that has promoted the questionnaire.

From the total of 384 distributed questionnaires, there were collected 347, the rate of respond being 90%. The responses

were analyzed by using software, SPSS for Windows, the results being the following.

4. The results of the study

After collecting the questionnaires and synthesizing the main results, for each process of knowledge management, it was then calculated the balanced average of the results for each of the variables of the questionnaire.

The results are presented for the general situation of the IT company regarding the general situation and the knowledge management processes, for each of the seven elements of the model and also for other two elements – attitude and performances – in using the processes of knowledge management.

From the point of view of McKinsey model, considering the development and the improvement of the knowledge management processes, the straights were and still are represented by strategy (4.690 and 4.720), skills (4.791 and 4.811) and shared values (4.702 and 4.705).

These figures attest the fact that the organization has a strong strategy regarding knowledge management processes and the organizational culture is favorable to the development of these processes.

Also the distinctive competencies have determined the success of the development of knowledge management processes.

The weaknesses consisted ad still consists of staff (3.090 and 3.110), meaning their implication for the development of the processes, which can be correlated with the managerial style (3.740 and 3.114), mainly the neutral perception regarding the stimulants, offered for the employees in order to improve the knowledge management processes.

From the point of view of knowledge management processes, the straights regarded and still regards sharing knowledge (4.448 and 4.449) and creation of knowledge (4.272 and 4.445), the results being justified considering the characteristics of the main processes conducted within the organization, centered on tacit knowledge.

The weakness, more correctly called aspects that need improvement, consisted and still consists of knowledge storage (3.431 and 3.556).

Considering individual level, from the point of view of knowledge management processes, the straights were and are represented by the creation and storage of knowledge (4.040 and 4.112), because of the attitude and the performances of the employees.

Also, the perception regarding the individual performance concerning the development of the processes, namely personal contributions to this development, is favorable (4.178 and 4.558).

5. Conclusions

After applying the McKinsey model, in 2009 and 2012, the conclusions are that the corporation evolves favorably towards the development and improvement of the knowledge management processes at the level of the basic processes.

Organizational aspects, that still necessitate special attention consists of more implication of the employees for the improvement of the attitude for the knowledge management as a phenomena, aiming to the development of storage knowledge.

The general conclusion of the paper is that, by providing a quantitative instrument for evaluating knowledge management processes from the point of view of development and improvement, both the science field and the practice in knowledge management matters is improved, the questionnaire and the model being one of the most used and cited over the literature from now on.

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The European and Romanian Wind Energy Investments Dynamics Analysis

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Abstract

Over the last few decades wind energy renewed the interest to its environmental benefits over fossil fuel combustion. The wind has been used as an energy source by people in the past and as long as the wind continues to blow, its power can be used on the large scale. The wind is converted into electricity creating wind energy so that it can be used as a source of power. This paper will try to make an analysis of wind situation in Europe and Romania and to make some forecasts concerning the continent and the region.

Keywords: wind energy, investments dynamic, green investments.
JEL classification: E22, Q01, Q20, Q43

1. Introduction

In the current context, characterized by an alarming increase of pollution from energy production from fossil fuels, it becomes increasingly important to reduce dependence on these fuels. Wind energy has already proven to be a very good solution to the global energy problem. The renewable resources are important not only for the energy production, but their use is offering a new model of development and decentralization of the resources.

Wind energy is a renewable energy source generated from wind power. The kinetic energy [17] of the wind can be used to turn some turbines, which are able to generate electricity. Formation of winds is due to the earth's motion and because the sun does not heat the Earth evenly, which creates air movement. Use wind to generate electricity was a technique much used in ancient times.

To produce enough electricity for a lot of consumers, power companies build "wind farms" with dozens of huge wind turbines. Wind farms are built in the open plains, where the wind blows at least 14 mph. It is estimated that the global technical potential of wind energy can provide five times more energy than is consumed now. This level of service would require 12.7% of Earth's surface for operation on the assumption that the land would be covered with 6 large wind turbines per square kilometer. These figures do not take into account the continuously improving obtained in turbine efficiency and other technical solutions in practice [17].

2. Literature Review

The green energy field has a large dynamics in the present – this phenomenon began in the last years, precisely in the last decade. The ideas, however, are more ancient but the traditional resources presence did not required a major shift in perspective, though the academia constantly warned the business about the risks of using fossil fuels. Of all these views, we remember some that underpin the form and the content of our article. First, we remember „The Renewable Energy Policy Manual" of John Armstrong and Jan Hamrin in „U.S. Export Council for Renewable Energy"[2]. The authors bring to the fore the strategic capital investment in electricity generating and the global warming demand, a deregulated framework for renewable energy. They are underlying assumptions for a rational and analytical framework, which assumes a potential

objective shared by the governments and the private sectors. This manual seeks to identify those issues that are the most relevant to countries that are seeking to attract private capital for their renewable energy. We complete this rational point of view with Fred Beck and Eric Martinot. In their study „Renewable Energy Policies and Barriers"[4] they noting the explosion of energy policy changes that occurred around the globe during the 1990s. These changes have been driven by economic, environmental, security and social concerns, and have in turn had a profound influence on renewable energy. The article therefore explores the barriers that have traditionally faced renewable energy policies. The barriers to renewable energy are subdivided into three broad categories; first, under costs and pricing, secondly, legal and regulatory factors are explored and finally are considered the factors that influencing the market performance of renewable energy sources.

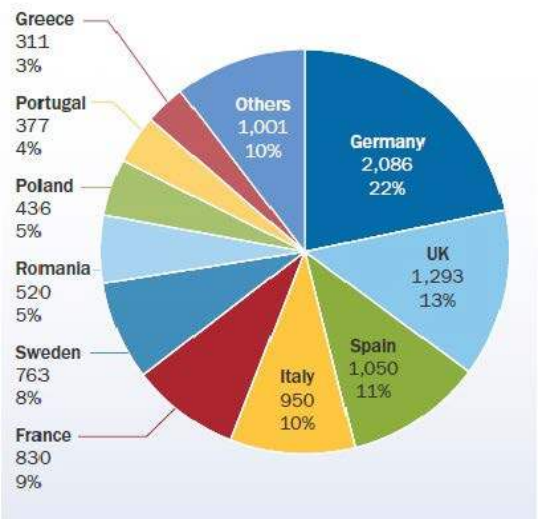
In this renewable energy market context we remind the Rodney Janssen opinion concerning „The Evolving Renewable Energy Market"[6]. The publication explores the changing status of renewable energy sources and technologies. He discusses about the future development of renewable energy technologies in terms of development of new energy industries and markets and in terms of the energy policies that may facilitate the development of all these. Dr. Keith Kozloff makes an interesting analysis in „Electricity Sector Reform in Developing Countries: Implications for Renewable Energy"[8]. In the face of growing demand for electricity and the increasingly apparent environmental problems associated with carbon emission, energy sector reform in developing countries will need to address the potential of renewable energy sources says Kozloff. The article anticipates a trend towards the abandonment of centrally planned electricity systems in developing countries and explores the impact of electricity sector reforms on markets for renewable energy.

In comparation terms we bring in discussion another two studies. First, the article of Navroz Dubash, „Revisiting Electricity Reform: The Case for a Sustainable Development Approach" [5]. This article explores the recent transformation of the conventional wisdom on the structure and operation of the electricity sector and the associated trend towards power sector reform. The article focuses specifically on the drivers of electricity reforms in the developing world and on the potential for social and environmental benefits from electricity reform. Secondly, the article of Joanna Lewis, a excelent comparation of wind industry development in three different countries: „A Comparison of Wind Power Industry Development Strategies in Spain, India and China" [9]. The paper compares the manner in which three companies – situated in Spain, India and China – became domestic leaders in the wind industries of their countries. After a brief overview of the global wind industry, the paper presents case studies of India, Spain and China, and concludes with a comparative analysis of the three countries. Each of the case studies explores the policy environment for wind energy and the business practices of the leading wind turbine manufacturer. In the same time we remind the documents of The European Wind Energy Association, Global Wind Energy Council and Romanian Wind Energy Association.

3. Wind energy in EU - market case study

During 2011[11], 10,281 MW wind energy were installed across Europe, including EU countries accounted for 9,616 MW. EU investment in wind farms in 2011 were € 12.6 billion, the sector reached 10.2 billion onshore and offshore at € 2.4 billion. From 10,281 MW of installed capacity in Europe, 9415 MW were installed onshore and 866 MW offshore. This means that in 2011 offshore market fell slightly (by 1.9%) than in 2010, but the prospects are encouraging in terms of preparation for new offshore projects. There are numerous offers for financing, suggesting a strong foundation for future growth. In terms of annual installations, Germany was by far the largest market in 2011, installing 2,086 MW of new capacity.

Figure 1 - EU Member State market shares for new capacity installed during 2011 in MW. Total 9,616 MW



Source: European Wind Energy Association

UK has stabilized in second place with 1293 MW, including 752 MW of offshore capacity, followed by Spain (1050 MW), Italy (950 MW), France (830 MW), Sweden (763 MW) and Romania (520 MW). Among the markets of Central and Eastern Europe, Poland was second after Romania, installing 436 MW. Both countries are still among the top ten European markets for the second consecutive year.

2011 was a record year for new installations for energy production in the European Union with 44.9 GW of new capacity added to the grid, an increase of 3.9% compared to 2010. Wind power accounted for 21.4% of new installations, the third place after solar (46.7%) and gas (21.6%). New coal plants accounted for only 4.8% of the added capacity, oil 1.6%, 1.3% large hydro. Nuclear technologies, biomass, waste, geothermal and ocean are each less than 1% of new plants. In 2011, 235 new offshore wind turbines in nine wind farms were fully commissioned, totaling 866.4 MW, bringing the cumulative offshore capacity in Europe 3813 MW, with 1371 wind turbines in 53 parks, spread across ten European countries.

Meanwhile, 6.3 GW of nuclear capacity was shut down and more than 1 GW of capacity fuel was switched off in 2011. At the same time, a greater capacity of producing energy from renewable sources – 32.1 GW - was installed in the EU than ever before. Renewable energy represents 71.3% of all new installations. Years 2011-2012 are the fourth and the fifth consecutive year that renewables accounted for more than 50% of the installed capacity of new plants. Since 2000, a total of 302.6 GW of new installed capacity was put into operation in the EU, of which 28.2% was wind power, other renewables 47.8%, 9.8% renewable energy combines with gases.

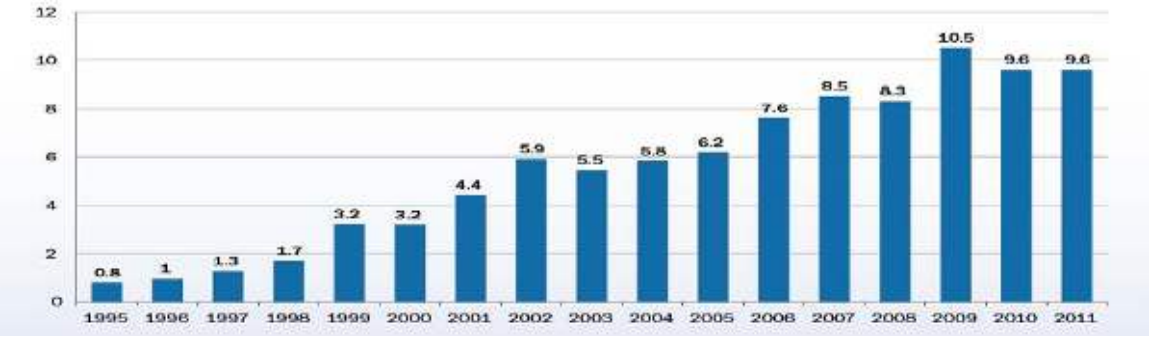
EU reached target of 21% renewable energy in the EU according with Directive 77/2002/EC for the end of 2010. Even more impressive is the fact that if the production of electricity from renewable sources in the EU continues to grow at the same rate as from 2005 to 2010, it would reach the value 36.4% in 2020 and 51.6% of electricity consumed in the EU in 2030.

In autumn 2011, the European Commission published a legislative proposal for multiannual financial framework program for 2014 - 2020. The document includes a proposal for increased budget for research at EU level "Horizon 2020" [16], financed with EUR 7 billion allocated for energy research. European Parliament together with the Council of Ministers adopted it last year. A further € 9.1 billion is anticipated for projects related to energy networks and promote simplification of authorization and licensing for electricity infrastructure through the infrastructure package of the European Commission. The package includes also revised guidelines for trans-European energy infrastructure.

In December 2011, the European Commission presented also energy roadmap [15] aimed at ways to reach the EU target of reducing emissions by 85% in the energy sector by 2050. In each scenario, wind energy is the technology leader in power generation, providing between 32% and 49% of total electricity consumption in the EU by 2050. Roadmap is not legally active, but a debate on renewable energy targets for 2030 and a path to implementation was released, and is expected to be approved before the current Commission's mandate to end in 2014. We can present a balance of European Wind Energy in 2011:

- 9616 MW of wind capacity (amounting to approximately € 12.6 billion) was installed in the EU in 2011.

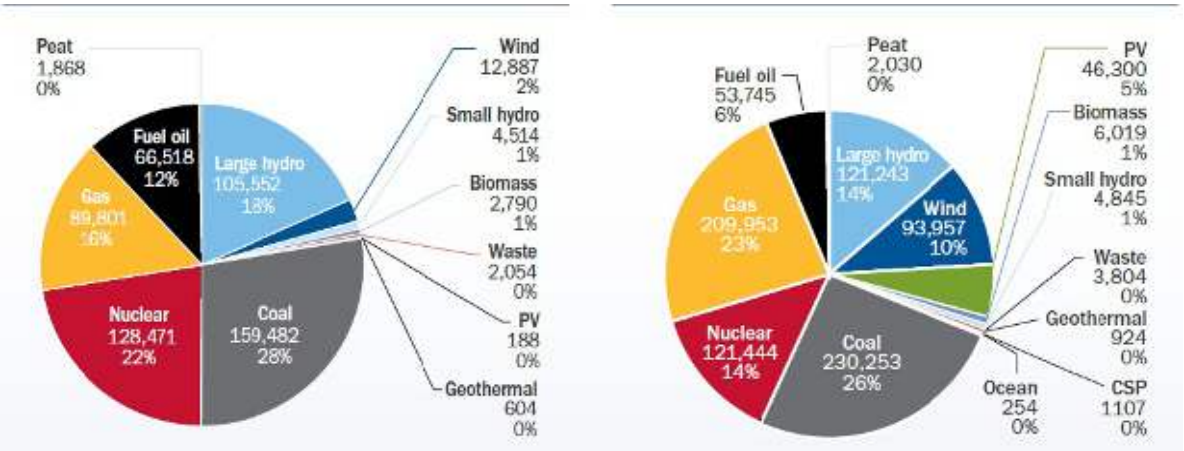
Figure 2 - Annual installed wind capacity (GW)



Source: EWEA

- Wind power accounted for 21.4% of total capacity in 2011 electrical installations;
- Renewable installed capacity accounted for 71.3% of new installations in 2011: 32,043 MW out of a total of 44,939 MW of new capacity installed;
- The capacity installed from renewable sources in 2011 was greater than that of any other year, an increase of 37.7% compared to 2010;
- The largest capacitor installed in 2011 than ever before - an increase of 3.9%, due entirely to renewable energy installations.
- Since 2000, a total of 302.6 GW of new installed capacity was put into operation in the EU, of which 28.2% was wind power, other renewables 47.8%, 90.8% renewable energy combines with gases .

Figure 3 - EU power capacity 2000/2011



Source: EWEA

- For the third time since 1998 the EU energy sector installed more coal than dismantled, highlighting the urgent need for the EU to move to the target of reducing greenhouse gas emissions by 30% by 2020, introduce a standard emissions performance and the decades period of subsidies for coal.
- EU energy sector continues moving away from oil and nuclear energy and, with every technology continues to dismantle more than install;
- Annual installations of wind power have increased steadily over the past 17 years to 814 MW in 1995 to 9,616 MW in 2011, an average annual market growth of 15.6%;
- A total of 93,957 MW is now installed in the European Union, the cumulative installed capacity increased by 11% over the previous year;

- Germany remains the EU country with the largest installed capacity, followed by Spain, France, Italy and the UK;

Increasing onshore installations in Germany and Sweden, and offshore in the UK - with strong performances of continuity in some emerging markets onshore in Eastern Europe compensated more than the decrease of the instalation in the mature markets such as France and Spain;

4. Wind Energy in Romania – market case study

Romania [12] has vast wind resources, but wind power accounts only 2% of its national electricity production. Romania is powered predominantly by fossil fuels, which accounted 54% of its generation in 2011, by large hydropower at 25%, and nuclear at 19%. However, wind energy has grown in the past three years. Romania's 982 MW of operating wind farms are located mainly (97%) in Dobrogea, on the Black Sea coast. Two other regions with an significant potential are Banat and Moldavia.

Romania was the Europe leader concerning the emerging markets in 2011, with an instalation of 520 MW. In the same time the country has a significant development pipeline, and soon will be a new european country to pass the 1 GW mark.

CEZ (A Czech investitor) dominates the romanian wind market. The company completed 338 MW of its Fantanele-Cogealac project which will be the largest onshore wind farm in Europe once completed at the end of 2012 (600 MW). The two other developers are EDP with three wind farms (238 MW), and Enel Green Power, also with three wind farms, accounting 174 MW.

In this moment, the most important projects of wind energy in Romania are [13]: Fântânele (CEZ, 347,5 MW), Casimcea, Topolog, Dăieni (IMA PARTNERS + Verbund, 532 MW), Tulcea county (ENEL, 174 MW), Moldova and Dobrogea (PNE Wind, 200 MW), Cogealac (CEZ, 252,5 MW), Mihai Viteazu (Iberdrola, 80 MW), Constanța county (ENEL, 118 MW), Cernavodă (Renovatio / EDPR, 138 MW), Galați county (Renovatio / EDPR, 100 MW), Mitoc (IWE, 100 MW), Borşa (Alstrom, 56 MW), Topolog (Land Power, 168 MW) and Casimcea (Martifer, 40 MW).

In November 2012, wind generated electricity will begin to receive two green certificates /MWh, and it is expected that this thing to open the door for investment by commercial banks. In the wind sector Romania has not been seriously impacted by the financial crisis, but the real impact remains to be seen in the future. However, the sector seems now to have a bright future.

In november 2008 was adopted the renewable energy law which is a major step forward for wind development in Romania, introducing a green certificate scheme for renewable electricity, for a 15 years period, as well as the loan guarantees and tax exemptions for renewable energy investments. In 2010, the renewable energy law was amended with another improvements. The amendments introduced a 20% target for 2020. The most important amended law are:

Wind projects before the end of 2016 will receive two green certificates per MWh produced until 2017 and one certificate/MWh for the balance of the 15 years of the scheme, encouraging early deployment.	The value of the green certificates, initially set between EUR 27-55 (USD 35.84-73), will be adjusted annually using the inflation index of the Eurozone. In 2012 the cap is EUR 57.67 (USD 76.54).
The penalties for suppliers for each non-produced certificate increased from EUR 110 (USD 146) to EUR 115.34 (USD 153.08) in 2012.	

On 13 July 2011, the European Commission finalized its review and approved the Romanian RES promotion scheme. The RES implementation started on 1 November 2011.

In Romania, the most important obstacle concerning the wind energy is the grid, especially in Dobrogea county, where the existing grid can only integrate about 400 MW of wind energy. The Romanian energy system could absorb about 3,000 MW of wind power, and this is expected to increase to 5,000 MW. There is currently more than 7,000 MW under contract to be developed. If

grid capacity is not improved, the connections will can not be realized. Stronger investments in transmission links in to the rest of the country are also urgently needed. Only 3.2% of Romania's electricity demand came from renewable sources, despite the considerable progress made in 2011. The Romanian Wind Energy Association predicts that 3,000-3,500 MW of wind power will be installed by the end of 2013, and at least 5,000 MW by 2016.

5. Conclusions

Use of wind energy in recent years has taken a major amplitude in the European Union. For Romania, a country so generous in terms of wind resources should be that this issue addressed more seriously and even more strongly, especially in terms of the legislative, regulatory framework, wind representing a huge opportunity. If before 1989 the use of non-conventional energy (as they were alled then) was a national problem, in the last 15 years, it has been neglected, following an upward trend, especially in the last 5-8 years. Researchers have dealt with this issue have focused mainly on opportunities for energy storage and less on analysis of technical feasibility and economic issues. Romania's integration into the targets established by national and European plans, will require sustained efforts and, above all, political will and administrative capacity. Romania's problem is therefore to build additional infrastructure to support investors in wind energy in creating coherent legislative and fiscal frameworks to reduce bureaucracy, time of application and tax overcrowding.

"ACKNOWLEDGMENT"

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Decision Support Tool to Testing and Trial Laboratories

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Abstract

This paper presents a decision support tool used in testing and trial laboratories. It gives an optimum quality control in these types of laboratories.

Key words: Management, Optimization Problem, Laboratory Activity Management
JEL Classification: L20, L23, M54, M11

1. Introduction

The present technological development is based on planning and quality improvement in every activity field. The complexity of activities performed in test and trial laboratories and the need to get accurate results is required by mathematical modeling. In this respect, a model solution is to develop some software able to give an active response to the need of reducing the uncertainty of the results and to eliminate testing errors. Software automatic adaptation to the specific character of various test and trial laboratories having different configurations requires the development of a "flexible" software and this leads to OOP techniques use.

Artificial intelligence techniques used in mathematical modeling in order to process input and output data and to develop automatic models are the optimal solution to any logistics strategy problem [1], [2].

More and more, quality infrastructure organisms are admitting that logistics is not only an operational variable but it has a unique position allowing the coordination of the relationship between the factors influencing both information and asset flow whose final purpose is to carry out the orders.

The flow starts when the customer orders something and it ends when the order is fulfilled and paid.

The strategic use of quality logistics requires a test and trial laboratory to adopt a specific and systematic approach of the market in order to establish some carefully chosen priorities and to strictly assign resources.

To meet international requirements and practices, self diagnosis instruments have to be created, meaning that a flexible software system for quality check up has to be developed.

This system has to be able to adapt itself to any certified test and trial laboratory.

To establish the data and information flows needed to develop this software, data included in the quality manual must be used.

In this paper are presented in detail all the procedures performed to accomplish a test/trial in laboratory. Also, the paper is taking into account the up to date standards.

Going into such details allows quantification of the whole laboratory activity.

The complexity of activity flow within test and trial laboratories is given by the large number of parameters involved in tests and trials as well as by the constraints of the determinations.

Owing to the great costs of the resources involved in the laboratory activity minimization is a must.

Using a software for quality check up as compared to a classical approach (without using this software) the following advantages may be pointed out:

- The uncertainty and the difficulties in a test and trial laboratory are efficiently solved by using accurate tests and multiple planning scenarios for unpredictable situations.

- The program using large scale modeling of integrated systems allows test and trials laboratories to find more profitable solutions than using manual approach.
- The program takes into account any change in test and trial laboratory configuration.

In addition, this software can carry out a more detailed analysis of a situation concerning quality management and make possible a thorough examination of every requirement.

2. Laboratory monitoring

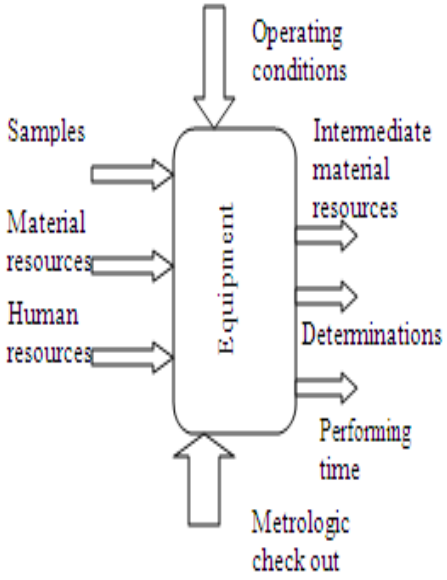
The procedures involved in test and trial operations are decomposed according to the Quality Book into elementary procedures described by a minimum parameters.

Considering the laboratory as a system, the input data are represented by the test/trial orders and by the raw materials supply. In this case the quality book contains the constraints of the system. The system outputs are the values resulting from the test/trial processes.

In order to quantify the elements of the environment (M) in which tests/trials take place, a coordinate system for the locations (L) is established for tests and trials equipment places. Also access constraints for the determination of optimal routes concerning resouces flow in the system are taken over.

- For equipment (E) and tools (U) quantification detailed work parameters are given for every equipment and the operating conditions. Figure 1 shows input/output parameters for an equipment considered as a subsystem.
- The quantification of material resources (RM) involved in test and trial processes depends on quantities required by every elementary process involved in test/ trial methods. This quantities are given in the Quality Book.
- For the quantification of test and trial procedures (P) these procedures are decomposed in subprocedures (SP). The last level resulting from the decomposition is called elementary procedure level (PE). Each elementary procedure takes data concerning the quantified resources of the laboratory. The elementary procedures are performed in one location (L) and in a well determined time interval (T1-T2).
- The quantification of metrologic (VM) and nonmetrologic check up needs a complete chain of specific tests and trials. The check up procedures are system constraints. Metrologic check up procedures are different from control procedures because the latest are more important for resource allotment optimization.
- Quantification of human resources (RU) is carried out according to a specific time location and elementary subprocedures.

Figure 1 Model of quantified equipment



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System decomposition in subsystems is performed down to the level of elementary subprocedure. According to the Quality Book, material and human resources are established for every elementary subprocedure.

To obtain greater flexibility in the assignment of elementary procedures, these are considered equipment dependent and so they can have different performing times depending on the specific equipment. The performing time of an elementary procedure depends also on the skills of human resources (this parameter is also quantified). The various performing times for the same elementary procedure type lead to the increase of the complexity of the decision system used for optimum allotment of all

resources.

The program can determine optimal assignment of staff per procedure and optional assignment of procedures per apparatus. Optimal assignment is carried out using specific optimization techniques. Optimization results in uniform distribution of the staff per functioning apparatus.

The optimization criterion is the minimization of every cost procedure. The optimization problem is to determine some apparatus, tools/accessories and staff combination so that the cost per procedure be minimum under certain time and interdependence constraints between assigned resources.

Optimal assignment can be made both at specific general procedure level and at elementary procedure level [3].

For an optimum assignment of laboratory resources multivariable optimization algorithms based on gradient methods as well as algorithms based on geometrical search are tested and implemented [4].

Multivariable penalization methods are implemented in order to study the possibility of gradient algorithms to be used in explicit and implicit constraint problems.

For the linear case, a Simplex algorithm was implemented. For non-linear problems, a Box algorithm using search by geometrical methods is chosen.

Although the iteration number is large, it has the advantage of high robustness and accuracy.

Gradient algorithms have high convergence speed but the use of penalization method diminishes the computing accuracy and significantly increases the computing time.

To get the criterion function, successive questioning of databases are used. These questioning are imbricate and managed by stack mechanism. By successive calls of imbrications procedures, criterion functions and the constraint system for the organization problem are built.

In conclusion, the chosen algorithms (Box for non-linear problems and Simplex for linear ones) represent a practical solution for a fast determination of optimum resource assignment in test and trial laboratories.

These algorithms are coupled with monitoring questioning and management modules of databases.

3. Software implementation

The present software was developed by using C++ Builder. The core of the system built by software implementing of optimization algorithms consists of dynamically linked libraries. This techniques were adopted with the following intentions:

- To allow better control of the whole program (the possibility of an independent testing of algorithms);
- To include new algorithms in the present software without significantly changing the program;
- To have the possibility for the functions implementing the algorithms to be called by other software programs as well.

The program consists of two executables and includes ten dynamically linked libraries, each one corresponding to a given algorithm type.

To have the possibility to compute in the program any type of function or function combination, a syntactic analyzer was developed which takes over the functions as character strings, replaces X- variables and returns the values of the function.

The syntactic analyzer can be called independently of every program because it is implemented as a library.

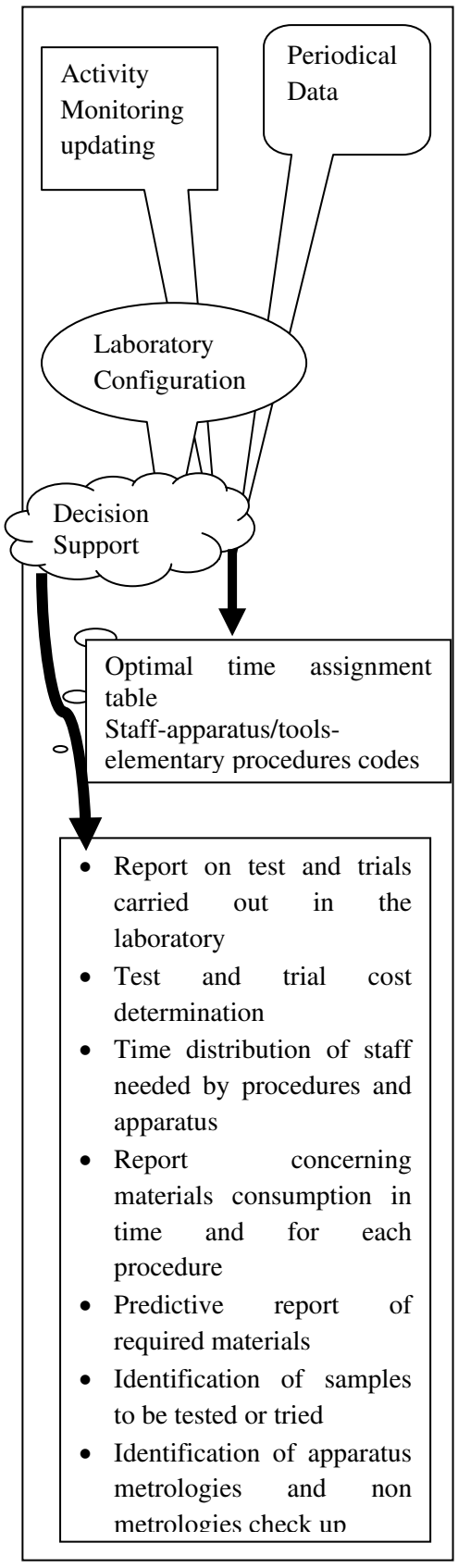
The quantified information is taken over using the procedures of object oriented programming which allows generic take over and easy configuration obtaining every time the procedure is operated. The consequence is software flexibility, meaning it can be used for any certified laboratory.

The process models are taken over by class constructors and the optimization function is implemented as a virtual function at class level. These are input data taken over at the moment the application is configured. The other input data are represented by the orders for tests and trials and by the supply with material resources (periodical inputs).

The software output data are: reports for activity monitoring, check up for conformity with the Quality Book, optimal work parameters (material and human resources assignment in time) so that the time for tests/trials achievement be minimum.

Figure 2 shows the architecture of application configuration module.

Figure 2 Arhitecture of application configuration module



Personal source

4. Conclusions

Quality standards are the general mandatory framework for the functioning of a tests and trials laboratory. The requirements are a consequence of the fact that every product has to function in such a way as to provide all the functions for which it was developed, maintaining the quality parameters in given ranges.

The repair frequency has to be such as economic efficiency of the product exploitation be not diminished.

On the other hand, the set of standards should be completed with specific standards for the activity field of the tested and tried products because each product has specific parameters for quality evaluation and hence individual specific requirements.

On the basis of specific data and resource flow, an adequate software for optimum time assignment of resources and for monitoring the activity of a certified test and trial laboratory was developed. By using accurate computing techniques, customers' confidence in products conformity with specifications will increase.

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Effects of Fiscal Policy on Economic Growth. An Analysis Based on Economic Literature

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Abstract

The effect of fiscal policy on economic growth has been one of the most debated and controversial issues in economics. Some economists consider growth as a result of the accumulation of capital, others believe that technical progress is effective and does not accept that this growth is influenced by factors such as fiscal policy. Macroeconomic relationship between fiscal policy and economic growth long fascinated economists. Unfortunately, the analysis of this relationship has frustrated for too long, the empiricists. A cause of that frustration was represented by the set of indicators which affect this link.

Key words: GDP, fiscal policy, budget deficit

J.E.L. classification: H50, H60, O40

1. Introduction

There is a voluminous empirical literature that has dealt with the relationship between fiscal policy and economic growth. Among the most important contributions are those of Levine and Renelt, Engen and Skinner, Easterly and Robelo, Villanueva, Lin, Körmend and Megu, Landau, Skinner, Ram, Barro[3].

To examine the effects of fiscal policy on economic growth, we must first correctly classified the influencing factors and then examine separately the impact of each factor on growth. These influence tools can be divided into three groups, according to Tanzi and Zee: government spending, taxes, and general government balance policy, each being able to affect economic growth in several ways[27]. Literature does not systematically favor one indicator of fiscal policy on the other. Furthermore, it was found that none of these indicators is strongly correlated with fiscal growth when they are individually assessed[17].

2. Current state of knowledge

Several studies have been conducted and attempted to analyze the relationship between fiscal policy and growth. Studies have included many countries, different regions and areas.

In order to discover the impact of fiscal policy and monetary policy on economic growth in Iran, a study was conducted during 1960-2006. Study of Khosravi and Karimi found that the impact of the exchange rate and inflation on economic growth was negative, while the study found that government spending has a positive effect on GDP growth[26].

A study was conducted in the European Union, in order to investigate the relationship between fiscal policy and economic growth during the 30 years from 14 European countries, the results showed that the impact of public spending on infrastructure spending and government spending on protecting the rights ownership is positive on economic growth[5].

In an attempt to assess the role of fiscal policy on economic growth in Romania, the study was conducted during the 1992-2013. The years 2012 and 2013 were estimated by the International Monetary Fund. The study found that reducing the budget deficit is positively related to growth as decline deficit

increases growth rates. The study also found that an increase in public revenues and public spending cuts increase economic growth rates[29]. In addition, the study found that reducing the general budget of Romania by 1% lowers economic growth by 2.59%. Thus, the study of Enache in 2009 concluded that fiscal policy has a role in increasing growth rates by increasing the overall efficiency of revenue mechanisms[9].

Ocran in 2009, in a study in South Africa during the period 1990-2004, conducted in order to determine the impact of fiscal policy variables on growth, was found that consumption expenditure, capital formation and tax revenues have a positive impact on economic growth but the extent of the impact of capital formation is less than the impact of government spending.

3. Budget expenditure and economic growth

Literature on the relationship between public spending and growth is quite extensive and can be divided into two main streams: one that supports the Keynesian theory of the positive impact of public expenditure on economic growth and other stream, which public expenditure influence negatively economic growth.

For the first stream relevant works are Holmes & Hutton and Aschauer , who found a strong positive relationship between government spending and economic growth[10][2]. On the other hand, Grier and Tullock, analyzing the relationship between the size of government spending as a percentage of GDP and economic growth in a sample of 113 countries, found a negative impact on economic growth.[12] Similar results were obtained by Barro and Cashin [4][7]. The results of a study by Folster and Henrekson indicate a robust negative relationship between public spending and growth in a sample of rich countries covering the 1970-1995 time period: an increase in the expenditure ratio by 10 percentage points is associated with a decrease in growth rate of 0,7-0,8 percentage points.[11]

Some studies have reached mixed results, growth was strongly affected only by certain types of public expenditure. Public infrastructure, communication and information systems, education funded by the government, research and development are the most frequently cited examples of public goods provided, which contributes positively to aggregate production. Many studies have divided public spending on productive and unproductive spending. According to Carboni and Medd, productive expenditures include spending on infrastructure, law, education and training, while unproductive expenditures include expenditures on national defense, national parks, social programs.

Devarajan and others argues that studies differ in terms of government spending analysis and studies are classified into three groups. Some economists consider variable as needed to express fiscal policy, but others have found it necessary to adjust this variable into categories and groups, by analyzing these groups individually, to identify the link with growth.[8] The last group stressed the need to share the costs into two parts, the first called capital expenditure, working to stimulate investment and consumption, and two included consumer spending that prevent or restrict growth. But with the development of studies on growth, consumption was divided into government spending allocated for production, including spending on education, health, infrastructure and government spending for non-production.

4. Taxation and economic growth

In terms of public revenues from a general perspective, any tax has a distorted potential or real impact on economic growth because it affects economic choices of individuals (companies and individuals) on the activities they carry (production, investment, consumption or savings). Income tax negatively affects investment incentives and resources companies, income tax from wages negatively affect both consumption and saving, and individual investment in human capital. Consumption taxes affect individual choices between work and leisure according to Milesi-Ferretti and Roubini.[20]

Given these characteristics of tax, Sala-i-Martin grouped public revenues based on their impact on economic growth: distorted public revenues (which have negative effects on economic growth), undistorted government revenue (which are neutral or have an insignificant impact on growth) and

other public revenues (which have an insignificant impact on economic growth).[24]

Table 1 - Classification of public revenues according to their impact on economic growth

Distorted public revenues	undistorted public revenue	Other public revenue
Corporate tax	VAT	Custom duties
Income tax	General sales taxes	Other tax revenues
Social security tax	Excise	Current non-tax revenues
Wealth tax		Income from capital
		Other income

Source: Barro (1990)

Numerous empirical studies have investigated the relationship between taxation and growth. Plosser and Kimg and Rebelo suggest that an increase in tax leads to a reduction in growth while Kneller, Levine Renelt (1992) report an insignificant or even positive correlation between the two.[23][25][15] On the other hand, Tosun and Abizadeh found that economic growth as measured by gross domestic product (GDP) per capita, has a significant effect on the tax mix of OECD countries. Mendoza and others concludes that the tax mix has no significant effect on growth.[28][18]

Relationship between fiscal policy and economic growth was also studied by Martin Zagler and Durnecker Georg, and concluded that "taxes on savings, R & D, profits, premiums of capital and labor have a direct impact on the rate of economic growth, while the total tax year rate has indirect effect on economic growth.

Obreja L. Braşoveanu and Braşoveanu V., analyzing the relationship between taxation an grotwh on Romanian economy through "regression technique application for the period 1990-2007 concluded that in Romania distorted and not distorted effects of taxes on economic growth are negative[21].

Numerous empirical studies have investigated the relationship between taxation and growth. Engen and Skinner suggested five possible mechanisms through which taxes affect economic growth[16]:

(1) investment rate can be inhibited by taxes, such as personal and corporate income and capital gains taxes;

(2) Taxes can slow the growth of labor supply by influencing labor-leisure choice for leisure;

(3) Fiscal policy can affect productivity growth by discouraging effect on research and development expenses;

(4) taxes can lead to an outflow of resources to other sectors, which may have lower productivity and

(5) high taxes on labor supply can distort the efficient use of human capital, discouraging workers through higher tax.

Harberger spoke about the relationship between government taxes and growth rates, and found that high tax rates in the economy will limit foreign and local investments and thus affect the growth rates of capital, which will have a negative impact on employment growth and reduce overtime that workers are willing to work, which reduces the marginal productivity of labor and reduce research and development, which will lead to lower growth rates[13].

While some studies find that taxes have long-term effects on growth rate, others find no significant effect. After controlling performed to determine the initial level of GDP through different fiscal measures a study finds that average and marginal tax rates are negatively correlated with economic growth. However, both coefficients tax rates, marginal and average are not statistically significant[6].

Helms examined the effects of increased state and local taxes. He argues that a tax increase can stimulate growth if they are used to finance development costs. Helms found that taxes have a significant negative effect on economic growth, Helms regression coefficient indicating that the tax rate can be positive if production costs and finance charges may be negative if the tax revenues are used to finance social transfers. Redistributive public transfers can negatively affect economic growth[14].

5. Budget deficit and economic growth

Impact of government deficit problem is even more complex. If deficits tend to reduce economic growth, there will be a negative impact on long-term growth. Similarly, if

there is a higher deficit today, there will be further offset by a higher rate of consumption or income tax, the rate of growth will decrease in the long term, according to Peretto. [22]

Begetar deficit could influence economic growth through a transmission channel represented by the interest rate. In the literature, the explanation is that crowding out increases the interest rate and reduce the amount of savings available for private investment. To the extent that deficits are used for investment, total capital may not register a total loss. Moreover, the continuous accumulation of public debt could undermine long-term sustainability of fiscal policy pursued by government authorities, with a negative impact on economic growth.[1]

Ricardian vision is contrary, suggesting that the deficit has no effect on growth. Since the current deficits will be paid with higher taxes in the future, households will save more now than they would pay in the future.

An important dimension in the analysis of fiscal policy and economic growth is the extent to which tax expenditures are financed by distortionary taxation. Distortionary taxation decreases willingness to save and invest by reducing the rate of capital accumulation.

6. Conclusions

Regarding *short-term effects of fiscal policy on economic growth*, there are a number of empirical research, primarily for industrial countries, dedicated to understanding under what fiscal conditions multipliers are small, and even negative according to Alesina and Perotti, Alesina and Ardagna and Perotti. According to Perotti consolidation tends to be expansionary when debt is high or growing fast, while Alesina and Perotti and Alesina and Ardagna notes, that in addition to the size and persistence of momentum fiscal, budget composition matters in explaining the various responses of private sector to fiscal policy (and therefore increase effect)[1].

Potential *long-term effects of fiscal policy on economic growth* generated also substantial attention, according to Tanzi and Zee, 1997. The most recent work in the growing field of endogenous growth suggests that fiscal policy can either promote or delay growth, investments in physical and human capital - both can be affected by taxation and government spending - can affect balance.

In both directions of the literature, *the effect of fiscal policy on growth may be nonlinear.* This can happen, for example, because the private sector's response to fiscal policy can be nonlinear, which implies a complex relationship between the size, the composition of public expenditure and revenue and growth. According to Giavazzi in industrialized and developing countries, non-linear effects of fiscal policy in economies tend to be associated with large and persistent increase in the primary deficit.

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Organisational Learning and Konwledge Management within NGO

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Abstract

NGOs are learning as well as knowledge-intensiv organisations. They are creating social value in the community where they act as social change agents, by creating, sharing and using knowledge. As components of the new, knowledge-based society, their organisational processes are marked by learning and knowledge.

The paper aims to propose a conceptual model of the link between organisational learning and knowledge management within NGOs

Key words: learning, knowledge management, NGOs
J.E.L Codes: A13, D01, D83

1.Introduction

Non-governmental organizations (NGOs) consist of people unified around a group of common values, ideas and desires, committed to contribute with their knowledge, skills and time resources to the achievement of the organisational goals. Through their non-profit activities, NGOs are creating social value for the community where they act as social change agents. As components of the new, knowledge-based society, their organisational processes are marked by learning and knowledge.

Unfortunately, knowledge management literature has been written mostly with business organisations in mind and has not provided many answers for NGOs regarding the processes of learning and knowledge management.

The present paper tries to conceptualise the link between organisational learning and knowledge management, by explaining firstly why NGOs are learning organisations, secondly why they are knowledge-intensive, then by emphasizing the link between individual and organisational knowledge and finally, by describing the conceptual content of the two processes: learning and knowledge management.

2. The present nature of NGOs

2.1. NGOs as learning organisations

In the mid to late 1990 NGOs became aware of the concepts of organisational learning and learning organisation from the corporate world [4]. Corporations were a source of methodological and practical frameworks for NGOs, to respond to their learning needs. Today, there is a general recognition that organisational learning is beneficial for the effectivenes of NGOs in the process of social value creation. NGOs have the specific features of learning organisations; learning processes within NGOs occur and are supported by the internal specific processes (facilitated by a flexibile organisational structure, human resources policy, social interaction, and an open vision of leaders).

According to Hyvarinen and Wall, an important feature of learning organisations is that they are organised so that learning occurs at five levels. This can be applied to NGOs in the following manner:

1. *Individual learning* – learning that NGOs members experience through involvement in campaign and organisational development;
2. *Team or work group learning* (sharing lessons between individuals working together in permanent work groups or temporary teams) – participation in sub-collective or main collective meetings and project work yields discussion regarding practices and outcomes that is recorded and used to augment future planning and action;
3. *Cross functional learning* (sharing lessons between departments or sections e.g. between fundraising and operational staff) –

meetings occur between coordinators of different areas. This allows the opportunity to streamline organisational processes and the development of knowledge management systems;

4. *Operational organisational learning* (focusing on improving practice, increasing effectiveness and efficiency) – strategic meetings occur whose objective it is to assess organisational practices toward improving effectiveness and efficiency in event planning and management, volunteer coordination, publicity and networking, capacity development of participants and organisational learning and knowledge management.

5. *Strategic organisational learning* (learning to deal with significant changes in the environment which affect the overall strategy of the organisation) – scenario planning occurs within the organisation so that it is equipped to deal with a number of potential environment and organisational changes that may occur.

2.2. NGOs as knowledge intensive organisations. Individual and organisational knowledge

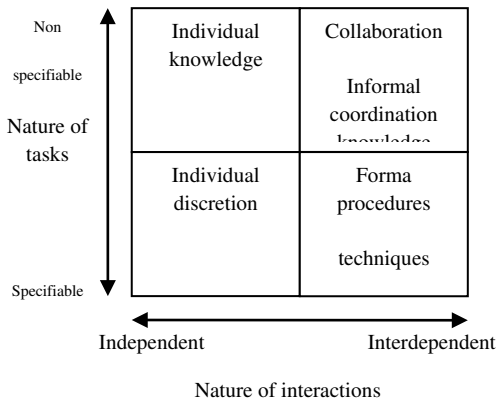
NGOs are also, knowledge-intensive organisations; their knowledge capital is heterogenous, widespreas, rarely formalized and unstable (due to volunteer workers). The creation of a unique corpus of knowledge, formalized and useable by all members is a challenge that the NGOs are facing at present [8].

Between individual and organisational knowledge there are conceptual differences. On the one hand, individual knowledge is created based on differences in each person's cognitive abilities. What one individual learns is different from that of another, because of differences in their respective cognitive skills. On the other hand, learning at the organisational level involves a social dimension. Learning occurs at the organisational level by: interaction between people, sharing of ideas and information; and development of common schemas and language [1],[10].

The knowledge in the organisation represents a consensus or agreement on ideas and information [5]. While employees may have their separate knowledge, what becomes part of the organization's knowledge is only what employees have shared and agreed upon. Thus, the knowledge that becomes part of the organisation represents: ideas introduced; agreement on the ideas that reflect the combined individual experiences of these employees; and consensus on how these ideas are interrelated and affect each party's tasks and responsibilities [9],[14].

According to Bhatt (2002), we can differentiate individual knowledge from organisational knowledge using two criteria: the nature of internal interactions (from low or independent to high or interdependent) and the nature of people tasks (from specifiable to non-specifiable).

Figure 1 The link between individual and organisational knowledge



Source: adaptation from Bhatt, 2002, p.4

In the cell 1, the level of interactions between organisation's members, employees or volunteers is very low and the tasks are speciables. Organisations are likely to empower their members to be discrete. In the cell 2 the level of interactions is low, but employees or organisation's members who are experts in their field are able to solve non-specifiable tasks. In this group we can include project managers and seniors managers. In the cell 3 the level of interactions is high and the tasks are complex. To deal with these kinds of conditions, employees need to continually share their expertise with others so that they coordinate their tasks in unison [2]. In the cell 4 the level of interactions is high and the

tasks are not very complex. In these conditions, organisations often follow rules and procedures (for instance: communication, administrative or admission procedures).

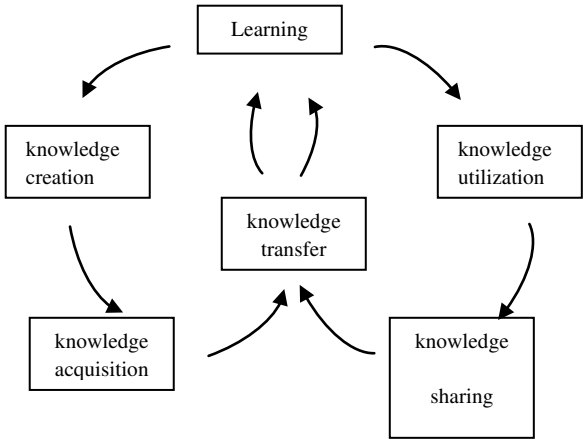
One of the main constituents of organisational knowledge is "interactions". Within NGOs, the internal interactions are kept at maximum by strenghtening the organisational culture. There are several methods to stimulate internal interactions: formal, informal and periodical meetings with members and volunteers, team working, training sessions, e-groups, intranet, internal newsletters. If individual knowledge is not shared with others, it has no influence on the organisational knowldege base. One of the most important task of NGO's management is to stimulate the members interactions so their individual knowledge is amplified and internalized.

3. Knowledge management in NGOs

Lately trends in knowledge management research show an increasingly psychological view of knowledge management [3],[6],[11],[12],[13]. Knowledge is considered to be that which is embedded within individuals and occurs either as a result of experience, or is generated through thinking or reasoning; otherwise it remains as data or information [3]. From this perspective, knowledge can be seen as an activity and data and information are objects. This perspective is very close to the context of NGOs, where members are committed to give a part of their expertise and time to contribute to the NGO's goals achievement. Within NGOs, the reasoning and social interactions are driven factors of *knowledge creation, acquisition, transfer, utilization and re-utilization.* The communication processes within an NGO facilitate all these knowledge processes. For instance, *knowledge creation* can be driven by curiosity or in a response of an internal or external problem, and refers to the deliberate and purposeful collation of facts and observations to generate new or novel ways of understanding a particular phenomenon. Annual reports, campaigns reports, general assemblies resolutions, findings of brainstorming sessions or workshops, and results of strategic planning processes are some examples of NGOs documents containing new knowledge. Whithin NGOs, *knowledge acquisition* is facilitated by the *transfer* of existing knowledge to others. The success of this transfer depends on the effectiveness of communication processes and the learning capacity of NGOs members and employees. The existing knowledge can be *used* and re-used by the members and employees through the organisational structure (i.e. networks, hierarchical levels) rules and procedures (i.e.for internal communication, for administrative issues, documents management).

Figure 2 shows how knowledge, as a result of learning process, is created, transferred, used, shared and re-used within NGOs. There are two cycles generated by learning, one for knowledge creation and other for its utilization. The common element of both cycles is the knowledge transfer. This process is amplified in NGOs through a concern for strenghtening the organisational culture and for internal interactions stimulations.

Figure 2 Knowledge management cycle within NGOs



Source: author's own view

4. Organisational learning and knowledge management within NGOs

Organizational learning and knowledge management processes are interrelated as it is shown in the Figure 2. Going into details of the content of these processes, we can notice that organisational learning generates knowledge and knowledge underpins organisational learning. Table 1 offers an

overview of differences and similarities between organisational learning and knowledge management. Organisational learning is a process of harmonisation of individual and collective learning processes, focused to increase the satisfaction of NGOs beneficiaries and stakleholders while knowledge management means the processes by which knowledge is acquired, shared, used, stored, used and re-used. Furthermore, organisational learning provides a purpose for the use of knowledge but knowledge management, by its component processes, is a means to enable organisational learning. Unlike organisational learning, knowledge management is context-independent, meaning that the circumstances of knowledge utilisation have no relevance when the knowledge is developed.

Table 1 Link between organisational learning and knowledge management

Organisational learning	Knowledge management
-is the intentional use of collective and individual learning processes to continuously transform organisational behaviour in a direction that is increasingly satisfying to its stakeholders. -provides a purpose for the use of knowledge. -is always context-specific. The purpose of learning is to solve problems or address challenges and knowledge is selected because of its utility in the specific circumstances. -is usually demand led.	-is the systematic processes by which the knowledge required by an organisation is acquired, distilled, shared, stored, retrieved and used. - is a means to enable organisational learning. - can be context-independent. For example, good practices can be developed and disseminated without awareness of the circumstances in which it may be used. - is usually supply driven.

Source: [4], p.8

5. Conclusions

Organisational learning and knowledge management are of key importance for NGOs in the process of social value creation. NGOs which are not able to internalise the learned lessons and to learn from previous experiences achieve a low effectiveness in offering social added value for their beneficiaries. Managing knowledge within NGOs means first, enabling the organisational learning and second, stimulating the internal interactions between individuals, between and within various groups of members, staff and volunteers.

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The Entrepreneurship, an Actual Challenge for the Young Graduates of Higher Education Institutions

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Abstract

Considered from the point of view of the brought challenge, the entrepreneurship is proving an alternative source of income for young graduates, source increasingly attractive in terms of labor market suffocated by oversupply and tough competitive terms influenced by international economic crisis. Various funding programs that run nationally in partnership with the European Union, increase the attractiveness of entrepreneurship. In this paperwork I propose to develop some aspects of new developments in the field, to highlight a few issues currently facing young entrepreneurs and develop a case study of a successful entrepreneurial business.

Cuvinte cheie: entrepreneurship, incomes, costs, magnetic poetry.
Clasificare J.E.L.: M21

1. Introduction

In the XXIst century you cannot live decently than under financial planning. Monthly income requirement for a family of two parents with two children is on average 9,000 euro.

Given Kondratiev's theory of business cycles, for a economic growth of 8 years (2000-2008) following a period of economic decline for 8 years (2008-2016).

The economic revival in Romania could be achieved under a galloping inflation process, in this sense I appreciate that at the end of decline period the leu / euro will be 8 lei / euro in December 2016. You cannot win 9,000 euro per month for a family of two parents with two children only in the quality of employer and investor. Assimilation of deep financial knowledge while benefiting from management techniques based on solid marketing knowledge and accounting ensures business success.

2. Entrepreneurship in Romania

From the entrepreneurship of a country and its level of economic development there is a direct correlation.

In the economies oriented on factors of production, existing in poorer countries, the average rates of entrepreneurship are higher in the initial stage, which expresses the need to increase the gross domestic product (GDP) by initiating new business. The efficiency-oriented economies, where the values of the GDP / capita are higher in early stage entrepreneurial activity rates are lower, while innovation economies these rates are higher, because of the opportunities for entrepreneurial development and innovation environment economic.

A particular case is that of the countries of Eastern Europe, including Romania is located and who have undergone a period of profound structural change important system while decreasing the population. They generally have fewer entrepreneurs and therefore an insufficient number of new private businesses.

In relation to the overall indicator, Romania has a precarious situation, positioning only on number 53 among the 59 countries assessed. The same position is maintained low country with efficiency-based economy, where Romania ranks 23 out of 24 countries [1].

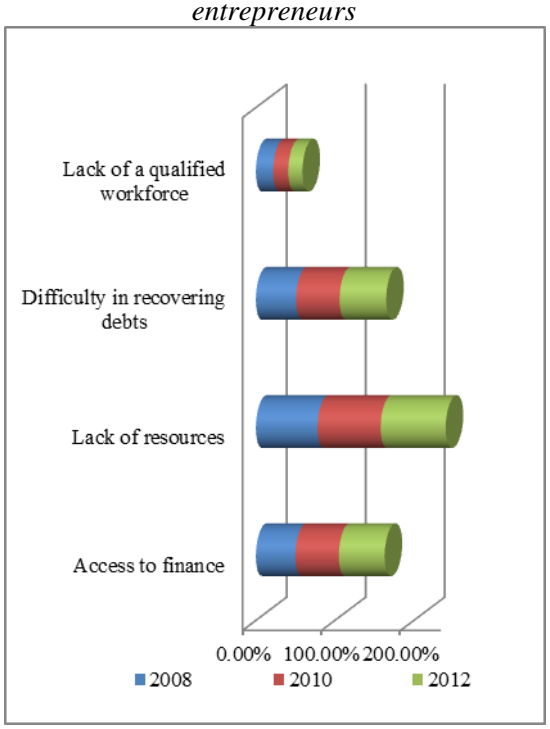
3. The main difficulties faced by Romanian entrepreneurs

Experts say the biggest problem of business is restricted access to credit, and bad

news is that banks will not finance companies resumed in 2010, because it will analyze the situation of companies which will seeking loans on the balance sheet situation of 2009, which "looks disastrous."[2]

Impact of financial crisis on the problems faced by entrepreneurs is given below:

Figure no. 1. The main difficulties faced by Romanian entrepreneurs



Source: Processing from INS 2012 Statistics; Annual Report 2011/2012, the European Commission

On the supply side, the crisis had increased the difficulties of access to finance. In 2012, the share of new enterprises without resources amounted to 82.3%, the percentage of those with problems caused by delays in payments by customers reached 59.3%, and those with limited access to bank loans reached 53.4%. Also the difference between financial difficulties and other problems become more pronounced offer: less than 15% of the entrepreneurs faced difficulties related to the lack of technology, lack of access to skilled employees or raw materials.

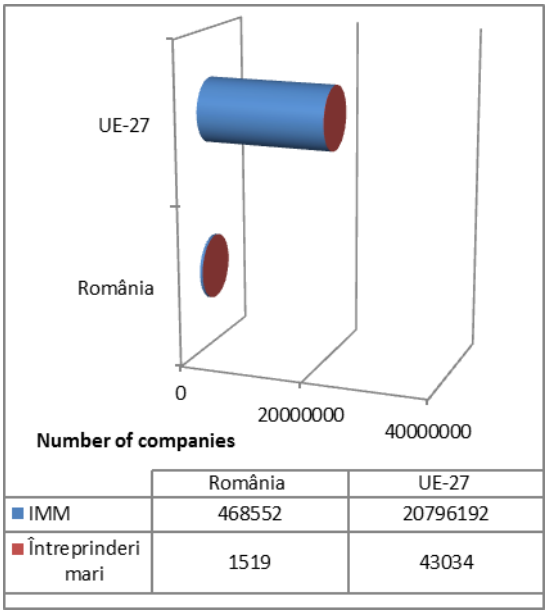
Therefore, financial constraints were the biggest challenge for new businesses.

4. The impact of entrepreneurship in national and local economy

The contribution of entrepreneurship to increase economic performance and well-being and social cohesion can be easily evidenced by the relationship between the values of the indicators for entrepreneurship and macroeconomic outcomes.

Based on the number of companies active in Romania, as the main indicator of entrepreneurship is apparent contribution to value added as comparative data with average values recorded in the European Union.

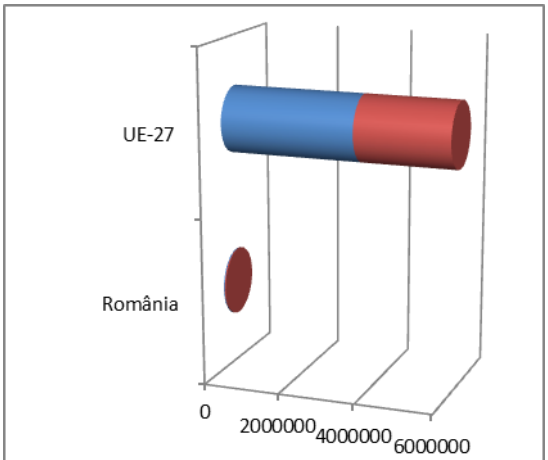
Figure no. 2. The main indicator of entrepreneurship, the number of active firms, comparable statistics Romania/UE27



	România	UE-27
IMM	468552	20796192
Întreprinderi mari	1519	43034

Source: Processing from INS 2011 Statistics; Annual Report 2010/2011, the European Commission

Figure no. 3. Realized Added gross value, comparable statistics România/UE27



	România	UE-27
IMM	24406.3	3492979
Întreprinderi mari	24169.734	2485457

Source: Processing from INS 2011 Statistics; Annual Report 2010/2011, the European Commission

5. The laws of prosperity in sense of Robert Kiyosaki

- Robert Toru Kiyosaki, born in 1947, is an investor, businessman and motivational literature American author. Kiyosaki is best known because of motivational book series "Rich Dad, Poor Dad." He has written 18 books that have been sold in a total of 26 million copies. Although first published on his own, later, Warner Books, a division of Hachette Book Group USA, took over the publication of his books, now they appearing as publisher Rich Dad. Three of his books, "Rich Dad, Poor Dad", "Quadrant money" and "Investor's Guide" were found simultaneously in the top 10 of the best books sold, ranking compiled by the Wall Street Journal, USA Today and New York Times . "Rich kid, smart kid" was published in 2001, from the desire to help parents to familiarize children financial concepts.
- He also created the educational game "Cash Flow", published both in a classical and software version. The game knows 3 versions and is addressed both parents and children. He made numerous audio and video tapes of the series "Rich Dad".
- Probably the most important book of Robert Kiyosaki's "Quadrant money" indicating which are the main channels for the production of income: employee, self-employed, employer and investor.
- The left side of the dial money is directly related to working time practiced. The more you work, the more money you earn. When stopped working, you no longer get money. Another feature of quadrants 1 and 2 is that taxes are high and may not be modified except by laws enacted by Parliament and this is not out of reach of common people. On the right side of the figure the time worked does not matter. What matters is the use of two levers of multiplication.
- To browse path from employee to investor, you need to strengthen financial literacy that you have in incipient form. The problem is to accumulate those financial knowledge that allow you to live decent sense Larry John. According to Robert Kiyosaki, there are five levels of financial knowledge classified into IQs:
  - IQ no. 1: how to make money;
  - IQ no. 2 : how to keep money;
  - IQ no. 3: how to place money;
  - IQ no. 4 : how to use the levier effect;
  - IQ no. 5: how to informe yourself financially?

  In my opinion, I think it should be 6 levels of IQ and slightly reversed order, as follows:
  - IQ no. 1: from where I leave or "my financial potency";
  - IQ no. 2: how to informe yourself financially?
  - IQ no. 3: how to make money;
  - IQ no. 4: how to keep money;
  - IQ no. 5: how to place money;
  - IQ no. 6: how to use the levier effect;

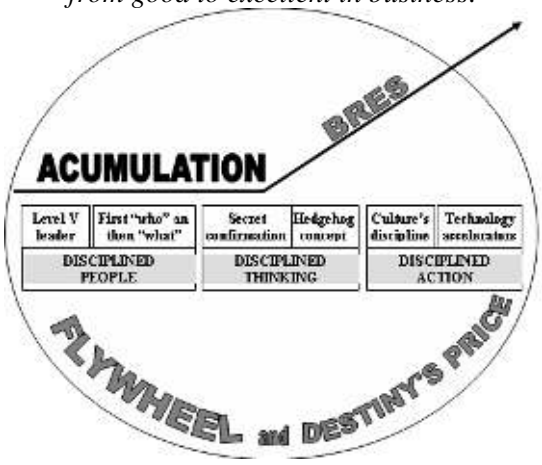
6. The laws of prosperity in sense of Jim Collins

Jim Collins is probably the most widely read writer in the world of economic literature. The book "Business Excellence" was the result of efforts by analysis of over 1,400 companies included in the Fortune 500, of which only 11 met the final criteria for business excellence. And the results of these research efforts did not fail to appear. In less than 3 years from the appearance of the

English edition of this book was already sold over 1.5 million copies. And from then until now has been translated into over 30 languages, fast becoming a worldwide bestseller.

In the book "Excellence in Business" during the 9 chapters, Jim Collins and his colleagues come to define a number of concepts and principles that enabled the leap from good to excellent in business. Essentially these principles are shown in the figure below:

Figure no. 4. Principles that have allowed some American companies to make the leap from good to excellent in business:



Source: Jim Collins, "Excellence in Business", Bucharest, 2009 [3]

The meaning of key terms in the figure above is:

1. Level V Leader: Are leaders had great results in the management of the companies they lead, are faded, quiet, even shy , are a paradoxical blend of personal humility and professional will.
2. First "who" then "why": the process of leading companies first are chosen the right people for the job and then establish "what" they did in the "what" conditions.
3. Disciplined people : There are those who manage to keep their unshakable belief that they can and will succeed in the end despite all the difficulties.
4. Facing reality: At the same time they have the necessary discipline to confront the most brutal facts in the current reality, whatever it may be.
5. Hedgehog Concept: To go from good to excellent, it is necessary a deep understanding of three intersecting circles that lead to a simple concept, clear and concrete.
6. Thinking Discipline: Positive Education, always thinks in favor of, perceive what is good and what is bad.
7. Culture of discipline: All companies have a culture and a discipline of its own. When a company has disciplined people there is no need for hierarchy and there is no bureaucracy. Also you do not need excessive controls.
8. Technological accelerators: Never technology is not the main mean for raising the performance of a company transformation. In different companies, the role of technology is designed differently.
9. Disciplined Action: Is aware that the activity depends on the prosperity of the company, acting in favor of, perceive when something brings negative consequences for society and strives to act or to report to superior what's wrong.
10. Flywheel and Chain decline: Leap Towards Excellence never happens in a single shot. It takes perseverance to use centrifugal force to a wheel. Those that trigger dramatic change programs, revolutions and forced restructuring will fail to pass on excellence.
11. Accumulation and breach: sustainable transformations follow a predictable pattern of accumulation and vulnerability. Pushing a huge and heavy flywheel requires a great effort to impel, but by persistent movement in a consistent direction over a long period of time, the flywheel creates the start, eventually reaching the point of vulnerability.

7. Case Study Magnetic Poetry - the radiography of entrepreneurial business

Dave Kapell, founder of Magnetic Poetry, was suffering from writer's block while trying to compose song lyrics. To overcome this problem, he wrote down interesting words on pieces of paper and rearranged them, looking for inspiration. What he hadn't figured into this experiment was his allergies. One good sneeze and any progress was sent flying across the room. Dave decided to glue the words to pieces of magnets and stick

them to a pizza tin. Then he got hungry and the now magnetized words made their way to the refrigerator door. Before too long, Dave wasn't the only one rearranging his would-be song lyrics. When friends came over, Dave noticed they started to move the magnets around, amusing themselves by writing the first magnetic poems.

After seeing his friends having fun, Dave thought he might be able to sell his word kits at a local craft fair. He made up 100 kits and set up shop at Calhoun Square, a mall in the Uptown area of Minneapolis. All 100 kits were gone after 3 hours. That night, he recruited as many friends as pizza and beer could draw and made up more kits--all of which sold as rapidly the next day.

From these beginnings, Magnetic Poetry® has now sold over three million word kits, over one billion word tiles--growing from the Original Kit to a kid's line of kits, to foreign language kits, to Voice/theme kits.

Figure no. 5. Promotion on company's website



Source: http://magneticpoetry.com/

In 2001, Kapell was decided to sell the 40% of the second company to U.S. Magnetix so that he can concentrate on developing new products and marketing ideas for Magnetic Poetry.

The radiography of the business of the first ten years is showing a compared evolution of total incomes as compared with total annual production costs including investment effort as follows:

Table no. 1. Evolution of total incomes compared against the total annual production costs including investment effort

Year	The total annual costs of production including investment effort (tens of thousands)	Total annual incomes (tens of thousands)
1	160	200
2	72	240
3	48	300
4	44	80
5	22	178
6	24	194
7	26	104
8	20	62
9	12	250
10	28	270

Source: author

In the following, I propose to describe the evolution in the 12th year, the business (a total annual production costs and total annual income) by developing a dynamic forecasting model with anticipatory variables, starting from the premise of total income realized in 11th year of 250 um with 50u.m. less than the expected revenue for the same year. The forecast of total income in the 12th year will be estimated using the relationship [4]:

$X_{p12}- X_{p11}=\lambda(X_{11}-X_{p11})$

Where:

X_{11}=250 um

X_{p11}= 300 um

Parameter λ will be estimated using the model:

$Y_t=b_1x_{t-1}+b_2y_{t-1}+z_t$

Where: $b_1=a\lambda_1$ şi $b_2=1-\lambda_2$

After solving the model we obtain the following results:

The coefficients of the variables:

x_{t-1} *0,0925 (b_1)*

y_{t-1} *0,3325 (b_2)*

Standard errors:

x_{t-1} *0,0020*

y_{t-1} *0,0062*

The result of T test:

x_{t-1} *46,8932*

y_{t-1} *54,0535*

R-squared *0.9983*

Adjusted R-squared *0.9981*

s_z *0,8071*

d *2,96*

Applying the results obtained we have:

$$\hat{y_t} = 0{,}0925x_{t-1} + 0{,}3325y_{t-1};$$
$$R = 0{,}9992; d = 2{,}96; s_z = 0{,}8071$$

But:

$$\hat{b_1} = \hat{a}\hat{\lambda_1} \Rightarrow \hat{\lambda_1} = \frac{\hat{b_1}}{\hat{a}} = 0{,}4373$$

$$\hat{b}_2 = 1 - \hat{\lambda}_2 => \hat{\lambda}_2 = 1 - \hat{b}_2 = 0{,}6675$$
$$=> \bar{\lambda} = \frac{1}{2}(\hat{\lambda}_1 + \hat{\lambda}_2) = 0{,}5524$$

So:
The forecast of total income in the 12th year:
$X_{p12} = 0{,}5524(250\text{-}300) + 300 = 272{,}38$ u.m.
The forecast of total annual production costs in the 12th
year:
$y_{p12} = \hat{a} \cdot x_{p12} = 0{,}2184 \cdot 272{,}38 =$
59,48 u.m.

8. Conclusions

Internationally, entrepreneurship is recognized as a basic condition of economic growth and increase employment. Supporting entrepreneurship has become a priority and is considered an alternative to stopping the crisis and unemployment.
Entrepreneurial education is the main factor in entrepreneurship. It has major contributions in acquiring entrepreneurial skills, with a positive impact on young people's entrepreneurial capacity and the availability of initiatives in the field.
Romania is among the few European countries that do not yet have a national strategy for entrepreneurship education. In the past 10 years have been implemented initiatives to promote entrepreneurship education, both in the national education system and in various training programs.
By reviewing school curricula for all levels approved by Ministerial Order 5097/2009 [3], entrepreneurship education is explicitly recognized as a cross-curricular goal so being able to establish significant progress in the national system of school education.
In Romania should be developed a national strategy for entrepreneurship education. Such a strategy should provide the essentials for a coordinated and efficient development of entrepreneurship education regarding: ministerial collaboration, consultation and involvement of national and local stakeholders, ensuring key skills through national program monitoring and evaluation, with targets and indicators to measure and, not least, funding provided.

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Data Mining - an Instrument Managing the Knowledge Collected for the Enterprise

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Abstract

Managing the knowledge is the hottest topic of concern. This arranging or rearranging of facts is called the information and the processed information is called the knowledge. Acquiring the information can be considered an easy job but how to manage this information, how to refine this information so that it can be helpful in increasing the knowledge, are some of the questions that raise the eyebrows of many knowledge workers. What we are going to discuss in the present paper is the involvement of very innovative decision support tool data mining in managing the knowledge collected for an enterprise. Data mining is an exploratory and predictive data analysis technique. We will also consider some of the applications of data mining in this regard. The reason of using the data mining is that it gives an opportunity to have a deeper insight of various unseen patterns.

Key words: knowledge, data mining, clustering, enterprise.
Classification J.E.L.: C15, D83

1. Introduction

As we know that knowledge is a critical asset, which likes a seed, must be planted, nurtured and cultivated before we can taste its fruits. As consequences, the question is why a company's organizational objectives at times turn out to be a mess? Why sometimes results are found against the expectation? The answer is we don't know what we are measuring that is to say what is meaningful. So why can't better mix the knowledge, skill and experience of workers in any organization and make it an exceptional one? Knowledge is currently considered amongst the most valuable assets of any organization. As organizations evolve and mature in the way they manage information, they seek ways of improving the utilization and reuse of existing knowledge as well as the creation of new knowledge that would provide an edge over their competitors. Data Mining and its associated technologies, amongst other Knowledge Management tools and methodologies, is at the forefront of this corporate battle for seeking and creating knowledge. The concept of knowledge is typically approached through the 'data-information-knowledge' sequence. Data are observations, facts or images. Formalized, filtered, contextualized and summarized data constitute information. Finally, information enriched by ideas, rules and procedures that allow actions and decisions constitute knowledge (8). From the organizational perspective knowledge is viewed as processed information embedded in routines, processes, products, rules and culture that enable actions (2). In this information age we have tremendous amount of data to explore and collect .And our memory is not so sharp that it can remember that data easily, so due to the database management system the task of collecting and managing the different related pieces of information together has become easy. But this is not the only problem. Though we are now able to collect, store and retrieve the my raid of data expanding from simple text documents to some complex information set like spatial data or a hypertext data by database management system, but this is not the only thing we needed. To have some better managerial decisions we need a tool that can summarize the data automatically or extract the interesting patterns from the odd one. We will be discussing on an innovative decision support tool data mining in context of knowledge-based economy.

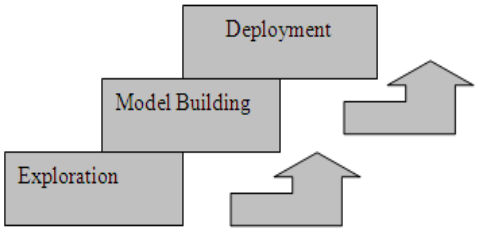
Data mining is the process of analyzing large data sets in order to find patterns that

can help to isolate key variables to build predictive models for management decision making. While data mining and knowledge discovery in databases are frequently used interchangeably but actually data mining is part of the knowledge discovery process (4). Data mining makes us prospective rather than retrospective. Data mining enables companies to segment their customer database and to tailor products and services to the needs and purchasing power of individual groups of customers so that profits earned are in right proportion of cost of serving .The data mining aim at simplifying and automating the complete statistical process, from data sources to model application. The purpose is to build intelligence into the software. From the past few years it has replaced the statisticians and constructed better models .The Statistical expertise required only to compare different techniques. The ultimate goal of data mining is prediction and has the most direct business applications (3), (6).

The process of data mining has three stages as shown in Figure 1:

1) Initial Exploration
2) Model Building with validation /verification
3) Application of the model to new data / Deployment

Figure 1. Data Mining Process



I) Initial Exploration: In this stage data preprocessing activities are done that may involve data cleaning, data transformations, selecting subsets of records, and from large data sets selecting the most relevant variables so that the number of variables or fields can come to a manageable range.

II) Model Building: It is an elaborative process. That involves considering various models and choosing the best one based on their predictive performance by competitive evaluation of models.

Deployment. This stage involves using the model selected as best in the previous stage and applying it to new data in order to generate predictions or estimates of the expected outcome. For example, to quickly identify transactions which have a high probability of being fraudulent, a credit card company may want to deploy a trained model or set of models (3), (4).

2. Literature review

According with literature review data mining can be considered to be a blend of three research areas the statistics, the artificial intelligence, and data base (7), (6), which until very recently was not commonly recognized as a field of interest for statisticians. Due to its applied importance, however, the field emerges as a rapidly growing and major area where important theoretical advances are being made. Data mining is now become the most needed tool in different ways:

✓ Resource Planning – It guides in the planning and allocation of resources for research.

✓ Office Management – It helps institutional researchers to identify on which domain they have strength and for which domain they need to work with other departments. It helps them determine standard operating procedures, e.g., understanding how data are processed into data warehouses.

✓ Satellite sensing: There is a countless number of satellites around the globe. Some are geo-stationary above a region, and some are orbiting around the Earth, but all are sending a non-stop stream of data to the surface. The data thus send by them is in huge form and for analyzing it we need data mining.

✓ Personal Data: Governments, companies and organizations such as hospitals, are stockpiling very important quantities of personal data to help them manage human resources, better understand a market. So, managing that information can be done through data mining.

✓ Engineering purpose: In different engineering fields data mining is getting places because they generate a tremendous amount of data. For example in software engineering powerful tools for management and maintenance are required as large

amount of data with code, function libraries, objects, etc need to be managed.

✓ Business Industry: To survive in a highly competitive world, every transaction in the business industry is to be remembered for eternity but the effective use of the data in a reasonable time frame for competitive decision-making is definitely the most important problem to solve for businesses. And no other than data mining can do it efficiently.

✓ Travel Agency: A travel agency company with a large direct sales force can apply data mining to identify the best prospects for its services. It can use data mining to analyze its own customer experience and can find the best possible way of providing services with increase profit.

✓ Big Bazaar: A large consumer goods company like big bazaar applies data mining to improve its sales process. It collects the data from consumer panels, shipments, and competitor activity in order to understand the reasons for liking a brand and store. Through this analysis, the owner can select promotional strategies that best reach their target customer segments.

✓ Data mining uses data on past promotional mailings to identify the targets most likely to maximize return on investment in future mailings. And helps in finding trends and behavior.

Data mining tools scans through databases and identify previously hidden patterns in one step. An example of pattern discovery is the detection fraudulent credit card transactions to identify anomalous data that could represent data entry keying errors.

3. Research methods and discussion of results

Clustering is a technique of making groups or clusters from a set of objects.. Clustering is also called unsupervised classification, because the classification is not dictated by given class labels. There are many clustering approaches all based on the principle of maximizing the similarity between objects in a same class (intra-class similarity) and minimizing the similarity between objects of different works (inter-class similarity). In a cluster analysis the data is grouped with the aim of placing instances in segments in a way that maximizes the similarity between instances of one segment and minimizes the similarity between the instances of different segments.

Predictive analysis is using business intelligence data for forecasting and modeling. It is a way to use predictive analysis data to predict future patterns. Using events of the past, managers are able to estimate the likelihood of future events.

Data mining aids predictive analysis by providing a record of the past that can be analyzed and used to predict which customers are most likely to renew, purchase, or purchase related products and services.

Clustering is particularly useful in cases where the most common categories within the data set are not known in advance. If a set of clusters is optimal, within a category, each data point will in general be more similar to the other data points in that cluster than data points in other clusters. Clusters can be created at several different possible grain-sizes: for example, enterprises could be clustered together (to investigate similarities and differences between enterprises), workers could be clustered together (to investigate similarities and differences between workers), or student actions could be clustered together (to investigate patterns of behavior).

We have conducted the survey on workers of 415 enterprises in order to find some interesting behavior of workers. We gave them a feedback from having different questions regarding their study behavior and interests. Our aim is to know how many workers are satisfied with current educational environment of enterprises. Before clustering the first thing is to know the number of clusters we follow up the formula (10):

$k \approx (n/2)1/2$

where n is number of data points.

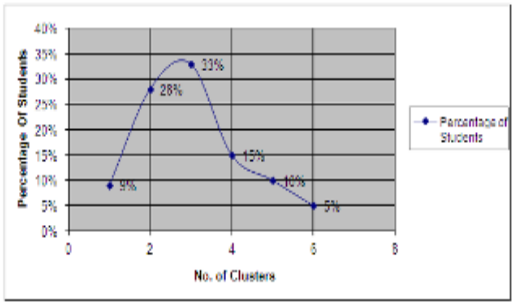
According to this we constructed six clusters, where n is 60. Cluster1: Includes those workers having most memorable hours 415 enterprises Sciences. Cluster 2: Includes workers that like attending works regularly.Cluster3: Includes those workers having percentile score above 60. Cluster4: includes those workers having sports interest. Cluster5: Includes those workers that like more courses to be offered 415 enterprises. Sciences.Cluster6: Includes those workers that likely to donate more for college when they are got jobs. We use hierarchical

clustering .In Hierarchical clustering we find successive clusters using previously established clusters. Hierarchical clustering can be agglomerative (bottom-up) or divisive (top-down). Agglomerative algorithms begin with each element as a separate cluster and merge them into successively larger clusters. Divisive algorithms begin with the whole set and proceed to divide it into successively smaller clusters. We follow the general algorithm:

1. Find the 2 closest objects and merge them into a cluster
2. Find and merge the next two closest points, where a point is either an individual object or a cluster of objects.
3. If more than one cluster remains, return to step 2

Based on the data collected the graph between no. of clusters and the percentage of workers in each is shown in the graph:

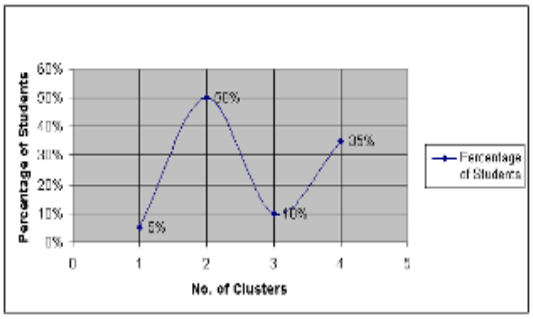
Figure 2. Clustering Stage 1



Source: own calculation

If we analyze the above data it can be clear that 33% of total workers have secured more than 60% marks and 28% of workers have attended their works regularly.15% are interested in sports activities, 10 %likes to have some more courses at the enterprises and only 5% of workers wants to donate to college when they got jobs. From this we further grouped the workers by following agglomerative algorithms. We grouped the data in four clusters having 5 % of workers that wants to donate to enterprises and they also have interest in sports.50% of workers have attended their works regularly and have percentile score more than 60.10% of the workers have interest in sports and wants to have more courses at institute. Rest of 35% is those having different opinions.

Figure 2. Clustering Stage 2



Source: own calculation

We can continue this clustering until we get the one having maximum number of workers in one large cluster. The results show that 65% of the workers are satisfied by the current educational environment of the enterprises. Based on the above analysis a predictive model can be build to know whether the workers passed out from the enterprises or studying currently will promote other undergraduates to take admission in 415 enterprises in near future.

Conclusion

The information is gathered on a daily basis and continues to be analyzed consistently. Analysis of this pertinent information can help companies to develop promotions that are more effective. When implementing data mining data quality is an important issue because a poor quality of data can make the results of data analysis for decision making wrong. On the other hand, the size of database is another issue that needs consideration. Data mining tools comes in different forms depending on the size of databases that have to be analyzed.

We think that the data mining is most useful for modeling business problems as they are affected by day to day activities but can be a boon in other areas also and it fits very well into the recent line of research characterizing and classifying analysis methods. We have conducted a survey on the behavior of workers of an enterprises to show how clustering in data mining can be helpful in managing the knowledge. Results revealed that data mining is an aid to strategic, tactical and operational decision-making in situations where numerous variables, affecting costs or benefits, has great effect on the outcome of the course of action that a company might decide to take so it requires a great deal of

inventiveness that highly educated people can provide.

At the same time, security is another concern as large amount of personal data I collected and making it secure from unauthorized access is the major concern. In this study we mainly concentrate on data mining as a tool of managing the information and in brief we have explained the information refining .There is a lot of scope for research in data mining activities.

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Simulation Models in Economic Higher Education

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Abstract

The simulation methods are implemented to develop students' professional skills and competencies in the economic field, making the link between the academic and business environments. The paper presents these methods of simulation in areas such as trade, international business, tourism and banking, applied in the European Program POSDRU/90/2.1/S/63442 project.

Key words: educational process, business simulation, teaching methods
J.E.L. classification: A23, F23.

1. Introduction

Business simulation is based on a computer program that processes the decisions of different economic actors, thus reproducing the characteristics of a competitive environment virtually.

By using assessments made after the adoption of each decision, students learn the extent to which decisions led to the strengthening of the market position of the company.

The simulation allows the experimentation of a virtual market, based on the motto "Learning business by doing business"

2. Education: Theory and Practice

A false dilemma parasite the debate about the nature of the education process: theory or practice? The issue has long been resolved. Since antiquity, school is considered to be at the same time an institution that creates personalities itself and for itself, (general knowledge, culture, behavior, etc.), and an education forum for citizenship (civic attitude, civilization, social utility). The modern University [5] should provide equally theoretical knowledge and practical skills to form intellectual personalities and professionals in certain areas. In other word, there is no theory or practice, but theory and practice. In this respect, the professor (or tutor) must create an educational framework characterized by several dimensions: discovery (or creation of knowledge through research), integration (i.e. the application and the interdisciplinary use of knowledge), application (i.e. addressing and solving social problems by using knowledge) and education (i.e. the use and the transfer of some rigorous methods for training the students).

3. The importance of simulation models

One of the human activities known since the dawn of civilization, the simulation-meaning the imitation of real processes *(in vivo)* by artificial practice *(in vitro)* - has acquired great importance in the past decades in the educational process in general, and for the creation of specialists in the economic

fields in particular. Undoubtedly, one of the drivers of the expanding use of simulation models in the teaching process is the emergence and diffusion of large electronic computer, "the most powerful simulation machine" [6], the true experimental pilot-station in social sciences. However, a broader range of motivations explain the adherence to this type of education of those who study and progress in the field of economics, and we refer, of course, especially to the youth dedicated to studying. To highlight these motivations and to reveal the requirements for ensuring a high efficiency of the simulation in the educational process, we should first answer the following question: What is simulation? The most popular definition: the simulation means the imitation of the functioning of a system with the use of a model of the relative system. Such definition is consistent with diversity of the simulation practices, starting with the magic ones belonging to the primitive man (invoking the rain), and ending with the training programs for astronauts (mimicking the conditions of weightlessness).

And this broad area of this concept is merely the expression of continuous enriching of the content or according to the extent of historical evolution: more actual content of the term, regardless of the field of application, keeps – in processed forms – the valences that it has acquired during its long existence.

Simulation is, first, a game (hence the name of "business game" for the simulation of the business activity models). This explains, to a large extent, the particular attractiveness that it enjoys. The teaching percussion of these "games" can be explained by several reasons:

- The feeling of freedom of action that they offer to "players". Indeed, with respect to a number of rules, usually reduced, it is made an infinite combination of circumstances and decisions (consider the payment required, according to the legend, by the inventor of the game of chess: two grains for the first square, four for the second, etc.). In other words, the limited space of the classroom opens to receive a virtually unlimited variety of cases: the seminary becomes the practice itself;
- The status of competition, of peer confrontation. Each of the participants are employed, by the very structure of the game (its basic rules), in achieving objectives. Hence the ability to raise the collective, a group, a sense of identification with the established goals, the activation of each participant;
- Creation of some tensioned and thrilling situations that emotionally engage participants in "the game"; the diversity of situations, the new issues that arise constantly are those that prevent routine, on the one hand, and entertain the idea of diversity, of "life", on the other hand. Games usually take place on a background marked by turning points, by nodal points, which recharge the attention and the interest when they tend to be overwhelmed by repetitive and routine elements.

The playful aspect is perhaps the first that attracts attention in the case of a simulation: it is not sufficient to ensure effective teaching (and heuristic) of this activity. We thus found that when this way of structuring the seminar is focused on its playful side, it is seen by students as a rather appropriate means to abandon the effort required for real assimilation of knowledge, with the "moral" coverage that "they work" in seminar and that they are not simply "attending". In the extreme case, the lack of consistent preparation can be stimulated, as well as the proper intervention of those that are more daring, and that now found an opportunity to be noticed. (similar to the model of the hollow drum which sounds louder). Therefore, the simulation doesn't have to be only a game (or, better, the simulation mustn't be simulated).

Second, simulation is a teaching method, a means of transmission, verification and consolidation of specialized knowledge. Indeed, the goal of the game in this case is not a mere use of time, and neither a mimicking of moods; it must be an instrument of professional training. In this respect, a few observations must be made:

- In the process of the preparation of the simulation, a central place should be given to the highlight of specialized knowledge that are required by the participation in the game. In fact, here we establish the distinction between games

of "learning" and entertainment games. The participation in the game is conditioned by the procurement of a minimum level of knowledge without which the work of the "players" is purely formal, mechanical. (There are students who have real skills for commercial activities - for example for negotiations – but who are not constrained to learn the basics of the profession and act purely intuitive. However, after a period of enthusiasm, soon they get bored of the game, because they are not motivate by a higher goal than that of the pure "bargaining").

Therefore, a preliminary selection of the players can be envisioned, on the basis of certain tests related to specific issues, tests which students were previously informed about, with a bibliography of their own. It is not so much about denying access of disinterested students, which do not study in due time, but more about managing to distribute fairly each group member to the available positions within the enterprise (or according to the role to be played, after the Latin *suum cuique tribuere* – to render every one his own). Two objectives are thus attained: the test stops being a "necessary evil" for students, because the motivation comes from the very requirements of the game; this will ensure a distribution of students to activities based on competence rather than preferences, or simply arbitrarily.

- During the course of the game it is necessary – from the part of the tutor - a continuous and explicit appeal to the specialized knowledge of students, used by them in the formulation and implementation of any decision and in the realization of all activities involved in the simulation. Moreover, periodically, a student may be questioned upon certain specific issues pertaining to the domain of the simulation, the motivation for this request being driven by the rules of the game. At the same time, it can also be proved that the correlation between the individual achievements (including, or especially, the answers given to the questions posed by the professor) and the overall performance of the team, to which the students belong to, represents a mobilizing factor in the acquisition of knowledge by each member the group. Once again, these questionings are not to be regarded as a check-up mechanism or proof of the professor's position of authority (as students generally consider these to be the case when faced with the direct request for an answer), but as being driven by the requirements of the game, its rules, which - supposedly, were prior understood and accepted by everyone.

On the other hand, brief tests during the course of the game, where the answer is requested from the entire student mass, are useful and serve to motivate learning and thorough studying.

Of course, the features and mechanism of the simulation presented above are not intended to transform it into the so called "classic" seminary, a label attributed to the tiresome academic seminary (during which not much is being accomplished), unable to engage students, rigid. In fact, this latter tackles the other coordinate – in relation to the game – of the space where the real seminary activities take place. Utter rigidity is just as unjustified as pure simulation.

And thirdly, the simulation is also an experiment, reproducing in the classroom real life economic situations. The business game or other simulation models are a way to produce in vitro certain economic phenomena and processes without the adverse consequences that the manipulation ("sorcerer's apprentice") may have in vivo.

4. A successful application: "Practice in simulated enterprises"

Activities within the strategic project "Real access to the labor market through simulated enterprises" allowed students to become familiar with the business idioms and economic transactions similar to those in the real business environment. The project was initiated by The "Ovidius" University, Constanta, in partnership with the Bucharest University of Economic Studies, The "Alexandru Ioan Cuza" University, Iasi, The University of Timişoara and the Structural Consulting Group and had as main objective the creation of an integrated, inter-regional, simulated *enterprise* network, for the development of professional skills and the improvement of labor market insertion of

graduates coming from economic faculties, on the basis of partnerships between universities and real enterprises. [4]

From the Bucharest University of Economic Studies, 960 bachelor students and 96 master students were involved in the project. Student practice in simulated enterprises was organized in four modules that ran for 12 weeks as follows*: in the first stage (the first 4 weeks)*, the activities conducted had as main objective the development of the domain-specific simulated enterprise -trade and international business ; tourism; banking; *in the second stage (next 4 weeks)* there were conducted specific operations pertaining to the activities carried out by the simulated enterprises, with the help of the ERP component; *in the last round (last 4 weeks)*, students participated in simulations by using the TOPSIM software. [8]

The simulation software used during practice in each of the four modules (differentiated according to the study domain - trade, tourism and banking) have helped with learning and developing the skills needed to manage a business, the three programs being based on the idea of a "flight simulator for managers " (See Table 1)

Tabel 1

Trade-International Business	**Tourism**	**Banking**
Learning necessary principles for business administration Defining strategies at the enterprise level Understanding the basic principles of marketing	The successful development of a tourist attraction (mountain resort) with the help of diverse economic and social instruments	Identifying the individual factors which affect the success rate of a bank Identifying and integrating the different refinancing options Understanding business "reports" and making team decisions Managing difficult and complex decisions even in periods with high uncertainty

Source: Topsim, Tata Interactive System

5. Conclusions

The new teaching-learning methods based on the new technology are becoming more and more popular, being received with enthusiasm by the primary beneficiaries, the students.

The simulation models used in the study programs offer students an experience that can be used in real life, allowing at the same time for the development of entrepreneurial competences.

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Eco-innovation and its Contribution to Competitiveness

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Abstract

The aim of this research is to assess Romania's competitiveness, by analyzing the aggregated Global Competitiveness Index and correlate it with the innovation factor, and particularly with the eco-innovation factor. As it is included in the efficiency-driven stage, Romania needs to implement some regulatory measures addressing the 12th Pillar of Innovation, in order to boost its overall competitiveness and achieve sustainable development. Tackling the eco-innovation local needs by focusing on SME's can be an option, as their creativity is enhanced by the lack of extensive internal rules and regulations and their response time is lower, due to a centralized decision making process.

Key words: eco-innovation, sustainable development, competitiveness, Global Competitiveness Index, SME's
JEL Classification: Q55
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1. Introduction

The intensified economic activity of human society of the last centuries has gradually affected the quality of the surrounding natural environment, and with it, the well-being of its inhabitants. In shaping this environment in order to accommodate their needs, humans have brought about some major changes with extremely negative environmental impacts.

Among the most pressing problems is that of climate change, believed to be caused by the greenhouse effect. Another important concern is that of the depletion of natural resources and the dependence on traditional fuels and energy sources, which are becoming more scarce, inefficient, expensive and unable to cope with the increasing demand in energy.

In the light of these developments, a new concept has emerged: that of sustainability. Nowadays companies wanting to pursue sustainable development must consider the 3 P's: profit, people and planet, also known as the Triple Bottom Line (TBL). The term TBL was first was developed by John Elkington [3] and is aimed at measuring the financial, social and environmental performance of a company over time. At the national level, the 3 P's relate to: economic growth, social development and environmental protection. The environmental component is, thus, part of sustainable development and green solutions have been developed to address it.

Eco-innovation stands out as one of the most promising and efficient solution in delivering eco-friendly results. Its primary benefit is the fact that it generates positive spillovers in related areas. Janicke [7] argues that "*ecological modernization* - understood as systematic eco-innovation and its diffusion - has by far the largest potential to achieve environmental improvements."

2. About eco-innovation

The sustainable development issue has enabled the market to create the necessary conditions for the emergence of eco-innovative solutions. In the field of eco-

innovation, it seems that small and medium enterprises (SME's – with less than 250 employees) have a central role, as most innovative and creative findings are usually generated by them, according to a study carried out by EIM and Oxford Research [2]

The future growth of eco-innovation is expected to be significant, that is why it is garnering greater and greater attention. Eco-innovation is a relatively recent concept. Fussler and James [6] were among the first to come up with the concept.

The European Commission in a 2011 communiqué [5], defined eco-innovation as "any form of innovation resulting in or aiming at significant and demonstrable progress towards the goal of sustainable development, through reducing impacts on the environment, enhancing resilience to environmental pressures, or achieving a more efficient and responsible use of natural resources."

Another definition is provided by Kemp and Foxon [8]: "Eco-innovation is the production, application or exploitation of a good, service, production process, organizational structure, or management or business method that is novel to the firm or user and which results, throughout its life cycle, in a reduction of environmental risk, pollution and the negative impacts of resources use (including energy use) compared to relevant alternatives."

Eco-innovation is also known as environmental innovation, "green" innovation or sustainable development innovation [13].

The OECD [12] considers eco-innovation to be basically the same as any other type of innovation, but it has two distinctive features:

- the innovation has to result in a reduction of the environmental impact, no matter if this effect is intended or not
- and the scope of eco-innovation may transcend the conventional organizational boundaries of the organization innovating and may involve broader social arrangements that trigger changes in existing socio-cultural norms and institutional structures.

As a study field, eco-innovation lies at the intersection of environmental economics and innovation economics. This explains why eco-innovation produces two sets of positive externalities, mainly: environmental externalities and innovation ones, which are difficult to be assessed in monetary terms [2]. Therefore, an interdisciplinary research would be helpful in analyzing eco-innovation, and environmental policy should be coordinated with the innovation policy to yield the best results [14].

International institutions and organizations have grasped the pressing importance of sustainable development, and have integrated measures for its facilitation in the policies and regulations.

The Europe 2020 strategy is the EU's growth strategy for the coming decade and among its objectives are the increase in innovation and the solving of the energy/climate change problem. The established objectives are to be implemented by employing a series of Flagship Initiatives aimed at the primary challenges facing the European Union.

The Innovation Union Flagship Initiative is addressing the innovation challenge. Its purpose is to ensure that: innovative ideas are promoted, and ultimately implemented so that new products and services can be developed, along with the improvement of existent ones, and that competitiveness and growth are encouraged and new jobs are created.

The Innovation Union Flagship Initiative is committed to developing the Eco-innovation Action Plan (EcoAP). EcoAP focuses on "boosting innovation that results in or aims at reducing pressures on the environment and on bridging the gap between innovation and the market" [5]. The Resource Efficient Europe Flagship further supports eco-innovation and facilitates related investment.

A possible classification of eco-innovation can be the following one [9]:

- environmental technologies (pollution control technologies, cleaning technologies, cleaner process technologies, green energy technology, water supply, etc.)
- organizational innovation for the environment (pollution prevention schemes, environmental management and auditing systems, chain management, etc.)
- product and service innovation offering environmental benefits (new or environmentally improved products, environmental services – such as waste

management, environmental consulting, testing and engineering, etc.)
- green systems changes innovations (alternative systems of production and consumption that are more environmentally friendly).

3. Measuring competitiveness

Competitiveness is one of the factors which establish the economic distance between highly developed and underdeveloped countries. Therefore, it is not by chance that it is one of the pillars of the European Union for economic development and growth, in the Lisbon strategy. The necessary condition would be that the EU policies encourage companies to increase their individual competitiveness, by increasing their capacity to sell products in the home market, as well as in foreign markets. The European Commission [4] defines competitiveness as being "the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis".

Before that, the definition of the OECD [11] showcased a similar understanding: "the ability of companies, industries, regions, nations, and supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis". Summing up the two definitions, we can say that EU's competitiveness is enhanced by national competitiveness (at company and industry level), and it ensures sustainable development and the increase in the standard of living of its citizens.

In a project called "Measurement of competitiveness of eco-innovation" Kemp and Horbach [10] find that eco-innovation is an important factor in increasing EU's competitiveness, and provide a set of measurement indicators. On one hand, one can measure competitiveness by assessing the overall performance of the market (exports, sales, global market shares of goods and services sold, which contain eco-innovation).

On the other hand, competitiveness can be defined by the ability of innovating firms to obtain economic benefits from competing with world economies (referring to internal or national functions, such as production, marketing, the value chain, competition, macro-economic factors).

In a broader sense, Kemp and Horbach [10] group this indicators in four categories: (1) based on trade performance: world trade shares of exports, revealed comparative advantage; (2) based on costs and labor productivity: cost differences, productivity differences; (3) based on input measures for innovation – single indicators: data on R&D activity (although data is mainly available on total R&D expenditure rather than eco-innovation related information), business startups, patent data (relative patent average), data on innovative companies (4) based on a set of indicators – system indicators: GCI (the Global Competitiveness Index of the World Economic Forum), CS (the World Competitiveness Scoreboard proposed by the International Institute for Management Development); BCI (Michael Porter's Business Competitive Index).

The GCI is among the most popular, consisting of a group of twelve pillars (institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, innovation). The role of this grouping is to study the level at which each country is more developed, and assign them to a certain category: factor-driven economies, efficiency-driven economies, and countries driven by innovation.

4. Assessing the competitiveness of Romania

As it has been mentioned, eco-innovation is strongly linked to country competitiveness, which is not among Romania's strengths, as Barsoumian et al. [1] notes.

According to the 2012-2013 report of the Global Competitiveness Index [16], Romania ranks on the 78th place out of the total 144 countries analyzed in the study, with the overall score of 4.1 (out of 7 – where 7 is considered to be the most desirable outcome).

The Global Competiveness Index is calculated on the basis of 3 subindexes: Basic requirements, Efficiency enhancers and

Innovation and sophistication factors. A percentage share is attributed to each subindex, according to its contribution to the overall GCI. The corresponding weights of the subindexes within the GCI determine de development stage of countries (just as the economic theory of the stages of development set out to do).

Figure 1. The Global Competitiveness Index of Romania

	Rank (out of 144)	Score (1–7)
GCI 2012–2013	**78**	**4.1**
GCI 2011–2012 (out of 142)	77	4.1
GCI 2010–2011 (out of 139)	67	4.2
Basic requirements (40.0%)	**90**	**4.2**
Institutions	116	3.3
Infrastructure	97	3.2
Macroeconomic environment	58	4.8
Health and primary education	83	5.5
Efficiency enhancers (50.0%)	**64**	**4.1**
Higher education and training	59	4.4
Goods market efficiency	113	3.9
Labor market efficiency	104	4.0
Financial market development	77	4.0
Technological readiness	59	4.1
Market size	43	4.4
Innovation and sophistication factors (10.0%)	**106**	**3.2**
Business sophistication	110	3.5
Innovation	102	2.9

Source: World Economic Forum - Global Competitiveness Report 2012-2013

Romania belongs to the efficiency driven stage of development (among other 32 countries such as Bulgaria, Armenia, Columbia, China, Peru and Serbia). Romania and Bulgaria are the only EU Member States which pertain to the efficiency driven stage, while 5 other Member States (Estonia, Hungary, Latvia, Lithuania and Poland) are transitioning from stage 1 (factor-driven) to stage 2 (efficiency-driven) and the remaining 20 are included in the innovation-driven stage.

The efficiency enhancers subindex contributes the most to the GCI (being more relevant for the economy at this point in time), with a share of 50%, followed by the

Figure 2. Romania's stage of development according to the Global Competitiveness Index



Source: World Economic Forum - Global Competitiveness Report 2012-2013

basic requirements subindex with a share of 40%, and lastly, by the innovation and sophistication factors subindex, which accounts for a mere share of 10%. In order for Romania to advance to the next stage of development, the innovation driven one, it must decrease the weight of the basic requirements subindex and increase the share within the GCI of the innovation and sophistication factors subindex, from the 10% it now holds to 30% or more.

Companies pertaining to countries in the final development stage compete by employing new and improved technologies or new business models and sophisticated production processes in the production of goods and services. Based solely on the subindex for the innovation and sophistication factors, Romania ranks on the 106th place, with a score of 3.2, obtaining for the Business sophistication pillar a score of 3.47 (which lands the country of the 110th place) and for the innovation pillar a score of 2.92 (the lowest of any other pillar, which secures it the 102nd place).

The GCI 2012-2013 report [16] also has a special section dedicated to assessing the sustainable competitiveness of nations, by analyzing the complex relationship between sustainability (social and environmental) and national competitiveness. An overall sustainability adjusted Global Competitiveness Index is computed, by

averaging the values of the social sustainability-adjusted GCI and the environmental sustainability-adjusted GCI. The latter two are computed by multiplying the GCI with the social sustainability coefficient, respectively, with the environmental sustainability coefficient.

The score Romania obtained for the sustainability adjusted CGI was 3.72 (a decrease of approximately 9% from the overall GCI) and for the environmental sustainability adjusted GCI the score was 3.73.

Thus, environmentally wise, Romania is lagging behind other European countries (such as Bulgaria and Hungary– with environmental sustainability-adjusted GCI's scores of 3.97 and 4.32).

5. Improving Romania's competitiveness by focusing on eco-innovation

As stated before, SME's have a central role in the eco-innovative domain. Consequently, encouraging the eco-initiative at the microeconomic level can represent a good starting point for Romania in the process of increasing environmental innovation.

However, in a study conducted by Voicu-Dorobantu, Paraschiv and Marinoiu [15], the findings for Romanian SME's were that they:

- lack long or medium term objectives in the R&D department and their approach is „work as it goes along"
- do not perceive eco-innovation as having marketing potential and thus do not have a clearly defined or implemented corporate social responsibility strategy
- implement eco-innovation because of regulation purposes and not because they recognize the potential efficiency gains
- most innovations are obtained from business networks than from own R&D departments (only 15% of the interviewed SME's performed R&D activities)

A positive finding was the fact that SME's have a centralized decision making process, which allows for a more straightforward implementation of eco-innovation initiatives. The benefit is that decisions can be taken is less time, enabling the organization to respond faster to market changes. And as there are fewer hierarchical levels, with fewer internal procedures and regulations to follow, creativity can transcend easier organizational barriers and not be hampered in its initial stages.

The case for Romanian SME's seems to be that they are lacking is the interest and initiative, but not in the implementation capabilities, which appear to be quite favorable to eco-innovation.

Because innovations are more easily diffused within business networks and clusters, SME's are often left in the dark as they have a limited capacity of accessing such research (unlike larger organizations, such as multinationals, which benefit from extensive international support networks).

One way out of this predicament would be the establishment of SME clusters, with the intention of favoring innovation diffusion, accelerating research, strengthening cooperation and spreading research findings more easily. By being a part of such cluster structures, SME's can have a mini replica of the extensive business networks multinationals benefit from. This will allow them to be able to compete more efficiently with the big players on the market (resulting in an overall boost in competitiveness at the industrial and business level).

Romania needs to adjust its regulatory framework to answer the needs of these small, but important economic agents, whose potential for eco-innovation would be substantial if the right conditions were in place. Special programs for research and cooperation can also be developed at national level, in order to facilitate access to funding and research and to provide a certain level of training.

6. Conclusions

Countries in the innovation-driven stage are considered to be the most competitive ones, according to the World's Economic Forum Global Competitiveness Index. This highlights that innovation has a strategic role in the development of competitive advantages and plays a key role in economic growth.

With the attention of policy makers turned more and more towards sustainable alternatives, green innovation or eco-innovation will need to be strategically pursued and implemented in the future.

For the successful implementation of such initiatives in Romania, a reconsidered regulatory framework for innovation, and especially for eco-innovation, should be developed. In order for it to work, the framework should integrate special provisions that support the activity of local players in the eco-field, by facilitating access to and knowledge of: financing options, specialized training, consultancy services and cluster research (which is beneficial for sharing the risks and costs involved in research activities and for obtaining scale economies).

Such an innovation framework should be included in the larger competitiveness framework and the corresponding competitiveness strategy. Romania should carefully plan its transition away from the efficiency-driven stage towards the innovation-driven one, in order to have a clear view of the measures to be taken and the objectives to be attained in this direction.

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Emerging Markets - "the Engine" of World Economy

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Abstract

This paper presents some particularities of emerging markets that appear and develop as a result of growth and development tendency of international financial market. Excluding the option of remaining with the status of a "tired" economy, emerging markets had to react in the only way they could be rational, joining the global market.

According to the quarterly report prepared by Ernst & Young - Rapid - Growth Markets Forecast (RGMF) the global economic recovery will be achieved through investments in infrastructure programs, especially in Asia, as well as increasing demand from the domestic consumers, which will lead to the balance of the pretty sensitive external environment, and emerging market economies will grow, most likely, by 5.6% in 2013.

Keywords: emerging markets, world economy, development, growth.
J.E.L Classification.: E22, E44, F02, F63.

1. Introduction

The market is a place where companies and customers follow their own utility functions, say neoclassical economics experts. But this picture is partly incomplete, because „companies see both themselves and competitors mirrored as customers". [1]

Between firms are complex networks of cooperation and partnership and between managers are friendship relations. Relations between firms are a complex and a social structure with its practices, norms and subjective frameworks of understanding and relations between actors. Here can emerge two types of relationships: direct and opposition. The Direct concerns about collaboration overlay managers, property relations and hierarchical integration. The Opposition refers to the fact of being in competition. Companies, even if they do not have any direct relationship, they may be in opposition relations in the same market. These oppositions can be conceptualized as a field of forces represented by relations of power and authority based on the competitive capacity of firms. The competition is governed by regulations issued by state, grants or other types of comparative advantages. Also state is the third player in sanctioning deviations from established laws. Therefore is an important organ in shaping economic relations. [2]

The market can be considered a "social construct" divided into several levels:

- field forces with a dynamic structure which can be reached through competition and collaboration;
- an international network consisting of customers, businesses and state authorities;
- a collective project of economic management;
- a project of the state legislature. [3]

In the past, premodern markets were not structured to reduce transaction costs and to ensure a high level of capitalization profits, even if they were representing the media

where economic exchanges were accomplished.

Largely focused on maximizing strategies for asymmetric information, modern markets are competitive and flexible because they have adapted to the new economic knowledge, where information is the vital elements that allows the agent to obtain profit, at the expense of the exchange partner.

Excluding the option of remaining with a "tired" economy, emerging markets generally defined as transition economies, from agrarian or centralized forms to the industrialized free market, they found themselves in the position of not being able to afford to refuse cases, justified or not, repay loans, to up and down at will the fiscal barriers or to nationalize the foreign owned businesses. In this way, these emerging markets have to respond in the only rational way they could, to join the global market. [4]

2. Features of emerging markets

Emerging markets and develops as a result of the accentuated growth and development tendency of international financial market which "is a consequence of the needs, expressed by investors and those who wish to place their financial capital." [5]

2.1. The evolution of emerging markets

The new international order and the globalization have led in recent decades to the restructuration a resize of the international financial market with the reorganization of the entire global economy. The external debt crisis of the 80s in Latin America let to major reforms in countries like Mexico, Brazil, Chile, Argentina, etc.

The year 1989 revealed a "new possible market" in Central and Eastern Europe and in the ex-Soviet, due to the changes in political regimes that have brought profound changes in the economy. Significant changes have takes place in Africa, the Middle following the Gulf War. The dynamic of the Asian areas is unpredictable, as countries like Indonesia, Thailand, Singapore, Malaysia, Taiwan, South Korea, Hong Kong, Vietnam and Mainland China have replaced the "traditional tigers". In this Asian area is noticeable the dynamic Chinese economy, whose market has become one of the most attractive for large investors. These areas including Romania, have "understood" the role and the importance of the capital market and stock exchanges in the proper functioning of the economy.

Even if initially many of these solid traditional markets such as Italy, United States, Netherlands, South Korea, Japan, etc. were shaken by large financial scandals, the things are getting better, the market becoming credible and are developing.

An influence on the emerging capital markets have the information technologies increasingly stronger and cheaper which allowed unprecedented speed of change in this area. In an interview with the "National Review" newspaper, Professor Ion Corbu said: "The change cycle has accelerated in the last twenty years and these changes the business rules. Once the change in the global business sector was measuring in extended periods – a century, 50 years, 20 years. Now these transformation periods occur every two or three years, changing the way a business leader should think the company. Also it changes our conception of the way the public institutions and companies in our country work." [6]

The current economy is based on reducing trade barriers, privatization, democracy and emerging developing markets and is characterized by dynamism, innovation and open markets (including conservative markets like the U.S. and the UK that have been forced by the evolving events to abandon the old habits and regulations and to transform into an open market).

There is one question that is asked frequently, the problem of opening markets in countries that are out of the domination of centralist ideology. In the same interview Ion Corbu stated, "developing and transition countries must understand that economic nationalism in no longer of any use. They must abandon the vertical capital markets, where the capital was flowing inefficient through local businesses that might not be competitive on the world market.

The barriers must be removed from the expansion of network technology, the realization of the networks must be accelerated and privatizing the communication systems. These nations must also ensure that investors are able to repatriate profits. Finally, they must ensure

that their business leadership is able to accelerate the transformational effects of the network technology- and the enormous possibilities it offers- so these nations can become big winners. If developing and transition countries do not introduce these changes, they are self harming, opposing to the current trends in the global economy. "Sloths simply remain behind."

Thus, achieving a certain level of saturation if various economic areas and the lack of attractiveness of earnings gained on certain causes, is determining the migration of capital to areas that are or may become interesting in terms of gains that are achieved by investing in these areas in conjunction with minimizing the assumed market risk.

In the other side, underdeveloped countries, the backward ones and the ones that left the socialist- communist ideals, in their desire of developing are interested in attracting foreign investment, so the intersection of these two major trends emerge and develop new capital markets known in literature as "emerging markets".

Figure no.1 Evolution of emerging markets



Source: National Opinion newspaper (2009), "Emerging markets and "no 472, 23 March 2009, p.2, available at: http://www.opinianationala.ro/uploads/472.pdf, (accessed 29 November 2012).

Vladimir Kvint, president of the International Academy of Emerging Markets, said in an interview with Forbes magazine that it is almost impossible for a business leader to not work in the world market, or at least not to explore the opportunities in the developing countries. [7]

In the last 20 years, global businesses went through critical moments and many changes, most were considered positive changes. In the 1980s, international affairs were essentially "an exclusive club for the 20 richest countries". That changes today, because command economies collapsed worldwide, the dictatorships have fallen, countries which once forbade on their territory foreign investments and were isolated are now an integral part of the global market.

"I remember well when, in 1988 the first 80$ million of foreign origin were allowed to be invested in the former Soviet Union, the so-called "patriots" accused the government of selling the country. Twenty years later, in 2008 Russia receiver about 43$ billion foreign direct investment and also developing countries received approximately 40% of the existing 1.5$ trillion global foreign direct investment", says Kvint.

Strategists, analysts, managers, politicians try to understand and evaluate the emerging countries market, but this process is difficult because it deceives statistics and studies and there are not enough information about the economic potential of these countries, not to the superior forums of the World Bank, IMF(International Monetary Fund) and the United Nations economic department.

Statistics on emerging countries on the market contradict with each other, from one report to another and sometimes within the same organization. Even in a worldwide known and respected institution as the IMF, the list of countries considered to be emerging markets is not consistent.

For example, in a situation from IMF's Global Financial Stability Report, the emerging countries are Honk Kong, Israel, Korea, Singapore and Taiwan and in another IMF report, the category "advanced economies" was included in several countries. The ones that in the previous report were considered as emerging markets such as Hong Kong, Taiwan, Korea, Cyprus, Israel and Portugal, Greece, Spain and Ireland, were listed as emerging markets.

Later, in the same report, some countries that were previously classified as emerging markets are assessed as developing countries, including those that are clearly emerging markets such as China, India and Turkey.

In the category of emerging markets are also included the African countries despite the fact that many of them clearly belong to the category of developing countries. Some are certainly emerging markets such as South Africa, for example, but many of them are still underdeveloped, this illustrating the lack

of clear information held by the IMF in hierarch zings these countries. [8]

Studies show that an emerging country can be defined as a transition society from dictatorship to a free economic oriented market, with economical growth, that gradually integrates in the global market, an expanding middle class that improves the living standards and cooperates with multilateral institutions.

Analyzing the 192 OUN members, it can be said that 81 countries that can be classified as emerging markets, are holding 46% of the earth's surface, 68% of the world populations, and attracted 600$ billion of foreign direct investment ,their inner market consumption being far the largest ,while their GDP (Gross Domestic Product) is only 20% of global gross.

2.2. Conceptualization of emerging markets

The definition of emerging markets is difficult to formulate because of the complexity and diversity of these markets and such an approach should make possible the distinction between the developed market concepts, frontier markets, regional markets and emerging markets.

Today, when we hear the term of emerging market we think of countries like: India, China, Mexico, Brazil, Chile, Argentina, and so on, which is only a portion of the existing emerging markets. In the same category of "emerging markets" are included newly created stock markets, the old stock markets that still exist in some developing countries etc…

In a first attempt, emerging market could be considered the economies of those countries situated between developed countries economies and developing economies.

According to the opinion of "Carmignac Gestion" Portfolio Director, Ms. WEN Zhangg Goldberg: "today we are finding ourselves in a surreal situation in which is speaking about "emerging countries", speaking about Korea and Taiwan whose GDP per capita is very close to that of European countries such as France and Germany. Also the characteristic of emerging countries is their ability to generate higher economic growth in developed countries and their deliberately will to integrate into the international economy. These countries are in a transitional phase: they are not underdeveloped countries."

For example: "an emerging country is a country that is included in the list of emerging countries", pointing out that some countries such as Korea and Greece should not be part of such a list. Greece formally complained that it is included on such a list. Another definition says that "an emerging country is a country where investors come like a turtle and go running like a rabbit". [9]

Using a word play, it can be said about an emerging country that is "too poor to be rich and too rich to be poor". [10]

In another approach, emerging markets are meant to be "fast- growing markets, with particular political stability", "new stock markets in industrialized countries." This approach is based on common features and the close performance to the savings, and on the level of access to the international capital market.

It may be noted that emerging markets do not form a compact group and is therefore difficult to give a universally accepted definition for everyone.

Researchers and other specialists have tried and are trying to explain this but the dynamic and the complexity of this domain are making particularly difficult this task.

The analysis of emerging markets must take account to the following [6]:

- size of economy;
- the level of national gross incoming per capita;
- the size of the stock market and capitalization;
- market liquidity;
- the active presence of local investors;
- the presence of foreign investors;
- legislative framework;
- communication systems;
- access to information;
- national currency, rate and stability;
- exchange policy.

If these types of multi-criteria analysis are made by specialists on close methodological basis, it can get pretty close to the same group of emerging markets. Note that the case of emerging markets is in constant change, the classifications being usually updated annually.

3. Conclusions

Therefore, an emerging market can be defined as an open market, located in a market economy from a country in the development and modernization process in which investors can make more efficient transactions but with greater risk than developed markets.

"Now is not the time for firms to have a conservative or passive attitude. Because of the analysis of the previous recessions it is shown that firms will be the most powerful and after the crisis, will be those that will clearly identify opportunities to support their development during the crisis and will make strategic decisions that will distinguish them from competitors.

Periods of crisis may provide the opportunity to introduce changes faster and with great efficacy than in times of prosperity", said the market leader for Ernst& Young, Christian Mouillon.

According to the quarterly report prepared by Ernst & Young-Fast-Growth Markets Forecasts (RGMF), published on 25 October 2012, where is shown that the most rapidly growing economies have in plan easing the policy for boost growth and despite the negative outlook for the current year and the next one, for 25 of the emerging countries, they seem prepared to quickly recover the gap in 2013.

The recovery will be achieved through infrastructure investment programs, particularly in Asia, as well as increasing the demand from domestic consumers, which will lead to the balance of the pretty sensitive external environment.

Emerging markets economies will grow, most likely by 5.6% in 2013. Ernst & Young report indicates that the growth rates will accelerate in the next two years- as long as the Euro zone economy is stabilizing, the U.S. economic recovery recovers, and the fast growing economies countries will continue to relax monetary policies. [11]

According to this report "the expansion of the middle class in emerging countries, especially in Asia, will stimulate the demand and the trade between fast growing markets. For example, the number of Chinese households with an income between 30,000 and 50,000 dollars a year will increase from 1.6 million in 2010 to about 26 million in 2020. Consumption in most countries with rapid growth will continue to exceed the advances economies one and the growth of consumption in emerging markets will be two times faster in the U.S. and China will grow four times faster." [11]

Co-Leader of the Center of Emerging Markets at Ernst & Young, Alexis Karklins-Marchay points out that: "long term attractiveness of the business in fast growing markets will not diminish. Although the growth slowed slightly more than expected this year, we anticipate that the recovery will be faster. While global rebalancing will continue, the business must promptly adapt to evolving or arising opportunities". [11]

In 2036 the emerging countries will have a significant contribution to global GDP, there will be larger populations, young, well-educated, with a great capacity to spend. It is estimated that 9 of the fast growing countries will increase income per capita, at least five times in next 25 years.

Perspectives on gross domestic product for the next 25 years speculate spectacular growths in emerging markets. Nine of these countries are estimated to increase by an annual rate of at least 5% over the next 25 years, unlike countries such as Japan and Germany, which will grow at an annual rate of less than 1.5%

According to projections for next 25 years, the BRIC countries- Brazil, Russia, India and China- will be among the first six largest economies of the world. Indonesia will be in top 10 and South Africa and Nigeria will rank among the top 20 countries. Turkey, Mexico, South Korea and Saudi Arabia will rise also in the ranking of the most developed countries. [12]

"Countries should support reforms and build buffers to absorb shocks. It is worthy to put at stake a few grams of prevention today in order to avoid tons of treatment later" – Michael Deppler, Director of European Department of the International Monetary Fund.

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Improving Customer Relations Through Mediation

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Abstract

Any coherent systems, modern of thinking and action, companies must offer the business premises to provide an internal and external environment, enabling them integration and approval in the business environment where act and to transform benefits of owned position lasting in economic effects.

Experience has shown that speculative business carried out without compliance with legal or contractual obligations, drive either to to the emergence of tense relations, litigation of disputes or situations which affect the economic interests of business parteners or customers or even loss of customers and business liquidation.

This is the alternative companies that aimed at obtaining of high profits in a short time, unsustainable alternative to building a long-term market position.

Key words: business partners, expertise, trade disputes, conciliation, mediation
JEL classification: K2, M2

1. Introduction

Doing business in the trade area transparently provides access (by law) to information about products and services provided by suppliers, payments to the agreed terms and requirements relating to quality of goods / services demanded by the market and at the same time concerns the existence of relations settlement between suppliers and customers.

Proof of responsibility in relations with business partners lead to a good reputation and assumptions of economic development. All this depends on the quality of management, how they are understood and complied with ethical standards in dealing with: business partners, competition and state authorities.

2. Precursors of litigious situations

The managerial decision of collaboration with suppliers to avoid litigious situations arise, requires an assessment of the overall situation of the supplier. This is judged by a number of criteria, some qualitative estimates, others can be evaluated quantitatively. Thus, considering the following aspects after neglected can cause unwanted litigation [1]:

- ✓ structure and quality management;
- ✓ technology used and the capacity to deliver quality products;
- ✓ level of costs;
- ✓ price / quality ratio;
- ✓ possibility of research and development;
- ✓ prestige and position of the company among competitors;
- ✓ the cooperation with other companies;
- ✓ other clients who are supplying company;
- ✓ flexibility in meeting customer requirements.

Maintaining good relations between business partners with long-term perspective, must be based on the principles of business ethics. In this case, it is efficient to operate in

the following areas [2]:

- ✓ the development of activities to the highest standards of professionalism and morality in order to achieve performance and meet the interests and requirements of business partners;
- ✓ cultivating respect for all business partners, neutralizing unfair and incorrect methods in relations to them, regardless of business size business profile, or the nature of the property;
- ✓ giving up the promotion of unfair terms in contracts with clients which do not have alternative suppliers;
- ✓ seeking amicable solution through negotiation, mediation or conciliation for disputes arising over the contracts and other commercial business relationships;
- ✓ respecting irrevocable decisions given compliance processes for resolving commercial disputes by courts, the Court of Arbitration, the arbitration committee attached to the Chambers of Commerce and Industry and other national and international judicial bodies.

3. Regulations for quick resolution of commercial disputes

To conduct commercial business in a legal and institutional framework adequate, stable and encouraging development and economic progress of any dispute resolution procedure should offer a commercial judgment flexible, fast and effective solution to allow disagreements between the various partners without climate affect trade.

This desideratum responds Small Reform Law of Justice, which relating to the acceleration of settlement processes [4]. Provisions of this law have changed the provisions of the Code of Civil Procedure ,introducing a new chapter (Chapter 14) "Provisions on commercial litigation" his presence introduces the idea that the legislature has established several provisions derogating from the law, the matter commercial disputes, the conditions of a special procedure which occupies a relatively broad range of procedural rules, from a procedure of conciliation and prior to the legal status of the judgment.

Conciliation is a compulsory preliminary procedure, its failure to permit the court to not receive the request for summons. If, however, the application is registered it will be rejected as being untimely submitted, the applicant will proceed again to make direct conciliation procedure to promote further action.

In order to resolve the dispute through conciliation directly the applicant will summon the other party ,telling them in writing of his claims and their legal grounds and all the documents that support them. When the parties (complainant and defendant) agree to resolve conflicts or disputes between them in this way alternative dispute will seek the services of a specialized professional conciliator will meet separately with each party, will develop issues in dispute and will select a list of objectives, priorities and results obtained. In conciliation strategy applies mainly to resolve the dispute through compromise and save their relationship together parties, or do short term, primarily seeing rapid resolution of the dispute.

Conciliation and mediation as may be required prior proceedings in certain cases.

In processes and applications in commercial matters, evaluated in money, before the application of a lawsuit the plaintiff will try to resolve the dispute either through mediation or through directly conciliation. If the judge recommends mediation and the parties accept it, they will present to the mediator to inform about the benefits of mediation, without giving the mediator fee. After obtaining the information the parties may decide to continue the dispute through mediation or to return to court.

At mediation, the parties directly or through representatives communicate to the mediator for the dispute, the root causes of the dispute are analyzed, the problems are being identified and then the parties needs are being outlined and proposals are launched for mutually beneficial resolution. Parties are helped to get what they need and to rebuild or to strengthen the relationship affected.

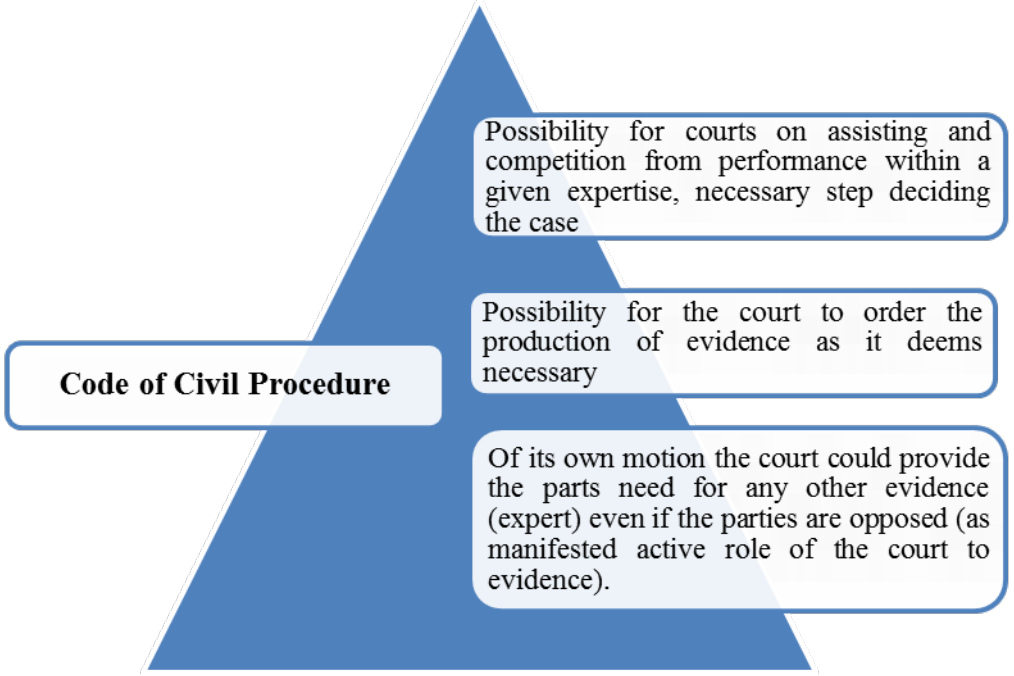
Mediation can be completed such by agreement of the parties and shall be determined by final judgment and enforceable.

The emergence of new regulations remedies accelerated commercial disputes caused some changes and additions as evidence of expertise in commercial

litigation [6].

Therefore the Civil Procedure Code (art. 7206 paragraph 2 second sentence) states [3]:

Figure 1. Provisions of the Code of Civil Procedure



Source: information processed

Also all as a measure of speeding up the case appeared another new rule on expertise, namely: after the appointment of the expert, the court will summon a hearing in open court in which will require expert to comment on the estimated amount of work performed and the length of time necessary to carry out expertise, position of the parties will be recorded in the end. Given the position of the expert and the parties, the court will set a deadline for report submission expert and conditions of payment of expenditures necessary for the examination.

A new law is the transposition of Directive 2005/36/EC of the European Parliament and of the Council on the recognition of professional qualifications in Law 37/2009 (Law on amending and supplementing OG2/2000) governing the access of Member States of the European Union activity of judicial and extrajudicial expertise [5]. This eliminates the necessity of being Romanian citizen from conditions that must be met to acquire the quality of technical expert judiciary, adding the possibility of being a citizen of an EU Member State or the European Economic Area other conditions.

The citizen of another EU Member State or the European Economic Area which has acquired the status of judicial expert, quality certified by recognized professional bodies in those countries may be included in Table nominally containing technical experts, drawn on specialties and counties by the Central Bureau of Judicial technical expertise within the Ministry of Justice, in order to exercise in Romania, being exempted from the examination procedure.

The law also sets how they can exercise in Romania, temporary or occasional technical expert legal profession. Similar provisions regarding the recognition of qualifications and expertise activity are stipulated for extrajudicial technical experts.

Law refers to a very common situation, that of a lack of technical experts in a specialized court required: for such cases the law allows judicial technical expertise to be carried out by specialists who are not experts, they have Romanian citizenship or nationality of a Member State of the EU or the European Economic Area and meet the requirements of law to perform judicial technical expertise.

4. Conclusions

All these new legislation aimed at resolving key aspects of patrimonial and non-patrimonial disputes arising from domestic and international commercial contracts and other legal relations as trade, to make their contribution and expertise of goods as means of proof, such that any dispute triggered between business partners can be solved easily, quickly and transparently.

In this context and given that the existence of trade agreements between partners throughout the European Union or the European Economic Area, the current provisions provide a much better opening firms and covers not only trade and previous legislative niches so that trade can follow a natural course, elegant even if we are in a world where "everything is allowed".

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Using Blackboard Learn to Develop Educational Materials

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Abstract

One obvious change in the nowadays education paradigm refers to the method of delivery the educational material. If the teacher traditionally stood in front of the room full of students and spoke to them, today ICT is increasingly used to facilitate the providing of courses, but also to ease communication between university, teachers and students. In the following article we will refer to teaching (as part of the educational process), which is becoming increasingly replaced by designing and providing appropriate courses for Computer Aided Education. This paper shows how the teachers work with "Blackboard Learn" e-learning platform so they can build a course that closely match the needs of the learning process and student requirements.

Keywords: course design, Blackboard Learn, e-learning platform.
J.E.L. classification: A23, I23

1. Introduction

In the context of changes taking place in society and thus in education, traditional education system turns out to be insufficiently flexible to adapt in timely manner to new requirements and needs on the labor market. It is therefore necessary to modify and diversify so that it can produce all the qualifications needed in the economy. On the other hand, there is also the need to change the education paradigm, the whole philosophy that underlies the entire educational system, from kindergarten to lifelong education. One obvious change in the education paradigm refers to the method of delivery the educational material. Usually the universities in Romania have each an e-learning platform, but they use it differently: for administrative announcements, to facilitate communication between students and teachers, to deliver educational materials to students, for partial evaluation, for final assessment etc. On the other hand, e-learning platforms incorporate more and more functions so that they can be used in an increasingly wide range of activities related to training. The teaching material posted on e-learning platform is easily accessed anytime, anywhere, meeting the requirements of learners. Accessibility of learning resources definitely makes the training process more friendly and more appropriate to the nowadays demands. But how is actually made an educational material using an e-learning platform? This article shows how the teachers work with "Blackboard Learn" e-learning platform so they can build a course that closely match the needs of the learning process and student requirements.

2. Development of educational materials using Blackboard Learn

In the following it is shown how teachers work with Blackboard e-learning platform so that they can build teaching materials that closely match the needs of the computer-assisted instruction (CAI) process, including students' requirements. Also, one can see the options available for designing courses.

There are several categories of users of Blackboard. Specialists in education assistance systems are responsible for managing and maintaining the platform, opening accounts and providing appropriate access rights for each user and supervising all activities on the platform.

After logging into Blackboard appears the courses in which the teacher is entitled to

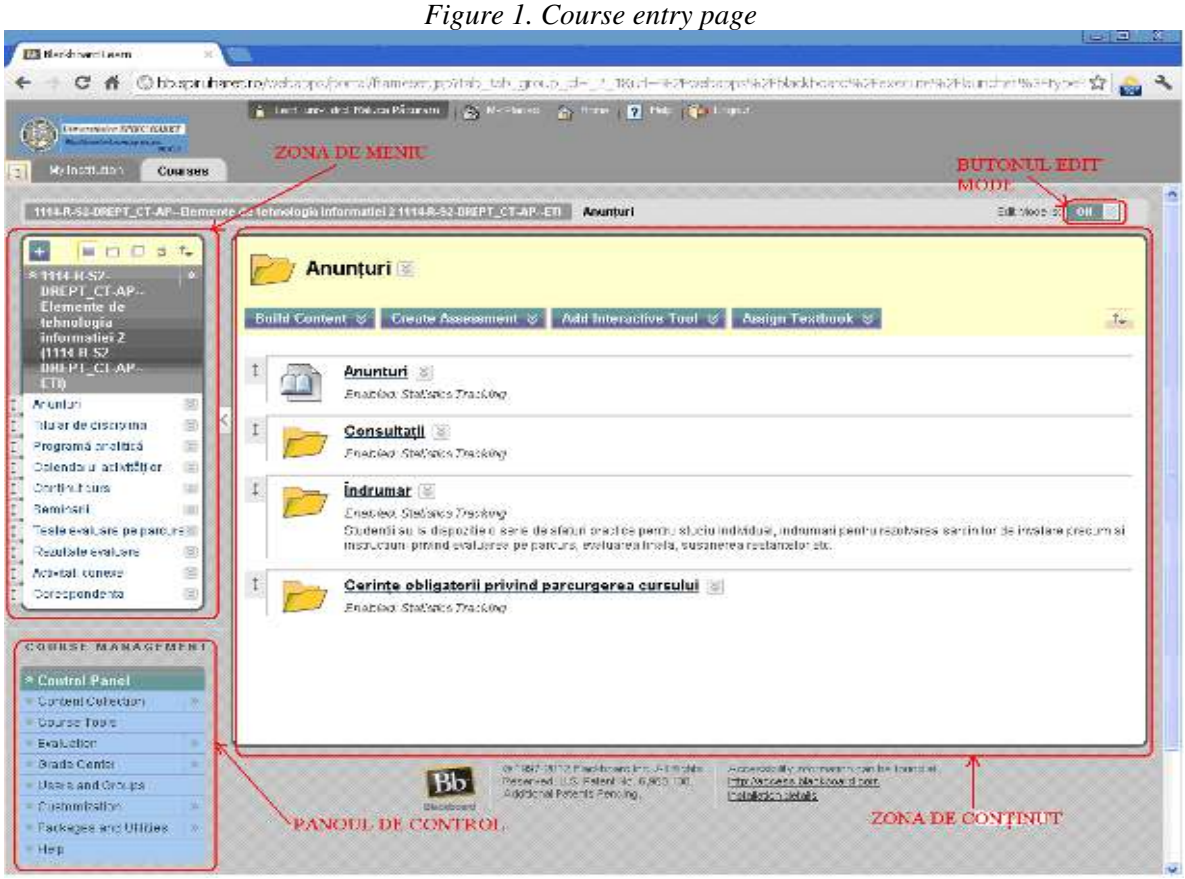
access:

- courses taught by professor (teaching materials that he builds in order to be used by students) - here the teacher has instructor rights;
- other courses in which the professor is enrolled - courses that he can only view, but not edit.

Learners can only see the courses in which they are enrolled.

Once inside the course that aims to design, the instructor has one window divided into several areas (figure 1): Menu Area, Control Panel, Content Area (details of the selected options in Menu Area).

Figure 1. Course entry page



Course Menu

Course menu is preset by specialists in education assistance systems to cover all necessary information, and includes several default options (areas). These options can be modified, deleted or renamed. Instructors can include up to ten different areas for each course. Changing course menu is done by pressing + at the top left of the area. There are the following options to change menu:

- creating Content Areas which contain information of the course, such as Course Documents or Assignments;
- creating a Blank Page;
- creating Tool Links which provides links to all tools of the Blackboard application, such as discussion forum or chat;
- creating links to other sections of the course for easy access (Course Link);
- creating External Links providing links to URLs outside of Blackboard;
- Module Page allows you to display in a page multiple windows in which are shown various selected modules (calendar, calculator, dictionary, etc.);
- Subheader's creation - with which the menu can be divided into several sections;
- creating a Divider - creates a line that can be used to separate the menu.

If the Edit Mode is ON, then in the right of each option on the menu there is a button with double arrows. When pressing this button appear options for renaming, hiding, changing visualization permission for visitors and deleting that item. Also menu items can be moved by "drag-and-drop" them into the desired position.

Course Content

First page of the course corresponds to the announcements section, which is the first option in the menu. Then, depending on the

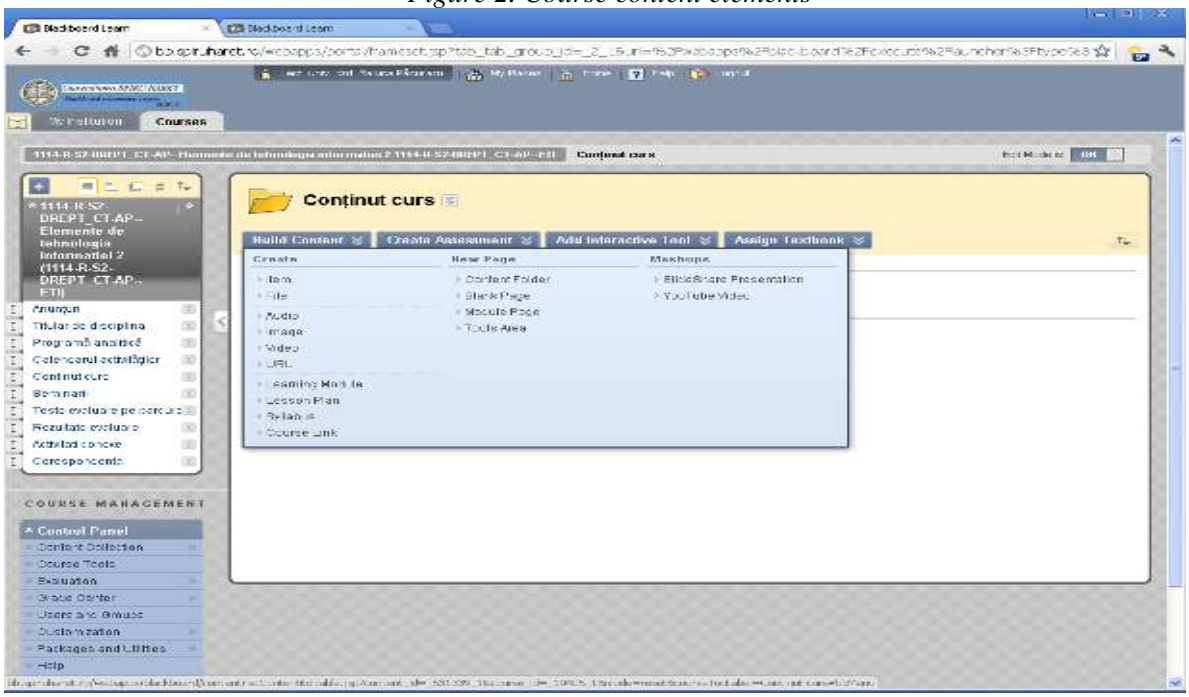
selected menu item, in the Content Area are displayed the appropriate information included.

A course consists of several content elements. A content element is any type of file, text, image or link that appears to users in a content area, learning module, lesson plan or folder. Instructors can add different content types in these course areas.

All these features allow the instructor to label them, to complete their description, to set options for availability (time and date). Content elements of a course are (figure 2):

- **Item** - file, image, text or link;
- **File** – can be used an HTML file. These files can be viewed as a page in the course or as a separate piece of content in a separate window;
- **Audio, Image, Video** – audio, image, video files;
- **URL** - link to a website;
- **Learning Module** - a set of content elements which includes a structured path;
- **Lesson Plan** – a particular content type that combines information about lessons with resources used for teaching;
- **Syllabus** - allows the instructor to build a syllabus;
- **Course Link** – provide the opportunity to create a link with another section of the course;
- **Content Folder** - contains other content elements;
- **Blank Page** - adding a blank page and customize it;
- **Module Page** – it adds a page containing dynamic content customized modules that help users track tasks, tests, new content being added;
- **Tools Area** - enables rapid addition of course specific tools (e.g. discussion forum or messages).

Figure 2. Course content elements



Another category of content elements are so-called "Mashups", allowing instructors to add content from an external website. This content can be used as an independent part of the course, as part of a test, as part of an assignment or as topic for a discussion forum. The posted content will not be copied on Blackboard, but will still be resident on the external website. You can add content from the following sources:

- **Slideshare** – is a site for viewing and sharing PowerPoint presentations, Word documents and Adobe PDF;
- **YouTube** - site for viewing and sharing online videos.

When a content element is added to the course, it is not automatically available to users. For any element, the instructor has the following options:

- **Permit users to view this Content** – select **Yes** to make content available to users. If not selected, this content is not available.
- **Track number of views** - select **Yes** to

enable the report on users access to this item.

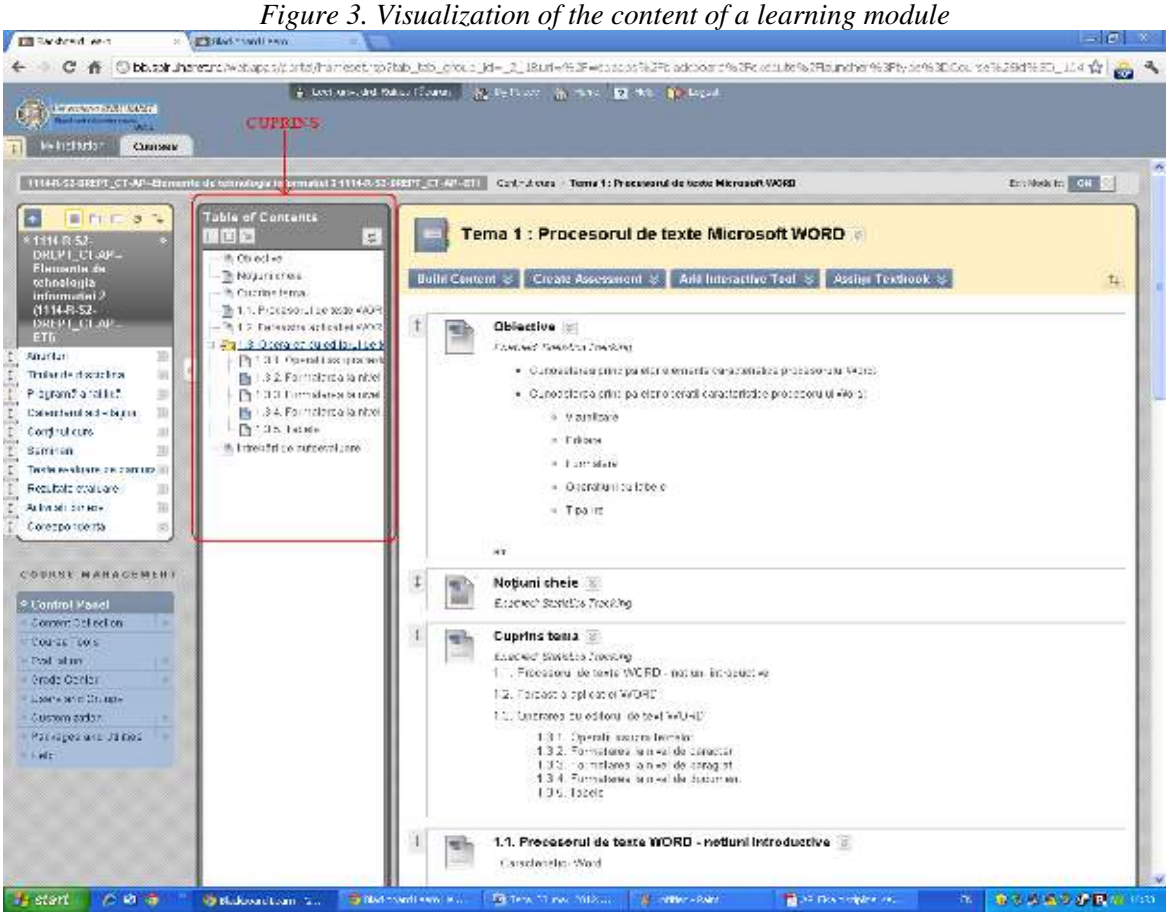
Select Date and Time Restrictions - select the time and date when the item is available. Select **Display After** so that the element appears after a certain date. If this option is selected, add the corresponding date and time. Select **Display Until** so that the element appears until a certain date. If this option is selected, add the corresponding date and time.

Learning Modules

Learning modules are used to package or present content and allow instructors to organize the corresponding course materials in Table of Contents. All types of content can be included in the learning modules, less other learning modules.

Instructors can add folders and subfolders to a learning module to impose a hierarchical structure on the content. This hierarchy is shown in outline view in Table of Contents (figure 3).

Figure 3. Visualization of the content of a learning module



Through the options available when creating / modifying a learning module, instructors can set the default way to view content, the validity for users (including defined periods of time), the order is which the module is browsed, if it is open in a new window or not, counting visitors, table of content. Learners can view the content of a learning module in two ways:

- **Sequentially**: the material is viewed in the order established by the number of each content element. Students cannot advance to the next page without having read the previous page;
- **Non-sequentially**: the material is viewed in any order.

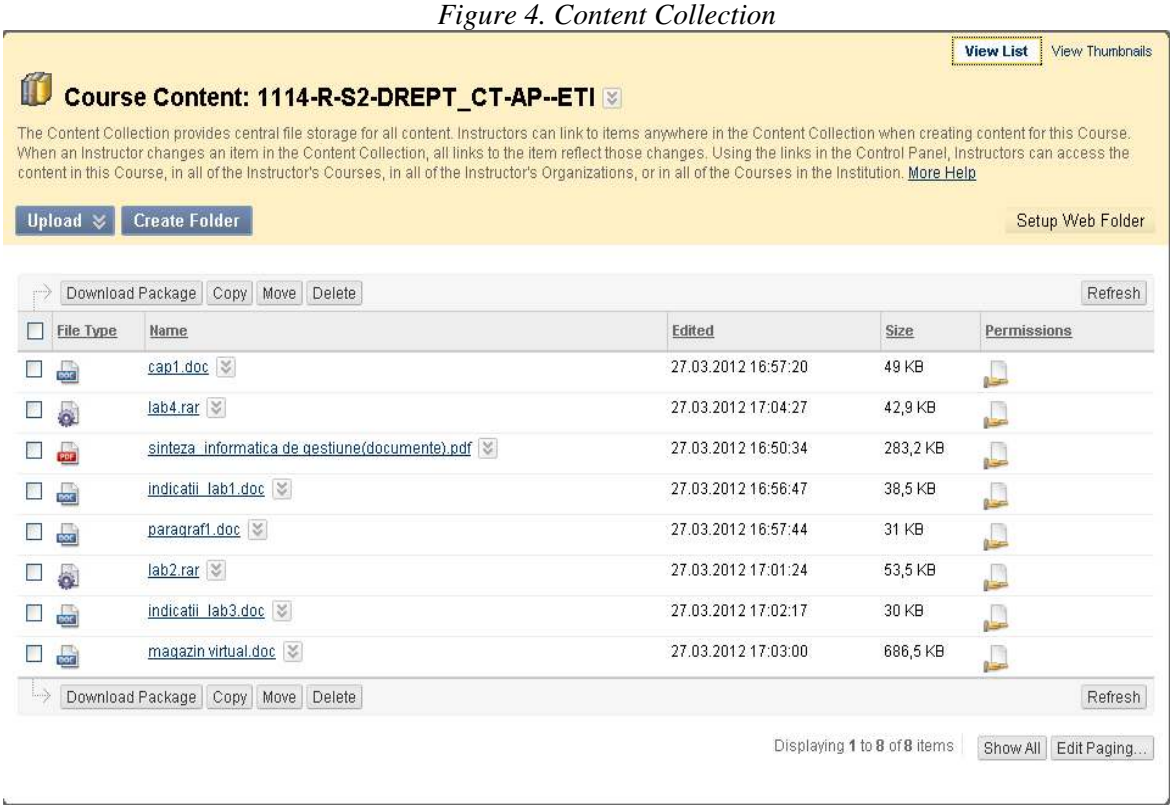
Control Panel

Control Panel has eight elements. To view a menu option, press the double arrow down (expand). To fold (collapse) a menu option, press the double arrow up. The eight menu options are: Content Collection, Course Tools, Evaluation, Grade Center, Users and Groups, Customization, Packages and Utilities, Help.

1. Content Collection (figure 4) is a "central warehouse" of files uploaded for the course on the e-learning platform. Links to these files can be used anywhere within the course. If you change an item in the Content

Collection, this change is reflected throughout the course. Using links in Control Panel, a teacher can access that content both in the respective course as well as in all courses where she/he has instructor rights.

Figure 4. Content Collection



2. Course Tools contains communication options:

- Announcements - announcements for users;
- Blogs - is a tool for open communication between students;
- Collaboration - collaboration tools allow learners and instructors to engage in real time discussions, access web, open chat sessions or Q & A;
- Contacts - is a place where the instructor can add her/his own contact information or other people with various roles in the course;
- Course calendar - the instructor can define significant events relating to the respective course;
- Discussion Board - in any course area can exist discussion forums; each group of users can participate in a private discussion forum dedicated to that group;
- Glossary - each course has its own glossary of terms accessible to students;
- Journals - this tool gives students the opportunity to interactively communicate their opinion on the respective course;
- Messages - private communication between members of the course, similar to email;
- SafeAssign - is a tool used to prevent plagiarism;
- Self and Peer Assessment - allows you to create tests for students, tests which can be corrected by fellow students; is thus obtained a constructive feedback which the student gives or receives from colleagues;
- Send Email - allows the instructor to send emails to course users;
- Gradebook Extractor - allows downloading (export) of all grades from Grade Center in text files with a specific structure;
- Tasks allows organizing activities in the course by defining priorities and their status;
- Tests, Surveys and Pools - allows creation and modification of tests, questionnaires and sets of questions; tests are automatically evaluated and grades are stored in Grade Center;

Wikis - is a collaborative tool that allows students to view, add and modify the content of a "wiki" page in the course.

3. Evaluation includes:

- Course Reports - reports based on access to different areas of a course, such as content area, forum area or a group;
- Early Warning System - implementation of rules and warn users by sending emails regarding poor performance based on course attendance, or after certain criteria in Grade Center;
- Performance Dashboard - activity reports, tabular forms, which observe the activity and progress in the course for all students.

4. Grade Center includes viewing area for all the notes (Full Grade Center), Assignments and Tests.

5. Users and Groups includes tools for grouping, adding, deleting, and listing users. When it is desired to display all students "Not blank" option is selected in the search area.

6. Customization includes tools for customizing the course:

- Enrollment options - determine how students are currently enrolled;
- Guest and Observer Access - establish visitors and observers access;
- Properties - sets functional settings for the course (name, description, availability etc.);
- Style - allows setting the style in which the course is presented / displayed to users;
- Tool Availability - determine what course tools are used and which users have access to them.

7. Package and Utilities includes:

- Bulk Delete – allows the instructor to select information to be deleted from the course and those to be kept for use in future. It is commonly used at the end of the course.
- Check Course Links – allows the instructor to check the links to the files that have been added to the course.
- Course Copy – can make a copy of the course thus creating a new course or can copy only certain course materials in addition to an existing course. The course in which is added can be search by certain criteria: Course ID, Instructor, Name/Description or by creation date. Adaptive Release of Content allows control of the course content use based on a set of rules established by the instructor. Rules can use as criteria availability, date and time, the individual user status or users group status, scores recorded in the Grade Center or review status of another element of the course.
- Export/Archive Course - creates a course backup package. Export will include only course content while Archive will include, besides all content and users records and their actions in the course.
- Import Course Cartridge - downloads and imports various course materials produced by professional authors and publishers.
- Import package / View Logs - imports a course backup package (previously exported); the package content is copied in the course; the log files created during each import can be visualized.
- Move Files to Course Files – you can move existing content from a local folder of the course in Course Files.

In line with the philosophy of creation, use and reuse of learning objects, are important the options for total or partial copy, import / export of the courses and the ability to create links to different items within the same course or different courses.

8. Help includes contact information and links to help and support.

Conclusions

In the knowledge society lifelong learning is a necessity that all labor market actors must take into account. Advantages of using ICT in the educational process are obvious and cannot be overlooked. But to efficiently use technology, requirements must be met, and teachers will have to learn to use all the capabilities of e-learning platform and to structure teaching materials accordingly.

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Changing Labor Paradigms in the Contemporary Era

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Abstract

Throughout the ages there have been many civilizations, each with values, attitudes and skills, and his with them and as part of the whole man suffered the same changes and each time had to cope with these changes, the man gaining such new values, new behaviors and new attitudes.

Keywords*:* changes, knowledge, intellectualization, new economy,
J.E.L. Codes*: B22*

1. Introduction

As far as we are concerned and as I found, as well as the specific activity of human work underwent changes, gaining new meanings. Therefore I think it is still a useful overview of statistical data often reinforced within their existence, the evolution and transformation of labor spent in Romania, concept considered quite familiar in appearance, but is continually subject to continuous changes .

It's basically just about a new sense of work, the work emphasizes the importance of research and innovation by enhancing elements of creativity at work, in which the transfer of logical thinking activities on the machine, thus creating complementarity between human intelligence and software, in which most jobs require knowledge of information technology as a result of a process of intellectualization of labor, increase the quantity and quality of professional knowledge, the job holder is remunerated according to what what he knows and what he knows, the information issued, received, processed and evaluated, in which most of the job requires physical effort combined with handling information, which produce important changes labor and labor regarding moving from physical machines to the physical information and even information only, work is often associated with an intelligent machine, being substituted in more and more cases of robotic means. „The new economy is also characterized by a rapid pace of change, requiring adaptations not just across age generations but within one's lifetime" [1].

2. The change of paradigm

The transition to the knowledge society, the practical means the change of paradigm in all fields and especially labor. These features and concepts are reflected in the new paradigms and rules.

"Old" economy	"New" economy
Transformations labor	
routine work	work keeps changing
office (work) before all	all work before
fixed-term work program	flexible working arrangements
work (career) life	worker "just-in-time"
work "fixed"	work "phone"
worker goes to work	work comes to worker
job choice depending on the location of residence,	live in a place - you can work anywhere or telework
traditional companies, structured on the basis of centralized labor	companies with a variable structure, dynamics, dispersed geographically connected to national and international networks.

The changes that occurred due to advances înregitrate, and changes were necessary in terms of quality, the general public and especially labor, resulting in higher levels of training and knowledge of the stock due to that intellectual activities and specialized skills tend increasingly more activities to take place that involve exercise.

In order to exercise economic attributes in terms of the labor process, labor and means are necessary forms of general and specialized training. The requirement level of training is directly related to the predominant sector of the economy, the need to develop in different historical eras. Training, training by learning general and specialized direct result of labor training and retraining. In this regard, Trebici Vladimir be stated that "Recent studies on the theory and models of economic growth (S. Kuznets, Ed Denisov, J. Vaiyez, TW Schultz) revealed a very important fact: the stock of education of the working population under the impact of scientific and technical revolution, becomes an increasingly important factor of economic growth: the contribution to national income tends to increase in recent years, to overcome contribution productive fixed assets." [2].

3. Production of knowledge

In support of the above, to highlight the beginnings of the transition to the knowledge society and the changes that took place in Romania in this respect, it is necessary to follow the development of indicators that reveal both knowledge production and transmission of knowledge outcomes, which reflects the changes occurring in the labor content and also accentuates highlights the role of scientific work, intellectual, toward which the new society, the knowledge. In terms of knowledge production, a number of indicators presented in Table no. 1, show these aspects, which occurred in Romania since 1995. There is an increase of indicators that generate knowledge production and the growth of intellectual content elements by human labor, the different knowledge is obtained as a result of work, substantially influencing in turn the labor content. Thus the number of R & D units in Romania, came to the end of 2008 to 775 units, being 26% more numerous than in 1995, the number of university courses have been treated as scientific publications albeit overall growth is seen that after 2000, it recorded a downward trend. As for following the evolution of R & D expenditure allocated was necessary national denomination, the amount for 1995 and 2000 was converted from ROL to RON, the figures presented in Table. 2.5 is expressed throughout the period in EUR. As can be seen, this indicator shows a significant increase, the amount of R & D per capita is the end of 2008 with 135.91 RON, higher than 1995. This increase is mostly due to increase allocations for research and development, representing payment of current expenses of personnel engaged in research and development, and capital expenditures representing the purchase of equipment, tools, machinery and equipment or other expenses of this nature. The expenditure structure assignation innovation is mostly capital expenditures, purchases of equipment and software, accounting in 2006, [3] a share of capital expenditures 74.9% versus 53.4%, as held in year 2002.

Table no. 1 - Highlight value indices of scientific work, research and intellectual

Indicatory	1995	2000	2005	2008
Number of R & D activity units	615	601	806	775
Total number of researchers	35094	23179	29608	30864
Number of researchers per thousand	1,54	1,03	1,36	1,43
Undergraduate treated as scientific publications	697	1194	973	710
R & D expences	57714800	296204600	1183659000	2980674000
R & D expenditure per capita	2,54	13,19	54,65	138,45

Source[4].: http://www.insse.ro, CDP101A, CDP102D, POP101A, ART116A, CDP104E and own processing

There can be seen as downward trends of some indicators that hinder the development of knowledge production, namely the number of researchers in decline by 4,230 people at the end of 2008, compared to the same period in 1995. This decrease is the result of research personnel migration trend of young professionals who are attracted by much higher salaries offered by other states. However, the data from the National Statistical Institute [5], certifies that more research effort scientific work led to a significant improvement in the number of innovations that indicate the end of 2006 a total of 28,488 products and/or services or improved susbtanţial, created in 5970 a

number of innovative enterprises from 23,404 innovations made in 2002, by 3963 innovative enterprises.

4. The innovation process

As can be seen from the table no. 2, the results of research have resulted in a decrease of 57 product innovations in 2006 compared to 2008, but also contributed to the process of innovation with 756 more in 2006 than in 2002, which representing an increase of 283.05%.

The best results of the research led the entire period to achieve product and process innovations, which hold a share of total innovation between 74.89% in 2002 and 71.62% in 2006, and most innovations in rate of 53.64% for 2002 and 58.72% for 2006, is the effect of work of scientific research, technological innovation, the emphasis on size information and design work, carried out mostly in small businesses.

Table no. 2 - the process of innovation in Romania in 2002-2006

Year	Product innovation	Innovation Process	Product and process innovation	Total innovation	Innovative enterprise size classes	
2002	582	413	2968	3963	small companies	2126
					medium enterprises	1178
					large enterprises	659
2004	472	1203	3461	5136	small companies	2834
					medium enterprises	1585
					large enterprises	717
2006	525	1169	4276	5970	small companies	3506
					medium enterprises	1817
					large enterprises	647

Source [6]: http://www.insse.ro, INO102B

New technologies are actually the result of concerns regarding improving and modifying old technologies repeated. Basically, the old technologies give rise to their rivals, while also affecting people working in old technologies, downwards its importance in the new system. New of the two exist in some cases is very high, in fact this is the reason why we can not say that there is a uniform development of all countries.

5. Information technology

In the knowledge society, as known work includes both content knowledge production and transmission of information. Regarding the transmission of knowledge, a number of indicators presented in Table no. 3, shows the level of existing development in information and communication technology in Romania.

Table no. 3 - The evolution of ICT indicators in Romania

Indicatory	2007	2008	2009
The share of households with access to a computer at home	31,4	35	42,2
Population between 16-74 years	16739098	16696027	16664078
The number of people 16-74 years who have ever used the computer	6847343	6719591	7464651
Share of persons of 16-74 years who have ever used the computer, the population of the same age	40,9	40,24	44,79
The number of people 16-74 years who have ever accessed the Internet	4909502	5668927	6339352
Share of persons of 16-74 years who have ever accessed the Internet, the population of the same age	29,32	33,95	38,04

Source [7]: http://www.insse.ro,TIC101A, TIC103A, TIC104A, POP101C and own processing

Obtaining the benefits of new technologies depends on investments made for exinderea and information infrastructure, the expertise needed for new job creation and training levels of user labor, the entire population facilitating access to public information technology information and communication, dissemination of information and knowledge to all members of society. Information is basically the result of human effort for research and innovation, having a

transformational effect on both human and labor which he submitted.

Utilization of information and communication technology, seen by an increasing number of population increased as a pioneer in knowledge, reflecting a progressive development of information society in Romania.

Willingness and awareness of the need to use a computer and internet media offer is seen as a tool for acquiring new information that comes to ease and at the same time facilitate citizens' access to public information has been understood as time of the growing number of people.

As shown in the data table above, in late 2009, the share of households with access to a computer increased by 10.8% compared to 2007, while maintaining the same pace, at the end of 2010, more than half of Romanian households will have access to a computer. Regarding the share of people between 16-74 years in the total population of the same age who used computer arrived in 2009 to 44.79%, which represents an increase of 3.89% compared to 2007. While the number of Internet users in the same age group increased from 29.32% in 2007 to 38.04% in 2009. That the number of existing computers in 2008 in schools, colleges and universities[8] was 275,427, with 214,881 more than in 2001, indicating a concern for the technological development of the nation state. Most PCs are managed secondary schools at the end of 2008 with a total of 99,688 computers, 15,815 from existing computers in 2001.

6. The means of communication

Along with informational resources, a significant increase was registered among the media, who come to facilitate and reduce time consumption acelelaşi time for receipt of necessary information.

Widening access to new media, the expansion and increasing their impact has enabled their possession by a number of increasingly large population. As a result of this, the highest growth recorded in mobile mijoacele that a four-year period increased 2.39 times, each holding the end of 2008 Romanian, 1.13 mobile subscriptions.

Expanding Internet network, which favored increasing the number of subscribers, has also a positive, but much smaller scale. In late 2008, Internet subscriptions reach 5,249,042, which represents an increase of 4,268,678 over 2004 subscriptions, or can estimate that one in four Romanian has an Internet subscription.

Table no. 4 - The evolution of communications in Romania

Indicatory	2004	2008
Number of fixed telephone lines	4389082	5035644
Number of fixed telephone lines per capita	0,20	0,23
Number of mobile phone lines	10215388	24467206
Number of mobile telephone lines per capita	0,47	1,13
Internet subscriptions	980364	5249042
Internet subscriptions per capita	0,04	0,24

Source [9]: http://www.insse.ro,PTT104B, POP101A

The slight growth in fixed telephony Please register but during the four years of the analysis was made an increase of 646,562 new subscriptions, their number per capita at the end of 2008, equal to 0.23.

As a result, as can be seen from the above analysis More and more people nowadays cannot stand without watching or hearing their TV, internet, newspapers, cell phones, radio, media players and more other devices that are their main important source of information, entertainment and more others [10].

7. Opinion

As I found work as a business man underwent specific changes of gaining new meanings over time, which is why we considered necessary an overview of statistical data sometimes reinforced within their existence, the evolution and transformations labor in Romania, concept considered quite familiar in appearance, but is continually subject to continuous changes.

In concluding this paper we conclude that work, a concept inseparable from human existence, is a specific activity by which the human own use abilities, skills and knowledge required to produce goods satisfy its necessities. Undoubtedly, the work is natural and permanent condition of human life, given that nothing is possible without

useful work and all property rights are the product of his labor. Work is a necessity, a moral commandment of humanity, it also constitutes the source of self-awareness, satisfaction, intellectual inspiration, a means of affirming each person in society.

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A Parallel between Socialism and Cooperatism

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Abstract

This article sets out to present a parallel between the socialist and the cooperative doctrine, made by Professor Nicolae Ghiulea and exposed in a conference in 1946. Leaving utopian conceptions, sentimentality and related ideologies aside, Ghiulea strictly refers to the scientific socialism built by Marx and Engels, and the modern cooperative, with its principles established by the equitable Rochdale pioneers. Apparently divergent notions, we shall see that the two systems are similar and connected in many ways. Nevertheless, the professor also points out the differences that singularize them.

Key words: cooperatism, socialism, capitalism, property, worker
J.E.L. classification.: B14, B30, P26, P51, Y30

1. Introduction

Both an economist and a sociologist with prominent social-administrative functions, Nicolae Ghiulea was one of the most important Romanian representatives of the cooperative doctrine during the interwar period. Born in Iaşi (11 September 1884), he had an original background in Mathematics, conducted sociological studies in Paris, Göttingen and Iaşi, and taught Social Policy at the Faculty of Law of the University of Cluj until retirement (1919-1942). Ghiulea was amongst the initiators of the social market economy in Romania, also standing out through a significant academic and publishing career in statistical theory, social economy, cooperatives and sociology.

Nicolae Ghiulea's rich scientific activity includes the conference entitled *The Marxist Socialism and the Modern Cooperative*, delivered at the „Carol I" Foundation, on April 6, 1946, within the „Socialism and Culture" cycle, organized by the Socialist Group of Art and Culture. In the following study we shall briefly expose his conception concerning the degree of similarity between the two apparently divergent systems, as shown in the lecture mentioned.

2. Marxist socialism versus modern cooperative

The ideas of socialism and of cooperative were born with man, from his need to live, work and fight unitedly, but they took different paths over time. Looking at the beginnings of the two ideological currents, there could be observed that with the poor nations (the agricultural peoples that held land in common and worked collectively) the cooperative predominated, and socialism knew a glorious epoch in the time of Plato (≈ 400-300 BC), in Greece. The two ideas were brought back to the attention of all with the advent of Christianity and the increasing of workers' suffering. From then on, they were transformed into real social ideals of humanity.

Ghiulea found that both socialism and the cooperative have common precursors. He refers here to the utopians, the mystics, and the reformers from the sixteenth, seventeenth and eighteenth century; and later to the Saint-Simonists, the asociationists, the Proudhonists, the British chartists, and the revolutionaries, who are claimed as both precursors of socialism and of cooperatism.

The parallel analysis between socialism and cooperative raises Ghiulea the question whether one can really make a comparison between the two notions. Overall, the concepts are completely different: socialism is a socio-political doctrine and cooperatism is a socio-economic doctrine; their only common element is their social nature. Even though the two concepts tend to overlap, the

co-operators don't believe in the efficacy of socialism's economic concerns, while the Marxists overlook the political leanings of cooperatives. Charles Gide, a well-known representative of the cooperative, considered Marxism as the end of the classical capitalist economy, and the socialist Karl Marx distrusted that the cooperatists could achieve a social reform without replacing the bourgeois-capitalist regime.

Nicolae Ghiulea signalled the identity of the purpose and the social ideals of the two doctrines. According to him, both aim replacing capitalism with a new social order. Socialism struggles to introduce the socialist republic, and cooperatism wants, admittedly, to establish the cooperative republic.

Professor Ghiulea starts his paper with the essential differences between socialism and cooperatism, which he lists and then analyzes separately. „Thus: socialism is revolutionary, cooperatism is evolutionary; socialism transforms the society by law, cooperatism by substitution; socialism is destructive, cooperatism, constructive" [2, p. 5].

Nicolae Ghiulea says that cooperatism is revolutionary, as much as socialism. It aims at removing the capitalist system, even if not through a legal requirement, but by the gradual conquest of all economic enterprises and the establishment of the cooperative republic on a democratic background. Cooperatives develop within the capitalist society, entering into free competition with the existing regime, following its gradual replacement. Hence we have the revolutionary character of cooperatives.

The ideal of socialism, on the other hand, is quite similar. „Socialism has the same goal: the abolition of the capitalist economic system, and has the same ideal: to create a new society" [2, pp. 5-6]. The difference remains therefore only in the means of fighting used. Socialism wants to introduce the socialist economy through the conquest of the political power and the transformation of the society by law, the expropriation of production means and their collective use.

However, both doctrines face resistance from the capitalist regime. The cooperative movement was deflected and captured by the capitalism that was developing at an accelerated pace, and socialism met strong resistance from the bourgeois-capitalist state, which did not want to lose its economic, social and political privileges. However, it fights for permanent seizure of political power and total expropriation of production means through direct action such as creating currents of opinion, partial collectivization of business, social policies, enlightenment of the masses, etc.

Ghiulea does not agree with the statement that cooperatism is constructive and socialism is destructive, because both doctrines must first eliminate and then build other capitalist institutions, in the realization of their moral, social and economic ideal.

Socialism is based on class struggle. The socio-economic conflict in the attention of socialists is that between capital and labour, between employers and workers. On the other hand, cooperatism desires class solidarity, aiming at resolving the conflict between merchants and consumers. Nicolae Ghiulea shows that the cooperative is also based on class struggle, precisely because the worker's exploitation by the employer is what led him to join a cooperative. The insufficient salary he received pushed him to associate, thus removing intermediaries and their earnings. Moreover, the conflict cannot be between workers and traders, because they belong to the same class, the proletariat. The struggle takes place between workers and employers, working people using cooperatives as emancipation weapons in the fight against exploitation. Here's how in this field there is also no distinction between cooperation and socialism.

Socialism aims at the abolition of profit made from the surplus value which the employer fully appropriates, while the cooperative campaigns for the abolition of profit, meaning the increased price for the commodity, i.e. the intermediary's benefit. If we look closely on production cooperatives though, they were created exactly to remove the employer and the profit. It can be argued, therefore, that the cooperative members „reserve the full value of the product and, therefore, the added value, which socialism defends, in battle" [2, p. 9]. Cooperatives, in all their ways, protect work and the product of work, and are against those who exploit workers. Removing the profit and labour exploitation, cooperative approaches again the socialist ideals.

Socialism wants the abolition of the private property, which cooperatives, on the

contrary, aim to strengthen. Ghiulea brings counterarguments to this claim: socialism abolishes only the property of production, i.e. the operating property (that property which can be put into production only by exploiting wage labour), with respecting the work property (that is enhanced by the individual's own work, such as the small agricultural property, the craftsmen's workshops and the small traders' shops), and respects the ownership of household objects and of capital that workers obtain from their own savings; socialism „respects the property of their own housing, their items of personal, material or moral use, and the money earned from their own work" [2, p. 10].

The cooperative supports the peasantry and the petty bourgeoisie's property of work. In cooperatives, capital is not operating property; it is a production factor, consisting of all individual capitals and tends to become collective and replace individual capitals. In production cooperatives, since their establishment, production ownership is collective. Therefore, both cooperatism and socialism respect individual capitals, but aim at property collectivization.

Socialism does not recognize the role of cooperatives in transforming the society. Because cooperatism does not act politically, but only economically, and because it develops within capitalism, it is believed to disappear along with the capitalist system. Ghiulea combats this argument. Born to protest against the capitalist-bourgeois regime and to defend the exploited working classes, the cooperative is a movement of social transformation, because its ultimate aim is to replace the existing socio-economic organization with the cooperative republic. Indeed, the cooperative movement does not have the power to subvert the regime. It requires the political support of the Socialist Party, representative of the working classes and advocate of cooperatives. The alliance between cooperatism and socialism can successfully replace capitalism, establishing a new regime on socialist bases, where the cooperative is an aspect of its economic side, or at least a way of organizing the economy.

Considering the differences between socialism and cooperation as inconsistent, Nicolae Ghiulea pays attention to the similarities between the doctrines. First, he believes that the two doctrines must work simultaneously and collaboratively in order to achieve the replacement of the capitalist regime. Socialism must conquer the political power, reach the head of the state and improve the situation of the proletariat. The cooperative comes to materialize the socialist revolution, by organizing the basic economic sectors, on collective, fair and equitable foundations. „Through cooperatives, socialism prepares and achieves the economic democracy" [2, p. 13], says Ghiulea.

The desire to replace the bourgeois-capitalist regime gave rise to both socialism and cooperatism. The socio-economic circumstances in England in the first half of the nineteenth century led Karl Marx to establish the scientific socialism (whose principles were set out in 1847 in „The Communist Manifesto"), and the Rochdale pioneers to found the modern cooperatism (whose principles were set out in 1844 in the „Manifesto of the Rochdale pioneers").

Marx addressed the situation in theory and in terms of socio-politics, and the pioneers in practice, in terms of socio-economics. Both sides realized that workers will never have understanding from employers or state support in order to improve their situation, which is why they should take the path of self help, join forces and action determinately. The only solution to the social problems, considered Ghiulea, was the subversion of the capitalist regime, through the conquest of the political power and the socialization of the national economy. Marx's proposed political way, although time consuming, was going to fulfil its purpose clearly and completely. The pioneers, on the other hand, they themselves being in a position to be exploited by employers, being ruined materially and morally, chose the path of economic practice, with reduced results, but obtainable in a short period of time.

Criticizing labour exploitation, competition and the injustice distribution of goods in capitalism, socialism and cooperatism equally arose, said Ghiulea, „to remove the exploiter intermediary in all sectors of economic life, socialize the production factors and create the collective property, abolish the capitalist enterprise based on labour exploitation and seizing surplus value, socialize production and

distribution, socialize the distribution of goods, organize the economic life for the benefit of the masses, and rise economically, socially, culturally, morally the working class" [2, pp. 14-15]. One can easily observe the identity of the goals of the two systems.

Both doctrines are popular doctrines, which defend the interests of workers and are based on democracy. The socio-political doctrine of socialism is behind the socialist party, which represents the working class. In essence, this doctrine is democratic, because it seeks the possession of state power by the proletariat and thus leading the nation through the people and for the people. On its way to success, socialism also aims to achieve social democracy (through the abolition of social classes) and economic democracy (through the collectivization of enterprises). As a socio-economic doctrine, the cooperative aims at transforming the society in an economic democracy, through passing the economic power into the hands of people, in businesses established on democratic bases, called cooperatives.

Another similarity is the fact that both doctrines were designed and developed by the working class to defend their interests. Both socialism and cooperatism „are based on the same social and economic conception, they impose economic primacy over other human activities, they require the primacy of labour over capital and aim to organize the collective economy" [2, p. 16], considers Nicolae Ghiulea.

The society that socialism and the cooperative seek to establish will be organized in terms of economic democracy. „If socialism puts the entire structure of the society on a logic and fair economic basis, the cooperative is actually the construction of that basis" [2, p. 16], says the professor.

The two doctrines meet the same moral purpose as well, namely the emancipation of workers from the exploitation they are subject to, and their spiritual and moral development. Cooperatism also aims, in addition to the economic purpose of raising the welfare of all, to the formation of the socialist human, who is fair and loving. This, says Ghiulea, is the most precious source of people for the socialist movement. Therefore, through socialism, cooperatism develops, through cooperatism socialism strengthens, and by working together, capitalism can be removed.

Although the two movements are much alike, over time there have been conflicts between them. Cooperatives were accused by socialists that they are essentially bourgeois and transmit the capitalist spirit to the working class. The importance and value of cooperatives, shows Nicolae Ghiulea, was envisaged by Karl Marx, with his brilliant intuition, since the early cooperative movement. In the first International Workers' Congress of 1866 at Geneva, in his inaugural address, Marx expressed his appreciation for the cooperative movement as a valuable social and economic experience. He noted that, in this way, businesses are run by their workers that can emancipate through themselves, through their political and economic actions. However, Marx's realism made him fix the cooperative's place within the labour movement. Therefore, Ghiulea says that „for Karl Marx, the fruitful cooperative idea cannot fully succeed unless it is reported nationally, i.e. if the cooperatization of the entire national economy is made and if the political power is conquered, first by the working class" [2, p. 19]. Otherwise, the bourgeois capitalism will suppress all the cooperative movement.

Marx did not see cooperatives as the only means of struggle in the emancipation of the working class, but only one of them, which always needs to be adapted to the needs of the proletariat. In addition, he supported the development of the cooperative movement freely, without state involvement, only through the workers' own efforts. Socialists therefore declare themselves for the cooperatives' freedom, fighting for it within the capitalist state.

The idea of cooperative autonomy and its political neutrality was almost unanimously accepted by the various national socialist parties and recognized in the international socialist congresses, except for the countries where cooperatives were already included in the socialist movement (UK and Belgium). In the International Socialist Congress in Copenhagen in August 1910, Lenin, a leftist extremist, declared himself in favour of the cooperative movement, but with several conditions: imposing the socialist concept and a prior expropriation, entering cooperative members in the socialist party, and subsidizing the socialist political

movement by the cooperatives, through press, strikes or campaigns. By these, Lenin actually called the cooperative to join the socialist movement, but the congressional resolution was less categorical, leaving cooperatives a free hand to take decisions. The actor of the Russian revolution of 1917 kept the cooperative, which he considered the only good organism of the capitalist regime, but he followed his plan – the general expropriation and the dictatorship of the proletariat. In 1923, he defined socialism as „a regime of high culture co-operators, when the means of production have become common property and the proletariat triumphed against the bourgeoisie" [2, p 23]. Lenin admitted the cooperative as a solution to the social issue, but did not recognize its independence from the socialist movement. In 1919, the Russian cooperative movement was nationalized, and in 1923 it regained its freedom. Cooperatism in Russia was very helpful during the socialist stage of the Soviet regime, socializing most sectors of the economy (the small industry, trades, agriculture, supply and consumption).

3. Conclusions

Finally, Nicolae Ghiulea notes that, worldwide, the organization of the cooperative depended on the situation of the workers' organization; it managed better and the linkages between it and socialism emerged clearer in the countries where the labour movement was more vivid and socialism better well-rounded. We have here the example of England and Belgium, the countries with the strongest cooperative movements, where there were close links between cooperatism and socialism. It was the same in Romania, where socialists allied with the cooperative followers in the fight for the movement's independence, although they always encountered opposition and seizure tendency manifested by the bourgeois-capitalist state.

Professor Ghiulea states that although cooperative does not mean socialism, it can be considered as a valuable form of socialization. It turns the capitalist enterprises, in which the capital leads and the worker is exploited, into enterprises in which labour leads and the capital is the one which is employed. If in the early nineteenth century, in the manufacturing era, the production cooperative was able and sufficient to socialize the economic enterprises, the twentieth century and the development of the large industry have reduced its efficacy, due to the inability to manage the large companies following the cooperative principles. Nevertheless, the production cooperative can always be used where special technical training is not required, where common sense, sound judgment and practical experience are sufficient (in trades, small industry, etc.). From the analysis of the production cooperative's history, Ghiulea concludes that it „is a socialist solution in certain branches of production, to a certain degree of development of the company and keeping the strict belief in the cooperative principles" [2, p. 28].

Ghiulea believes in the cooperative's ability to form the integral cooperative, in which the consumer cooperatives achieve the necessary production and transportation, and all the activities are based on the purest principles of cooperatives. This would create the prerequisites for the creation of the socialist enterprise and, more importantly, would achieve the social, cultural and moral uplift of the working class.

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5. Acknowledgements

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The Role and Importance of Services in National Economy

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Abstract

The tendency of entrance of services functions in all the areas of economic activity, expresses the orientation toward the economies "tertiarization", existing a correlation between the development level of economies and of services.

At the macroeconomic level, the dimensions of tertiary sector are measured by a number of indicators which express their volume and contribution to the economic and social progress. The study highlights the importance of tertiary sector in the national economy, their contribution in the economic development.

Key words: tertiary sector, service activities, economy.
J.E.L. classification: L8-L80-L81-L82-L84-L85-L86-L87-L88-L89; O1-O11

1.1.Introduction

In the actual stage, services are granted a role of prime importance, by economic theories, in accomplish the economic and social progress, these finding in the main activities creative of material and spiritual wealth**.** Whether until `80 years, according to classic theories, tertiary sector was characterized by a low receptivity beside the technical progress and by a diminished rhythm of productivity (compared with the other two sectors - agriculture and industry), in the last decades, this assessment can no longer be supported, as a result of the extension in many areas of services, of the technical progress, through informatics, electronics industry, modern technology of telecommunications, elements that directly have influenced the growth of labor productivity. The reorienting opinion of specialists regarding the unproductive nature of services, has been motivated by a number of benefits resulting from this activity:

- they constitute a significant source of jobs, for limiting unemployment;
- a supply of services able to meet market requirements represent a basic element for competitiveness of enterprises in this field.

Existence of a number of categories of services such as: an efficient banking system, properly developed transport sectors, telecommunications, an efficient public administration, are essential conditions for economic growth achievement and concern in international trade, what determine services acknowledgement both as a prerequisite, and as a result of economic development.

The new systems, more and more complex, generated by technical progress, have led to an increase of the need for services involved in using of the industrial and consumption goods.

Increasing importance granted to services in the economy has resulted in the enhancement of their input to Gross Domestic Product, increase of employment level, growth in dynamics of services concern in the world trade. This evolution has led to including services within the multilateral trade negotiations, which have become Uruguay Round, finished by setting up the World Trade Organization (WTO) and signing of the General Agreement on Trade in Services (GATS).

As services sector theoreticians argue (Elena Nicoleta Untaru quotes Orio Giarini) [2], the new designation of "services economy", externalized in the most of world countries, is characterized by unlimited development of certain branches of services (financial, insurance, telecommunications,

transports), as well as by the involvement of services activities in the most of the functions carried out in the developed processes in the processing industry and in agriculture.

The activity of research and development – a consequence, but also a prerequisite of the development of production technique, contribute to the design of new products and services, meeting the market requirements, increasing their quality. In a direct relation with research and development is the education, as the use and application of new technologies also involves the upper qualification of the personnel.

Services are involved in the production processing by research and education functions, in the process of raw materials provision, in the progress of production, distribution of products on the links covering the routing from producer to consumer and, at the same time, in maintenance and repair products.

The tendency of entrance of services functions in all areas of economic activity, expresses the orientation toward the economies "tertiarization", existing a correlation between the level of development of the economies and that of services.

1.2. The importance of services in the national economy

At the macroeconomic level, the dimensions of tertiary sector are measured by a number of indicators which express both the size and the share of resources used in this sector, and the volume and contribution of the services effects to the economic and social progress.

A. A feature of the size of service sector is the input in the GDP, last decades registering a significant increase of their share, what has conferred them the role of engine of the economic growth.

In Romania, the role of services in GDP achievement has entered, on average, below the level of 50%, according to the data of ASR (Romanian Statistical Yearbook), in the period 2008-2010, the changes from one year to another showing no major meanings (**Table no. 1**).

Table no. 1 The situation regarding the contribution of services categories to national GDP

lei million current prices

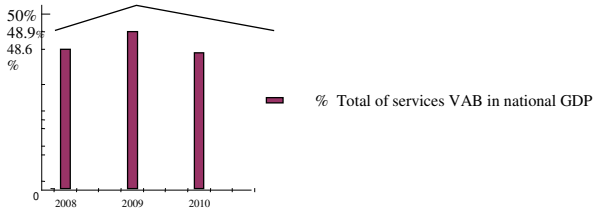
Categories of services	***% in National GDP***		
	2008	**2009**	**2010**
1.Wholesale and retail;...; transport and storage; hotels and restaurants	19.3	18.8	19.5
2.Information and communication	3.9	3.9	3.8
3.Financial intermediation and insurance	2.2	2.2	2.2
4.Real estate activities	6.2	6.5	6.8
5.Professional, scientific and technical activities; activities of administrative services ...	3.8	4.0	4.1
6.Public administration and defence; social insurance of public sector; education; health and social assistance	10.8	11.1	10.0
7.Shows, culture and recreation activities; ... and other services	2.3	2.3	2.0
% Total GVA services in GDP	***48.6***	***48.9***	***48.6***

Source: data processing from ASR 2011- CAEN 2, INS

Expressed in weights, the services have contributed to GDP achievement in the year 2008 with 48.6 %, had a slight increase of 0.3 % in the year 2009, respectively, at the level

of 48,9 %, as to return to 48.6% in the year 2010 (**Graph no.1**).

Graph no.1 The contribution of services in national GDP achievement



Source: *data processing from ASR 2011- CAEN 2, INS*

By analysing the Gross Domestic Product (GDP) structure by categories of resources from service activities (according to grouping in the Romanian Statistical Yearbook – ASR), for the period 2008-2010, it highlights the following questions:

•Ranking contribution on categories of resources positiones the groups of services, in all years, so:

-*„Wholesale and retail; repair of motor vehicles and motorcycles; transport and storage; hotels and restaurants"* are **on the first place** - their share, in the three years, is in the range of 18,8 % and 19.5 %;

- on **the second position** there are services group "*Public administration and defence; social insurance of public sector; education; health and social assistance"*, with weights between 10% and 11,1%;

- on **the third place** there are located "*Real estate activities"*, with levels between 6.2 % and 6.8 %;

- **the fourth place** is occupied by two groups, with weights significantly close (about 4%): "*Information and communication*" and, respectively, *„Professional, scientific and technical activities; activities of administrative services and of support services"*;

- on **the last place** there are found also the groups "*Financial intermediation and insurance"* and *„Shows, culture and recreation activities; repair of household goods and other services",* the contribution exceeding scant of 2 %.

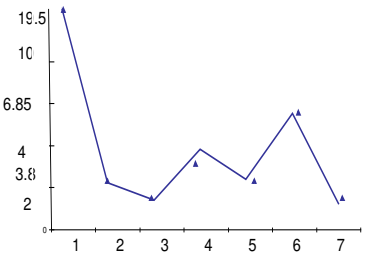
• The contribution of each category of services to GDP achievement maintained relatively **constant** over the three years, the plus or minus deviations, being, as a rule, less than 1 %.

• Two categories have **constantly** recorded **increases** (reduced, between 0.1 % and 0.3 %) from one year to another: "*Real estate activities* " and, respectively, "*Professional, scientific and technical activities; activities of administrative services and of support services*"

• The only position with a more significant deacrese of 1.1 % in 2010 beside 2009, was to "*Public administration and defence; social insurance of public sector; education; health and social assistance"*.

Ranking of categories of services by the contribution in Gross Domestic Product (GDP), is shown in the **Graph no. 2.**

Graph no. 2 The input of each category of services in GDP in year 2010



Source: *data processing from ASR 2011- CAEN 2, INS*

Notes:

1. *Wholesale and retail; repair of motor vehicles and motorcycles; transport and storage; hotels and restaurants*
2. *Information and communication*
3. *Financial intermediation and insurance*
4. *Real estate activities*
5. *Professional, scientific and technical activities; activities of administrative services and of support services*
6. *Public administration and defence; social insurance of public sector; education; health and social assistance*
7. *Shows, culture and recreation activities; repair of household goods and other services*

It has been counted the graph, only in the year 2010, taking into account the small

differences from one year to another, of the input of services in structure, to national GDP achievement (**Table no.1**).

B. Employment weight in the service sector emphasizes the role of human element in the share of services, being a correlation with the structure of the economy. (**Table no. 2**).

Table no. 2 Civil employment, by activity of economy

thousand persons

Specification	**Year**				
	2008	**2009**	**% unto 2008**	**2010**	**% unto 2008**
Employees on the entire economy of which:	8747	8411	96,1	8371	95,7
In the service sector	3667	3600	98,1	3570	97,3
The weight of employees in services in the total population of economy **(%).**	***41,9***	***42,8***	**-**	***42,6***	

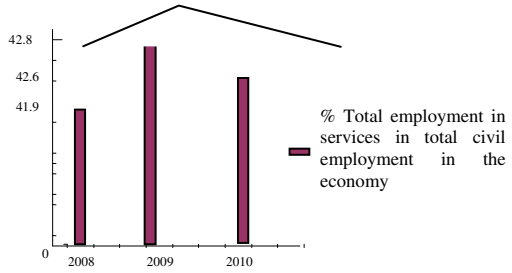
Source: data processing from Labour force balance - end of the year, ASR 2011, INS

From the data referred to above, it issues that in the period 2008-2010, civil employment in the economy decreased from a number of 8747 thousand persons in 2008 to 8371 thousand in 2010, respectively, with 4.3 percent, while employees in services declined from a number of 3667 thousand persons in 2008 to 3570 thousand in 2010, respectively, with only 2.7 percent.

If consider the weight of employment in services in the total employment of national economy, it perceives an increase in the period taken into account, respectively, from 41.9% in 2008 to 42.6% in 2010. This increase, even if only with 0.7 %, reflects *the positive role of the sector in the supply of jobs* and *in the employment growth,* in the context of a jobs diminishing throughout the economy.

Graphic of employment in services is highlighted in the **Graph no. 3**.

Graph no.3 The weight of emploument in services in proportion to the total civil employment in economy



Source: data processing from Labour force balance - end of the year, ASR 2011, INS

As regards the employment by category of services, according to data processing from *Labour force balance - end of the year* ASR 2011 (*Romanian Statistical Yearbook 2011*), at the end of the year 2010, for 6 service activities, the weight is over 5% in total services: "*wholesale and retail; repair of motor vehicles and motorcycles"* - 31,9 %; *„transport and storage"* - 11,9 %; *„health and social assistance"* - 11.4 %; *„education"* - 10,9 %; "*activities of administrative services and of support services"* – 5,7%; *„public administration and defence, social insurance of public sector"* - 5,7 %. For the other categories of services, the weight of employment is between 0.9 % (the "*real estate activities"*) and 4,4 % ("*professional, scientific and technical activities*").

Slight increases of employees in the year 2010 unto the year 2008, have been found in "*transport and storage*" - 0,4 %; "*financial intermediation and insurance*" - 0,5 %; "*other service activities*" - 0,9 %.

Decreases in the same period appear in the segments: "*Real estate activities*" - 0,4 %, "*hotels and restaurants*" - 0,7 %; "*education*" - 0,9 %.

C. Flow of Foreign Direct Investment in services, in absolute value, have known an increase of 1.7 %, in the year 2010 unto the year 2008, decreasing beside 2009. Expressed in weights, it appears that, in the period 2008-2010, tertiary sector have come to more than a half of the volume of Foreign Direct Investment in the economy, respectively, 57,3% in 2008; 57.5 % in 2009 and 54,1 % in 2010, what confirms the *important role* of this sector of the economy *in attracting Foreign Direct Investment.* (**Table no. 3**)

Table no. 3 *Foreign Direct Investment flow in the economy and in services*

FDI flows	**Period**				
	2008 Thousand million euro	**2009** Thousand million euro	**% unto 2008**	**2010** Thousand million euro	**% unto 2008**
Total on the economy	**48,8**	**50,0**	**102.4**	**52,6**	**107.7**
Services	27,9	28,7	*102.9*	28,4	*101,7*
% services FDI in FDI of economy	*57.3*	*57.5*		*54.1*	

Source: data processing from BNR - ISD în România 2009, 2010, 2011

1.3. Conclusions

Tertiary sector represents a branch of a particular importance in the European economy, taking into account its raised contribution in the GDP achievement and in the labor force employment, of the large number of communitary agents who carries on service activities, as well as of the high-volume of Foreign Direct Investments in this sector.

Developments in the service sector highlighted their economic importance on national and international area, their contribution in the economic growth and development, being an interconnection between intensive production of services and development.

Even under the conditions of economic crisis, the sector of services maintained his overhead rhythm of evolution, with the highest weight in Gross Domestic Product (GDP), at national level, the diminishing in their input, in the year 2010 beside 2009, being insignificant (less than 1 %).

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Development of an Intelligent System Prototype Intended for Accounting in Forestry Entities

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Abstract

Prototyping plays a very important role for the development of an intelligent system, it allows determining the optimal structure of knowledge base and do not consume all the resources necessary to develop an entirely intelligent system. Our work shows the methodology for developing such a prototype. We made this application in order to simulate intelligent reasoning of an professional accountant from forestry. Romanian accounting knowledge, held by professionals with experience in accounting or forestry, was acquired and stored in a knowledge base, able to provide suggestions to optimize economic decisions in forestry. The results of this study are useful for researchers in the fields of decision-support systems, knowledge management, forest units management, management of information technology (IT). Also, our study is useful to intelligent solutions developers and forestry managers, given the detailed presentation of new available IT solutions.

Key words: knowledge-based systems; knowledge management; intelligent system prototype; accounting forestry knowledge; forestry expert system.
J.E.L. classification : D83, M42, O32, M10

1. Introduction

The term *artificial intelligence* was first used by John McCarthy in 1956, at a symposium attended by elite researchers, including Marvin Minsky, Herbert Simon and Allen Newell, who contributed, by their studies, to award the rank of science to this concept [12].

In the first investigations, the artificial intelligence was placed in the area of science, and of specific technologies.

Researchers proposed to transfer in the "universal computer" the ability to solve human thinking problems, extracting and using necessary information, in order to generate a symbolic representation of the "spatial" structure of the required reasoning [11].

Artificial intelligence is designed to develop technologies and information systems and is meant to emulate the functioning of the human mind when it solve problems and make decisions. Two of its most important attributes are:

- Making judgments by reference to the acquisition of knowledge;
- Increasing the performance, in terms of reasoning ability to solve tasks or assist decision, pace with the of acquisition new knowledge [2].

Tools used in knowledge management include knowledge processing technology, especially intelligent systems required to create, capture, convert, store, organize and disseminate the knowledge [6].

In forestry, the development of such a system has impact on improving accounting knowledge management. Development of an intelligent system for forest accounting units support the managers, and can be successfully used to store vital knowledge for proper conduct of business processes in forestry units.

2. Objectives

We aim to achieve an intelligent system based on accounting knowledge, decision support to operational level in a forestry district. Through this system, accounting knowledge within a forest subunit will be acquired and stored in a knowledge base. The system will acquire knowledge, will receive extra experience and expertise, and will provide suggestions to optimize economic decision processes.

The suggestions will be useful to the manager of district and, also, other officials from the functional departments of forest district, in decision making. The intelligent system can be used also for training new staff from a forest district, facilitating an interactive access to knowing processes and to specific activities.

By prototyping we wish to establish the optimal structure of the knowledge base that will be further developed in the framework of intelligent system.

In this paper we present steps to development of an intelligent system prototype, based on accounting knowledge required at operational level, in forestry.

3. Methodology

To achieve intelligent system prototype we used hybrid expert systems technology, with which we realized reasoning simulation of an accountant from forestry. Initially we developed the knowledge representation for analysis purposes, using semantic networks and decision trees. Subsequently, for the purpose of encoding, knowledge representation was achieved through rules and frames.

We used knowledge storage and management environment offered by *Guvnor* application, created within the *JBoss* Division of *Red Hat* American company.

For testing we applied modular validation technique, using *Drools* business rules management engine, also a *Jboss* application.

4. Knowledge acquisition and representation

For prototype construction we went through the following steps:

1. Initialization phase included defining of working hypothesis and establishing of the advantages of using intelligent system in forestry accounting;
2. In the analysis and design phase we realized the conceptual design and we established the development strategy;
3. In knowledge acquisition process have been several brainstorming sessions with the participation of experts from the Moldovita Forest District, Suceava County;
4. The knowledge representation used decision tree method, developed by the group of participating experts. Knowledge codification was conducted with the help of business rules;
5. Prototype testing took into account knowledge base structural verification, functional verification and revision of prototype.

In order to develop intelligent system prototype was initiated the process of knowledge extracting, structuring and organizing. We have described the basic concepts of the solution design, we have determined the necessary features and initial prototype structure, during a brainstorming session, attended by employees of Moldovita Forest District, responsible for organizing and managing all functional departments of forestry division. It was planned the next brainstorming sessions, necessary to generate ideas on pieces of knowledge.

In the design of the intelligent system prototype we considered determining the optimal structure of the knowledge base. Intelligent solution design team was mixed, consisting of technicians, economists and engineers, specialists in different fields of activities within a forestry district.

To facilitate the participation of design team in the acquisition process, we determined the structure of knowledge on the areas: management, forest sites, accounting, security and protection, private forests, cadastral activity, hunting, regime of weapons and ammunition, horses, production, culture and regeneration, investment, repairs and forest roads, mechanization, standardization of work, human resources and payroll, secretarial and archive.

On the second level, knowledge of business processes reflected for each field, provide explanations and recommendations emulated after the inference of rules.

Intelligent solution regards storage of accounting expertise and the emulation of the accountant reasoning, so that all subunit specialists, can access the accounting knowledge necessary in daily activities.

That is why the monitoring of the ideas convergence was made by the chief accountant, an economist by 11 years experience in the accounting field, including 9 years in forestry accounting subdomain.

The contribution of each member of the design team (consisting of three forest technicians, 3 engineers, an accountant and the chief accountant of the Moldovita Forest District, Suceava County) was captured by the "black board", using heuristic knowledge, procedural rules and laws.

For setting up the "black board" *SmartDraw* visual editor was used. *SmartDraw* is specialized in graphics processing and supports clear and concise communication between participants in the planning process, providing a user-friendly visual representation [16].

The decision trees build using *SmartDraw* benefited from the advantage of flexibility in editing, viewing and updating.

Figure 1 shows a branch of the decision tree, developed for the field of activity *Guard and protection of forest vegetation*, in *Damages produced in harvesting* economic process.

We defined the following characteristics of inference nodes:

- Name;
- Code;
- Type.

Encoding knowledge contained in decision tree structure was performed using business rules. For example this module of coding rule "damagesHarvEcOp_R2":

```
1. | rule "damagesHarvEcOp_R2"
2. |    dialect "mvel"
3. |    when
4. |        r : resultList( )
5. |        f : newFacts( )
           FactsDropDown( nameId ==
6. | "damagesHarvestingEcOper " , valStr ==
   "timberValueDet" )
7. |    then
           r.addResult("damagesHarvEcOp_R2","The
8. |  value of wood for injured trees is calculated at the
   contract unit price, the invoice is subject to VAT (tax
   simplification measures apply)." );
9. | end
```

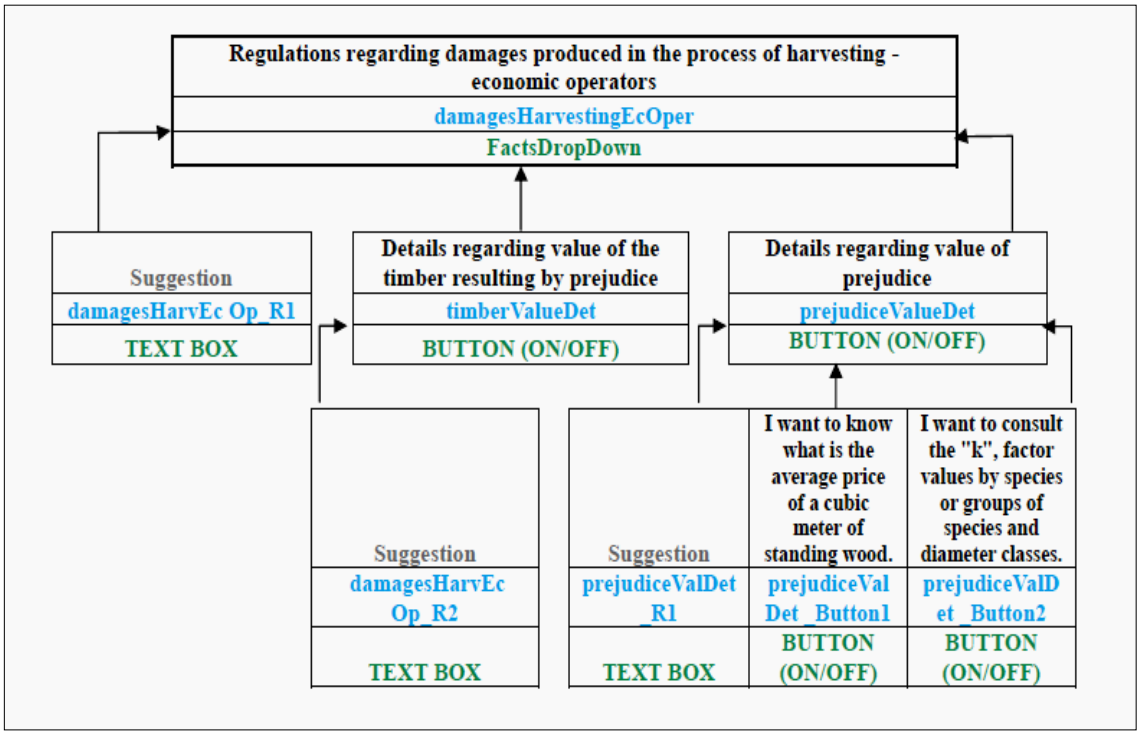


Figure 1. Organizing knowledge through frames

Decision on the correct assessment of the damage and the amount of damaged wood will be facilitated by recommendations on proper reasoning and calculation procedure.

Acquired knowledge was codified in a total of 48 rules defined through management and storage of knowledge environment, offered by *Guvnor*.

Introducing dynamic behavior of the prototype, Figure 2 covers UML state diagram, that models the intelligent system responses to external events.

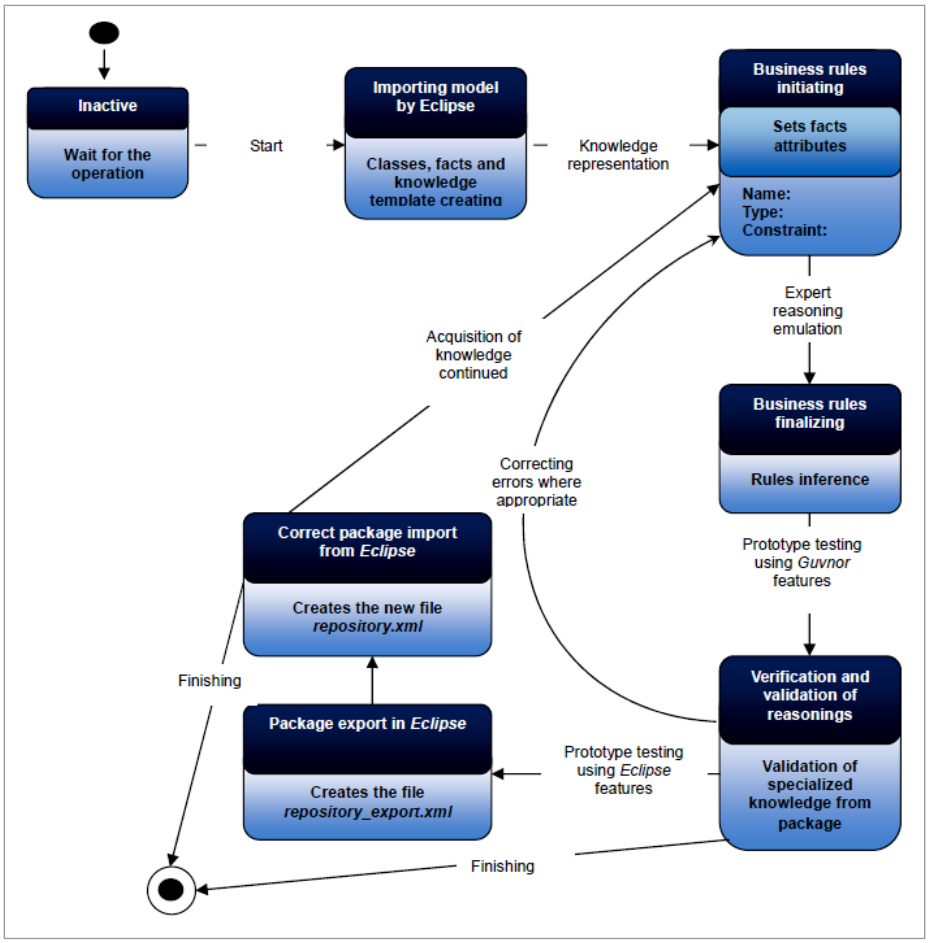


Figure 2. UML state diagram of the prototype

5. Prototype testing and presentation of results

For initial testing of the prototype, we used the facilities of the development environment *Guvnor*. It should be noted that, it was possible to check each rule, after it has been created, with a *Guvnor* functionality.

The verifications made through development environment led to the removal of circular and redundant rules. All pieces of knowledge have been checked by the knowledge engineer, in terms of logical consistency and correctness.

For functional verification and validation of the prototype, a specialist in information and communication technology, previously not involved in coding knowledge was employed in the test team. Testing was performed using a modular validation technique, with *Drools* rules management system, plug-in attached in *Eclipse* programming environment.

Pieces of knowledge have been exported to *Eclipse* through a *.xml* file generated by *Guvnor*, to verify the probability of system errors by subsequent incorporation in the final application. Raised *Drools* errors were corrected, thus revising the prototype.

Should be noted that *Drools* and *Guvnor* and are open-source applications. In the last decade these type of applications have become redoubtable [4].

The Rete Tree of intelligent system prototype (Figure 3), and viewing the properties of each node facilitated error correction and validation of solution.

After validation, the design team determined that knowledge base optimization depends on the following conditions to be fulfilled by the intelligent system:

- The ability to easily locate pieces of knowledge;
- Scalability, meaning the ease way of changing when adding or removing nodes;

- The quality of being perceived as a whole, and not as a mere collection of independent and heterogeneous components;

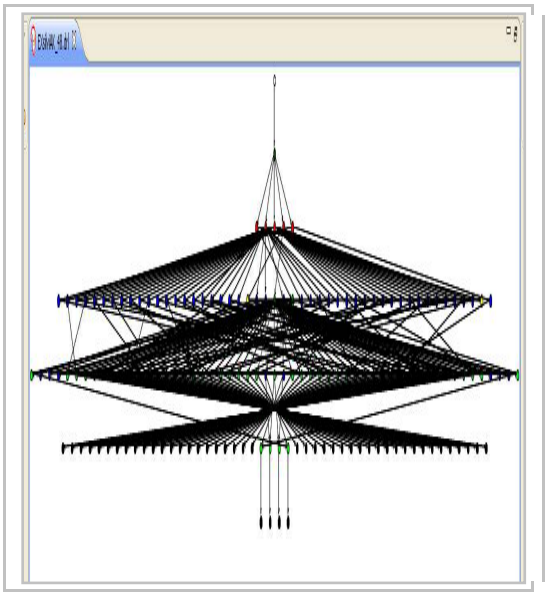


Figure 3. Rete Tree for the intelligent system prototype

- Coverage on error handling options;
- Security system regarding the confidentiality, access control, integrity of information and knowledge against alteration or corruption, and availability at any time, for authorized people.

6. Conclusions

Given the further development of an intelligent system, based on knowledge of forestry accounting, for operational level decision support, we used modeling method, producing a prototype. This paper presents the prototype development stages. Through prototyping we determined the main conditions that must be met by an intelligent system to support knowledge base optimization. In addition to these conditions, we conclude that the successful introduction of intelligent systems in accounting applications is influenced by the following factors:

- Active and iterative communication between experts and decision makers engage visible, relevant and credible knowledge;
- Translation, in order to understand each other, when there are differences between experts and decision makers in the jargon, language, experience and assumptions related to the decisive argument;
- Perceptibility of knowledge representation, which should allow easy understanding of the modeling process, as a whole, and understanding of each rule.

Our research revealed positive implications at the organizational level by implementing intelligent applications: a better understanding of the functioning of business processes in the forestry entities and increasing expertise in the organization through effective distribution and exploitation of knowledge.

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ERP Implementation and Integration in SMEs

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Abstract

One of the necessary conditions to align management of the SMEs in Romania to the requirements and existing standards of the EU market is the rapid integration of the latest trends in ICT.

The main requirement that must be satisfied in this context, is the transition from the informational society to the one based on knowledge, by implementing specific technologies such as ERP, SCM, CRM, document and workflow management, quality management in IT , eBusiness, eLearning and other techniques for working in Internet platforms.

ERP - Enterprise Resource Planning is a business management concept representing the efficiency activity, productivity optimization and minimizing the procedures for carrying out services of an organization in a unified system through proper planning of its resources.

Cuvinte cheie: cost reduction, e-business, planning, integration.
Clasificare J.E.L.: C82, C88

1. Introduction

Erkki Liikanen, former EU Commissioner for Enterprise Policy stated that: "SMEs form the backbone of the European economy. They are the key to entrepreneurship and innovation in the EU, and thus are essential for EU competitiveness. A proper SME definition facilitates identification of their needs and develops effective policies to compensate the specific problems of their small size." [4]

Existing global experience demonstrates the particular importance of SMEs in national economies. After the rising of the last decades, it is expected for the next period that small and medium firms will be the main vector of economic progress, both in the developed countries and in the transitional ones. On the one hand, the attributes of the small and medium sized firms place this type of organization at the forefront of economic development. On the other hand, the coordinates that define the new configuration of the global economy are favorable to the expansion of small and medium sector.

2. What is *SMEs?*

For large firms, SMEs represent the world where they come from and where their competition will appear tomorrow. To individuals, SMEs are often a first job, the first step in their careers. They are also a first step in the entrepreneurs' careers. For the economy in general, SMEs are launchers of innovative ideas and a gathering of new processes that accelerate growth based on efficient uses of resources.

An important implication of external impact of the SMEs is that their contribution to development is not limited to the SME sector of the economy, but rather extends as an impact on businesses which are not covered by this sector, with an important influence. Statistics from almost all countries show that SMEs completely lead in the economy, representing over 99% of all firms, with substantial shares in obtaining GDP and providing jobs.

An essential attribute of SMEs is that they constitute an important source of jobs. Two-thirds of new created jobs are due to small and medium sector. Costs associated with creating a job in a small or medium business are small compared with those involved in creating a job in a large enterprise. They provide products and services at lower costs than larger companies, the main factors that determine this difference being the less conventional constant outgoings, a higher work productivity conditioned by the entrepreneur's constant presence at the firm.

SMEs are a factor of balance at the micro and macro economical level. Corresponding to the middle-class society, small and medium enterprises counterbalance the monopolies and oligopolies, reducing the capacity of large firms to control the market.

Determined by an economical environment which constantly changes, SMEs are flexible and have a great capacity for adaptation, due to their small sizes and the quick decision process. Being closer to the market, they easily adapt to the customer's requirements and demands.

Another important aspect is that they generate a large proportion of the applicable technical innovations in the economy. Most of the jobs will come from innovation. Experts agree that social networks, formal and informal, are vital to SME innovation process.

The role of small and medium enterprises is recognized worldwide for their unique contribution to economic development. The developed countries and the developing ones realize that the SMEs and the entrepreneurs play a vital role in industrial development of a country. Policy makers often found that SMEs can be "key" economic recovery.

Microeconomic policies for this segment focused on creating a favorable environment, improving the access to the financial support by developing investment projects and assistance in the information, training and consultancy areas. In Germany, economic and social policies focused on increasing competitiveness and productivity of these companies. The country stepped in on two levels: federal and landed ones. France has supported this sector by facilitating access to micro credits per term, by carrying out tax reforms and by promoting cooperation between companies. Denmark thought and implemented a security program aiming the adjustment of the financial difficulties of small and medium size companies and in the Netherlands there were actions which meant to improve labor market flexibility as to maintain a high level of labor employment.

Excepting a series of barriers, small businesses also have to face with the increasing pressure of competition originating in globalization, the expansion and opening of markets, benefiting from new technologies and innovation. SMEs will have to find ways to address these challenges, because these challenges will likely continue and even increase in intensity while the EU has just expanded with new members which will increase pressure and competition**.**

3. ERP implementation and integration in SMEs in Romania

As part of the European Union since January 1, 2007, Romania manages to receive technical and financial assistance and support for continuing structural integration processes in the EU. Thus, the European Commission provides grants for 2007-2013, by creating specific financial instruments, having as main objectives the reduction of disparities among the regions of Europe and the increase in competitiveness and employment at the EU level in order to achieve the Lisbon objectives.

Romania's SME sector tends towards small and medium sized companies compared with the European Union as a whole, which has a comparatively higher share of micro firms. The sectoral distribution in Romania shows the concentration of SMEs is highest in wholesale and retail trade (44 %), followed by service sectors such as hotels and catering, transport, real estate and business services (29 %), construction (18 %) and manufacturing (11 %) [5].

Romania is one of the European countries that were worse hit by the recession, as its economic expansion relied more on foreign direct investments which dried up when the effects of the global crisis were felt by investors.

Romania's GDP dropped by 7.1 % in 2009 and contracted further by 1.3 % in 2010. The unemployment rate increased from

5.8 % in 2008 to 8.4 % in 2009 but further dropped to 7.7 % in 2010.

The crisis has taken a toll on Romanian enterprises, putting a temporary stop to the positive long-term developments in the number of SMEs and their contribution to employment and economic value added.

In employment terms, it is interesting to see that the SMEs were much more reluctant to shed employees during the crisis than the large firms. In fact, during 2008–2010, it is estimated that Romanian SMEs maintained their workforce at pre-crisis level, while the large enterprises shed about 6 % of their workers.

Regarding the outlook for 2011, estimates indicate a recovery, more or less in line with the EU average. The number of enterprises and their contribution to GDP (as measured by the gross value added) and employment in SMEs are all expected to exceed the pre-crisis levels by the end of 2011.

One of the necessary conditions to align management of the SMEs in Romania to the requirements and existing standards of the EU market is the rapid integration of the latest trends in ICT.

The main requirement that must be satisfied in this context, is the transition from the informational society to the one based on knowledge, by implementing specific technologies such as ERP, SCM, CRM, document and workflow management, quality management in IT , eBusiness, eLearning and other techniques for working in Internet platforms.

ERP systems have emerged as a result of organization resource planning systems development. Although in specialists approaches there are many points of divergence, ERP has several common features when implemented in SMEs:

- Are developed by objective criteria such as the function, which gives them flexibility and ability to be easy redesigned under modification of factors that are endogenous or exogenous to the organization.
- They have an open character, because they integrates a large number of entities belonging to the external environment of SMEs (customers, suppliers, financial organizations, banks, other businesses, etc.).
- Technically speaking, they work on a client-server architecture in which information is managed on a central station and are accessed by users using usually, Technology Internet / Intranet, which provides several advantages: keeping data unity and integrity; access the same competing resource; maximum availability of services regardless of physical location of the resource or user.
- They are developed in a modular design and integrate all the processes performed in SMEs, covering, in general, these areas of activity: financial management and accounting; human resources management; inventory management; management of assets.

ERP systems architecture allows providing open model that allows data transfer both within SMEs, as well as in their external environment, starting with key suppliers and ending with the consumer network, known as SCM systems. SCM allows optimization of three categories of flows: flows of production (movement of goods from a supplier to a consumer following the latter's request), informational flows and financial flows.

In SMEs, SCM solutions use networking technology to link customers and suppliers and to generate real-time information on the evolution parameters of the production and distribution.

4. ERP - Enterprise Resource Planning

ERP - is a business management concept representing the efficiency activity, productivity optimization and minimizing the procedures for carrying out services of an organization in a unified system through proper planning of its resources, supervising and rescheduling them. According to the APIC dictionary, Enterprise Resource Planning is "a framework for organizing, defining, and standardizing business processes necessary for effective planning and control of the organization so that it can use its internal knowledge to obtain external benefits."

As a software solution, ERP provides support and control of the management

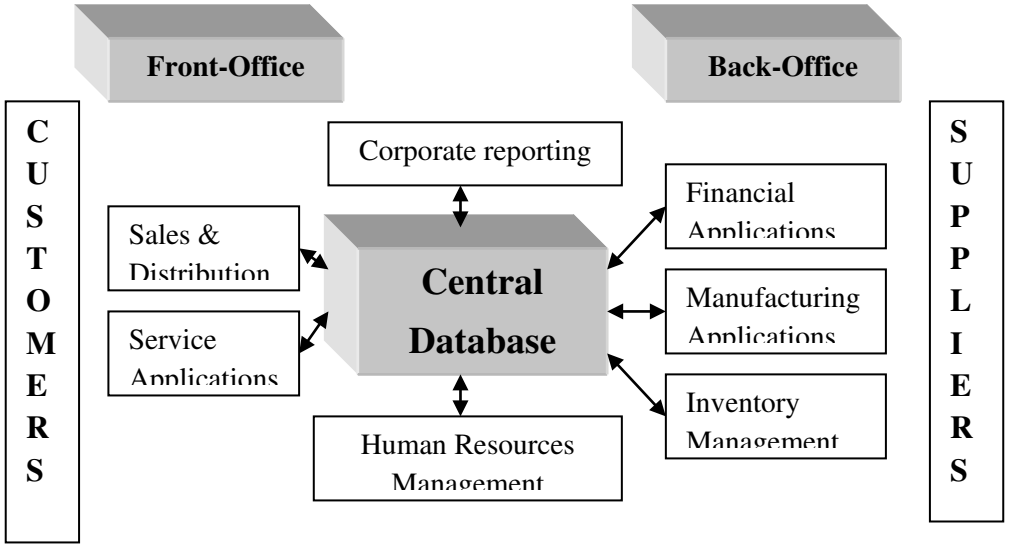
system, and incorporates modules that support the next functional areas of business:

planning, production, sales, marketing, distribution, accounting, finance, human

resources management, project management, inventory management, service and maintenance , transport and electronic business (e - business) "[1]. As a system, ERP integrates, in terms of data and flow, all the components of economic and business operations of a company. The key features of an ERP solution refer to [1], Figure 1:

- structured and modular design, which incorporates modules for all business functions
- integration of component modules in a manner that ensures the flow of information between all application modules with high transparency
- using a single database - a central database
- high complexity, etc.

Figure 1: ERP systems concept



Source: Rashid, M.A., Hossain, L., Pat rick, J.D. (2002), The Evolution of ERP Systems: An historical perspective, Idea Group Publishing, p. 3 [1]

Advantages and disadvantages of adopting an ERP solution in a company are [1], Table 1:

Table 1: Advantages of ERP systems

What benefit	How
Reliable information access	Common DBMS, consistent and accurate data, improved report.
Avoid data and operations redundancy	Modules access same data from the central database,avoids multiple data input and update operations.
Delivery and cycle time reduction	Minimizes retrieving and reporting delays.
Cost reduction	Time savings, improved control by enterprise-wide analysis of organizational decisions.
Easy adaptability	Changes in business processes easy to adopt and restructure.
Improved scalability	Structured and modular design with „add-ons".
Improved maintenance	Vendor-supported long-term contract as part of the system procurement.
Global outreach	Extended modules such as CRM and SCM.
E-Commerce, e-business	Internet commerce collaborative culture.

Source: Rashid, M.A., Hossain, L., Patrick, J.D. (2002), The Evolution of ERP Systems: An historical perspective, Idea Group Publishing, p5, [1]

Implementation of an ERP solution (eg, solutions provider ERP EBS) in SMEs in Romania quantify the benefits offered by the ERP solution, called ERP Clarvision. This brings many advantages, including:

- Sales and customer satisfaction increased by 12%
- Financial and accounting control has improved by 16%
- Stocks are reduced by 18%
- Expenditure on materials is reduced by 5%
- Expenditure on salaries is reduced by 8%

Table 2: Disadvantages of ERP systems

Disadvantage	How to overcome
Time-consuming	Minimize sensitive issues, internal politics and raise general consensus.
Expensive	Cost may vary from thousands of dollars to millions. Business process reengineering cost may be extremely high.
Conformity of the modules	The arhitecture and components of the selected system should conform to the business processes, culture and strategic goals of the organization.
Vendor dependence	Single vendor vs. Multi-vendor considaration, options for „best of breeds", long-term committed support.
Features and complexity	ERP system may have too features and modules so the user needs to consider carefully and implement the needful only.
Scalability and global outreach	Look for vendor investment in R&D, long-term commitment to product and services, consider Internet – enabled systems.
Extended ERP capability	Consider middle-ware „add-on" facilities and extended modules such as CRM and SCM

Source: Rashid, M.A., Hossain, L., Patrick, J.D. (2002), The Evolution of ERP Systems: An historical perspective, Idea Group Publishing, p. 6, [1]

ERP systems have their disadvantages and some advantages above can become disadvantages [1]. Although an ERP system incorporates many modules, there are only a few companies that operate all functions of the ERP solution adopted. The principle of 80/20 is rather applicable in ERP systems - 80% of the organizations adopting an ERP solution using only 20% of its functions, and only 20% firms that adopt the same solution exploits 80% of functions, recommending the company to implement only those modules of the ERP solution which is really necessary. Also we notice the dependence of the solution provider, meaning that the relationship between the supplier and the customer of the ERP solution must remain very close even after implementation.

5. Conclusions

Given the fact that there is no universally accepted definitions for classifying companies into small, medium and large, though all vendors of IT solutions in view of this classification, to facilitate selection of ERP products in the database, it is useful to divide products into three groups: for small (including micro), medium and large companies considering the following aspects business size on turnover and number of employees.

ERP Romanian market remains low, with low depth, where any important project brings significant changes in the entire segment and modifies players hierarchies. There is still much dilettantism: "any provider of software solutions is address any type of company and any industry, with any solution which does not happen in a mature market."

It still expected starting the engine of any economy ERP market: SMEs. They have a small share in business applications, but everyone expects when SMEs will truly invest in IT. Thus, the stake at this moment is represented by small and medium companies, the healty part of the private economy in Romania, which, at least theoretically, is the engine of economic recovery locally.

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Implementing Cloud Computing Based Information Systems

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Abstract

Adoption of a new information system involves much more than simply buying hardware and software, it also includes changes in jobs, skills, management and organization. Most times a new information system is implemented to redesign the organization. Knowledge of application life cycle phases of information systems development is the main success factor in implementing such a system. This article will present some elements of the implementation of information systems in the context of cloud computing. Also a model of implementing cloud based information systems is offered.

Keywords: *cloud computing, information system, system, strategy*

JEL Classification: *L 86, D 80*

1. Introduction

Cloud Computing is a modern day feature that seems to quickly seize the attention of the information and communications technology. Cloud Computing is a relatively new concept in the IT field and it impacts its evolution and brings forth innovation in the way in which information technology is distributed. The term refers to the way tehnology will be supplied in the future, "as a service", available exclusively over the network.

As any other state-of-the-art technology, cloud computing managed to draw the attention of companies which are now seriously pondering on investing in the Cloud. Companies that rapidly grow from basic cloud services to complex infrastructures are faced with intricate decisions regarding whether or not, components of the information system could take full advantage of a private cloud network, which components could work with a public cloud infrastructure and which require a hybrid cloud system.

Among others, the aim of the hereby article is to clarify determinants that contribute to an efficient cloud computing strategy. Although there are a lot of concerns related to cloud computing, companies are willing to experiment cloud solutions. How do companies take the decision to implement cloud services despite these concerns? What key factors and cloud implementation models are not only compatible but, at the same time, work as efficient project models?

2. Cloud Computing and the Organizational Environement

Literature does not offer unanimously accepted solutions, the cloud is not a predefined shape and model; literature is currently unveiling cloud computing and the topic is far from being exhausted. Throughout this article, we aim to evaluate the effectiveness of the cloud projects and systems for any company or organization while trying to detach from the embellished hyperbole perspective offered by IT firms.

Determining factors in setting up strategies for adoption of cloud computing systems are grouped into three major categories: organizational, procedural, and technical factors. A summary of these factors is highlighted in tabel 1. One of the key aspects worthwile of all attention when implementing a cloud-based information system is the field the company operates in together with the acknowledgement of all issues known to have an impact on employee productivity.

Tabel 1 Main factors in setting up strategies for adoption of cloud computing

Organizational factors	• agility and cost benefits • impact on the competitive advantage • employee engagement • strategic organizational planning
Procedural factors	• employee education and training • information architecture • procedures for process implementation • responsibilities and roles - risk management
Technical factors	• security models • location of the cloud vendor • data backup system • data property rights • integration of non-cloud software in the cloud data system • management and monitoring

(source: adaption based on the Whitton, T. "Cloud Computing for Small Business. 8 Reasons to Outsource Your IT to the Cloud", 201)

Once these have been acknowledged, one can move on to developing a cloud strategy. A pitch of agresiveness is dully necessary in addressing the difficult questions raised by own expectations from the cloud computing system and from the cloud supplier.

3. Information Systems Life Cycle – Cloud Computing Perspective

Literature does not offer unanimously accepted solutions, the cloud is not a predefined shape and model; literature is currently unveiling cloud computing and the topic is far from being exhausted. Throughout this article, we aim to evaluate the effectiveness of the cloud projects and systems for any company or organization while trying to detach from the embellished hyperbole perspective offered by IT firms. IT providers are currently rethinking their strategies based on cloud phenomenon and its evolution. Adoption of cloud computing is seen as the state of the art salvage solution for the IT infrastructure, primarily due to its cost reduction potential.

Cloud computing brings forth a new approach within organizations: local information systems will be replaced by standardized, centralized IT services delivered through reliable communication networks. Centralized administrative services offered for fees computed based on a "per use" basis will eventually sunset dedicated IT systems. Cost benefits reside in the efficient use of IT resources and enhanced flexibility such as the ability to solicit and use resources only as these are deemed necessary.

Companies shift their interest towards cloud services and adjust their budgets to accomodate the cloud. A TechTarget survey questioning some 500 North American businesses of all sizes and operating in various industries reveals that 70% of these companies did include cloud initiative expenses in their allotted budgets for 2011, as compared to under 10% in 2010 [5].

For the same purpose, a survey conducted in January 2011 by Unisys shows that 44% of all questionnees consider cloud computing to be top IT priority [6].

The new technology infrastructure equally introduced groundbreaking approaches in the IT system life cycle. The Cloud Computing system life cycle requires ongoing adjustment to project requirements due to changing effort levels and high speed implementation processes.

The life cycle of the cloud computing system development is similar to the traditional IT one, although implementation for information systems based on cloud computing are less time consuming and imply a smaller range of activities.

However, since Cloud computing uses a distributed infrastructure design, it is essential that data be hosted by a secured infrastructure, readily accessible, easy to store, and ensure data protection. Moreover, successful cloud solution implementation is dependent upon a thourough data safety analysis, network security, network speed, scalability, etc. to support global scale applications.

Moving your IT infrastructure to the cloud can bring forth cost reduction, increase flexibility, improve accessibility, and significantly rejuvenate the IT infrastructure of any organization. Nevertheless, in order to enjoy these benefits, any company should attentively plot its cloud implementation

strategy. Starting with the main activities highlighted in the first part of the present article, a successful cloud adoption model should consider the following phased approach to cloud service migration:

1. **Defining requirements** – The stepping stone for the organization is to define its project, to conduct a multi-layer analysis (financial, technical, organizational perspective), to match it with the cloud service offering and assess compatibility and finally, to find answers for all arising questions and obtain continuous guidance.

2. **Selecting the cloud platform and service provider** – We recommend choosing a fast, easy to use, and safe cloud platform. It is equally advisable to choose a flexible and scalable platform to ensure the company takes undivided advantage of one of the key features offered by the cloud services: ability to support and adapt to ever changing business models and future developments. Ideally, the organization would look for a cloud service provider that has a proven history of accomplishments in busineses that are similar to yours. A study conducted by the Ponemon Institute in 2010 reveals that companies are slightly easy going in choosing the cloud service provider. Only 36 % of all US respondents declared that their company remains alert in terms of deploying internal audits or thorough analysis prior to concluding a contract with the cloud vendor. An important milestone in selecting the cloud service provider is questioning their data backup and security policy. Most cloud suppliers consider data security to be their clients' prerogative and accordingly use it as a disclaimer. Another study conducted by the same Ponemon Institute in 2011, questioning 127 cloud suppliers based in the US and Europe shows that 69% of all respondents consider the final users to be accountable for data security within the cloud. At the same time, 35% of the final users consider themselves to be responsible for data security within the cloud and, meanwhile, claim that disruptions are inevitable [4]. For this reason, it is essential to settle from the very begining which party will be held liable for data recovery. For instance, if the provider is EC2 from Amazon, the company will be liable, whereas if the vendor is Sun Guard, accountability is a shared venture.

3. **Establishing contract terms** – Contract terms should be clearly stated and obligations for both parties, supplier and client, should cover all liabilities. For instance, according to some analysts, contract terms clarifying cloud storage capacity guarantees uptime but makes little to no reference on data availability and or protection [1].

4. **Phased migration to cloud** – An organization should consider a phased migration to the cloud which will allow the company to adjust to the new technology and minimize risks while ensuring business continuity.

5. **Planning and avoiding cloud vendor lock-in** – Data currently available in the cloud might no longer be needed tomorrow, work being handled by a department today could be accomplished globally starting tomorrow, while data published regularly in the could become an isolated, local necessity [8]. For this reason, it is advisable to find a cloud solution that allows quick data migration from the cloud to a local database and vice versa based on your company's needs.

6. **Maintenance** – Moving any application from a local database to the cloud is never an easy process; for this reason, we recommend hiring a company that specializes in cloud integration technology to take care of your smooth application and data migration in the cloud. Finding a reputable cloud provider that can guarantee both application performance and uptime is critical for the success of your cloud migration. Equally, the cloud provider should be able to help with the smooth integration of the cloud applications with the existing applications [2], [3].

Taking a closer look, we can easily conclude that no "recipe for success" was yet discovered for the implementation of cloud-based information systems. SMEs seem to implement them "as they go" since the ongoing implementation entails less costs and fewer people to train, whereas corporations embrace existing implementation models usually suggested by cloud service providers.[7] The cloud technology is still in its in infacy stage and, due to ever growing demand, the pursuit for implementation models for the existing methodology is very sustained; we are

currently looking for a cloud model that is sufficiently flexible and highly customizable to meet the demanding needs. In what we are concerned, we strongly believe that it will take a while before we'll see specific cloud implementation designs come to life due to the fact that this technology is not yet matured, it's still in it's early days which can only mean that cloud implementation models will appear as we go and will find their roots in the traditional models.

4. Conclusions

Selecting and implementing a cloud strategy requires a combination of policy knowledge and expertise, stragegy and IT. Cloud computing should not be considered a miracle solution as the cloud computing market is now maturing. Organizations have a duty to keep themselves up to the minute and assess cloud advantages and whether there are enough reasons to migrate to the cloud. In order to complete a comprehensive analysis, objectives need to be clearly stated, specifically for the total cost of the investment and the ROI (return on investment). Objectives should accordingly be realistic and attainable.

While the implementation of the cloud strategy in ongoing, the company's management team should address explicit questions both inside the company and to the potential cloud service providers. Answers to these questions will help identify the correct set of actions

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The Method of Estimation of Development Potential of Trade Enterprises of the System of Consumer's Cooperative Society of Ukraine

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Abstract

The methodical recommendations for estimation of development potential of trade enterprises are developed.

The scientific tool for determination of components of potential of trade enterprises and estimation of level of enterprise development potential is formed.

The scale of estimation of enterprises rating with the measures for effective activity of trade enterprise of the consumer cooperation system (CCS) is offered.

Key words: potential, development, trade enterprise of consumer cooperation system, estimation of enterprises development potential of the consumer cooperation system.

J.E.L. classification: F 10

Statement of the problem

The transformational changes of Ukrainian economy showed up as complex institution and structural transformations that substantiated the respective changes of external and internal environment of enterprises.

It is an ability and competence that is to use available resources (possibilities, facilities) optimally and correctly and determine the development resources [4, p. 224] is the main principle of the effective functioning of enterprise.

Therefore, the trade enterprises of the consumer cooperation system (CCS) need comprehensive estimation of environment where enterprise works, enterprise itself and its potential for the competitiveness providing, during the formation of effective market strategy, prospects estimation and development direction of the enterprise.

Analysis of the last researches of this problem in which the decision is founded. The problems of estimation and management of potential and development potential of enterprises are the subjects of research of foreign and domestic authors: I. Ansoff, A. Tompson, A. Dg. Striklend, V. Kovaleva. B. Plishevskiy, I. Buz'ka, R. Marushkova [5], V. Shtanskiy and M. Zhemchueva [14], P. Fomin and M. Starovoytova [13], V. Mikitenko and I. Ignatieva [7].

The majority conducted researches were directed on the general problems of management of potential of enterprises the generous amount of which examined economic, strategic, production or marketing potentials [2, p. 1731].

The aim and task of researches. In spite of achievement and rather big attention of foreign and domestic scientists (O. Balackiy, A. Voronkova, I. Dzhayn, Yu. Doroshenko, O. Oleksyuk, E. Popov, E. Lapin, I. Repina, O. Fedonin, R. Feschur etc), the questions of forming of the unified method of estimation of potential of enterprise and development potential of trade enterprise of CCS are unsolved [9, s. 89].

Therefore a forming of method of integral estimation of potential and development potential of enterprises of CCS is necessary and actual.

Results of the research

The premise of effective trading enterprise management is the formation of trustworthy and impartial assessment of its potential, because further analysis is carried

out on this basis and measures for enterprise development management process improvement are taken. The assessment of the enterprise potential contains the evaluation of its components, on the basis of which general idea about the conditions of the enterprise development is formed. Thus, it is necessary to determine precisely all components of an enterprise potential, to estimate the development level and potential development of a trading enterprise.

An enterprise as a social economic system has two motive powers: a wish to survive and an aspiration for development [6, p. 6]. The necessary condition for an enterprise as a system conversion is its development. That is way we propose to the economic agents of the system of consumers' cooperatives (SCC) to use mixed enterprise development course. This course includes intensive, innovative, procedural and adaptable enterprises' development. The transition to this course of development will give an enterprise the possibility to improve the manufacturing and selling process management on condition that the products and production technology will be constantly renovated. Executives will receive the possibilities to keep and increase both internal and external enterprise potential using the methods and means of the adaptation to the requirements of inner environment. Intensive development guarantees gradual augmentation of an enterprise potential, allows to increase its level radically and to get the new quality of its own potential by means of technologic and organizational development, also to adapt to cardinal changes in outer environment. Consequently, using this approach the trading enterprise of SCC will be competitive at the world goods and services market.

Taking into consideration the basic characteristics of an enterprise potential, we can state that its model in trading is determined by [3, c. 352–353]: volume and quality of present resources; executives' and other staff members possibilities to create certain conditions to meet consumers' needs and certain conditions for high quality service; financial possibilities of assets attraction; management possibilities to use objectively present enterprise resources; information possibilities (to generate and transform information resources); innovative possibilities of an enterprise (renovation of the technical and technological trade base); the use of up-to-date forms and methods of the economic processes and other possibilities organization and management. All these possibilities together create aggregate enterprise potential, which reflects its level of the competitiveness at the goods and services market.

The augmentation of the potential takes place at the formation stage as well as at the process of its usage [8, p. 137]. The main task of an enterprise is the use of available potential, its augmentation (due to reserves). However, the fact, that the strong points are the potential of an enterprise and the weak ones are the reserves of a potential, must be taken into consideration. Therefore one of the managerial tasks in running a trading enterprise of SCC is the use of strong points eliminating weak positions at the same time [4, p. 233].

A development potential of an enterprise is referred to as cumulative possibilities, resources, and means of functional enterprise potentials to change the index parameters of an enterprise activity providing selected development strategy. A functional potential is referred to as certain potential of the functional subsystem of the enterprise management [2, p. 1740].

Therefore, the assessment of an enterprise potential is a search for the aggregate of the characteristics, indices and properties that enable to describe an enterprise sufficiently and evaluate its perspective possibilities to meet corresponding society needs of a particular goods (or services) and the possibility to attain set goals [1, p. 7; 4, p. 224]. On the basis of achieved results of an enterprise potential assessment we can suggest perspective goals and draw rational strategy of its attainment [10, p. 89–90].

There are a lot of methods for the assessment of an enterprise potential and its development level. Each approach, method or model of an enterprise potential assessment has its advantages and drawbacks [12, p. 634–635].

We propose to evaluate an enterprise potential taking into consideration the structural functional method, which is based on the potential assessment of such functional units as trade; personnel; finance; organizational structure and management;

marketing; tools; information; innovations. Thus, the assessment of the trading enterprise of SCC potential is proposed to estimate according to the formula (1):

$$U = \alpha_{PS} \cdot PS + \alpha_K \cdot K + \alpha_F \cdot F + \alpha_{OM} \cdot OM + \alpha_M \cdot M + \alpha_T \cdot T + \alpha_{In} \cdot In + \alpha_{Iф} \cdot Iф, \quad (1)$$

where U – the trading enterprise potential;

$\alpha_{PS}, \alpha_K, \alpha_F, \alpha_{OM}, \alpha_M, \alpha_T, \alpha_{In}, \alpha_{Iф}$ – ponderability coefficients;

$PS, K, F, OM, M, T, In, Iф$ – normalized indices of functional units potential: trade (PS); personnel (K); finance (F);organizational structure and management (OM); marketing (M); tools (T); information ($Iф$); innovations (In).

Taking into consideration author's research [3], the level of an enterprise development potential is defined comparing standard values of factor features (that are accepted as 100 units) with their corresponding expected values (U''), which are defined with the help of corresponding dynamics series according to methods of moving average, extrapolation, expert evaluation or multi-factor regressive models.

Thus, let's consider step-by-step the methods of the determination of integral index of the development potential of a trading enterprise of SCC.

The estimation of the general potential of a trading enterprise according to the principles of methods of normative multidimensional mean calculation and graphic method is the result of the first stage. Herewith, the authors formed and structured the components of the potential of a trading enterprise of SCC in accordance with types, in particular:

1) trading potential (financial cycle period, commodity assortment stability coefficient, trade turnover, coefficient of service channels load, receipts from selling goods (services) per 1 m^2 of floor space, trade turnover expenses / receipts relationships);

2) labour potential (labour efficiency of the trading operational personnel, profitability of the payment costs, an average qualification level of trading workers, an average length of trading workers' service, personnel employment at managerial positions, the level of the education of the staff);

3) financial potential (financial independence coefficient, self-financing coefficient, the level of income gained, selling profitability, the provision coefficient of trading stock with its own circulating assets, aggregate liquidity ratio);

4) managerial potential (the productivity of managerial staff labour, the coefficient of the managerial structure reasonableness, coefficient of the fluctuation of manpower, profitability of a capital, the coefficient of the effectiveness of the advertising actions and means of sales stimulation, purchasing completeness coefficient, regular customers' share, price rate);

5) logistical potential (the coefficient of the staff provision with floor space, the level of labour mechanization, turnover per 1 m^2 of floor space, floor space sufficiency coefficient, the coefficient of the effective usage of cellarage, mounting point coefficient, showroom coefficient, the coefficient of the managerial process automation);

6) information potential (the level of expenditures on the automation/informatization of the technological process, the existence of own web-site, availability of own e-mail, total amount of advertising means, total number of inner information types, effectiveness index of the information support of the managerial activity);

7) innovation potential (assortment renovation rates, technology renewal rates, managers' qualification level, corporate culture rank, return on sells from innovations).

The value of enterprise potential indices is proposed to present in the figure for computation (fig. 1), apart according to the year.

To define the value of units indices of PTE of SCC (K_r), if $\sum K_r = 1$.

To normalize the indices by maximum values.

Figure 1

Computation figure of an assessment of the potential of a trading enterprise (PTE) of SCC within 20__ [created by the author]

Type of PTE	PTE indices	Enterprise					Index value in a unit	Maximum value of an index	Significant indices				
		e 1	e 2	…	…				P 1	P 2	…	…	
1	2	3	4	5	6	7	8	9	10	11	12	13	14

Next stage – the computation of the floor space potential of the trading enterprise (fig. 2) in accordance with formula (2):

$$U = \frac{\sin\frac{2\pi}{n}(\sum_{i=1}^{n} U_i U_{i+1} + U_1 U_n)}{2},\ i = \overline{1,n}, \quad (2)$$

where U – aggregate enterprise potential,

U_i – value of i component of an enterprise potential.

Figure 2

Computation figure of the floor space of the potential and development potential of the trading enterprises (PTE) of SCC within 20__ [created by the author]

PTE type	P 1	P 2	…	…	PTE type	P 1	P 2	…	…	Standard
1	2	3	4	5	6	7	8	9	10	11
…					…					100
.					.					100
.					.					100
…					…					100
Aggregate potential					Aggregate potential					340,36

Third stage – the computation of the level of an trading enterprise development potential as the difference between standard value (that are accepted as 100 units) and expectable value of the trading enterprise of SCC.

Forth stage – the formation of the development vector on the basis of which the development potential of the trading enterprise of SCC is structured graphically.

Five stage – the computation of the level of an enterprise potential (4):

$$D^U = \sqrt[n]{\prod_{i=1}^{n} IOP_i}, \quad (4)$$

where D^U – the level of enterprise development resources (potential);

IOP_i – integral resources assessments ($i = 1,\ldots,n$).

The authors suggest the computation of the problem level of the development potential of the trading enterprise based on principles of combination the taxonomy and radar methods.

Next step is to define what type of the potential has problem development level at the enterprise.

Next stage is characterised by the analysis and the comparison with market data. The authors propose to apply the following assessment rating scale of the development potential of the trading enterprise to evaluate the level of the development potential of the trading enterprise of SCC (fig. 3):

Figure 3

Assessment rating scale of trading enterprises of SCC in Ukraine

[created by the author, [3]]

Enterprise development potential level	Enterprise activity assessment	The forming of an enterprise policy
1	2	3
Problem	Basic enterprise activity factors are negative, resources are used inefficiently	It is necessary to carry out fundamental strategy changes
Low	An enterprise is vulnerable at the competitive environment of the sector	To change the business processes activities
Average	The activity of an enterprise is sufficiently effective, an enterprise takes stably an average place at the goods market	To adjust the day-to-day management
Above the average	The activity of an enterprise is effective in whole, has competitive benefits, can become a leader	To implement marketing measures by means of маркетингові заходи шляхом conducting the exhibitions, advertising campaign in mass media, demand and supply research
Sufficient	An enterprise is a leader at the market	To monitor and to make certain actions to maintain its leading position at the market

Herewith, the formation of any enterprise development policy requires feedback support between made decisions and received results. The tool for creating this feedback support is the assessment that is the determination of the value of received results of taken managerial decision. During the implementation of an enterprise potential these results are synergy deposit made of great number of explicit and implicit effects. The above mentioned effects are of both and quantitative (production output growth, the quantity of clients and profit) and qualitative nature (the creation of positive image of an enterprise, the satisfaction of personnel needs by means of working conditions improvement). Such a variety of implementation results of the enterprise potential gives us the possibility to appraise the level of the enterprise development potential on the basis of the potential used by the enterprise.

Conclusion

The proposed methodical approach to define integral assessment of the management of the development potential of trading enterprises of SCC with the help of analytical and graphical methods and the method of a mean is quite simple. It has sufficient system of factors to evaluate the trading enterprise potential. The methods allow making expended and complex conclusions, defining the directions for an enterprise potential improvement. The main drawback of the methods is the dependence upon expert assessment of the certain indices units' value and certain vast of calculations.

In such a way, the practical application of methodical approach of the assessment of the potential and development potential will let to provide the trading enterprises of SCC in Ukraine with new ideology, development policy, methodical tools of the development management and development potential in terms of transformation economy that will enable an enterprise to achieve the considerable development level and guarantee competitiveness and prolonged success at the market.

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The Evolutionary Perspective of the Firm

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Abstract

The paper was based on a systematic review and critical analysis of literature on the theory of firm.

The theoretical assumption that forms the base of this paper is based on the importance of knowing the relationship between firms in different market, recognized at economic level.

Based on the need to address these questions, the objective of this paper is to critically analyze the theory of the firm in terms of evolutionary perspective.

The research goal is to identify how they contribute to explaining the evolution of firms and the performance differences between them. In this perspective the research goal is the analysis of the theory of the firms using the evolutionary theory.

Key words: theory of the firm, the evolutionary theory, the firm, the games theory.
J.E.L. classification: D21, D43, L13

1. Introdution

According to the neoclassical theory of perfect competition, the firm is to combine production factors in order to obtain a final product [1]. Thus, the company combines production factors – labour and capital in order to maximize profits.

Formed according to the values promoted by the neoclassical school (along with his contemporaries Friedrich von Hayek and Milton Friedman), in 1940 Ludwig von Mises published his work "Human action" in which he argued that the economy is a social science [2].

There were many reactions against this way of considering the economy and hence it was called into question the entire neoclassical paradigm. In this context, the firm, the enterprise, is the form of human action, namely the creation of the entrepreneur. It is an integrative part of the market and should be integrated into the general theory of the market process and price formation.

2. The theory of the firm

The marginality debate around the mid 1930s came after the publication of several studies (Oxford Research Group - Hall and Hitch, 1939; and R.A. Lester, 1946) which argued empirically that entrepreneurs apparently do not follow the marginal principle of maximizing profit and minimizing costs within companies, so that they questioned the relevance of profit maximizing to be found in the neoclassical theory of the firm.

Ronald Coase identifies, in an article published in 1937, several sources of the cost related to the market mechanism use, that determines the emergence of the firm as an institution. The most important reason to set up a firm seems to be that of identifying the relevant prices, along the cost of negotiation and conclusion of separate agreements for each transaction [2].

The theory of the firm put forward by R.H. Coase is based on the generalization of organizational situations in an environment dominated by the market where transaction costs are significant. Without deviating from the alternative coordination of resources, R. Coase 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.

In the case of a perfectly competitive market the firms are of approximately equal sizes and cannot influence price formation, in the case of imperfect markets the competitive behavior of firms show that they are in active competition with each other and have some

power to influence the market [1]. The analysis of market structures is useful in identifying different types of markets, providing information on the performance of firms.

The paradigm on structure, conduct and performance (Chamberlin 1933, Bain 1956) dominated economic thought until the '80s. According to this paradigm, the structure of the market in which firms operate is ultimately the determining factor of performance and is measured through indicators such as profitability.The Neoclassical theory deals with the pattern of perfect competition, within which the perfect information available to economic agents provides instant allocation of production factors and access to economic goods.

According to the neoclassical theory, the firm exists to combine production factors to achieve and maximize profit (Coase 2002).

Harvard School (J.S. Bain, E. Mason, etc.) became well-known due to the conceptual research done on the structure and functioning of markets, barriers to entry, competitive strategies, economies of scale, transaction costs and antitrust cases. Contrasting the paradigm on structure, conduct and performance, the Chicago school continued to use an approach based on the neoclassical model of long-term equilibrium in competitive markets. Thus, the resources are allocated optimally and the market is the one that has the power to balance supply and demand [3].

The representatives of this school (A. Director, G. Stigler, W. Baumol, etc.) studied the theory regarding the life cycle of the firm, the firm's power on the market as a determinant of its integration. A significant contribution belongs to W. Baumol (1982) who promoted the theory of contestable markets, assuming that markets become competitive in the long term, and government interventions are not always considered necessary.

The Austrian School (C. Menger, L. von Mises, Hayek, etc.) supported the idea of minimal state intervention on the markets, bringing important conceptual developments on the theory of the firm. We observe such research on the competitive structure of markets, those relating to the dynamic nature of markets, as well as the research on the characteristics of firms, sectors and markets

3. The evolutionary perspective of the firm

The evolutionary theory defines the firm as a set of essential skills, gained from its learning ability [4]. The evolutionary approach adopts the concept of limited rationality, assuming that individuals and organizations have much to learn in a complex environment, characterized by uncertainty in the context of the knowledge economy.

Authors like O.E. Williamson (1971), S.G. Winter (1982), S. Ross (1973) H. Demsetz (1972), a.o., developed the approach initiated by R. Coase in 1937 and discovered new areas for its application. Alchian and Demsetz (1972) argued that the neoclassical theory of the firm does not actually refer to firms, but to the industry. The analysis of the literature in the field on modern theories of the firm is based on noticing a deficiency consisting in the separation of the economic theory of the firm and the one of the entrepreneur. 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 behaviour of firms, where profit maximization is the result of an evolutionary process which took place in the industry.

Langlois (2003) shows that firms with identical production functions, transform homogeneous inputs into homogeneous outputs according to well known technical "plans" [3].

Machlup (1947) and Stigler (1947) also defended the marginal principle, as a reaction to these studies. Machlup 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[7].

The idea of the firm's behaviour put forward by Demsetz and Alchain is not much different from the market behaviour, suggested by Jensen and Meckling (1976) who introduced the idea of agency costs as a source of the firm's structure. In this regard the firm's behaviour is similar to that of the

market; it is the result of a complex balancing process.

E. Fama (1980) stated that the separation of share ownership and their control can be explained as an effective form of economic organization in the perspective of the "set of contracts". Every factor of production within the company is to be found in inputs, which put together can create final outputs. The contractual theories of the firm are based on the importance of property rights, asymmetric information and moral hazard.

Continuing the reflection of R. Coase, O. Williamson analyzes the situations in which the exchanges reflect a large opportunist potential. Using the sources of sustainable competitive advantage has renewed the resource-based firm theory [4].

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). From this perspective, the firms are heterogeneous, the competitive advantage is translated in terms of efficiency of annuities, and the sustainability is based on the difficulty for the competitors to imitate.

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 (Demsetz).

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. Continuing the idea of coordinating knowledge, some authors (Cremer 1990, Radner 1992, 1996, Bolton and Dewatripont 1994) identify the firm with a network of communication set up to minimize both the cost of processing new information as well as its communication cost between agents [6].

The evolutionary perspective on the theories of the firm is linked to the research of authors such as Kirzner (1913), Williamson (1971), Winter (1982) and Littlechild (1986) who introduced the term of "evolutionary economics" [7].

The approach of the theory of the firm from an evolutionary perspective had as starting point the work "*An Evolutionary Theory of Economic Change"* (1982), in which Nelson and Winter reconsidered the microeconomic analysis showing that excessive attention to market equilibrium was not needed, but rather the focus should be on the dynamic processes resulting from irreversible economic exchanges.

4. Conclusion

The theory of the firm contributes to the foundation of explanations regarding phenomena of the real economy. By their use, as a frame of reference in representing the behavior of economic agents, these opened the way for a large field of investigation. The developments registered in the field of the theory of the firm lead to the conclusion that economics opens a large research area that can certainly be extended towards advanced economic research. The problem of microeconomics is not to study the functioning of markets anymore, but to examine the ways in which firms can coordinate their decisions based on dynamic configurations in a competitive environment affected by risk and uncertainty.

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Multi-Scale Integrated Analysis of Socio-Economic Systems

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Abstract

The contemporary economy is increasingly becoming an interdisciplinary science, related to sociology and anthropology, where the role of the human factor and of institutions becomes important in terms of economic behaviour. The Multi-Scale Integrated Analysis is a method analysing complex systems across multiple hierarchical levels, using both quantitative and qualitative (intensive) variables, such as personal preferences and the utility of time allocation in view to meet human needs. The method developed by Mario Giampietro and Koyo Mayumi introduces the concept of economic metabolism, live systems, allowing for the integration of monetary flows with the material flows and with energy flows, thus integrating the economic analysis, environmental, social and demographic analysis. This paper presents the general form of Multi-Scale approach with some examples for Romania.

Keywords: multi-scale integrated analysis, societal metabolism, energy intensity.
JEL classification: O13, Q1, Q4, N7

1. Introduction

Georgescu-Roegen is well-known for the application of the second law of thermodynamics (the law of entropy) to the economic process [1]. He has introduced the concept of socio-economic metabolism governed by the laws of thermodynamics and has designed the flow-fund model, which outlined the bio-economic system type, serving to the shift of the destructive modern economy into a long-term sustainable economy. The thermodynamic approach considers the economy as an integral and viable part of the bio-system, with its own metabolism.

The circular flow diagram of the classical economic theory presents the economic process as an isolated circular flow, from companies to households and the other way round. In the thermodynamic approach, this diagram should be replaced by a diagram where the unidirectional entropy flow from environmental sources is added, through companies and households, turning then back to the environment. The circular flow could be described as a circular loop represented with a dotted line from companies to households, while the entropy flow is to be marked by continuous lines. No economy could exist without the entropy flow, while it is easy to imagine an economy without a circular flow, for example, a self-sufficient peasants' economy that do not engage itself in any commercial exchange.

The modern lifestyle is imbalanced and fights against nature by over-production and excessive consumption; moreover, this socio-economic system threatens to completely replace the traditional society that is sustainable, durable and provides a balanced and healthy lifestyle. A consequence of the thermodynamic approach to the economy is, among other things, the development of a society that encourages organic agriculture/industry, integrated with the rest of the ecosystem and which produces minimal waste, in combination with the stimulation of a lifestyle that promotes health maintenance, through the educational process.

Georgescu-Roegen had several criticisms positions related to the neoclassical theory and provided an alternative to the current standard economy of welfare. The proposed alternative is to use the dialectical representation. He has argued that the fundamental flaws in current economic theory are the concepts of Homo economicus

and the mechanistic structure of economic science: this approach clears out the human behaviour of any addiction to culture, which is equivalent to saying that man acts mechanically in the economic life. That is why this issue is usually depicted as a mechanistic conception of modern economics. The obvious conclusion is that, if the economy would be a science not only of "observable" quantities, but also of the man, it should exhaustively rely on dialectical reasoning.

Georgescu-Roegen has also insisted on the fact that the economy is part of the social sciences and the economic process cannot be understood outside the social and institutional context. He has pointed out that the economic process resides in qualitative changes, rather characterized by discontinuous jumps than by marginal changes. What is of outmost importance, in case of evolutionary structures, is the emergence of news, of qualitative changes. For these issues we have no other solution than the dialectical approach, particularly involving structural changes. This means using words instead of numbers, since real qualitative changes cannot be represented by a mathematical model.

The researches carried out in recent years led to the implementation of Georgescu Roegen bio-economic model in the development of socio-economic metabolism theory governed by the laws of thermodynamics. This achievement mostly pertains to Mario Giampietro (professor at the Universität Autonoma Barcelona, Spain) and to Kozo Mayumi (professor at Tokushima University, Japan) [2]. The two researchers have developed the Multi-Scale Integrated Analysis of Societal and Ecosystem Metabolism (MuSIASEM) that integrates cash flows with material flows and energy flows.

The Multi-Scale analysis of socio-economic systems allowed for the development of a behavioural bio-economic model for the modern society, based on several requirements: a total ban on arms production; standing aid for underdeveloped nations; the gradual decrease of the population to a level that could be maintained only through organic farming; avoiding energy waste activities, providing durable goods that can be recycled, avoiding excessive work by balancing the time spent for work and leisure.

2. Methodology

The economic systems have the possibility of using energy and materials flows in view to preserve, reproduce and improve their structures and functions. All human beings, societies and ecosystems are metabolic systems. For this reason, the availability of energy and resources, together with the know-how and technology are key factors that determine the feasibility of societal metabolism models.

In the MuSIASEM approach [2], metabolic systems are characterized by the flow-fund concept whose components are the fund elements (elements whose identity remains unchanged during the economic process) and flow elements (elements that are produced or consumed during the economic process and are defining the interactions within the system).

Flow elements are cash, energy or materials flows, while fund elements are metabolic converters, since they should be able to preserve and reproduce themselves, in order to preserve the original identity. Fund elements involve consumption of some acceptable inputs for their maintenance and reproduction, as their identity implies that they can metabolize only a specific type of inputs.

It also distinguishes between exosomatic and endosomatic energy. Exosomatic energy is the energy used by a man outside his body (in the socio-economic metabolism) unlike endosomatic energy that is associated within the human body metabolism.

The bio-economic model of the society is based on multi-scale integrated analysis, which implies a hierarchical structure with several levels. In the multi-level matrix in Figure 1 one could observe the way two types of primary variables are divided into several categories, across several scales.

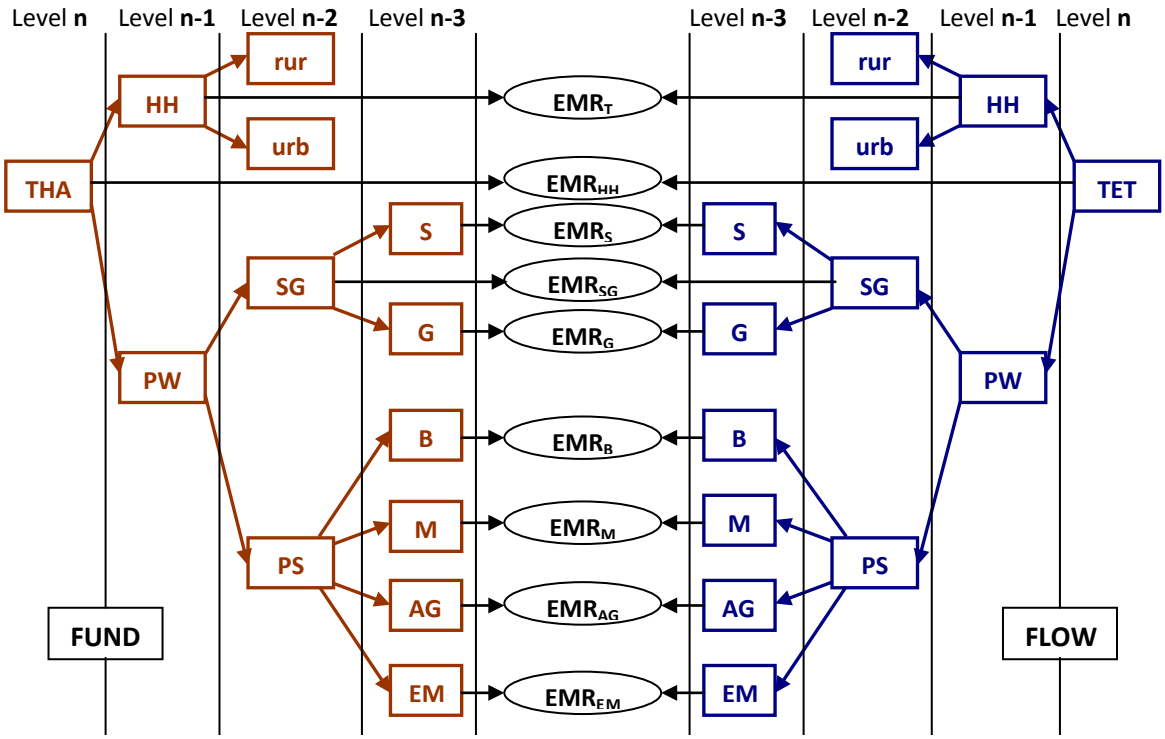
For example, the first primary variable called Total Human Activity THA can be analysed at national level (level *n*) and is defined as the amount of hours per year of the human activity of the society:

THA = 24 hours * 365 days * population

THA = 8760 * population.

This is a fund variable.

Fig. 1 Multi-level matrix with two primary variables: the fund Human Activity against the flow Energy Throughput



Source: Deliverable 3, Project SMILE, Socioeconomic Sciences and Humanities (SSH) Collaborative Project FP7-SSH-2007-1

On the next level (level *n-1),* the available national time fund THA is split between two compartments: (i) Production – human activity in paid work (HA_{PW}) and (ii) Consumption - "the rest" of human activity in the household (HA_{HH}).

$THA = HA_{PW} + HA_{HH}$

On the next level (level *n-2),* the amount of hours for paid work (HA_{PW}) is split between the activities in the production sector (HA_{PS}) and the service sector and government (HA_{SG}), while the consumption compartment could be seen as the sum between urban and rural households.

$HA_{PW} = HA_{PS} + HA_{SG}$;

$HA_{HH} = HA_{Hurb} + HA_{Hrur}$.

The lower level *n-3* corresponds to production sector (PS) division into four main sectors: Agriculture (AG), Energy and Mining (EM), Building (B) and Manufacturing (M), while the service sector is split between Government (G) and Services (S).

The time spent for paid activities in each sector is the result of the employees number in each sector multiplied with the amount of hours annually worked.

An even more detailed approach splits the human activity in the households (HA_{HH}) into three compartments related to the following hierarchical levels: (i) the amount of hours spent for physiological needs (HA_{PO}) - sleep, nutrition, self care, illness; (ii) the amount of hours spent for unpaid activities at the household level (HA_{UW}), generally housekeeping activities with a significant role in households stabilisation; (iii) the amount of hours spent for education and leisure, playing an important role in the society progress through knowledge and health.

The second primary variable from the multi-level matrix is a flow variable called Total Exosomatic Energy Throughput (energy metabolized by technical devices outside the human body) TET (level *n*), representing the final energy consumption (in Joules/year) - the biophysical approach. This is the aggregated sum of Energy Throughputs (ET_i) consumed on each of the lower hierarchical levels (n-1, n-3).

A similar approach is using the "value added" as a flow variable - the economic approach. On the level *n* the GDP is placed,

further broken down on lower hierarchical levels in the value added corresponding to the related sectors.

Intensive variables are calculated based on flow and fund primary variables, as the ratios between them, $EMR_i = ET_i / HA_i$ which are represented in ellipsoids in the middle of Fig. 1.

The Exosomatic Metabolic Rate (EMR_i) is the exosomatic energy consumption rate per human activity unit. On level *n*, the Exosomatic Metabolic Rate on Average for Society (EMR_{AS}) is the ratio between TET and THA.

Another intensive variable is Economic Labour Productivity (ELP_i) equal to the ratio between the added value generated in a sector and the number of hours of human activity in that sector.

The set of intensive variables is extremely important since it allows for comparisons between various organisational hierarchical levels or for the same hierarchical level, but for system of different size. They describe the qualitative characteristics of the parties, while the extensive variables describing the quantitative relationship between parts and whole.

Intensive variables can be associated with known typologies, taken over from other countries, sectors, types of households, and can provide a qualitative characterization of the metabolic elements subject to characterization, but at different hierarchical levels. Likewise, defining a multi-level matrix that characterizes the distribution of a fund variable type and a flow variable along the respective hierarchical levels, allows for the setting up of a set of correlations between intensive and extensive variable values across various scales.

Other two major variables are derived from the two primary variables described above:

The Saturation Index of Human Activity ($SIHA_i$) is the share of total human activity (THA), allocated to a certain compartment or sector (HA_i) - $SIHA_i = HA_i / THA$.

The Saturation Index of Exosomatic Energy Throughput ($SIET_i$) is the share of TET consumed within a certain compartment or sector (ET_i) - $SIET_i = ET_i / TET$.

There is a link between the development level of an economy and the metabolic model of the society. A high level of money flow variable which raises the satisfaction of living in society entails an increase in energy and material throughput in the production sectors of the economy (HA_{PS}). That richer society will develop services sector and will work less because of allocating more time for education and leisure activities. Under such circumstances, the manufacturing sector will have to provide the society with a greater quantity of goods, energy and materials using a limited amount of worked hours.

3. Application in Romanian case

The study of the Romanian economy and its energy behaviour reveals a different metabolic profile (generally more low) as compared with other European Member States, due to multiple hidden causes [3], [4].

After December 1989, Romania has shifted from the control system to a free market system and joined the European Union on January 1st, 2007. During this transition period, Romania had to build up the civil, political and economic society from the bottom level, to exceed state bureaucracy and to develop the rule of law by ensuring an independent judiciary system. In 2000, the Romanian institutional system was not yet completely restructured, which created obstacles in supporting the transition to a market economy. All these slow structural changes in the Romanian society can be analysed based on a complex system of performance criteria, using the MuSIASEM methodology.

The Multi-Scale Integrated Analysis Methodology has been implemented for Romania under FP7 Project Synergies in Multi-scale Inter-Linkages of Ecosocial systems, socio-economic Sciences and Humanities (SSH), 2008-2012, involving several researchers from Romanian Academy (Raluca I. Iorgulescu, Lucian Liviu Albu, Cristian Stănică). Two major applications are further presented [3], [4], [5].

Multi-Scale analysis of Energy Intensity

The energy intensity calculated at the economy level is not a suitable indicator for the development of governmental policies envisaging the energy efficiency increase. The studies conducted in countries such as Bulgaria, Hungary and Romania have shown that Romania has mostly reduced the energy

intensity, which should qualify it as a competitive country in terms of energy, although the reality may contradict this. Energy intensity contains little information on changes in energy consumption behaviour that occur in the socio-economic system. Thus, the MuSIASEM approach can go beyond energy intensity in view to understand the energy complexity of interconnections between the energy flows of an economy sectors. The results of the analysis by sector reveal several aspects.

At national level (level *n*), the TET variable examination shows a slight downward trend in the case of Romania during periods when there were no increases in labour productivity, which means that there are various factors other than productivity and energy efficiency, that influence the behaviour of final energy consumption. The economy restructuring measures imposed by market liberalisation and privatisation of state energy companies can lead to important changes in energy consumption. Likewise, there are also some other factors of human behaviour, such as preference for computers and Internet, rather than information on paper support, or unpredictable factors related to climate changes, and so on.

The analysis of Level *n-1* allows for a more accurate comparison of the energy behaviour of neighbouring countries, based on ET_{PW} and ET_{HH} variables. Thus, the process of economy restructuring has affected the energy consumption of the paid work sector in Romania (ET_{PW}) more than in Bulgaria and Hungary, with a drastic reduction (over 50%) in the first three years after the revolution. This shows that Hungary has experienced a powerful transition, while Romania has faced serious difficulties. Likewise, there is a sudden increase of the Exosomatic Throughput in Households (ET_{HH}) after 1996, as consequence of energy prices liberalisation in Romania.

The analysis of Level *n-2* within the paid work sector (productive sectors, service and government sectors and agricultural sector) is even more relevant to highlight the complex mechanism of energy behaviour.

Productive sectors are characterized by the highest level of energy intensity (EMR_{EM}, EMR_{BM}). In recent years, the exosomatic metabolic rate in these sectors has slightly increased, while the value added per hour of work grew faster than in other sectors, indicating a relative improvement in energy efficiency. As compared to neighbouring countries, Romania has a high level of the industrial energy throughput because of the still inefficient mechanism of industry inherited from the communist regime.

The service sector (including public services) presents an exosomatic metabolic rate by 50% lower than the production sector. A slight increase of its energy throughput per hour of work without being accompanied by an increase of nominal value added generated per hour is characteristic, a trend opposite to other EU economies which focused on service development.

The agricultural sector in Romania reveals a very low level of energy intensity, because the work is mostly based on people's work than on technological capital. This trend has not significantly changed in recent years, therefore continuing to attach high importance to animal and human productive capital. It is a consequence of property reform, which returned the agricultural land confiscated during the communist period to peasant households. Land fragmentation and lack of technology have kept the low value of the agriculture exosomatic metabolic rate. The value added generated by the agricultural sector is well below the European average, consequently determining lower prices for animal and crop products than those in the EU, and low income of peasants from the sale of products.

Socioeconomic Metabolism in Industry and Transportation

This analysis allows for a detailed characterisation of structural changes in the Romanian economy at sub-sectors level (lower levels *n-3* and *n-4*) in the category called Productive Sectors (level *n-2*). Among others, the method allows for making a cross-checking of data: (i) starting from a lower level (using national statistics, starting from individual sub-sectors) (ii) starting from a higher level (using Eurostat) with aggregated statistical data. This double check is extremely important for economies with structural changes and changes in statistical methodologies, when the lack of official statistical information (effect of the informal economy) induces errors in time series compilation.

The following are on level *n-3*: (i) Energy and Mining (EM), Building and Manufacturing (BM) from the production sector (PS) (level *n-2*); and (ii) sub-sectors of service sector and government (SG) (level *n-2*) namely Transport (TR), Public Administration (PA) and other sectors (OS). Energy and Mining (moving from level *n-3* to level *n-4*) was disaggregated into six industries, while Building and Manufacturing was disaggregated into two sub-sectors.

The first significant difference between the Manufacturing sub-sector and Building sub-sector refers to energy metabolism. Manufacturing sub-sector is 4-5 times more intensive in terms of energy than the Building sub-sector. Further disaggregating the Manufacturing sub-sector, it includes twenty-one industries that can be organized into three groups.

The adoption of this approach not only allows comparison of results with other sectors of the Romanian economy (in view to study the way structural changes affect the energy intensity of the economy), but also with similar sectors in other European Union countries.

4. Conclusion

The Multi-scale integrated approach enables the analysis of complex systems across multiple hierarchical levels (eg, households, industries, regions, whole countries) using concepts characteristic to live systems. The basic idea is that socio-economic systems present two distinct types of metabolism (endosomatic and exosomatic) and two general forms of representation: Fund categories (capital, land, people, hours spent for activities) which maintain their identity throughout the duration of the analysis, and Flow categories (energy, value added, food, material flows) - items that are produced and consumed during the economic process. The system organisation and survival depend on the capacity of each component element to continuously ensure the necessary inputs (the flow elements) that must be processed and consumed.

The method is implemented by an increasing number of researchers, both for assessing the behaviour of complex economic systems and in particular cases, such as the correlation of statistical indicators on different scales, interpolation of time series defined in a certain scale of aggregation by using information from the level of other hierarchical scales, etc.

The method was also applied for Romania in view to analyse the energy intensity, as well as for the analysis of industries behaviour. There is still noticed the presence of old influences from the communist period, both at institutional and economic level, rigidities in the restructuring of certain energy industries and privatisation delays, low input of technology in agriculture, all these positioning the Romanian economy behind the EU states, in terms of competitiveness

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Usage of Business Intelligence Solutions for the Analysis of Deviations in the Use of the Standard Cost Method

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Abstract

Knowing deviations and analysing them is useful to managers for planning and control. In the current circumstances, managers have a multitude of information, which sometimes lead to informational suffocation. For the analysis of deviations, BI solutions such as QlikView can be used. The article aims to present the possibilities of integrating BI in the analysis of deviations, in a bakery company.

Key words: business intelligence, deviations, analysis, bakery
J.E.L. Classification: M11, M15, M41

1. Introduction

Following the execution of the manufacturing process deviations can occur from the scheduled levels of the quantities and production costs. Control is one of the basic management functions providing the compliance of the forecast performance and set objectives with the plan. The main objectives of the analysis of deviations are to identify the causes of the deviations, to adopt the necessary corrective measures and to identify responsibilities [1].

The analysis of deviations allows for the determination and evaluation of the various factors that determine the difference between actual and standard costs.

The general method is analytical: starting from the observation of the deviation from the standard cost, the breakdown of this deviation into sub-deviations corresponding to various calculation items and on various causes is attempted, in order to get as close as possible to the actual manufacturing conditions and to allow for the initiation of the necessary corrective measures.

2. Importance of the deviations analysis for the managerial process

The occurrence of deviations is the result of a multitude of causes, and the problem of the management is to identify the persons or centres that are responsible [2].

The analysis of deviations allows for updating the database, setting responsibilities for each deviation separately, integrating the relevant factors in the assessment of the company performance, renewing standards in order to make decisions and set the budget [3].

Following the analysis of the deviations and the identifications of those responsible, the management can take a number of corrective measures through which the set objectives can be reached.

Knowing deviations is useful to managers for planning and control. In order to use a deviation in the performance evaluation it is crucial for the manager to understand the cause of the deviation in question.

For a better monitoring and interpretation deviation rates can be calculated, based on the values in previously determined absolute amounts.

Currently managers receive a huge amount of information, especially concerning the manufacturing process [4]. In this context, we believe that BI solutions are recommended method in order to avoid informational suffocation and to make a pertinent analysis based on which correct decisions can be made.

3. BI solutions for the analysis of deviations

In order to make correct management decisions, based on accurate and up-to-date information it is necessary to have more than intuition. Taking into account that in most organizations there are huge quantities of information related to production indicators, financial statements, sales data, balance sheets, forecasts, managers lack information updated in real time based on which to be able to build a decision-making system. The implementation of a Business Intelligence (BI) solution in a company is an advantage due to the overall view of the database and to the fact that managers are allowed to make better decisions, in a faster pace [5].

Any BI solution takes information from multiple sources, either internal or external of the company and in any format integrates it into a single consistent data warehouse [6]. Thus all data are collected in one place, without duplicates. Based on the collected data, the BI system enables accurate analysis leading to the identification of the causes of the problems that occur in a company. Making interactive views may take just a few minutes. Depending on the facilities of the BI system or of the platform on which it is developed, the analysis reports can be distributed to anyone on the Internet. Those who receive the files can interact directly with the report: they can filter, sort and rearrange information.

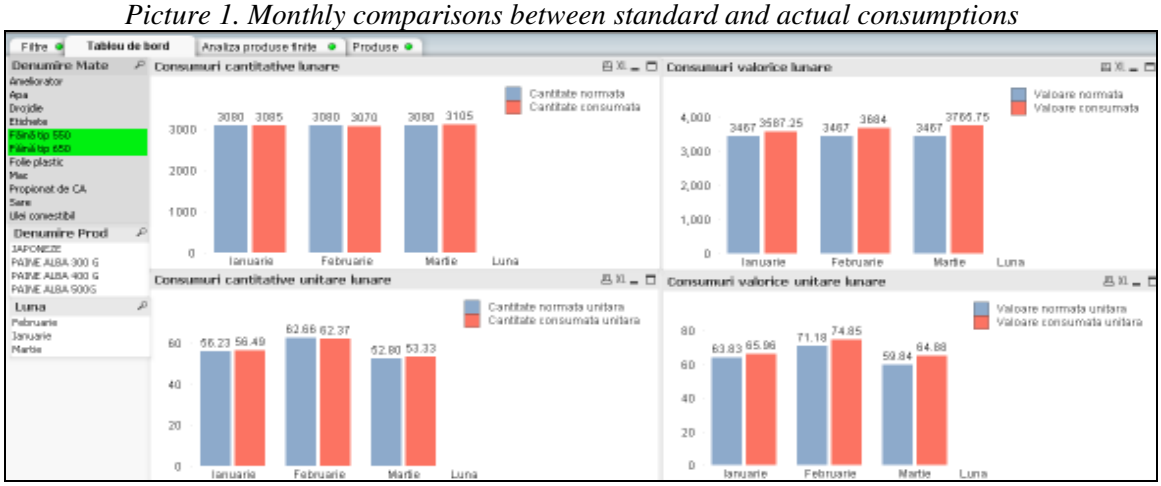
We are presenting below a few analysis reports made with the help of the application QlikView. The data are taken from the database of a company manufacturing bakery products.

We chose the application QlikView due to the fact that it constitutes a powerful BI tool. QlikView is a complete BI and data analysis software package that provides a better way to work with the data of a business [7]. The graphical interface provides users with high interactivity. With a few mouse clicks, they have immediate access to all the information. Organizations can discover, in this way, information unsuspected before, they can better understand what happens in the current activity and consequently, they can make the best decisions for their development.

We analysed the following reports:

A. The monthly comparison between the quantity of material used to manufacture bakery products and the established standardized quantity, between the standardized value and the spent one, between the unitary standardized quantity and the unitary consumed quantity, and between the unitary standardized value and the spent one. Even if the differences seem to be small, for a big quantity of bakery products they are significant. We can see in Picture 1 that the spreadsheet contains in addition to the corresponding charts, a few tables with the values related to the materials, bakery products made and the month. By the simple or multiple selections of these values from the tables, the charts change instantly, presenting the same comparisons but only for what was selected. Thus, by a click we can display the comparisons for one month, or a group of selected months, we can see the quantities and values required to manufacture one product or a group of products.

Picture 1. Monthly comparisons between standard and actual consumptions



Source: prepared by the authors

The deviations from the standard raw material and direct material consumptions are plus or minus differences resulted from the failure to observe specific forecast consumptions or other causes (the use of replacement materials, works not taken into account in the determination of the standards, price changes etc.). The deviations related to raw materials and direct materials can be deviations in terms of quantity or price.

For the company management it is important to determine the difference between the actual cost of the actual production and its standard cost. The result of this difference is interpreted as follows:

- A negative cost deviation corresponds to an actual cost that is lower than the standard cost and is called favourable deviation;
- A positive cost deviation corresponds to an actual cost that is cost higher than the standard cost and is called unfavourable deviation.

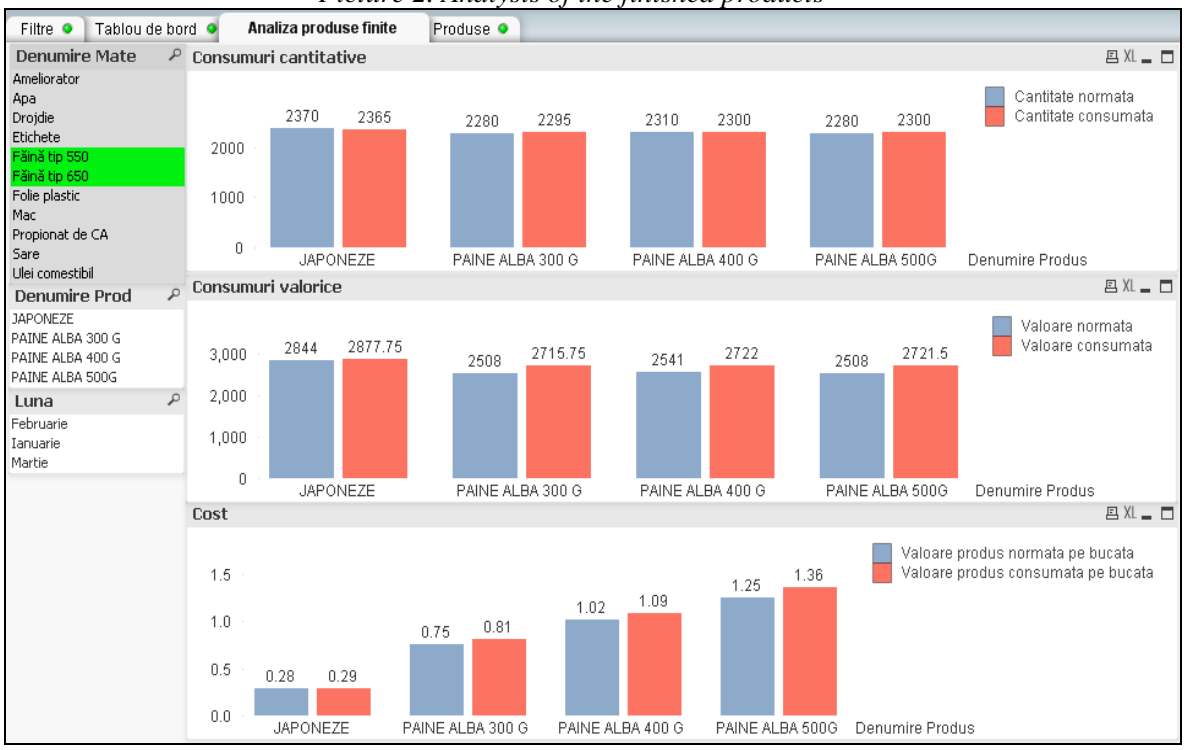
This separation of deviations highlights the significance of deviations as a consequence of the manner of organizing the activity, which can be effective or ineffective.

Another grouping of deviations takes into account the responsibilities, such as:

- Controllable deviations imputed to responsible persons;
- Uncontrollable deviations generated by external factors, such as the increase in the price of the materials and that cannot be imputed to responsible persons.

B. Analysis of the finished products. In this chart an analysis is made for each finished product. The standardized and the actually consumed material quantities, the standardized value and the value spent for the products made and the standardized and spent value per piece are highlighted. This information can be displayed during the desired time period or for certain materials. In picture 2 we can see that information is displayed for the material "Flour" standardized or consumed for each of the finished products for a period of 3 months. This chart too can be easily changed by selecting other options.

Picture 2. Analysis of the finished products



Source: prepared by the authors

The differences occurred between the standard product quantities and the actual ones can have multiple causes: the evolution of the demand in the market, problems in the operation of the company, lack of raw material, worker strikes etc.

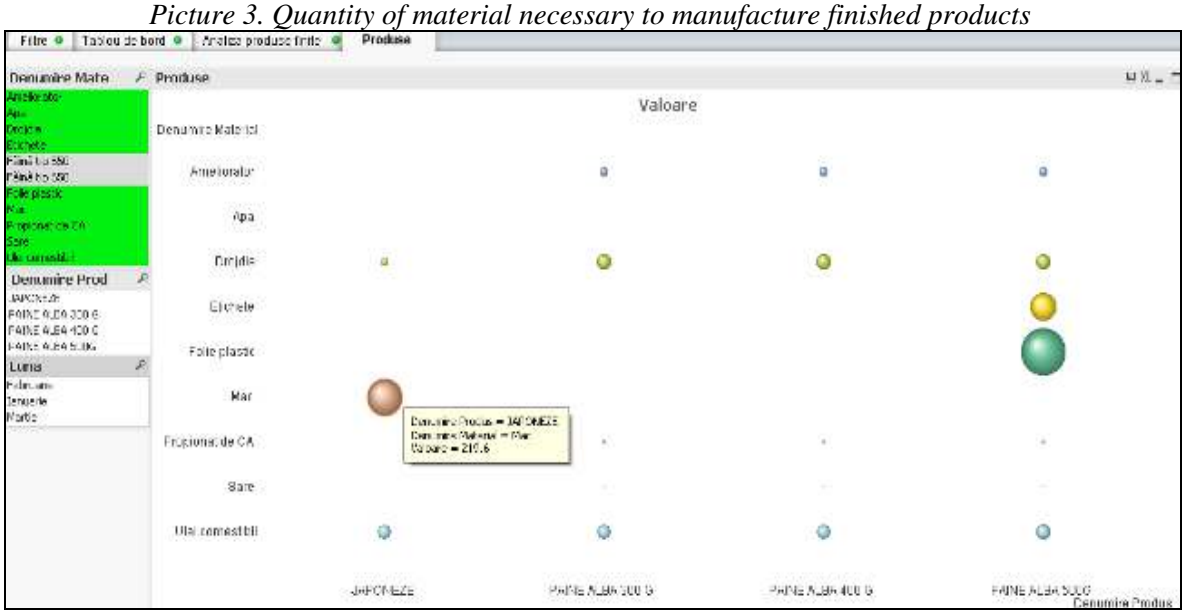
An extremely important aspect of the analysis of the deviations is to determine their causes. A favourable deviation of the price of raw materials can result from the fact that poor quality materials were purchased. A favourable wages deviation can also be the result of the fact that poorly skilled workers were used, which will impact the quality of the manufactured products.

The deviations within the limits of an acceptable range are often unavoidable and are considered controlled, and no investigations are required in relation to their causes

C. The quantity of material required to manufacture each finished product.

In picture 3 we selected all the materials except the "Flour" because the quantity of flour is much higher than the other materials required for manufacturing bakery products and this is why these materials were not even visible in the chart.

Picture 3. Quantity of material necessary to manufacture finished products



Source: prepared by the authors

Deviations from the standard raw material and direct material can have causes such as: the incorrect determination of the standard quantities (of the recipes), sub-standard consumption with serious consequences on the quality of the products, unjustified loss, and inappropriate operation of the machinery.

4. Conclusions

For the management of the bakery company it is necessary to analyse deviations in terms of nature, size and causes in order to determine the measures required so that actual costs can comply with the set standards. By using the standard-cost method actual costs are compared to standard ones and the deviations from the latter are determined, on cost centres, calculation items, and causes.

Business Intelligence answers all challenges related to obtaining information. It eliminates resource and time wastes, it excludes errors, it crystallizes the management's vision concerning important aspects of the business, it instantly supplies information to all those involved, irrespective of the data amount and complexity.

Deviations can be used in the performance assessment. The production manager can receive efficiency bonuses if the operational expense budget is observed. The understanding of the causes that determined the deviations can be used for learning based on experience and thus for the improvement of the company performance. The results of the analysis of deviations is a basis for the substantiation of the costs for the next period.

The management by exception consist of focusing attention on the fields that are not within the expected parameters. The fields with higher deviations receive more attention.

Deviations must be reported taking into account the following:

- The correct identification of the influence

factors;

- Setting responsibilities for each employee, in order to identify the people responsible for unfavourable deviations;
- Deviation reporting must be oriented towards unfavourable deviations, as a consequence of the management by exception;
- Deviation reporting to the company top management can also include details in the case of deviations supplied at lower level, on causes and responsible persons.

Control is exercised especially in the case of unfavourable deviations, being a consequence of the management by exception. By analysing deviations and setting responsibilities the manager can take corrective measures meant to lead to the achievement of the set performance. Following the analysis the level of performance that must be reached can also be reviewed.

BI capitalizes the advantage of the company applications (ERP, CRM, SCM) already installed, which maximizes the benefits of IT investments. All the companies that made huge investments in building data warehouses can make the next step through the implementation of a BI system that completes investment efforts.

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Policy Action to Prevent Unemployment in EU and Romania

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Abstract

The present paper presents a comparative situation on the Active Labour Market. Policies in the country members of the EU with a specific accent on the Romanian labour market. We discuss about the public employment services, training schemes, employment subsidies adopted by the countries in the view to help the unemployed find work. We conclude that not all the countries have the same commitment in the efforts to cut the unemployment; even they face a very difficult economic crisis.

Key words: labour market, unemployment policies
J.E.L. classification: J21, J64

1. Introduction

Faced with an extended economic crisis which generates a rising unemployment rate that achieves dramatic dimensions in some countries like Spain 24-25%, and Greece 21-22%, the EU struggles to find solutions to employment growth, increasing consumption and, of course, economic growth. The average unemployment rate in EU is 10,5 – 11% (higher in the euro zone and the highest since the introduction of the euro), but this hides record differences between countries. Dispersion of unemployment rates in euro zone (euro area) reached an unprecedented level. This is explained, to a great extent, by the worsening employment in the countries facing high levels of sovereign debt. Almost 40% of the increase in unemployment in EU is due to massive increases in unemployment rate in Spain. It stands on this occasion the differences in the level of development of countries belonging to the EU. The answers of the member states in this case were quite different, which further segmented the labor market at the level of EU. Interestingly, in addition to the countries which were actually faced with large imbalances, there were increases in unemployment in other areas which initially showed no major problems in terms of financial balances.

What is really threatening is that there is a worsening of the situation in terms of the duration of unemployment. Record figures are registered in Ireland, Slovakia, Spain and the Baltics. The unemployment rate has also dramatically increased among youth, especially in Greece, Spain, Portugal.

Romania is no exception since it strives to improve the employment. With a rate of unemployment in the crisis situated at around 7.5-8% and serious problems in the employment of youth and vulnerable groups, Romania folds on EU policies and recommendations on active measures of employment growth, together with fiscal consolidation [1].

In these conditions, finding the policy mix generating jobs is not an easy task. The measures applied in EU countries are different, sometimes contradictory. The same are the results. Not always are they conclusive and, unfortunately, in some cases even worsen. Although efforts are supported, as this analysis demonstrates, the general employment situation in the EU, instead of improving, sometimes worsens or remains difficult.

2. Short overview of the policy action plan

Policies that support the increase in the number of jobs encourage the demand for labor force and facilitate the transition to a job, remain the crucial point in preventing unemployment and strengthening labor market. At the same time, the emphasis is, in

both EU and Romania, on the adoption of unprecedented measures regarding labor law in order to support a favorable employment growth and reduce labor market segmentation. The reforms that took place in most European countries in the field of labor law have been consistent, relying mainly on provisions aimed at reaching a critical objective: internal flexibility of the labor force through a greater decentralization and more flexibility in wage policy. Also, the new provisions which amended law on unemployment benefits systems have supported transitions back to work. It was emphasized, especially after the onset of the crisis, the adoption of active measures for the employment of Active Labor Market Policies. There have been allocated significant financial resources for initiating and implementing programs aiming back into work, career orientation and lifelong training, all this in order to reduce unemployment and increase employment, especially among young people and the disadvantaged.

Action and job-search assistance policies remain the most used tools in the fight against unemployment. There were developed new strategies and action plans designed to support both young people and the long-term unemployed in finding jobs. There were no specific action plans for sectors that have been especially hit by the crisis (e.g. Spain). To improve the efficiency of measures, some countries have adapted institutional network in order to support their unemployed, reorganizing the Public Employment Services (e.g. Czech Republic, Hungary, Spain, Belgium, Ireland) or increasing the number staff involved in hiring. One-stop-shop Specialized Offices were set up (Czech Republic, Hungary, Ireland) and, at the same time, in many countries, they outsourced employment activities to private specialized companies (United Kingdom, Slovakia).

Naturally, the emphasis was laid on attracting vulnerable groups in the labor market. For these, various incentives such as wage subsidies and tax incentives are maintained in many EU countries (Cyprus, Spain, Belgium, France, Greece, Sweden, Latvia, Bulgaria, Luxembourg).

Job creation schemes have been initiated and measures have been taken to activate the unemployed to start to work as self-employed (e.g. Austria, Czech Republic, UK).

Life-long learning and training has also been a strong point in the action plans designed to improve the structure of the labor force. New training schemes for the unemployed have been developed by revising training needs and priority areas. To improve the impact of training programs and life-long learning there have been allocated substantial funds in the development and implementation of activities, internship and apprenticeship schemes in private, public, community or voluntary sectors.

At the same time, were implemented various programs designed to improve employees' skills and abilities by strengthening their training rights, both during office hours and by removing them from production.

A problem that was raised in many countries and was partially resolved during the crisis was to attract women in business. Italy, Malta, Hungary, Austria initiated participation friendly schemes giving women income tax cuts and structuring various child care programs, going to refinancing child care expenses (Netherlands).

The problem of unemployment benefits represents a serious concern for the European space; its size, the granting period were different topics addressed in EU countries. Given the need to ensure fiscal consolidation in most European countries, it was raised the question of cutting the unemployment benefits or reducing the granting period, in parallel with the introduction of more stringent criteria for eligibility. However, in Italy and Portugal, steps have been taken to extend support to new groups of workers, and in Denmark the period of granting unemployment aid was extended.

In terms of labor taxation, another important component of policies in labor, an increase of the tax in most countries is noticed. These measures were imposed due to the effort to improve fiscal balances and the consolidation of public finances. Almost half of the EU member countries have changed their tax systems since 2011 [4]. Tax rates have changed for surcharging the highly paid people. (Belgium, Greece, Italy, Cyprus, Luxembourg, Portugal, Spain). There were situations when tax rates were reduced (Hungary, Latvia, Finland, Germany)

especially for the vulnerable, those with children and those with low incomes. We notice a different policy to taxation in Spain that provides substantial reductions in social security contributions for those who hire young people and people with a long-term contract.

The countries, which in the outbreak of the economic crisis had a rigid legislation in the field of employment, have had to take measures to reform the legal framework. Many of these have introduced, under the pressure of unemployment and massive segmentation of labor market, changes on individual and collective redundancies. Romania, for example, has massively adjusted the Labor Code, introducing new provisions relating to the extension of the trial period, the change in the number of daily working hours, the redundancy facilitating formalities etc. Such provisions for redundancy costs were introduced in Portugal, Spain, Greece, Slovakia, Czech Republic.

With the reform of labor legislation the so-called "staff loans" appeared between companies on fixed-term periods (France). In this way, companies could better cope with temporary difficulties.

A more efficient legislation of temporary work contracts allowed a more pronounced flexibility of the internal market, absolutely necessary in crisis.[2] Romania was among the countries that have allowed access to fixed-term employment contracts, extending their duration and the number of possible renewals. However, it has been considered, in most countries which have applied such provisions, including Romania, that the abuse of such fixed-term contracts should be discouraged, thus limiting the use of non-standard contracts that threaten job security.[3]

Collective negotiations can be another obstacle for improving the structure of the labor market. From this point of view, the crisis contributed to the end of collective nationwide negotiations, very common in Romania, being applied the negotiations at sectorial level. The contracts signed at company level have replaced the contracts signed at national or branch level. As a result, serious changes have occurred regarding working with unions, the system of consultations with the social partners, in this regard the legal provisions being consistently reviewed.

The social background was quite tense, given the wage cuts in the public sector especially; the dialogue was difficult, being sometimes interrupted by broad and even violent social movements and even (Greece). For the implementation of new labor contracts that provided tax cuts instead of salary increases, There were often created tripartite structures that also included governments of countries in crisis.

The crisis has led to frozen minimum wages (Greece) or a very little increase, possibly with inflation. In addition, measures have been taken in order to achieve more flexible arrangements on the number of working hours, changing the legislation on short-times working schemes or part-time contracts.

There were created various employment schemes for the elderly and, in some countries, the early retirement schemes were limited or even eliminated (Denmark, UK, Austria, Finland, Spain).

In Romania, several changes are made in the Labor Law in 2011.

Among the main changes introduced by the new Labor Law in the view to increase the flexibility of the labor market are: the trial period is longer (for workers it has been extended from 30 to 50 days, while for executive positions from 90 to 120 days), for temporary agency work maximum period was set up to 24 month, but with possibility to be extended to 36 month, maximum length of fix term contract has been increased from 24 to 36 month and only 3 successive fix term contract can't be concluded, the working time can surpass 48 hours and the overtime can be compensate with 3 days and, in contrast with previous legislation, in case of collective redundancies the employers are able to give priority to performance criteria witch replace social criteria.[1]

3. Conclusion

The recent years have been years of labor market reform. Noticing the challenges determined by the crisis and not only, most EU countries have proposed radical changes in labor legislation including both present and the years to come. Most provisions of the new legislation refer to measures capable of

mobilizing labor, making a more dynamic market and improving competitiveness. Countries facing widespread unemployment and major financial imbalances have understood the need for massive salary adjustments and restructuring of the labor market. Unfortunately, not all countries have complied with the actual need to liberalize the labor market to achieve high flexibility. While some countries had ambitious plans, the others have taken rather marginal measures without results. However, most countries have taken into account the EU recommendations.

To improve the unemployment situation, which unfortunately continues to remain alarming, it is necessary for countries to pursue several priority points at the level of the EU: to maintain the pace of reforms and track results; to continue to identify those policies aimed to attract new groups in the labor market, especially young people; to prevent possible delays in the level of employment alongside with the economic recovery by maintaining an inadequate legislative framework, to ensure attention and resources necessary to training programs; to financially support the reforms in education aimed at the adequacy of qualifications obtained by graduates in relation to the new requirements of the labor market; to create appropriate social protection systems along with the introduction of effective policies to stimulate labor (flexible taxation systems and categories of incentives).

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Export Credits Insurance in the International Practice

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Abstract

The credits insurance has the mission to offer protection to the economic agents against the specific export risks. An export contract can have as object delivery of goods, execution of works and carrying out services, including cession of licenses, patents in favor of some buyers or beneficiaries residing abroad.

When the contracting parts convey that the requisites, works and services, which represent the object of the present export contract, are not to be paid at delivery, but after passing an interval of time, the supplier grants the external buyer a commercial credit. Consenting to such a modality of payment, the supplier assumes the credit risks in export, the treasury effects of the export operation with the term payment. In order for the credit export locks up for a period of time the supplier's financial resources incorporated in the delivered products on credit, this sees himself obliged to complete them.

Cuvinte cheie: the export, insurances, risks, economic crisis, suppliers.
Clasificare J.E.L.: F21, F65

1. Introduction

The supplier credit is granted on short periods of time. In the case of export of high values, the supplier cannot lock up the financial resources on longer periods of time, without putting in danger his own financial administration. The buyer sees himself obliged to obtain the resources that he needs in order to pay the import of the products delivered by the supplier. In this sense, he addresses to a bank on the supplier's market, asking for a loan that he needs and which carries the denomination of buyer credit. This is a form of the financial credit characterized through that it is related to an export operation.

At the supplier credit, the contracting parts – supplier and buyer – draw up a single document, commercial contract, which contains all the elements referring to the delivered goods: structure, quantities, price, value, terms and payment modalities.

At the buyer credit, two different documents interfere: the commercial contract concluded between the supplier and the external buyer and the loan contract concluded between the buyer, as a beneficiary of the external credit, and the credit bank.

The export is realized through the mediation of the commercial credit granted by the supplier to his business partner, the external buyer, either though the mediation of the buyer credit granted by an external buyer's bank. Both forms of export credit follow the favoring of the commercial exchanges in the interest of the contracting parts and are granted by the private operators (suppliers, banks) in conditions appropriate to those practiced on the market (the interest rate, duration, modality of schedule reimbursement).

Together with this credit forms are also met others having help character, trusted by the state through their governments or through the specialized public institutions.

2. The export credits insurance

The external credits from public resources are trusted in the most advantageous conditions than those practiced by the private operators (interests under the market level, longer periods of reimbursement, grace periods). The aid- credits from the public resources are trusted on bilateral or multilateral bases and follow the favoring of the economic development of the beneficiary country[1].

The bilateral aid-credits are legal, they cannot be used in order to pay for some import of products and services from the donor country.

Usually, the credit insurers do not guarantee the aid credits, but they remain in the task of the state.

The export credits insurance covers a multitude of export risk, which are going to be grouped depending on the moment when the risk happens and its nature. Viewed through the prism of time when they happen, the risks covered through the export credits insurance refer to the precursory period to the signing of the contract, either to its posterior period.

In order to enter with his products on the foreign market, an economic agent is obliged to prospect that market to convince himself if and in what conditions he would be able to export on the respective market.

Prospecting the external market claims expenses from the potential exporter's share, without existing the certainty that the action is going to have success, is going to make possible the conclusion of export contracts. Even if in some countries exists the practice of bearing by the state of a share from the prospecting expenses for the expenses that remain in the economic agent's task, the risk of commercial failure of the prospecting action cannot be neglected. In order to protect himself against such a risk, the potential exporter can conclude a prospecting insurance at a specialized organism in such insurances.

In the case of some important objectives aiming the delivery of products, execution of works or carrying out services over the boarder of high value, the international competence receives sharp forms. Some economic agents, in order to put themselves in a more advantageous position in the competition at which they participate, present firm offers valid on a certain period of time.

The modification of the economic conditions (price, interest, currency, financing conditions) in the validity period of the firm offer towards those taken into account at the elaboration of this, can train for the exporter agent, in the case of order adjudication, a loss that cannot be recovered from the importer. The offeror is obliged to put up bail in favor of the buyer, which is going to guarantee that the offeror in case of the transaction adjudication, will sign the external contract in the conditions foreseen in the present offer.

Insurances against risks can be concluded, which are going to be incumbent on the exporter's remission of firm offers on longer periods of validity.

After the conclusion of the export contract can appear two categories of risks[2]:

- some in the time interval between the moment of the signing of the export contract and that of the delivery at export of the ordered products accompanied by legal documents;
- others in the delivery period on credit of the products and until the cashing of their equivalent value.

In the period of the proper production of products, which are the object of the contract for export, subsists the risk of interruption of the contract for reasons that are out of his control.

To the extent to which the ordered goods, works or services have unique character and after the termination they can no longer be valorized by other beneficiaries, the interruption of the contract generates losses for the exporter.

The risk of recording losses from the exporter's side, in this phase of the unfolding of the contract is a manufacture risk. If the exporter has put up bail in favor of the buyer, which to guarantee in case of necessity the return of the paid advance, at the concluding of the contract or a quality guarantee, when the exporter looses the right over the guarantee.

In the case of the international cooperation works, (the execution by the exporter of some key objectives abroad or of some works with the help of the equipments, machines and materials and which follow to be distributed, after the realization of the contract) exists the risk that those material values belonging to the exporter may not to be able to be brought back in the country of origin from political reasons.

During the commercial contract, the manufacture period can be extended on a longer period of time. In conditions of inflation, the rapid growth of internal prices could increase the manufacture costs of the requisites so that the contract registers losses instead of benefits. The risk of increase of the

internal products can be protected through a guarantee of the economic risks.

After the delivery of the products (the loss of the executed works or the carrying our of services) by the external partner, for the supplier appears the risk of failure to pay in term of their equivalent value by the external customer[3].

In classic insurance company or the specialized insurance organism, which acts from the order and for the state account, can protect the exporter against such a risk. The guarantee of the credit risk is trusted by the insurer of the credit either to the exporter (in the case of the supplier credit), or to the bank (in the case of the buyer credit).

The bails put up by the exporter in favor of the buyer through which guarantees the good quality of the contract execution or the return of the advance received from the buyer in the case of the non-fulfillment of the contractual obligations by the supplier, can be valorized in the established conditions.

The risk of currency can also appear, in this phase of the unfolding of the export contract. If the external customer (debtor) has honored in term the arrangement assumed towards the supplier in the case of the supplier credit in the case or towards the bank, in the case of the buyer credit over the export can hang over the risk of registration of a losses resulted from the differences between the existent currency at the conclusion of the contract and that practiced at the payment of the credit. Against the risk of currency, the exporter can conclude a insurance in order to protect him in such circumstances.

The risks of the credit at export have been approached through the prism of the moment when this is manifesting.

Such an approach aims at the nature of the respective risks, which make the difference between the commercial, political, currency and economic risks.

The commercial risks, also denominate as risks of non-payment, are related to the buyer's behavior towards his supplier. When the external buyer is a private natural or legal person, this presents the risk of non-payment. He can be sued in order to oblige him to respect the commitment assumed through the contract.

Against the public buyer, who shirks from the fulfillment of the contractual obligations that he has assumed, there is no way of attack in justice. From this cause the risk of non-payment from the private buyer's side is considered a commercial risk, while the same risk coming from the righteous public buyer is considered a political risk.

The notion of political risk has a large sphere of covering in which enters: the proper political risk as also the non-payment risk from the public buyer and the non-transfer risk of currency towards the supplier. The proper political risk is referring to war, revolution, etc. and at those public authorities (nationalization, requisition, sequestration, prohibition or restriction of the import of certain products, limitation of the currency transfer, repatriation of the actives belonging to some foreign persons), which prevent the execution of the contract.

Political character also has the measure taken by a public authority from the exporting country to forbid the export of a certain contractual product and encountered in the manufacture period.

The execution of the contract can be influenced by the measures taken by a third country.

Some insurance organisms assimilate the risk on non-payment of an export contract concluded as a righteous public partner, with the political risk.

The risk of non-transfer of the currency by the exporter, whom has trusted a supplier credit of towards the credit bank, in the case of the buyer – credit, appears when the supplier cannot enter in the possession of the currency representing the equivalent value of his export because the monetary authority does not transfer the value owed by the importer agent to his supplier and for whom he deposited the equivalent in the local currency[4].

This transfer rejection of currency gets the character of a political risk, being generated by a measure taken by a public authority, and not by his customer's incapacity of payment. Some insurance of export credits assimilates the natural catastrophes produced on the territory of other country than that of the exporter of the political risk.

In the case of some catastrophe, a regular insurer covers the disappearance or damage to the insured goods, and an export credit insurer covers the buyer's impossibility to

enter in the possession of the ordered goods or to pay them at the settling day.

There are within them: the risk of currency exchange, the risk of manufacture costs increase of the products, which make the object of the export and the fluctuation risk of the interest rate.

The risk of currency exchange appears when the money of the exporter's country and the money of the importer's country are not related between them through a fixed exchanged report.

This makes that, the curse in which it is effectuated the exchange of the two currencies to evolve from a period to another provoking negative or positive effects for the exporter.

The exporter asks for the term payment in order to protect himself against the risk of currency exchange, and also the credit bank, which has trusted a loan to the importer, may use various solutions.

- to contact an import in his customer's money or in another money, so that the risk of currency exchange, afferent to the agreement of payment expressed in another money than the national one to complete the risk of currency exchange afferent to his debt.

This solution must operate with identical amounts of cashing from abroad and to pay towards abroad, settling days on the same date and to present the same risk of currency exchange or the most appropriate.

- the exporter to sell his product at a course previously established.

The exporter avoids the risk of registration of a negative influence from the fluctuation of the exchange course, but also that of the realization of a favorable influence.

Each of these solutions presents advantages and disadvantages and sometimes - presents technological difficulties of application. The exporter addresses to an export credit insurer in order to offer him the necessary protection against such a risk. The exporter is subdued to the risk of exchange course not only when he sells with the payment on term expressed in another money than his ones, but also when he himself concludes the subcontracting contracts with the payment in term in the contractor's money or in another money.

The export credit insurer covers the risks of exchange course, which appear in both circumstances.

The risk of increasing the manufacture costs of the product, which makes the object of the export, appears as a consequence of the inflationary phenomena, which manifests on the market of the exporter's country at the products with long cycle of manufacture, this risk is well marked and can make the costs increase to be rapid so that it can exceed the margins taken in the pre-calculation and the transaction results in losses[5].

If the exporter, from various reasons of caution, includes a bigger margin, can arrive at a level of the offer price, which makes him uncompetitive. If the exporter solicits the inclusion in the commercial contract of a clause of price revision, this solution could not agree to the importer.

In order to protect his interests, the exporter solicits to the export credit insurer insurance against the economic risks.

The fluctuation risk of the interest rate perceived at the supplier-credit and also at the buyer-credit. When the interest rate is being established so that the importer is going to pay to exporter on the validity period of the supplier-credit or to the credit bank on the validity period of the buyer-credit, the supplier must take into account the level of the interest at which this could obtain the necessary money for refinancing. If the interest of the market manifests a tendency of increase, it must be taken into account at the conclusion of the loan contract with fixed interest. There is the risk that the interest of the market to be superior to the fixed one foreseen in the contract, at the contract with fixed interest, disadvantaging the credit exporter or the credit bank.

Different solutions are applied for the exporters' or banks' protection from the risk of the interest rate fluctuation at the credits trusted to them.

In some countries, the public institutions administrate the mechanisms of export refinance with the fixed interest rates. The state bears a share of the interest that it has to pay to the exporter when it loans from the market in order to complete its financial resources; another solution consists in the establishment of the perceived interest by the banks to their external customers. The difference between the market interest

(higher) and the fixed interest, cashed from the external customer, is borne by the state in the whole validity duration of the credit contract.

No matter the organizational forms and their judicial statutes, the specialized organisms in export-import credits insurance conclude approximately the same types of insurances, use the same types of policies, put into practice different insurance premiums.

3. The causes of political nature

During the global economic crisis, many countries with difficulties, which have put them in the impossibility to honor in term the arrangements assumed by external creditors. Many countries due to the lack of currency resources necessary in order to pay the external debt service have been obliged to solicit the re-staggering of the external debt arrived at settling day to creditors.

This fact was determined by:

- the necessary rise in the price of gross petroleum by the OPCE members countries,
- the increase of the interest rate on the loan capitals market,
- the exacerbation of the protectionism by the developed countries,
- the mistakes of economic, monetary financial politics of some capital importer countries.

Other causes of political nature have contributed and contribute to the non-collection of the external debts:

- the breaking out of armed conflicts in certain regions of the world,
- the overthrow of some governments by coup d'etat or by modification of some political regimes;
- the dismemberment of some states with federal structure,
- the setting up of the embargo against some states.

The political events have a strong impact over the economic increase in the countries in which these are produced and over the international commercial and financial relationships. The exporters are more afraid of the political risks than the commercial one.

In order to take shelter from the consequences of such dangers, the exporter countries and the credit banks solicit to the specialized governmental organisms the credits guarantee or insurance, which they trust to some external partners, who present more significant country risks.

After 1982s, the governmental organisms of credit insurance have paid indemnifications to the insurants in amounts, which exceeded the cashed insurance premiums, for the negative balance of the annual financial operations, appealing to the reserve funds previously constituted.

The governmental organisms of credit insurances have taken measures, in order to exceed this critical financial situation[6]:

- ✓ they have ceased to receive in insurance the credits granted to the countries encountered in the incapacity of payment or about to arrive in such a situation, they have established commitments ceilings for the countries that beneficiated of unlimited insurance or they have reduced the previous ceilings to others,
- ✓ they have reduced the indemnification percentage of the damage, correspondingly increasing the franchise;
- ✓ they have prolonged the term at which the insurance indemnification becomes eligible in the hope that meanwhile the debtor is going to find solutions in order to pay for the outstanding credit;
- ✓ they have increased the perceived insurance premiums;
- ✓ they have narrowed the application sphere of the insurance.

4. Conclusions:

Through measures taken, the insurance governmental organisms have followed the improvement of the report between the cashed premiums and the owed indemnifications and the realization of the financial equilibrium through the transfer of the losses provoked by the political risks over the insurants.

Apart from the measures taken in their relationships with the insurants, the credit insurance governmental organisms have also acted on the intensifying line of their collaboration with the big international private insurers in order to limit the negative effects of the insured political risks. It is about the participation at the insurance of some political risks as co-insurers and the reciprocal receiving and yielding of some

important parts from the subscribed political risks.

The risk problem of currency exchange has acquired a bigger importance since the main convertible currencies freely fluctuate in the market.

The risks of currency exchange appear as a consequence of the fact that in the relations between the insurant and insurer, are used two currencies: the national currency and another currency in which it was released the export contract. The course at which the external customer's currency is exchanged in the exporter's national currency (credit bank) fluctuates from one day to another, in the exchange currency inevitably appear the financial influences, which advantages or disadvantages the insurant. The insurant can solicit to the insurer to introduce an exchange currency clause in the insurance contract on the basis of which this last one retrieves over him the currency risk.

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Unemployment – The Global Issue of Contemporary World Economy

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Abstract

The present work comes in support of delimitation, identifying and solving complex problems arising from the implementation of the global economy. Unemployment is a contemporary economic phenomenon increasingly spread due to a complex and comprehensive in nature, affecting the economic, social, political, psychological and moral development. It represents a negative state of the economy that indicates not using a part of the workforce employed.

This study has a special role both in the short term and long term, through the analysis of the occurrence, development and interpretation of the evolution of the unemployment rate.

Despite deepening the economic interdependence and increasing globalization, we can help improving the quality of contemporary economic life.

Key words: Unemployment, unemployment rate, world economy, National Association for Employment, European Commission.
JEL Codes: E24, J64, F41

1. Introduction

At present, the main obstacle to increasing competition means solving environmental problems. The term performance took the direction of the overall approach including both financial and non-financial aspects, which mainly relates to the basics of social responsibility. In the past financial performance is ranked first, but now economic entities have realized that motivation is what today's successful future in the context of sustainable development of society [3], is called aggregation performance overall performance involving economic, social and environmental. Although not new, globalization is the essential characteristic of the contemporary world. It consists in integrating several states and populations for excessive because of lower transport and communication costs, eliminating artificial barriers to the movement of goods, services, capital, knowledge and individuals between states.

Globalization will be carried out in parallel with the detailed study of the divide on the evolution of the economic development of the different state groups and with the regionalization of the world economy [5].

Unemployment is an imbalance in the labor market at its national level – an excess of supply over demand for workforce development levels and meanings of different countries, currently having a permanent character, but that does not preclude the existence of employment status permanently full. It can be defined as a state of economic inactivity, full or partially, particular to those who have no job, looking for one, but cannot find work as employees. It is the meeting place of confrontation of global supply and demand. Unemployment is the term used in the event of a lack of jobs for able-bodied and suitably qualified personnel for the provision of services. This phenomenon is characterized by the fact that part of the population is in search of a job [10].

When the number of people in search of a job becomes serious economic problems take

proportions within the region or state concerned, through increased social spending for the maintenance of the unemployed.

This phenomenon is caused by the economic situation observed during periods of recession (economic depression) which takes about 2-3 years, followed by a period of economic boom with reducing unemployment [7].

2. Unemployment extension-dominance of present forms

The causes of unemployment are determined by labor market mechanisms which are subject to the economic circumstances, demographics, technical or scientific. This appears due to a unfavorable developments in socio-economic activities, additional requests related to employment by the new generations or persons at the age of two [2]. At present, unemployment expansion takes place in the following forms:

- ✓ *Unemployment conversion;*
- ✓ *Recurrent unemployment;*
- ✓ *Unemployment exclusion.*

Unemployment conversion means affecting employees who had stable jobs in portfolio licensing, without having a length of work.

Recurrent unemployment includes people who know a succession of periods of employment and unemployment. The most affected are young people and people with low qualifications.

Unemployment exclusion includes the active population, including older persons, poorly qualified or unemployed for a long period, even if you receive unemployment allowance or not.

Thanks to the training process and the direct causes that determine it, unemployment can be classified as follows:

- Cyclical unemployment is a form of structural season unemployment which occurs during the recession of the economic cycle, or it may take birth in collapsing economic activity in certain seasons of the year.
- Unemployment of discontinuity appears and operates in accordance with the regulations concerning maternity leave and other aspects of family life.
- Frictional unemployment represents the effect of marginal use labor, justifying the reasons for refusing a post due to the low salary offered.
- Unemployment of expenses is determined by the inability of a part of the active population called technophobes, use and adaptation of existing advanced techniques involving abstraction, interactivity, speed of execution and great flexibility. This type of unemployment can be avoided or reduced by improving the preparation and orientation of staff.
- Flashing unemployment is due to the inadequacy of mobility incurred and of divergence between the qualifications required of persons wishing to obtain a job.
- Seasonal unemployment exists due to the restriction of economic activity during certain periods of the year in which the economic conditions are less favorable. It is specific to the agriculture, construction and tourism.
- Structural unemployment is bounded by the restructuring of the economy trends on activities which are subject to economic and technical progress, the energy crisis and social and political phenomena. It was met both among the least developed countries and in the developed world or in transition to a market economy. The reduction would mean big investments, retraining, redeployment of affected persons, etc.
- Technical unemployment it shows a company's activity through disruption of the prolonged lack of orders. Affected individuals are required to receive unemployment benefits from the company. The return takes place once the resumption of activity.
- Technological unemployment it is highlighted by replacing the old techniques and new equipment technologies and centralizes some capital. Overcoming the phenomenon occurs with the retraining of labor in accordance with the new regulations.

3. Amplification of unemployment. Case study-Romania

3.1. Current situation

In our country, unemployment is amplified because of unused production capacity in the context of a deep economic

recession and a strategy of transition to a market economy competitive. We should always take into account the destructive effect of interest on investment, wage rigidity in the fall, releasing labor increased due to refurbishment and stagnant job creation [6].

Continuing research I found that unemployment in Romania is presented under the following forms: *conjectural, structural* and *technological*.

Essential tool for determining the degree of unemployment is the unemployment rate.

It measures the percentage of workers unemployed in relation to the total labor force. It is considered one of the most important macroeconomic conditions indexes of a country [4].

It is monthly calculated through a survey on a random sample of 60,000 households and 375,000 companies [9]. Are taken into account only people who are actively looking for a job. The rate of unemployment is thought to be around 4-5% of the work force. During periods of low unemployment salaries grow faster being a cause of inflationary pressure [8].

Currently, in Romania, the unemployment rate is around 10% (on the economy), among the unemployed and a large proportion of workers in the branches of energy-intensive. Thus unemployment greatly affects young people and women. Due to the recession we are in, unemployment is a continuing upward trend.

3.2. Statistical study of the National Agency for Employment (NEA) for the unemployment rate registered in March 2013

According to the NEA, at the end of March of this year, the unemployment rate has seen a national level 5.58% with 0.20% lower than that recorded in February 2013 and 0.43% higher than that recorded in February of the previous year.

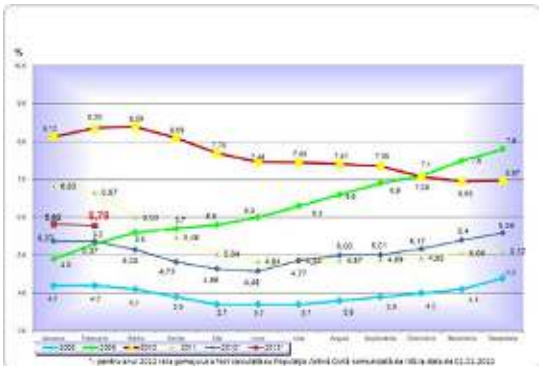
At the end of March the total number of unemployed persons was 492,427 lower than 17 982 people by the end of February. By doing this the total registered unemployed was 183.048 and 309.379 unpaid indemnity. The number of unemployed fell by 19.815 persons indemnity and the number of unpaid increased by 1.833 persons compared to those recorded in February.

Therefore, the share of unemployed persons in the total number of unemployed bud 62.83% increase the previous month by 2.58 percent.

In terms of unemployment by gender, the March compared to February of the same year, we highlight the following results: the male unemployment rate decreased from 6.47% to 6.22% and the female unemployment rate declined from 5.02 percent to 4.87 percent. On 31 March 2013 the number of unemployed women was 203,423 people.

The graph below shows the evolution in the number of registered unemployed in the period 2008- 2013.

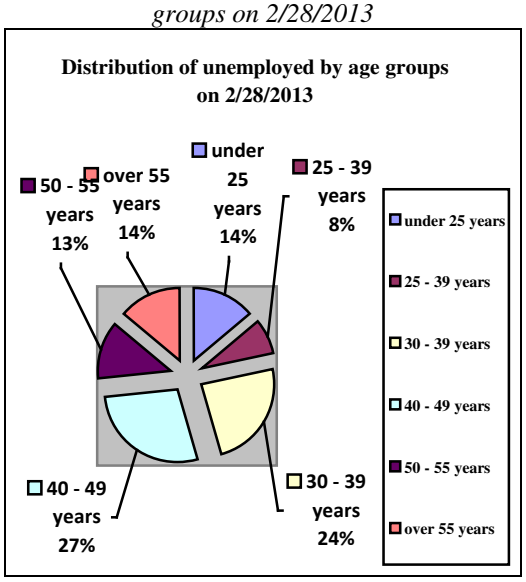
Figure 1. Evolution of unemployment rate during 2008 - 2013



Source: www.anofm.ro

Depending on the age groups the structure of unemployment in March 2013 shall be presented in the following form: 60.360 unemployed were under 25 years; 39.144 unemployed were between 25 and 29 years old; 118.944 unemployed were between 30 and 39 years; 139.002 unemployed were between 40 and 49 years of age; 63.664 unemployed were between 50 and 55 years old; 71.313 unemployed over 55 years of age. Thus we present the following diagram:

Figure 2. Distribution of unemployed by age groups on 2/28/2013



Source: www.anofm.ro

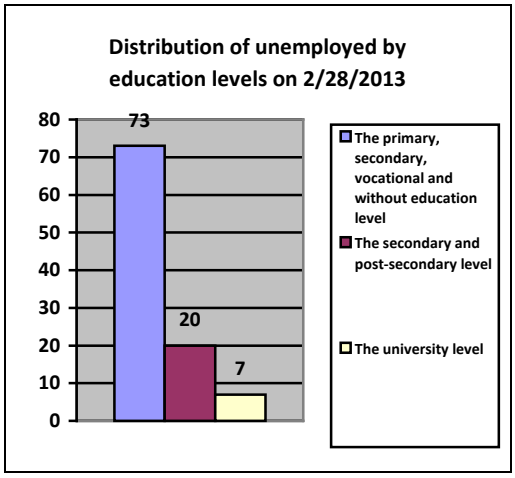
Depending on the level of training of the persons under investigation, the unemployment rate was recorded as follows:

✓ The primary, secondary, vocational and without education level – 73 percent;

✓ The secondary and post-secondary level – 20 percent;

✓ The university level – 7 percent.

Figure 3. Distribution of unemployed by education levels on 2/28/2013



Source: www.anofm.ro

According to statistical research provided by the NEA, the highest unemployment rate decreases were recorded in the counties of Alba (to 0.60%), Harghita (to 0.49%), Florida (0.41%), Mureş, Sălaj and Bacău (by 0.39%).

The unemployment rate has reached the highest levels (being from 8 to 11 percent) in a few districts as Vaslui with the highest rate of 11.20%, Mehedinţi with a lower one reaching 10.37%, Teleorman with a similar rate of 10.08%, Dolj with 9.96%, Alba with 9.12 %, Galaţi with the rate of 9.11% and Buzău with the smaller rate of 8.37%.

3.3. The forecast of the European Commission (EC) concerning unemployment in Romania in the period 2013-2014

The European Commission improved the prognosis for unemployment in Romania positively changing the unemployment rate reaching 6.9% in 2013 and 6.8% next year from an estimated 7.3% advance in September for both periods. So we hope that our unemployment rate to maintain the slight decrease.

However, let's not forget that the improvement in the labor situation is slowed by difficult economic conditions.

In the winter of economic forecasting, European Commission stated that unemployment was reduced from 7.4 percent of the work force (15-74 years) in 2011 from 7% in 2012. The same organization predicted that unemployment among young people, which currently accounted for 23%, will be reduced slightly this year, but will remain at a high level.

According to data announced by the National Institute of Statistics, the unemployment rate in seasonally adjusted form in December fell by 0.2 percentage points from the previous month at 6.5%, and compared to December 2011 is down by a point, the number of unemployed aged between 15 and 74 years, reaching 661.000 people.

4. Conclusions

According to the National Employment higher fidelity, the total number of unemployed recorded in the county agencies for employment was 675,790 persons, including 289,490 women, so that the unemployment rate among women was 6.84%.

In accordance with specific labor laws, eliminating all barriers to the labor market should lead to the elimination of all forms of involuntary unemployment, increasing

competition among employees for the best jobs (or higher salaries and working conditions), increase competitiveness between employers for the best employees, the effects of increasing productivity, reducing bureaucracy, increasing real incomes generalized and stimulated people's desire to train [1].

Romania ranks in the top ten EU countries with the lowest unemployment.

In good times, it was relatively easy for the unemployed to trust the market's ability to hire, but in tough times, contemporary situation changes radically.

Let's not forget that we face today and a rapid increase in labor migration from rural to urban. Thus, if no action will be taken for the rapid replacement of the labor market, we could be faced with problems like terrible periods of famine [11].

In conclusion it is very important that the measures include vocational guidance, training and the launch of the labor market a reality and for young unemployed persons who are not registered at present, giving them the opportunity to be trained and finally employed.

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Section II
Business Economy and Administration

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Subsection 2
Marketing – Management

Consumer Socialization of Children – Literary Review

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Abstract

The theory and empirical research have revealed that the consumer behavior is influenced not only by the consumer personalities and motivations [52], but also by the influences coming from the external environment of each person, regardless of its age. In the case of children'spurchasing behavior, the studies have shown that the child's experience one can have in the purchasing process is part of consumer socialization [44].This way, his evolution as a consumer is connected to the influences coming from people in contact with, over time. Of the many external influences, reference groups, especially family (the main factor), followed closely by peers and then the media act as agents of children consumer socialization.

Keywords: child, child socialization, socializing factors, influence
Classifications J.E.L.: M30 ; R20

1. Introduction

In most cases a single person acts as purchasing agent for products products for the whole family, but is more than one person behind the decision-making process [52], this being a consequence of the fact that the needs and desires of others family members are also taken into account. Regarding to the family, various authors [2, 32] in their research revealed that children influence their parents purchase decisions. Starting at a very young age, children are brought by their parents in the shops and are familiarized with purchasing processes [25], they are asked for opinions and are allowed to impose their own desires (source). In this way, the parents are the first agents taking part in the formation of the child as consumer. They appear as discussed the following concepts: socialization consumer children and socialization agents of consumer child. So, the parents, friends group, media and general context (social and cultural environment) together constitute social agents in the socialization process of the child as a consumer [24, 21].

2. Consumer socialization concept and stages

Consumer socialization process was first mentioned by Scott Ward [49] who defined it as "the processes by which young people acquire skills, knowledge, and attitudes relevant to their functioning as Consumers in the marketplace". Other authors have defined this term as being "the ways in which individuals learn skills, knowledge, values, motives and roles appropriate to their position in a group or a society" [5] or "a developmental process that proceeds through a series of stage as children mature into adult consumers" [24], ,,the process in which the individual constantly harmonizes himself or herself with the environment by learning or changing new attitudes, values, and current norms" [21].

The research on consumer socialization of children field has been largely influenced by Piaget's cognitive developmental theories, which is closely related to childhood [11]. McNeal [31] discuss the five stages that a child may have in his evolution as a consumer:

I. Observing - is the first stage in the child's development as a consumer. It often happens that

parents take their children since the very young - two months [36] with them when they made different shopping, introducing him in the stores atmosphere;

II. Making requests – most times, once they arrive in stores, they insistently demand a product, resorting to various tactics to get what they want (crave, gestures or even start to cry[7, 49]. These requests, preferences (for colors or sounds) begin to be made after age 18 or 24 months [48, 8, 13, 17];

III. Making selections - this stage begins at the age of 3-4 years old, when the child already go up and can go one up on the shelf where he can take himself the products that have attracted his attention by putting them in the shopping cart with parents[37];

IV. Assisted purchases - at the age of 7-8 years they have discretion in spending their money on the products they want. Now they better understand that money can be changed by the desired products [31];

V. Making independent purchase – in this stage, (11-16 years old), the age allows them to get their own products. The needs and preferences are not met by parents [18, 30]. The independence from parents in terms of shopping, is in this context that last step in modeling the child as consumer.

Subsequently, Deborah Roedder John [49] in a comprehensive study: Socialization of Children - A Retrospective Look at Twenty-Five Years of Research - gather the five stages of McNeal [31] in another form (table no. 1), grouping the children ages in only three stages.

Table no 1. **Consumer socialization stages**

Characteristics	Perceptual stage, 3–7 years	Analytical stage, 7–11 years	Reflective stage, 11–16 years
KNOWLEDGE STRUCTURES:			
Orientation	concrete	abstract	abstract
Focus	perceptual features	functional /underlying features	functional /underlying features
Complexity	unidimensional simple	two or more dimensions contingent ("if–then")	multidimensional contingent ("if–then")
Perspective	egocentric (own perspective)	dual perspectives (own + others)	dual perspectives in social context
DECISION-MAKING AND INFLUENCE STRATEGIES:			
Orientation	expedient	thoughtful	strategic
Focus	perceptual features salient features	functional /underlying features relevant features	functional /underlying features relevant features
Complexity	single attributes limited repertoire of strategies	two or more attributes expanded repertoire of strategies	multiple attributes complete repertoire of strategies
Adaptivity	emerging	moderate	fully developed
Perspective	egocentric	dual perspectives	dual perspectives in social context

Source [49]

Thus, the child evolution as consumer is taken into discussion, starting from the first moment the child is present in the family purchase decisions, passing through acquiring knowledge and skills during the grow up process, until the first opportunity to make their own purchasedecisions, independent of its parents.

3. Socialization agents of the child

The evolution of each individual, starting from the childhood, is a result of its interaction with other members of the group and the society. Psychological approach to the problem, called Systemic psychotherapy starts from the premise that humans influence each other [22]. Such an approach, particularly related to the child socialization process, requires consideration of factors (agents) that underlying the modeling and influence of the child's behavior as a consumer. A number of researchers [49, 46, 21, 12, 23] group the agents of child socialization in family, friends (colleagues), media and culture.

The parents are considered to be the main agents of socialization because they are the ones that shape the child's behavior as a consumer [29, 38, 47] from childhood to adulthood [50]. According to Ward [49] the parents can influence the child's socialization process as a consumer due to the fact that since childhood they observe the parents behavior on purchasing decisions for products necessary in the household and many more. Also, the parents train them in discussions about the type of products purchased or consumed by the family (eg, they cultivate the idea that only a certain type of grain consumption brings necessary nutritional intake [20]. Between the two parents, the mother has a greater influence on the process of socialization [6, 41] than the father, who has a less significant role [9, 3].

Like the parents, the peers are likely to influence the purchasing behavior of the child. Socialization through friends can be achieved either by the fact that it wants to be accepted or integrated to a particular group, so he only buys or consumes products or services [28, 39,40, 2] or is taught how one can use the type of product or how certain products satisfy the needs or desires they feel, or they simply are being aware of products or brands they already use [42, 43]. The influence of the friends in the process of socialization increases with the age of the child while the parents manifested influence decreases [40, 49].

On the influence of mass media, Moschis [40] states that „no other agent of socialization has received more attention than mass-media' because together with the parents and friends, advertising influences in a great extent the choices the children do in relation to goods or services [1, 14, 15]. Currently, the programs and advertising targeted to the children is omnipresent at TV. Thus, the media inform them about the existence of various products and stimulates them in their purchase [14, 16]. Mass media (especially television) influence children to form (independent) perceptions about products, product use and develop brand preferences [26].

In terms of culture, can only say that it can be defined as „all material and spiritual values created by mankind and institutions necessary to communicate these values"[53] and it is raised for very few times in the researches targeted on consumer socialization. Among the countries that have conducted researches in this area one can include China [33, 34, 51], India [10], Mexico [27], Turkey [21, 19] and New Zealand [35]. All these researches were performed strictly at a national level, but it would be interesting to see the difference between a family with a child in China (where there is one child policy) and a family with a child in the United States or, why not, in Romania. As part of culture and social environment, understanding the differences between cultures help clarify the degree of influence of consumer socialization factors in each culture (family structure, type of relationship with friends, colleagues) [23].

Although the most investigations have been limited to the four factors mentioned above, along with them one have to take into account the child's gender, socioeconomic level or age, which in turn have an influence on the process of socialization [43]. These attributes define the extent to which the child is willing, is stimulated and allowed access to social components. They also exert influence on product categories, brands to which the child pay attention to.

Conclusions

The whole process of socialization, along with the component factors, take part in shaping the child as consumer. Starting with the family and the environment in which the child it is grown, from the first contact with the external environment, including here the former cultural environment in which he was grown,, the child is influenced to manifest in a certain way in the process of buying and

consuming of the products. The consumer socialization is not just the acquisition of knowledge regarding consumption, but also requires motivation manifests how buying and consumption activities. The current knowledge is limited by the limited number of information resulted from the research conducted up to date. On the other hand, the access to information related to the consumer behavior of buyers and children is subject to ethical restrictions of marketing research, which further slows the process of knowledge.

Future research

In terms of future research it would be interesting to see how the child socialization process occurs in different types of families, different cultures as well as the reverse socialization occurs (knowledge gained by parents from their children).

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Ensuring the Profitability, as an Essential Objective of Public Organization in Management.

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Summary

The article refers to aspects related to strategy as a key factor of the organization development, either public or private, if you don't know the good direction, you will never reach the desired place. The public administration needs, in my opinion, a revaluation of objectives and strategies on medium and long term in order to optimize the public services. Without pretending to exhaust the strategic management process, I emphasized, in connection with the pattern proposed by economists Rue and Rolland, main steps to be taken by a public organization management so as to elaborate and implement a realistic strategy. [1]

This step implies the substantiation of the strategy, based on a thorough analysis of the public organization and its specific environment for action, followed by the establishment of strategic options and the selection of most feasible ones. The next step is represented by the implementation and operationalization of the strategy.

Key words: organizations; management; public; strategy; decisional.
J.E.L. Classification: H83

1. Introduction

In this article I would try to present the need of strategic management within public organizations, as well as the way the public organization could develop and maintain a viable connection between objectives, resources and opportunities so as to satisfy public needs.

Public management researches essentially refers to the public organizations leadership. Therefore, before starting any step in analyzing management dimensions in public sector, we have to understand what the organization generally means and, in particular, the public organization.

The starting point of our analysis is the finding according to which the organization represents extremely complex and hard to define entities.

They represent crossing points for structures, technologies, human resources, groups, policies, etc.

Understanding the reasons behind the organizations functioning can cause big troubles to any rational person. In this short description we may find few of the main important themes related to the organizations management.

The need of strategic perspectives, scopes and determined objectives:

- rationality;
- the importance of organizational environment;
- labour specialization and division;
- coordination and control, organizational design.

Each one of these elements is essential to understand the organization. Evidently, the integration of different trends, key problems and action in a coherent and unitary effort represent the main attribute. In structuring the organizational management there are two major approaches: those based on verticality and horizontality. The first one presents the organization as a pyramidal structure and essentially based on formal authority elements.

A person is officially appointed as a leader of the organization and this automatically confers to him the needed competences so as to take all important decisions, not subject to any discussion but execution without any delay.

Content:

The decisional factor is clearly separated by the executional one and lower levels only apply the received orders and send to the next

hierarchical level the needed information for decision making.

The organization is based on clear objectives, rules and regulations establishing the role and position of each one, providing the action framework and ensuring a unitary functioning.

The simple employee is only asked to execute orders instead of creativity; actually, creativity could become even dangerous for him. The horizontal approach of the organization implies the exceeding of the exclusively formal level and the insertion in the equation of the communication and laterally cooperation need from the organization.

For this point of view the pyramidal organization is exceeded and unable to react to modern society needs.

Formal structures are always doubled by very strong informal ones, whose neglect could lead to a malfunction of the organization.

Therefore it is important for the organization to promote horizontal cooperation instruments, based on internal networks, the promotion of personal initiative and communication.

Chapter I: Researches in the modern organization

Researches related to the organizational development revealed that organizations tend to develop structures based on formal authority, vertical coordination in case of stable environments and to encourage flexible structures, based on horizontal coordination and creativity in case of changing environments. Evidently, each one of these two approaches has both, advantages and disadvantages and most of the times the modern organization represents a mix of elements from those two areas.

They are not excluded but rather complementary, the manager having the choice to establish the best mix of factors for an organization and a given situation. Another interesting factor regarding the structural evolution of the organization refers to the dimension-oldness relationship, small organizations being generally based on simple and informal structures.

Once they develop and grow, pressures related to ensuring organizational coherence and discipline lead to formalization and complication of structures. This aspect was extremely exemplified by various bureaucracies tending to „increase to the maximum level of incompetence".
Evidently, the increase of organization dimensions is not always directly proportional to the increase of results for this organization, but easily could actually be inversely proportional.

Another problem in order to understand the functioning of the organization refers to information and informational technology. Jay R. Galbraith defined the organizational uncertainty as the difference between the information hold by the organization and the one it needs at that moment.[2]

The issue of modern organization relationship with the information is of great importance. The quantity of information received is huge under conditions of modern technologies development and leads to serious problems on the information processing and data selection of a real importance for an adequate functioning.

Another issue related to the organization structuring refers to its capacity to relate with the existing resources. Understanding the importance of each resource is essential for the organization.

The necessity of judicious using of financial resources due to economic and politic pressures or labour force profile modification requires an intelligently structured answer on behalf of the manager.

Treating the present labour force, better professionally trained and of high expectations, on the basis of administrative model traditionally based on formal authority and rigidity represents a risky option.

Many times the modern employee is more trained in a specific area compared to his hierarchical leader, conferring to him more power and influence and determining him to adopt a more critical attitude towards the leader's capacities and authority. In this context, the human resource motivation and its mobility become more delicate.

When referring to public organizations we take into account the public administration, at central or local level and economic institutions under the state control.

The role of strategic management is to integrate the strategic vision at all levels of the organization and to use all existing

resources to achieve the objectives defined according to effectiveness, resources economy and quality conditions.

Strategic management implies a timely decision on what the organization has to do in the future (planning), establishing who will do it, how will do it (resources management) and monitoring the ongoing, control and assessment activities. [3]

By way of consequence, occasionally arises the idea according to which for an organization leaders are more valuable than managers. Continuing this idea, Brian Clegg and Paul Birch stated that: „Managers fulfill tasks that would have been fulfilled anyway and leaders do things that could not be done without them".[4]

We consider that the above presented statement is little exaggerated, both concepts presenting important aspects within an organization.

The concept of management refers to the assumption of responsibility in order to achieve an objective and effectively allocate the resources (material and human) with this purpose.

On the other hand, the leadership concept refers to the process of influencing and directing of organization members to achieve the objective.

Warren Bennis and Bart Nanus succeeded in resuming the difference between management and leadership to a single statement: „Managers are people doing things the right way and leaders are people doing the adequate things". [5]

We consider that in a public organization (or any other type) we need both leaders and managers; or more precisely, people to occupy both positions. A strategic vision is needed and current activities to be carried on. Managers' attitude towards human relations can take different aspects, the intention to inter-relate but also the preference for e lower degree of emotional involvement in those relations.

Thus the two perspectives may look paradoxical, their cohabitation seconds the managerial activity, including the search for compromises and the establishment of a power balance. The leaders especially dealing with ideas, interact in a more intuitive and empathic way.

An interesting aspect is the way the subordinates describe their managers, namely their leaders. In their vision, the manager is implacable, relaxed and manipulator. At contrary, leaders are described by highly emotional adjectives.

Warren Bennis, in his research On Becoming a Leader, enumerates 12 differences between manager and leader:

1.The manager is in charge. The leader innovates.
2.The manager is a copy. The leader is authentic.
3. The manager maintains. The leader develops.
4. The manager stresses the systems and structure. The leader stresses the human resources.
5.The manager is control-based. The leader is trust-based.
6. The manager has a short term approach. The leader has a long term approach.
7.The manager answer questions such as: Where? How? The leader answers at: what exactly? And why?
8. The manager is permanently oriented depending on immediate results. The leader is oriented on medium and long term results (impact).
9. The manager copies. The leader creates.
10. The manager accepts the status. The leader is disputing it.
11.The manager is doing things the right way. The leader is doing adequate things.

Strategic management approaches underline interactions between managers at all organizational structure levels as regards the substantiation, elaboration, implementation and assessment of the strategy.

The advantages are those pursued with priority by practicing strategic management.

Ensuring the profitability, as an essential objective of the organization, the establishment of action lines for the organization, the concentration of employees efforts with the purpose of achieving the objectives, the consistency of actions for the management and the other employees of the organization so as to apply the proposed strategy, ensuring the organizational flexibility in order to value all the opportunities of the exogenous environment but also strong internal points.[6]

A normative, evolved and dynamic decisional pattern is proposed.

It plans an effective way to structure the decisional process, by integrating elements of the iterations involved in a logical framework, reflecting the operability of the decisional mechanism. [7] One of the doubtless advantages of using this decisional pattern consists of warning the decider on possible (mutual) influences between the decisional process in its integrity and the (exogenous and endogenous) ambient environment of the organization.

Another advantage is generated by the fact that in an economic world in a permanent change, the decisional process is placed in a "vicious circle" usually generated by a stimulus situation that generates another at its turn, being at its turn a source for another decisional process.

This decisional "perpetuum mobile" corresponds to economic fragility and instability created by an ambient environment usually hostile and hard to define for many of the Romanian managers.

The complexity of the decisional pattern and the impeccable logic recommends it for use in strategic and tactical decisional processes for all companies in Romania, irrespective of their dimension or field of activity. From a theoretical perspective, it confers a coherent image of the entire decisional process with its elements and phases and emphasizes the correlations between them.

From a pragmatic perspective, the pattern can be used for training and improving the competences of the managers and specialists from the economic organizations that use scientific management as a working instrument.

Using the pattern also occurs when trying to compare results of certain companies, which - under similar economic conditions – addressed the same strategic pattern. Different results that were "accepted" are generated by the influences, mutual or unilateral of the environment and decider/deciders on each phase of the strategic decisional process.[8]

Conclusion:

Organizing the company as a managerial task consists of decomposing it in elements that will compose the production process, their examination in order to recompose them in comparison with certain economic, technical and personnel criteria so as to achieve the objectives established under an increased effectiveness.

The greatest importance in organizing the company is represented by the aggregate of work processes developed within the company, named procedural organization.

Depending on the covered fields, the procedural organization could be approached as follows:

- organizing the entire activities of a company;
- organizing different component activities (production, sale, marketing, supply etc.)

The relationship between all these factors of influence, active in the public organization environment, emphasize the complex situation where the public organization is conditioned for its functioning by features usually being situated beyond its control or influence capacity.

Is true that the relationship between the organization and its environment is not unilateral, it has the possibility to choose and try to influence few factors, although the efforts are not that easy. Therefore, the public organization is impossible to be understood, analyzed or leaded in the absence of understanding the importance and influence of the environment it is placed in. [9]

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The Hypermarket – A Solution to Develop the Romanian Retail

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Abstract

Romanian trade is placed, at the beginning of this millennium, at an intermediate stage of a complex process of development. Since 1995, Romania has experienced a steady increase of the retail market due to the entry on the Romanian market of some modern international trade chains and to the changes made in the Romanian consumer's behavior.

In this paper, we present the concept and characteristics of the hypermarket and we characterized the modern Romanian retail. Assuming that there are a variety of factors that shape the modern retail, we analyzed the impact of the macroeconomic variables on the development of hypermarkets on the Romanian retail market. The research methodology was based on the method of multifactor regression and on the method of statistical correlation. The results of the study showed that the hypermarket had a spectacular evolution in the Romanian retail, marking a milestone in the evolution of consumption.

Key words: hypermarket, modern retail, Romanian market, retail market.
J.E.L. Classification: L81, M31.

1. Introduction

Trade is the form of human activity that has achieved, throughout human history, the most powerful and lasting ties between the countries of the world and their peoples. The term of trade is defined as *an exchange of products, knowledge and, at the same time, a way to join together different nations* [1] and *it is the expression of the relations of exchange between producers and consumers, relations which help buying raw materials or products to resell them at the same physical state, but on convenient conditions for consumers* [2].

In the vision of the EU, the modern concept of ***retail*** concerns trade and distribution activities and involves a large variety of forms (shops, e-commerce, open markets...), formats (from small shops to supermarket), products (food, non-food, medicine with or without a prescription...), legal structures (self-employed, franchised agents, integrated groups...), locations (urban/rural, in the center/in the suburbs...) [3].

Retail sales experienced in Western Europe, over a history of over 150 years, significant structural changes named *a succession of six revolutions* [4] which characterized the dynamism and the prosperity of the distribution activity and contrasted with the states of cyclical crisis of the economic environment of each country [5]: the emergence of large stores (at the middle of the nineteenth century), the development of branching (approximately 20 years later), the occurrence of popular stores (between the two world wars), the creation of supermarkets (in the '50s), the apparition of hypermarkets (in the early '60s), and maximizing services (in the early '80s).

In this regard, the literature developed the theory of ***the retail wheel*** [6], which is based on the principle of cyclical ratio of the point of sale, focusing on distribution cost, meaning that a new form of retail distribution appears on the market when it is able to operate in a cost-effective manner, charging prices lower than competitors. According to this theory, the big wheel of distribution reunites the four cycles corresponding to the most important retail formats, namely: department stores, popular stores, supermarkets and hypermarkets.

2. The hypermarket – a promoter of modern retail

The concept of hypermarket appeared in France in the '60s (the first hypermarket was opened in June 1963 in Sainte-Genevieve-des-Bois), the operating principle of the hypermarkets being: "Tout sous le même toit" - "Everything under the same roof" .

Hypermarkets have seen a major transformation from the moment of their creation when they were like large storehouses selling goods at low price, without any attempt to promote their products, and up to the moment when they started to create an image characterized by a more luxurious decoration, a more careful interior design, more costly architecture [7].

Hypermarkets have also been a model for the implementation of the French, German and English distribution companies in the countries found in transition, especially in the period after 1989, as a natural reaction of these companies to the lack of opportunities to develop their markets. European retailers have exploited the opportunities the found in the transition countries immediately after the liberalization of these economies. Poland, Czech Republic and Hungary are the most developed in this regard, especially for traders of food and for Do it Yourself stores.

In modern retail, the hypermarket has been defined as *a self-service store with a sales area greater than 2,500 square meters, reaching 22,000 square meters* [8].

The main features of a hypermarket can be summarized as follows [9]:

- A large selling area associated with a wide range of products and a generous parking space.
- It combines the retail principles with the features and facilities offered by supermarkets, stores that offer discounts and deposits.
- A reduced price policy based on partnerships with local and international suppliers.
- The self-service method supported by effective merchandising and a wide variety of promotional techniques.

With regard to the future of the hypermarket, André Tordjman underlines since 1988 that maintaining the appeal of hypermarkets is their essential issue as they reached the maturity stage of their life cycle [10]. Recently, Perrigot and Cliquet [11] have confirmed this view in a study that argues from a scientific perspective and econometrically tests the saturation of the French retail and the hypermarket entry, as retail format, in the decline phase of its life cycle.

3. Evolution of the hypermarket in the context of development of Romanian retail

The Romanian retail market has experienced the most dynamic developments in the European Union countries, covering three important stages of its development process.

The first stage (1990-1999) was characterized by the emergence of a large variety of products on the market, through a galloping inflation and the decrease of the purchasing power of Romanian consumers. During this period the first supermarket (1995) and First Metro (1996) appeared reaching a peak level of consumption in 1998.

In the second stage (2000-2008), the Romanian retail market had a constant growth (Figure 1.), with the highest rate of growth (8.5% annually) in Central and Eastern Europe [12], as a result of: the diversification of consumption, the boom of consumer credits, the increase of the Romanian consumers' demands and their orientation towards modern and online trade.

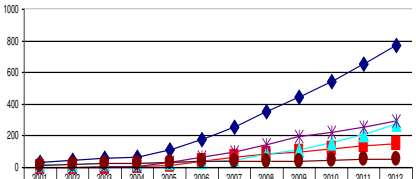
The first hypermarket opened in Romania belonged to Carrefour group, situated in the west area of the capital city, in the headquarters named Militari, with a selling area of 9000 square meters, having 2,000 parking spaces and a shopping arcade of over 6000 square meters [13].

A maximum of domestic consumption is reached in 2003, and 2005 is considered the psychological line for the development of modern forms of commerce in Romania.

Joining the European Union in 2007, Romania supported the development of retail trade by harmonizing tariffs and increasing imports.

The economic crisis interrupted the upward trend of the Romanian retail trade and generated a decline that lasted until mid-2009.

Figure 1. The evolution of modern trade formats on the Romanian market



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total number of units	32	43	56	64	109	175	252	356	443	543	651	773
Number of hypermarkets	1	1	3	5	10	36	64	88	99	116	136	150
Number of supermarkets	19	22	26	28	33	39	49	85	108	156	207	275
Number of discount stores	1	2	4	4	32	64	100	142	194	223	257	297
Number of cahs&carry stores	11	18	23	27	34	36	39	41	42	48	51	51

Source: Data processed by authors from http://www.magazinulprogresiv.ro/pagina/314/Retaileri_internationali.html, Accessed on February, 11, 2013.

In the third stage (2010 – 2012), the Romanian retail market was at the beginning of its growth [14], this being illustrated by: the fragmented nature of the market, maintaining traditional patterns of trade, the emergence of the new retail formats, switching from a major proportion of traditional trade to the equal share between this and modern commerce and the early stage of the development of electronic commerce.

At the beginning of 2011, the five largest retail chains on the Romanian market (Kaufland, Carrefour, Real, Penny Market and Plus) had a cumulated market share of only 22% [15], and there was room for new entries. 2012 was the year of diversification on the Romanian retail market as every major retail chain developed a mix of different store formats tailored to the local conditions and to the specific segments of consumers. The forecasts made by the analysts of the European Commission show moderate growth trends for Romania in 2012-2013, and a gradual recovery of private consumption up to a growth rate of 3.4% in 2013 [16].

In 2013, Romania's retail system conquered new territories in the medium and small urban areas, which represented a very good expansion potential for both discounters and small sized chain stores. In addition, the Romanian rural environment, with about 10 million potential customers, was a particularly attractive market for large retailers. At the level of this year, experts predicted the opening of more than 250 new units in the retail market, investment being made by major international retail groups for continuous capitalization and to conquer the market potential in the next periods of economic boom [17].

Currently, the development of hypermarkets is performed on the following directions:

- Diversifying the trade formats used by the same retailer.
- Opening smaller selling areas, placed in the urban zone (for example, the French retailer Auchan launched the concept Auchan City on the Romanian market in 2012, a store of 5,000 $m^{2,}$ focusing on food, while Cora opened two new locations, also considerably lower than the existing ones).
- Better management of costs.
- Applying differentiated marketing strategies adapted to the target customers.

For 2010-2020, the analysts of Oxford Economics have predicted an average annual growth rate of 5% [18], as a result of the upward trend of the purchasing power, the aggressive development of modern trade and the change of the purchase behavior. These factors will contribute to the predicted growth of 62% of the Romanian retail market value, meaning a turnover of 26 billion euros annually.

4. Methodology of research

The purpose of this research is to analyze the evolution of hypermarket within the context of the Romanian economy development, during 2001-2012. In this regard, we identified the macroeconomic factors with major influence on the development of modern retail formats in Romania and we evaluated their impact on hypermarkets.

O1. The objective of this paper is to evaluate the impact of some major macroeconomic variables on the development of hypermarkets in Romania

To observe the evolution of hypermarkets on the Romanian retail market we used the number of hypermarkets, as there are reliable data for the period under review. The turnover or total area of Romanian hypermarkets would have certainly been more useful in our analysis, but there are no reliable statistical data, which enable their quantification.

From the multitude of macroeconomic factors relevant to characterize the state of the national economy, we used the GDP, expressed in Euro, in total value, the average

monthly net salary [19], the inflation rate and the exchange rate EUR/RON [20] as we considered that these indicators reflect the development level of the Romanian economy during the period under review, from a dual perspective: the state and the individual. The values of these indicators are summarized in Table 1., indicating that after the redenomination of the national currency in 2005, it was necessary to normalize the data expressed in lei.

Table 1. Values of some economic indicators in Romania, in 2001-2012

Anul	HY	GDP (mld. E)	AMNS	ER	IR
2001	1	44,8	305,376450	2,6026	34,5
2002	1	48,4	388,134517	3,1255	22,5
2003	3	50,3	486,827042	3,7555	15,3
2004	5	58,9	596,545217	4,0532	11,9
2005	10	79,2	737,83	3,6234	9,0
2006	36	97,1	1.029,17	3,5245	6,56
2007	64	121,2	1.011,25	3,3373	4,84
2008	88	136,8	678,75	3,6827	7,85
2009	99	115,9	862,42	4,2373	5,59
2010	116	122,0	1.335,42	4,2099	6,09
2011	136	136,4	1.642,67	4,23,79	5,79
2012	150	136,4	1.715,08	4,4560	3,33

Source: Data processed by authors

The hypotheses of the study were the following:

I1. The evolution of hypermarkets is influenced by the gross domestic product.

I2. The evolution of hypermarkets is influenced by average monthly net salary.

I3. The evolution of hypermarkets is influenced by inflation.

I4. The evolution of hypermarkets exchanging apparatus is influenced by the exchange rate Euro / leu.

The methodology used was based on the multifactor linear regression model. In the analyzed econometric model, the number of hypermarkets is the dependent variable, the macroeconomic indicators representing the independent variables. For the data analysis we applied statistical methods of analysis with the help of the computer software Excel, Data Analysis module.

The model which verifies the hypotheses of research are presented as follows:

$$HY_i = b_0 + b_1 \times GDP_i + b_2 \, x \, AMNS_i + b_3 \, x \, ER_i + b_4 \, x \, IR_i + \varepsilon_i \quad (1)$$

(HY = number of hypermarkets; GDP = gross domestic products; AMNS = the average monthly net salary; ER = the exchange rate; IR = annual inflation rate; ε_i = error; i = years from 2001 to 2012).

The results of the multifactor regression model are summarized in Table 2.

Table 2. Results of the regression function

Regression Statistics	
Multiple R	0,9918
R Square	0,9837
Adjusted R Square	0,9744
Standard Error	9,0906
Observations	12

ANOVA

	df	*SS*	*MS*	*F*	*Signifi-cance F*
Regre-ssion	4	35056,44	8764,109	106,05	2,42E-06
Residual	7	578,4803	82,64005		
Total	11	35634,92			

Source: Data processed by authors

The multiple correlation coefficient (r), with the value of 0,9918, which is the ratio of the correlation that indicates a strong link between the dynamics of hypermarkets and the main influence factors analyzed. The coefficient of determination - R square - has the value 0,9837 and expresses that 98,37% of the variation in the number of hypermarkets can be explained by the variables taken into consideration. The adjusted correlation report of 0,9744 shows that the total variation is due to the regression line, taking into account the number of free degrees. F test shows which is the role of the independent variables in explaining the evolution of the dependent variable. The value of the F test (106,05) and materiality (0,0000002<0,05) indicates that the regression model is valid and can be used to analyze the dependence between variables.

The free term b_0, with the value of -312,062 is the point of intersection of the regression line with the axis OY. Because the t statistic registered the value of -7,447 and P-value = 0,0001<0,05, it means that this coefficient is significantly different from 0, with the confidence interval [-411,144; -212,979].

The coefficient for the variable GDP, with the value of 1,4032, is positive and indicates a direct link between HY and GDP, so that an increase of 1 Euro of the GDP determines an increase of 1,4032 points of HY. Since P-value = 0.0000401<0,05, the coefficient is

significant, situated in the range of confidence [1,038; 1,768] (Table 3).

Table 3. Coefficients for the independent variables

	Coeffi-cients	*Standar d Error*	*t Stat*	P-value
Intercept	-312,062	41,9020	-7,447	0,0001
GDP	1,4032	0,15443	9,0867	4,01E-05
AMNS	0,0324	0,0114	2,8203	0,0257
ER	44,6603	9,1110	4,9018	0,0017
IR	3,6875	0,6462	5,7062	0,0007

Source: Data processed by authors

The coefficient for the AMNS variable with the value of 0,0324 is positive and indicates a direct link between HY and AMNS, so that an increase of 1 leu of the AMNS increases the HY with 0,0324 points. Since P-value=0.0257<0.05, the coefficient is significant in the range of confidence [0,005; 0,059].

The coefficient for the ER variable with the value 44,6603 is positive and indicates a direct link between HY and ER, so that an increase of 1 leu of the ER increases the HY with 44,6603. Since P-value = 0,0017<0,05, the coefficient is significant in the range of confidence [23,116; 66,204].

The coefficient for the IR variable, with a value of 3,6875 is positive and indicates a direct link between HY and IR, so that an increase by one unit of the IR determines an increase of the HY with 3,6875 points. Since P-value=0.0007<0.05, the coefficient is significant in the range of confidence [2,159; 5,215].

The results of the created econometric model are influenced by the manifestation of the phenomenon of collinearity [21], which occurs when a group of independent variables are strongly correlated.

Table 4. The matrix of the correlation between the independent variables

	GDP	***AMNS***	***ER***	***IR***
PIB	1			
AMNS	0,811929	1		
ER	0,610176	0,714892	1	
IR	-0,80028	-0,7316	-0,78613	1

Source: Data processed by authors

In this case, there is an over-evaluation of the coefficient of determination, and of the dispersions of the estimated coefficients, which leads to an increase in the confidence intervals and can distort the interpretation of the model. The demonstration of multicollinearity is carried out by analyzing the correlation matrix of the independent variables considered, matrix which is presented in Table 4.

The result analysis indicates a strong positive correlation between the variables AMNS and GDP, a positive correlation between the variables ER and GDP, and between ER and AMNS. The correlation matrix showed that between the variable IR and the variables ER and GDP there is a very strong negative correlation, and between IR and AMNS there is a strong negative correlation.

From the analysis of the coefficients it results the following regression model:

$$HY=119,375+2,616\times GDP+0,344\times AMNS + (-39,461)\times ER +0,539\times IR+ \varepsilon_{i,} \quad (2)$$

The results of the regression function show that the hypotheses of the study are valid and, therefore, the evolution of the hypermarket is influenced by: *the gross domestic product, the average net monthly salary, the exchange rate of the national currency against the euro and the inflation rate.*

5. Conclusions

At present, the Romanian retail presents a high potential of development, showing an accelerated development of its life cycle. At this stage, the features of modern trade formats are finalized, the level of competition increases, modern retail networks are reinforced and there are still attractive locations for implantation, which allows to achieve attractive rates of profit.

The conducted research shows that the dynamic hypermarkets in Romania are part of a positive trend, being influenced by the overall economic and social development of our country, analyzed through the development of the GDP, the average monthly net salary, the exchange rate and the annual rate of inflation. It is interesting to observe that the Romanian retail continued its positive evolution during the economic crisis of recent years, a fact justified by the desire of some major international investors to gain significant market share, which will generate substantial revenues during the anticipated economic recovery.

The limits of the study are derived, on the one hand, from the evaluation of the hypermarket development in Romania only through the number of units and, on the other hand, from the analysis of a limited number of influence factors. In the future, the research will be continued in order to create a methodology for the calculation of an index of retail development, which will be based on a larger number of determinants.

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Improvement of the Marketing Interaction based on Information Technologies

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Abstract

The article reveals the essence of the technological architecture and shows its place in the informational and technological architecture of an integrated management system of marketing interactions specific technological solutions in marketing interaction management of commercial enterprises in various formats are revealed.

Keywords: information technologies, marketing interaction, information and technological architecture in management of processes of marketing interaction
J.E.L. classification: M15, M31

1. Introduction

Under the modern conditions the institute of eBusiness develops rapidly, that changes the nature of a market economy and generates new key success factors. One of the main objectives of the integrated management system of marketing interaction is to develop information and technological architecture that focuses on the adaptation and integration, provides an effective information interaction and coordination of marketing interaction activities.

Analysis of the problems of information and technological support of companies marketing activities was made in researches of local scientists: AlachevaT.I.[1], Balabanova L.V.[1], Voytchak A.V.[2], Pintchuk N.S.[3],Galuzynsky G.P. [3], Orlenko N.S. [3] etc.

As rightly noted by scientists, «IT development processes and systems require a transition to a new, multidimensional understanding of information processes, the social role of the information resource» [4, c.120-121]. One of the major problems of modern control theory, according to these authors, is to develop an information model that would ensure the viability of the enterprise in a constantly changing and complex environment in which it operates [4, c. 120].

Despite the large amount of researches being conducted in this area, such issues as the development of effective technological solutions for retailers of various formats remain open.

Therefore, the aim of this article is to develop the technological architecture, focused on the adaptation and integration, that provides effective information interaction and coordination of marketing interaction activities.

2. Contents

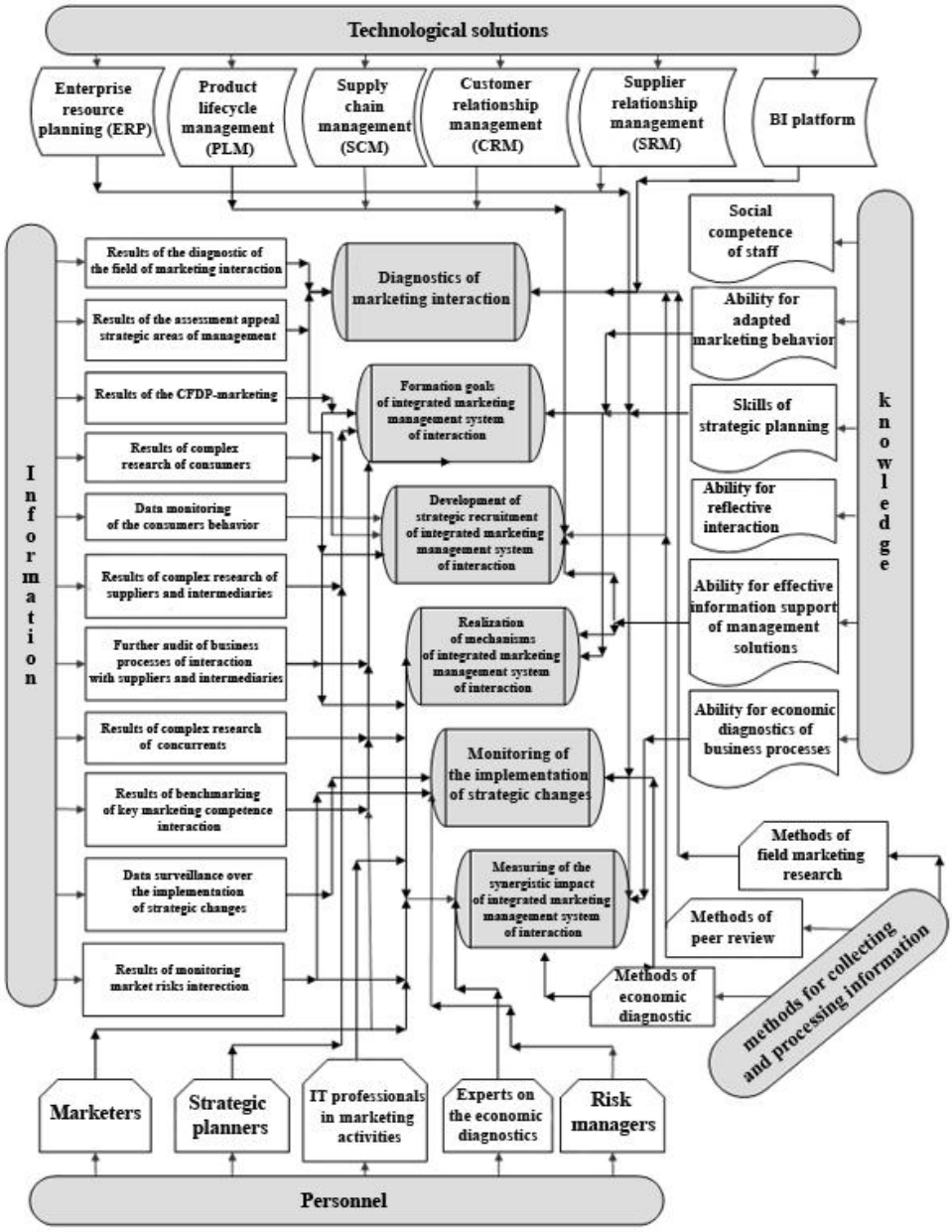
As rightly consider O.V.Danilin and A.I.Slusarenko, «attempts to define and build a basic IT system without guidance on the concept of enterprise architecture usually leads to duplication of effort and, mostly important, accompanied by difficulties at the interfaces interaction and, consequently, prevent the integration of different systems» [5].

The technological architecture should be seen as a key component of the information and technology architecture of the integrated management of marketing interaction system, which is the main mechanism of the interpretation and implementation of goals in the field of management of company marketing interaction through adequate IT infrastructure. The necessity in the formation of technological architecture of marketing

interaction integrated management appears, when many enterprises face essentially significant problem of synchronization purposes and tasks of business processes and development of their information and technological capabilities.

The technological architecture in integrated marketing cooperation management should ensure the development of complex technology solutions in following areas: Enterprise resource planning (ERP), Product lifecycle management (PLM), Supply chain management (SCM), Customer relationship management (CRM), Supplier Relationship Management (SRM) (Figure1).

Figure 1. Block diagram of structural relationships in the IT architecture in terms of key processes integrated management of marketing interactions.



Development of the technological architecture involves building of technological infrastructure that provides a «pass-through» operational business processes support at all stages of the integrated management of marketing interaction and a portfolio of a software products, that analyze the information according to specific functional requirements.

To solve marketing problems in each of these areas, commercial enterprises can use specialized software products. For complex solving of recourse management problems major trading enterprises should use these technological ERP-class solutions as: Microsoft Dynamics AX, Sage ERPX3**,** Oracle JD Edwards EnterpriseOne**,** SAP Business Suite.

For commercial SME it is advisable to use an integrated comprehensive enterprise management system: ERP ASTOR: Shop for your platform «1C: Enterprise 8», ERP ASTOR: Trend Shop, SAP Business One. In order to manage relationships with customers and suppliers companies use CRM-, SRM- and SCM-decisions both within the integrated ERP-systems and local programs. So, retailers can implement a full-blown CRM-project using software ITOGO! RetailSuite, that has automated segmentation processes, analyzes their advantages; develops loyalty programs of the contact center, SMS-communications, sales, service, internet sales and internet service etc. As a local domestic SCM-solution noteworthy software «Quasar-Micro», offering Web-based software for the organization of e-business.

The characteristics of systems and software products, that can be used by enterprises of different formats, depending on the scope of their activities directed on formation of technological architecture, which supports solving marketing interactions problems are presented in **Table 1**.

TABLE 1. Characteristics of systems and software products, which can be used by enterprises to form technological architecture that supports solving marketing interaction problems

Systems and Packs software	Characteristics	Technological Platform	Enterprises
1	2	3	4
Information system «Best-Marketing»	**Information system «Best-Marketing»** offers specific recommendations to improve the situation of firms in the market using the following analytical methods of marketing: SWOT-analysis, development Ansoff matrix for product positioning in the market, development 4P strategy, using Rosenberg models.	Windows environment	SME
Program complex «Galaxy»	**Program complex «Galaxy»** (manufacturer corporation «Galaxy») is an integrated information system standard MRP-II with elements of ERP. Modular architecture «Galaxy» helps you to build the enterprise management technology that covers all elements of the business.	Windows environment Database management system «Atlantis»	Large enterprises
Information system «Marketing Expert»	**Information system «MarketingExpert»** can be used for development of strategic and tactical marketing plans interaction and control the execution of these plans. Marketing planning is based on the application of GAP-analysis, SWOT-analysis, Portfolio-analysis.	Windows environment	SME, large enterprises

Integrated enterprise management system «IT- Enterprise»	**Integrated enterprise management system «IT- Enterprise»** (creator Scientific-Production Enterprise «Information Technologies» Kyiv) is an integrated fully functional MRP-II-system, that provides a full management of material, production and financial resources, supply planning, production and sales, planning capacity of utilization; describe the technologies and standards, quality control of products. The system allows you to track the mechanisms of interaction with customers.	Platform MSSQL	Large, medium enterprises
Automation control system «DeloPro»	**System «DeloPro»** (developer Ksykom software, Kyiv) automates key business processes and operations related with the trade agreements and the formation of a commercial workflow, analyzes the activity of business enterprises. The system has the following features: sales management, procurement, manufacturing, finance, accounting, accounting of goods, inventory control, accounting contractors, price lists, statistics, Web-extension.	Platform MSSQL MSOLAP Services	SME
Information system for customer relationship management «SAIL-Management and Marketing»	**Information system for customer relationship management «SAIL-Management and Marketing»** («SAIL Corporation») is an analytical CRM-system for the management of marketing interaction with consumers. The system allows you to improve customer service through a process of various divisions coordinats work and preserves information about the history of each customer. The database system stores the information about the relationship with customers at all stages of the marketing interaction life cycle with them.	Windows environment	SME, large enterprises

A special place in the firms technological architecture must hold information processing technologies such as Digital Signal Processing (DSP) technology online analytical processing (OLAP - On-Line Analytical Processing); technology for automating business processes (EDMS - Enterprise Document Management System); ITDM technology of data mining (DM-Data Mining); technology that extracts data from the new non-trivial knowledge in the form of patterns, relationships and laws (KDD - knowledge discovery in databases).

The key concept of understanding the role of information and technology architecture for the interaction of enterprise marketing management is the concept of «chain of added value» that the proposed M. Porter in his book «Competitive Advantage». In the analysis of the enterprise Porter recommends to stop thinking in terms of organizing the distribution and offers to focus on business processes and create additional value chains that cross organizational framework, the boundaries of departments and functional entities. A string of additional cost includes all business processes that must be performed on receipt of orders from customers for delivery of the final product.

Channel marketing interactions company that operates on principles of «value-added chain» M. Porter, covers all required business process cycle marketing interactions to ensure the highest level of customer satisfaction, which necessitates the formation

of a comprehensive area information interaction.

The information and technology architecture in an integrated management system of marketing interaction (IT architecture IMSMI) is a general model of information marketing interaction that determines the strategies, technologies, processes, information support of business in marketing interaction.

The development of IT architecture IMSMI should ensure the implementation of important features of the integrated management system of marketing interaction:

- Formation of relevant information capital portfolio for the companies and its effective use;
- Ensuring of active information exchange between business systems of marketing interaction based on the integration of information;
- Implementation of the appropriate information security policy;
- Synchronizing of business processes of marketing interaction and information technologies.

The information technology architecture is based on service-oriented approach. The services are stand alone functions and function blocks (such as «building applications for the purchase of goods», «request for information on the balance of goods in stock», etc.), the according to which is made via well-defined stable interfaces. To maintain specifications and descriptions of services in the IT architecture IMSMI, it is provided as so-called repository service that stores addresses access to each of the registered services, its location in the network, rules of the call, etc. Repository enables to use needed services and helps make necessary applications to solve specific problems in marketing interaction.

Creating the technological architecture on the enterprise is associated with significant costs - not only buying of these products or software development, but also an acquiring of technical equipment, the creation of information infrastructure, reengineering of business processes and staff training. That is why the majority of medium and small enterprises for information technology supports the processes of interaction marketing strategies should use IT outsourcing, based on the use of SaaS-Technology (Software as a service). As a SaaS-products of domestic enterprises the addition Predictix «Cloud», «cloud» system management tasks and projects of Russian company «Megaplan», «Virtual office» of Ukrainian company «Astelit» can be recommended. However, it should be emphasized that domestic trade enterprises for their transfer to the «cloud» technologies should solve not only technical problems (relative with internet speed), but also business transparency problems, psychological barrier: it is necessary to be ready to keep data of remote servers.

3. Conclusions

The impact of information technology on the quality of the marketing tools of interaction can have very serious consequences: define the scope of marketing activities and marketing field boundary interactions alter the fundamental principles of marketing behavior interactions, and provide a number of new tools of competition, shift emphasis in marketing relationships with separation on mergers.

Thus, we can conclude that an important prerequisite for a comprehensive and operational performance of all functions of the integrated management of marketing interaction system is to develop information technological architecture, the main component of which is the technological architecture that improves the ability of the enterprise in the effective implementation of marketing strategies interaction through the synchronization of marketing interaction business processes and information technologies.

Prospect for further researches in this direction is the study of technological solutions for the marketing relationships management of companies on various platforms of interaction: with customers and business partners.

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The Applicability of the Behavioral Market Segmentation Theory in Transport Networks

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Abstract

The contemporary economic environment requires new strategies and solutions on how to manage the current key problems that the modern society is facing. This paper presents an inquiry of the Behavioral Market Segmentation Theory applied in the transport sector. We explain how certain groups of people can have various types of behavior regarding different means of transport. The study of the consumer behavior represents an important part for developing new ways on improving the services provided by the transport companies and highlighting the progress of the intelligent transport systems.

Key words: *consumer behavior, intelligent transport systems, social development, technological progress, Behavioral Market Segmentation Theory*
JEL Classification: A10, D03, D11, F60, I31, L91, M30, Q56

1. Introduction

The modern human existence is based on consumption of goods and services (either as individuals or as members of different social groups). The theory of consumption, as it is known, explains the preferences of individuals and economic entities, based on the measurement of the dimensions of their needs and consumption pattern [7].

The market segmentation theory represents a different marketing strategy that involves separating a group of individuals (targeted market) from the rest of the cluster and place them into subgroups of consumers who have common requirements, and fulfill their needs or desires that are believed to be common in the targeted segment [1].

In the last decades the companies involved in understanding the consumer behavior regarding the transport environment have faced the same problem: the knowledge of the way in which consumers respond to various stimuli in order to achieve the essential key for the success of the market – profit maximization.

Studying consumer behavior has become a necessity for companies, as they can learn how buyers choose their goods and services to satisfy their needs [3].

For the contemporary society, where technological and scientific progress in many areas tends to substitute the human labor, it becomes very important and significant to study the consumer behavior, considering that the global resources are scarce and we have to find more alternative solutions, that

human society needs to be at its disposal; thus only those goods and services that meet their needs will survive in the actual economic market [4].

Therefore, knowing and understanding consumer behavior has become a necessity; ignoring the manifestation of the behavior can cause serious imbalances in the economy [2].

The choice of each individual to walk, drive their personal auto vehicle or to take the public transport is influencing the mode of how the local, regional or global economy evolves. All of these choices are influenced not only by the environment but also by the population density, employment density and the distances that are needed to be covered.
The necessity to supply the needs of the population worldwide cannot be done only by a company, so we must "break down" the total demand into segments and allocate different segments to different companies that are the most equipped to handle the situation [6].

To apply with success the Market Segmentation Theory in transport systems we have to consider four major factors:

- clear recognition of the cluster segment that we are targeting;
- effective number of individuals that are selected;
- amount of resources that is needed;
- policy and resources of the company.

2. The Black Box Model - A new way to study Consumer Behavior in transport

The specialists in the field of marketing Kotler P. and Armstrong G. suggest a basic pattern to buyer behavior; it uses the term "black box" and shows that marketing incentives influence over the decisions on buying consumer goods and services. They also study the main factors that influence the consumer behavior: cultural, social, personal and psychological. The consumer survey is problematic from the perspective of determining as accurately as possible the output thorough knowledge processes that are taking place in the black box.

Figure 1: Scheme of a Black Box Model in behaviorism



Source: http://en.wikipedia.org/wiki/File:Blackbox.svg

The Black Box Model (figure 1) can be applied in any domain, from psychology to sociology, physics to economy and also in the transport sector. The scheme presented in figure 1 shows the interaction of stimuli with the input that is "filtered" by the Black Box results the output and sets of answers that are needed to understand the consumer behavior in transport systems [5].

By studding the sets of stimuli and the pattern of each individual we can apply the Black Box Model Theory and determine or influence the decision of each person.

The external factors (**sets of stimuli**) like economic, social, technological and demographic influences are "supplying" the potential customer with different types of information that represents the input.

After the input is establish the **Black Box** is analyzing the contents. Many psychologists resemble the Black Box Model with the process of thinking in which we always know the data that is entered, the possible results but we never know what the output will be. However a series of internal factors were identified as: attitudes, personality, perception, factors that participate in the formation of the buying decision.

The **sets of responses** (output) represent the final step of the process which determines the answer of the person if to buy or not a particular product.

To better understand the consumer behavior we have to comprehend how the environmental stimuli interact with the

decision process which determines the person to respond favorable when choosing different types of products, promotions and services.

Table 1: Black Box Model shows how stimuli, consumer characteristics and decision processes interact in eliciting consumer responses

Environmental Factors		Buyer's Black Box		Buyer's Response
Marketing Stimuli	Environmental Stimuli	Buyer Characteristics	Decision Process	
Product	Economic	Attitudes	Problem recognition	Product choice
Price	Technological	Motivation	Information search	Brand choice
Place	Political	Perceptions	Alternative evaluation	Dealer choice
Promotion	Cultural	Personality	Purchase decision	Purchase timing
	Demographic	Lifestyle	Post-purchase behavior	Purchase amount
	Natural	Knowledge		

Source: Sandhusen R. L., 2000, Marketing, Barron's Educational Series, Third edition, P. 181

According to [8] the *Black Box Model applied in Marketing (Table 1)* shows how the *environmental factor*s interact with the *consumer characteristics* and results *the decision process*. This black box model (Table 1) is linked with the black box theory in behaviorism (figure 1) which is concentrated on the relation between the stimuli and the response of the consumer regarding its decision. As we can see from the above table the *environmental factors* (*marketing stimuli* and *environmental stimuli*) and the *buyer's black box* (*buyer characteristics* and the *decision process*) have a large impact on the *buyer's response* regarding his needs.

When applying the Black Box Model in different clusters usually the *marketing stimuli* are processed by the company and the *environmental stimuli* are given by the social factors. The *buyer characteristics* and *decision process* can be taken only by the buyer.

As we take a closer look at *The Black Box Model in behaviorism* and *Black Box Model applied in Marketing* we can see that they can easily be applied in all types of companies with different domains of activity from around the world which can help improved the economic well being of their clients.

As a general conclusion regarding the Black Box Model applied in transport we say that the importance of identifying the real needs of the public should be the most important aspect that a company should analyze.

3. The behavioral market segmentation theory applied in transport systems

The need of mobility has increase considerably in the last decades which means that the behavior of the population has changed. Clearly, transport systems have a positive economic and social effect on the wellbeing of individuals.

The behavioral market segmentation theory is about understanding why specific costumers are within a market. The preference, attitude and demographic variables are the key components of the market segmentation theory (MST).

The approach we want to make between the behavioral market segmentation theory and transport systems consists in analyzing all the essential factors that are part of the MST and applying them in different transport sectors improving this way the Intelligent Transport Systems (ITS) [**Intelligent transport systems** (ITS) are advanced applications which, without embodying intelligence as such, aim to provide innovative services relating to different modes of transport and traffic management and enable various users to be better informed and make safer, more coordinated, and 'smarter' use of transport networks.
Source:http://en.wikipedia.org/wiki/Intelligent_transportation_system].

The market segmentation theory can help us categorized different types of customers in

order to be able to meet their demands. The MST usually groups individuals by gender followed by the type of transport used to travel long or short distances, preferences regarding the comfort provided by the mean of transport.

Table 2: Passenger transport in the European Union during 2000 – 2010

	2000			2010		
	Passenger cars	Buses	Railways, trams and metros	Passenger cars	Buses	Railways, trams and metros
EU-27	83.0	9.9	7.1	84.1	8.8	7.1
Belgium	83.4	10.5	6.1	79.4	13.6	7.0
Bulgaria	59.8	32.4	7.7	79.3	17.0	3.7
Czech Republic	73.1	18.6	8.3	73.7	18.7	7.6
Denmark	80.1	12.4	7.5	81.5	9.9	8.6
Germany	85.2	7.1	7.7	85.9	6.1	8.0
Estonia	69.8	27.5	2.7	83.5	14.5	2.1
Ireland	83.7	13.3	3.0	84.2	12.8	2.9
Greece	72.8	25.1	2.2	82.3	16.5	1.2
Spain	81.0	13.5	5.4	82.3	12.3	5.4
France	86.1	5.3	8.6	84.4	5.8	9.9
Italy	83.5	10.8	5.7	82.3	12.2	5.5
Cyprus	77.7	22.3	-	81.6	18.4	-
Latvia	76.9	18.4	4.8	79.9	15.3	4.8
Lithuania	82.2	14.6	3.2	91.1	8.2	0.7
Luxembourg	93.4	1.0	5.5	84.2	11.4	4.4
Hungary (2)	62.1	25.0	12.9	63.1	25.1	11.8
Malta	79.6	20.4	-	81.1	18.9	-
Netherlands	86.4	4.6	9.0	86.5	3.9	9.7
Austria (3)	79.2	11.0	9.8	78.2	10.6	11.2
Poland	72.8	15.4	11.7	88.4	6.4	5.2
Portugal	81.7	13.6	4.6	85.0	10.9	4.1
Romania	71.5	12.2	16.3	81.2	12.9	5.9
Slovenia	82.9	14.3	2.9	86.8	10.8	2.5
Slovakia	64.4	27.8	7.7	77.8	15.5	6.7
Finland	83.4	11.5	5.1	84.9	9.9	5.2
Sweden	83.8	8.6	7.5	83.4	7.2	9.4
United Kingdom	88.2	6.5	5.3	87.4	5.1	7.5
Iceland	87.0	13.0	-	88.7	11.3	-
Norway	87.3	7.7	4.9	88.4	6.8	4.8
Switzerland	80.3	6.8	12.9	78.7	3.5	17.9
Croatia	81.4	13.6	5.1	85.4	9.0	5.6
FYR of Macedonia	83.2	13.3	3.5	76.2	21.5	2.3
Turkey	45.9	50.7	3.4	52.0	45.7	2.3

(1) Excluding powered two-wheelers.
(2) Passenger cars: break in series.
(3) The railway in Liechtenstein is owned and operated by the Austrian ÖBB and included in their statistics.
Source: Eurostat (online data code: tsdtr210)

Source: Eurostat, accessed at 13.04.2013, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Index_of_inland_passenger_transport_relative_to_GDP,_2000-2010_%28index_2000%3D100%29.png&filetimestamp=20121016055843

According to the Eurostat statistics revealed in 2012 (see Table 2) the trends in passenger transport is variable from country to country depending on their specific needs.

The table presents information about the type of transport that is used (rail or road) and as we can see the most dominant mean of transport is by cars. An explication about the consumer behavior related to the predominant use of the car can be that by using this mean of transport the consumer is more mobile and flexible in traveling.

The Eurostat statistic (see Table 2) is providing important information about the consumer behavior from country to country.

As a first indicator we can see that consumers' behavior is different from a country to another depending on their different cultural patterns. In some cases (Belgium, France, Italy, Luxembourg, Austria, Sweden, United Kingdom, Switzerland, FYR of Macedonia) we can notice that the passenger car transport has decrease in favor to buses or railways.

The market segmentation theory can be applied in transport by using the data presented in table 2; according to the theory the territorial location of the population is one of the most important steps in segmenting the group of people that we are interested in. As we can see from the table people have different types of behavior from a state to another regarding the mean of transport they use.

The economic influence is an important factor which determines different types of people to use their personal cars more than the public transport (Table no. 2).

A very important aspect in the behavior of each individual is represented by its own culture which determines different types of behavior from a region to another. As we can see in the above table the countries from the European Union have a significant increase of individuals that travel by car in comparison with Turkey which is not a member of the E.U.

The knowledge of consumer needs and buying process is the cornerstone of all successful activities in transport and not only; it represents the key to understand how buyers fulfill their needs, recognize information, evaluate brands, make purchasing decisions and behave after they buy the service or object they wanted; the marketing operators can learn about how to

act in order to meet the needs of their customers.

4. Conclusions

In this article the authors tried to implement the *Black Box Theory* and the *Behavioral Market Segmentation Theory* in the transport networks. In this way we had exposed and studied how to implement new concepts in attracting passengers to use different types of transport contributing on reducing the impact that uncontrolled transport have on the environment and wellbeing of individuals.

The aim of this paper is to offer support to companies from the transport sector in developing new marketing strategies which can help the consumer decide what type of services needs to access. This study of what type of transport people uses shows that are important differences between consumers and their behavior regarding the mode of travel.

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The Deconcentration of Public Services in Romania

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Abstract

The current social concerns have caused an increasingly noticeable decline of the centralised system, as the deconcentration and decentralisation processes of the past decade have led to a shift of powers towards the local government structures.

Deconcentration, the underlying principle that defines the organisation and functioning of local government structures and the focus of the present analysis, entails the redistribution of administrative, planning and financial responsibilities from central government authorities to lower-level local authorities. However, despite the fact that these structures function on a local level, they are closely linked to central authorities and still remain upwardly accountable to central governments.

We believe that the implementation of deconcentration will increase the efficiency of the strategies of central governments, as deconcentrated services are closer to the civil society and can thus make more competent decisions in agreement with the local interest and necessities.

Key words: deconcentration, public services, decentralization
JEL Classification: M12,H83

1. Introduction

The public services of any European state are paramount for the improved quality of life of all citizens, and the functioning of local government structures needs to be reorganised in terms of efficiency in order to bring them closer to the people.

The deconcentration of public services can be defined as the territorial delegation of certain administrative responsibilities to lower levels of the central government authorities stationed in provinces and counties.

Under these circumstances and given the importance of deconcentrated services for the economy and the impact they may have on the citizens' quality of life, the findings of the present analysis show that the management of these services must remain in the responsibility of deconcentrated structures on a local level. We believe that the implementation of this principle, alongside decentralisation, is the only way to meet the needs of local communities.

2. Various trends in defining deconcentration

In an attempt to provide a brief definition of deconcentration, one may describe it as an intermediate form of centralised and decentralised governing structure, entailing a transfer of administrative, planning and financial responsibilities among various lower levels of central government structures.

Deconcentration does not oppose centralisation, but is a more diluted form of the latter or a type of imperfect centralisation, as it allows for a certain independence of public services provided by the civil servants appointed by central authorities. However, centralised administration is practically active at all times, since, on the one hand, civil servants are upwardly accountable to central government authorities and, on the other hand, the government is entirely accountable for their decisions.[3] The similarity between deconcentration and centralisation is revealed by the way local government representatives are appointed by central authorities and not through the vote of the local constituency. The similarity between deconcentration and decentralisation consists in the fact that the local authority representatives have the power to make decisions on a local level, without the approval of upper government structures, but

are, however, inspected by the latter and must comply with the decisions of their superiors. [8]

Article 120, paragraph 1 of the Constitution of Romania provides that: "The public administration in territorial-administrative units shall be based on the principles of decentralization, local autonomy, and deconcentration of public services."

The Framework law no. 195/2006 of decentralisation defines deconcentration as follows: "the transfer of administrative and financial responsibilities from central governments and other specialised structures of the central authorities to their own lower level regional structures." This principle is also stated in Article 2 paragraph 1 of the Law no. 215/2001 republished of the local government structures, as an essential principle of organisation and functioning of public administration: "The organisation and functioning of local authorities in the administrative and territorial units are based on the principles of decentralisation, local autonomy and deconcentration of public services (…)"

In A. Teodorescu's opinion, administrative deconcentration meant "enhancing the power of the central government agents located in counties and municipalities", while Paul Negulescu analysed the same principle, defining it as follows: "When a local or special authority, whose representatives have been appointed by central government structures, are granted the right to make certain decisions, one cannot speak of decentralisation, even tough a certain degree of autonomy is permitted in those structures. In this case, we are dealing with a diminution of the centralised system. This diminished form of centralisation is called deconcentration." [4]

An opinion we acquiesce with is that of Petru Filip, who stated that deconcentration consists in the delegation of authority, duties and responsibilities between the central and the local government structures, in terms of the public services provided for the entire community. [5]

3. Graphical depiction of deconcentration

There are two types of deconcentration: ***horizontal*** and ***vertical***, as depicted in Fig. 1.

Vertical deconcentration, which has been depicted first, entails the hierarchical subordination of deconcentrated services to their respective central government structure, while the second type, horizontal deconcentration, consists in the local management of these services by the central government representatives in the region. [2]

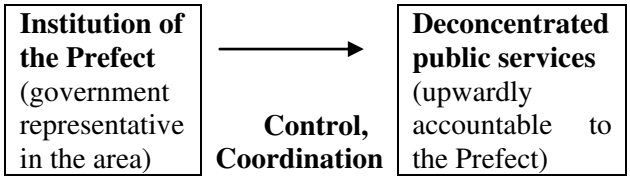
Horizontal deconcentration is the type that has been adopted in Romania, where the prefect is the one managing the deconcentrated public services on a local level. However, there is no way of identifying those public services that may require this type of double subordination of these services to the prefect and to the central government authority, as this may lead to conflicting decisions. [2]

The graphical representation of vertical or horizontal deconcentration is outlined in the figures below:

Fig. no. 1 Graphical representation of the vertical deconcentration of public services



Fig. no. 2 Graphical representation of the horizontal deconcentration of public services



The two figures depict the double subordination of the deconcentrated public services, both to the prefect and to the particular central government structure in charge of each public service.

4. Prospects of deconcentration

Deconcentration is not directed at promoting local interests but is meant to support the central government structures perform their responsibilities by maintaining, however, the same hierarchical structure and thus disregarding the principle of autonomy.

In most cases we are dealing with strictly specialized services, since, clearly, the prefect cannot be involved in the management of very specific activities and, if this system is maintained, the managing responsibilities of the prefect and the activities subordinated to the central authority must be accurately outlined and differentiated.

Therefore, deconcentration is a weaker form of centralisation, entailing the redistribution of certain responsibilities to different local authority levels but maintaining upward accountability to central government structures. [2]

We can argue that the deconcentration of public services can also be defined as a territorial dispersion of administrative responsibilities, entailing the setting up of regional or county offices of the central government, followed by the delegation of administrative control from central structures to these local or regional authorities.

At present, the administrative and territorial reorganisation as well as the division of Romania into regions is necessary, in light of the recommendations formulated by the European Union. Certain deconcentrated services on a county level will be taken over by regional structures. However, it remains to be seen whether the development of a new administrative structure that would assume the responsibilities of both central government and country structures will actually bring about an improvement in the quality of services provided to local communities.

We can definitely argue that deconcentration is an improved and weaker version of centralisation and the deconcentration of the administrative system therefore consists in transferring responsibilities from central government structures to their representatives in the region that are still upwardly accountable to central government authorities, even though they are at the citizens' service.

5. Types of deconcentrated public services

Table no. 1 presents the deconcentrated public services and the central government ministry they are administered by. The deconcentrated public services of the administrative and territorial units are "all the structures in the administrative territorial units that are not decentralised in terms of administrative and financial responsibilities and are upwardly accountable to the ministries and to all the other central government structures administered by the State, as observed in the current legislative standards that regulate their organisation and functioning." [7]

A number of other entities are established and are upwardly accountable, coordinated or governed by the ministries, and their responsibility is to carry out the provisions of each respective ministry in each of their specific sectors.

Such deconcentrated public services have various names, such as: inspectorates – in the case of the county police inspectorate of the Ministry of Defence, the education and training inspectorate of the Ministry of Education, Research, Youth and Sport, the offices for agriculture and rural development of the Ministry of Agriculture and Rural Development, or the care and social services offices of the Ministry of Labour, Family and Social Security, as well as other agencies and bureaus.

Moreover, the Ministry of Culture and Cultural Heritage manages museums, libraries, theatres, cultural centres, cultural publications, printing houses and movie sets that carry out the provisions related to the general interest for culture manifested by the population.

Similarly, the Ministry of Education, Research, Youth and Sport manages the education and training institutions in the country, as well as the public higher institutions, public academic libraries and research and development centres that carry out the provisions of the ministry in terms of the general interest of the population related to learning, education and research.

Table no. 1 Types of deconcentrated public services

Deconcentrated public services
County offices for public healthcare
County offices for culture, worship and national heritage
Regional commissioner office for consumer protection
County commissioner office for consumer protection
Territorial offices for small and medium sized enterprises and cooperative societies
County offices for labour and social security
Territorial labour inspectorates
County retirement offices
County employment agencies
Regional social inspectorates
County agencies for social services
County sports offices
County youth offices
National and municipal sports centres
City and municipal sports clubs
Student cultural centres
General offices of county public finance
Regional and county excise duties and operations offices
County Internal Revenue branches
County offices for agriculture and rural development
Territorial inspectorates for the quality of seeds and propagating material
Territorial inspectorates for forestry and hunting
County agencies of payments and agricultural intervention
County agricultural consulting agencies
County offices for animal breeding improvement
Payment agencies for rural development and fishing
County offices of soil taxonomy and survey
Environmental protection regional and county offices
Regional commissioner offices of the National Environment Agency
Hydrographical basins offices of the Romanian Waters National Administration
Food and veterinary county offices
Regional and country statistical offices (DRS, DJS)
Territorial units of the National Agency for Mineral Resources
State inspectorate for constructions
Territorial branches of the Agency for Energy Preservation
County Postal service offices
Regional Postal service offices
Romania Licenses and Vehicles Registration
Romanian Road Transport Authority
Regional offices of the Romania Licenses and Vehicles Registration
Regional offices of the Romanian Road Transport Authority

Source: Emergency Ordinance no. 105 of October 6, 2009, www.gov.ro

The list presented in the above table and including a number of deconcentrated public services of the ministries and of the other central governing structure offices in the administrative and territorial units is stated in the Emergency Ordinance no. 105 of October 6th, 2009 [5], with the subsequent alterations (www.gov.ro). There is a double upward accountability of these services:

- vertically, to their respective central government ministry;
- horizontally, to the prefect, as central government representative in the area (in charge of the deconcentrated public services on a local level).

6. Conclusions

The decentralisation and deconcentration processes are currently unravelling, as the number of public services is constantly rising [9]. We believe that the trends to be identified in the future should encompass a constant development of deconcentration, by recognising new types of public services and by focusing, where possible, on the conversion of deconcentrated services into decentralised public services, according to the needs of the local communities (as is currently the case with services such as healthcare, education, etc.). Our strong belief is that public services need to be constantly deconcentrated and thus eventually lead to an improved management of these services and to a higher quality in their provision.

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Performance Indicators of Human Resources in Health Organization

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Abstract

Human resources are the most important components in healthcare industry, with a significant component in the current costs of health services.

Performance indicators of human resources in hospitals are set in the Order of the Minister of Public Health number 112/22 January 2007 regarding performance criteria as follows: a) the proportion of doctors from total hospital staff, b) the proportion of medical staff from total hospital staff., c) the proportion of highly educated medical staff from all medical personnel, d) the average number of visits to a physician in outpatient.

This paper examines the quantitative indicators of human resources performance in the "St. Spiridon" County Clinic Emergency Hospital Iasi during the period 2007-2011.

Key words: human resources, health, hospital, performance.
J.E.L. classification: I12, M12.

1. Introduction

The human resource is, at present, a decisive factor in promoting the image of the organization in the market. The image refers not only to the product quality but also to the services provided before and after sale [1].

The human resource management involves continuous improvement activities of all employees in order to achieve the mission and objectives of the organization [2].

Successful application of human resource management requires the existence of a performance evaluation system, a system for stimulating and rewarding the employee's results [3]. The managerial performance is important in health because the hospital is a major component of any health system in the world [4].

2. Methodological framework

According to the European standards, in our country was developed a series of indicators to quantify the performance management in Romanian public hospitals. The quantitative indicators consist of a group of 19 indicators, grouped into four main areas: Human resource management, the use of the service, financial performance and the quality of medical care [5].

There are four indicators for human resource, as follows [5]:

1. The proportion of doctors from total hospital staff

The proportion of doctors in total hospital staff is calculated as the percentage ratio between the numbers of doctors employed in hospitals compared to all persons employed in the hospital.

2. The proportion of medical staff from total hospital staff.

The medical staff includes: doctors, pharmacists, superior health personal: physiokinetotherapists; medical bioengineer, biologist, biochemist, chemist, physicist, psychologist, speech therapist, sociologist, physiotherapist, social worker, graduate nurses, midwives, medical equipment technician, dental technician, nurse, health official, medical registrar, medical statistician.

3. The proportion of highly educated medical staff from all medical personnel - is the ratio of medical staff with higher education from the preceding paragraph.

4. The average number of visits to a physician in outpatient is calculated as the ratio between the number of outpatient consultations and the number of physicians providing ambulatory consultations.

It is included in this category: the doctors who provides consulting in integrated

ambulatory, physicians providing outpatient consultations in specialized ambulatory (for athletes, students, dental care, etc., the doctors from specialty offices, medical oncology, diabetes, nutrition and disease metabolic, infectious diseases, family planning, tuberculosis dispensaries.

The dates for these indicators are provided by the human resources department of the hospital and are not directly related to the hospital casuistic.

3. Analysis of human resource indicators

The personnel structure of the "St. Spiridon" County Clinic Emergency Hospital Iasi at 1st January 2012 is:

Table 1. The personnel structure of the "St. Spiridon" County Clinic Emergency Hospital Iasi

No.	Staff category	Number of people
1	TOTAL HOSPITAL (no residents) of which: (2+9+14+15+23)	2,243
2	TOTAL PERSONAL PHYSICIANS – no residents (3+5+7+8)	1,549
3	Physicians (no residents) of which:	373
4	Physicians UMF	213
5	Medical assistant whit high education of which:	56
6	Medical assistant (short-term studies)	10
7	Other medical staff with higher education (pharmacists, biologists, chemists, psychologists, physician)	47
8	Ancillary medical staff (nurses, registrars, statisticians)	1,073
9	Auxiliary medical staff (sick nurses +medical carers+ stretcher bearers) of which:	497
10	Sick nurses	240
11	Medical carers	192
12	Stretcher bearers	61
13	Ambulance drivers	4
14	Total TESA (including staff management)	84
15	TOTAL WORKERS of which:	111
16	Cooks	23
17	Unskilled kitchen workers	2
18	Total staff kitchen	25
19	Facilities maintenance workers	76
20	Drivers	4
21	Lifters	6
22	Personal service- fireman	2
23	Physicians residents of which:	668
24	Physicians residents	666
25	Pharmacists residents	2
26	TOTAL HOSPITAL – with residents (1+23)	2,911

Source:http://www.spitalspiridon.ro/docs/plan_management.pdf, accessed April 2013

The analysis of human resource indicators at the "St. Spiridon" County Clinic Emergency Hospital Iasi shows:

A. The proportion of doctors from total hospital staff

The proportion of doctors from total hospital staff is a specific indicator measuring the proportion of total personal physicians. A maximum value (100%) indicates a high occupancy of posts, according to the legislation applied in the Romanian health system.

In the "St. Spiridon" County Clinic Emergency Hospital Iasi, the proportion of doctors from total hospital staff is much higher than the national value.

It may be noted that in 2007 year (33.28%) has been observed a significant increase compared to the national average (10.82%), which is explained that a large number of resident doctors have chosen to work in their residential period in "St. Spiridon" County Clinic Emergency Hospital Iasi.

Table 2. The proportion of doctors from total hospital staff in "St. Spiridon" County Clinic Emergency Hospital Iasi

	Values achieved (Percent %)
2007	33.28
2011	16.64
National average	10.82

Source: Annual evaluation of management activity assessment sheet 2007-2011.

B. The proportion of medical staff from total hospital staff

The proportion of medical staff from total hospital staff signifies a high degree of professionalism of the medical act by an increasing number of health professionals.

At "St. Spiridon" County Clinic Emergency Hospital Iasi, this indicator had a value of 74.67% in 2007 year and decreased to 69.05% in 2011 year, which is above the national average (64.61%).

Table 3. The proportion of medical staff from total hospital staff in "St. Spiridon" County Clinic Emergency Hospital Iasi

	Values achieved (Percent %)
2007	74.67
2011	69.05
National average	64.61

Source: Annual evaluation of management activity assessment sheet 2007-2011.

C. The proportion of highly educated medical staff from all medical personnel

At "St. Spiridon" County Clinic Emergency Hospital Iasi the value of this indicator obtained in 2007-2011 period were above the national ones. The possible explanations could be:

- a significant number of medical staff have graduated higher educational courses organized by University of Medicine and Pharmacy „Grigore T. Popa", Iasi (especially medical assistant);
- existence of a significant number of highly educated medical staff, by organizing competitions for new employment after the block period on the maximum norms of the organization, to improve the quality of care;
- the presence of teachers from University of Medicine and Pharmacy „Grigore T. Popa", Iasi through their integration into the hospital.

Table 4. The proportion of highly educated medical staff from all medical personnel in "St. Spiridon" County Clinic Emergency Hospital Iasi

	Values achieved (Percent %)
2007	48.05
2011	30.36
National average	26.48

Source: Annual evaluation of management activity assessment sheet 2007-2011.

D. The average number of visits to a physician in outpatient

In "St. Spiridon" County Clinic Emergency Hospital Iasi this indicator was achieved almost double than the national average in analyzed period.

Table 5. The average number of visits to a physician in outpatient in "St. Spiridon" County Clinic Emergency Hospital Iasi

	Values achieved (Percent %)
2007	48.05
2011	n.a.
National average	26.48

Source: Annual evaluation of management activity assessment sheet 2007-2011.

** n.a. – not available data.*

It may be noted that with increasing the number of doctors employed, decreases the number of visits per physician in outpatient. This aspect has a direct influence on the quality of medical care, because it reduces the time allocated to each patient and the number of consultations of the medical personnel is not exceeded.

According to the managerial plan [6], the possible explanation might be:

- a high addressability to ambulatory clinics;
- the existence of equipments for the investigations, along with the possibility of clinic hospitalization in the immediate vicinity;
- development of the national program to perform medical tests (the hospital ambulatory had a recognized medical analysis laboratory, according to ISO quality standards).

4. Conclusions

The analysis of indicators for human resource from St. Spiridon" County Clinic Emergency Hospital Iasi revealed:

- there was a significant increase compared to the national average of "The proportion of doctors from total hospital staff" indicator, which is explained by the large number of resident doctors who have chosen to work their residential period in hospital;
- the proportion of medical staff from total hospital staff is above the national average;
- the proportion of highly educated medical staff from all medical personnel has a high value, which leads to a higher quality of care;
- the average number of visits to a physician in outpatient is much higher than those assumed by the managerial contract and than the national average, representing an increased efficiency of the medical staff.

The major problems of human resources in the future are: stopping the migration of the medical staff, the lack of salaries motivation and the job security. The concrete measures for an efficient use of human resources in hospital could be, in our opinion:

- employment at maximal personnel norms for different structures of the hospital;
- staff performance evaluation based on performance criteria defined in accordance with the objectives of the annual managerial hospital plan;
- exact criteria for personnel evaluation and stimulation;
- development of personnel recruiting plans necessary to provide quality services for insured patients.

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Quality Indicators Used in the Analysis of Health Managerial Performance

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Abstract

The managerial performance of public hospitals contains four main groups of indicators: human resource management, the use of the service, financial performance and the quality of medical care.

This article analysis of the largest hospital in the North-East region ("St. Spiridon" County Clinic Emergency Hospital Iasi) through quality indicators used in public hospital management performance.

According to the current legislation, the quality indicators used in analysis of the managerial performance analysis are: the hospital mortality rate, the nosocomial infection rate, the index of diagnosis, the number of patient complaints.

The analysis results indicate that "St. Spiridon" County Clinic Emergency Hospital Iasi achieves a high quality in their activities, but there are possibilities for further improvement.

Key words: quality indicators, managerial performance, hospital.
J.E.L. classification: I12, M12.

1. Introduction

The concept of quality in health is extremely wide and currently debated. Summarizing the expert opinions, the three fundamentally dimensions of quality in health are [1]:

- *professional quality* - if the product or service meets all the conditions set by the health professionals in the medical field (standards of practice);
- *quality in terms of customer* (patient satisfaction) - the patient expectations from a medical service;
- *total quality management* - the most efficient and productive way of using health resources within he limits set by health authorities (managerial efficiency).

A. Donabedian described a new three dimensional model of quality - structure-process results model, with the following components [2]:

- „*structure*" - a relatively stable characteristics of the health care provider, techniques, tools and resources available, organization and infrastructure characteristics at workplace;
- „*process*" - a set of activities that take place within provider and patients framework, the health care process means quality only when was established a relationship with desired health status;
- „*result*" – a change in current and future health of the patient, which can be attributed to health care provided.

The performance (results) in management shows the way in which the desired objectives are achieved. They define the actual situation or the initial situation in the decision process [3].

In health, the concerns about a new system of quality standards have materialized into three levels: theoretical, practical and institutional [4].

According to the European standards, in our country was developed a series of indicators to quantify the performance management in Romanian public hospitals. These quantitative indicators consist of a group of 19 indicators, grouped into four main areas: human resource management, the use of the service, financial performance and the quality of medical care [5].

2. Methodological framework

There are four indicators of medical care as follows [5]:

1. Hospital mortality rate calculated as the

ratio of number of deaths in hospital, any time from internment and until death and the number of patients discharged.

2. The nosocomial infection rate determined by the ratio between the number of patients with nosocomial infections and the number of discharged patients. This indicator is calculated on the total hospital and in each section.

3. The index of diagnosis according during the period of hospitalization means the number of cases where diagnosis code at admission is the same with the diagnosis code at discharge, if both diagnoses are located in the same group of codes at the beginning of each class of disease.

The codes expressing suspicio`1n about the disease, screening, disease contact, organ lesion, joint lesion are considered concordant.

4. The number of complaints / patient complaints.

The study is the result of a process of deduction and induction, investigation and critical interpretation and comparative studies regarding the managerial performance and the quality indicators in Romanian public hospital.

The purpose of the article is to study the quality indicators of "St. Spiridon" County Clinic Emergency Hospital Iasi, as it shown in the managerial plan and managerial report [6].

3. Presentation of the hospital

"St. Spiridon" County Clinic Emergency Hospital Iasi is a regional university hospital with legal personality, first class competence. The hospital has the function to provide medical care to the population, both curative and preventive, and it is an important regional center for professional training for students, medical residents and doctoral students.

The hospital activity

The hospital performed as reported in 2011 a total of 49,971 cases of inpatient hospitalization and 32,421 partial hospitalization, in 2010 a number of 39,466 cases of inpatient hospitalization and 30,693 partial hospitalization and in 2009 a number of 39,746 cases of inpatient hospitalization and 35,347 partial hospitalization (table 1).

Table 1. Inpatient and partial hospitalization

Year	Inpatient hospitalization	Partial hospitalization
2009	39,746	35,347
2010	39,466	30,693
2011	49,971	32,421

Source:http://www.spitalspiridon.ro/docs/plan_management.pdf, accessed April 2013.

4. Analysis of qualitative indicators

A. The hospital mortality rate

The first indicator of quality health care measure the hospital mortality rate (per hospital and per hospital section) and it is due to the complications occurring during hospitalization.

At "St. Spiridon" County Clinic Emergency Hospital Iasi, this indicator is above the national average, but it is explained by the complex casuistry: severe cases from the whole Nord-East Region, medical cases often outdated and dying in hospital. Also, the presence of surgical departments, oncology and hematology leads obviously to a large value of the indicator above the national average.

Table 2. The hospital mortality rate

	Value
Values assumed	1.34
Values achieved	1.34
National average	1.32

Source:http://www.spitalspiridon.ro/docs/plan_management.pdf, accessed April 2013.

B. The nosocomial infection rate

The nosocomial infection rate (on the total hospital and in each section) represents the hospital infections that patients contact during hospitalization (before or after surgery).

A high value of nosocomial infections indicates that in that hospital disinfection is not quality. By using a high quantities of disinfectants and with a low quality it isn't respected strictly the control and prevention measure of the nosocomial infection.

This leads to a higher cost of hospitalization due to the high consumption of drugs (especially antibiotics) for the control of nosocomial infection.

At the same time, reporting a lower rate of

nosocomial infection rate, although the antibiotics consumption is high, leads to a false reflection of reality in that hospital.

The rate of nosocomial infections in "St. Spiridon" County Clinic Emergency Hospital Iasi is 0.71%, equal to that proposed. It is a normal value for a hospital with such a large variety.

For this organization respected the rules established by the health authorities to ensure functional circuits, without unwanted epidemiological events. It was provided four areas, namely: the "clean" area, the "dirty" area, the "neutral" area and the "intermediate" area, which meets European health requirements and ensures fluency of activity.

C. The index of diagnosis according during the period of hospitalization

The index of diagnosis according during the period of hospitalization reflects the opportunity and necessity of hospitalization in a particular section of the hospital.

A degree achievement close to 100% indicates a high degree of professionalism, admission protocols and criteria well defined.

At "St. Spiridon" County Clinic Emergency Hospital Iasi, this indicator had a value of 74.67% in 2007 year and decreased to 69.05% in 2011 year, which is above the national average (64.61%).

Table 3. The index of diagnosis according during the period of hospitalization

	Percent %
Values assumed	81 %
Values achieved	81,30 %

Source:http://www.spitalspiridon.ro/docs/plan_management.pdf, accessed April 2013.

In "St. Spiridon" County Clinic Emergency Hospital Iasi, the index of concordance between the diagnosis at admission and at discharge is 81.30% higher than the assumed value of 81.0%.

Although this indicator was achieved, the remaining 20% (to the 100% fulfillment) is high, so there are opportunities for further improving.

D. The number of complaints / patient complaints

In "St. Spiridon" County Clinic Emergency Hospital Iasi, the number of complaints analyzed and solved is zero, as was assumed by the managerial contract. Although the hospital activity is not perfect, the employees and the managerial team are trying to work better, and the absence of claims confirm this.

4. Conclusions

The analysis of the quality indicators of "St. Spiridon" County Clinic Emergency Hospital Iasi indicates:

- the hospital mortality rate (1.34) is above the national average (1.32). The presence of surgical departments, oncology and hematology leads to a large value of the indicator above the national average;
- the hospital nosocomial infection rate (0.71%) is equal to the assumed value and it is a normal value for a hospital with such a large variety of cases. For this it was provided four areas: the "clean" area, the "dirty" area, the "neutral" area and the "intermediate" area, which meets European health requirements and ensures fluency of activity;
- the index of concordance between the diagnosis at admission and at discharge (81.30%) is higher than the assumed value (81.0%) that indicates a high degree of professionalism, admission protocols and criteria well defined;
- the number of complains analyzed and solved is zero.

It can be said that quality indicators proposed by the management contract was made entirely.

However, the quality indicators of the "St. Spiridon" County Clinic Emergency Hospital Iasi it can significantly improve by the development and implementation of a system for monitoring the quality of care, to achieve the following measures:

- development and the using of a patient satisfaction evaluation system for the hospital services provided;
- establishment of a interdisciplinary ethics committees for clinical analysis of incidents, accidents and medical

malpractice cases;
- using of an identification system regarding the quality of medical care in each section or department of the hospital.

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The Experience of Activity of National Service of Mediation and Reconciliation of Ukraine

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Abstract

The article reviews the main provisions activity of National Service of Mediation and Reconciliation of Ukraine, and especially activity of Poltava branch office of its institution.

Key words: mediation, reconciliation, conflict, strike, arbitration.
J.E.L. classification: M12, M14, M54, O15, J5, J7.

The general formulation of the problem

National Service of Mediation and Reconciliation of Ukraine (hereafter: National Service) is a permanent state institution. This service was established by Decree of President of Ukraine in accordance with the Law of Ukraine "On the procedure for settling collective labor disputes (conflicts)" on November 17, 1998 № 1258/98.[1.]. The purpose and objectives of this state service is to facilitate the settlement of collective labor disputes (conflicts).[2.].

In general some of the tasks this state service are the implementation of measures to prevent disputes, strikes and collective stopped working, other actions of social protest.

In detail the specific tasks of this state service are:

- promoting social interaction between participants - employment in the settlement of collective labor disputes (conflicts) arising between them;
- predicting the emergence of collective labor disputes (conflicts) and facilitation their timely decision;
- mediation and conciliation in resolving collective labor disputes (conflicts);
- ensure the implementation of social dialogue, development of agreed proposals for the development of socio - economic and labor relations in Ukraine;
- implementation of measures to prevent the occurrence of collective labor disputes (conflicts);
- improvement of the legal culture of the participants social - labor relations.

During 14 years of service activity, there were 1801 disputes (conflicts) with the number 94.3% of disputes (conflicts) resolved.

During service existence total number of registered collective labor disputes distributed by level of management as follows: at the national level - 3, sectoral level - 12 at territorial level - 71, at the production level - 1783 units of disputes.

Branch office of National Service in Poltava region is valid from January 2001.

During the existence of Branch office helped to resolve 64 disputes and the direct participation of Branch office resolved 60 disputes (claims were brought 133 employees, 97% agreed) in 277 companies, institutions and organizations of Poltava region.

Disagreements were resolved almost in 750 companies, institutions and organizations. Dozens of strikes and other protests of economic directions were also prevented.

Only in the last two years the Branch office in Poltava has conducted over 200 conciliation procedure (matching meeting, conciliatory commission) to facilitate resolution of collective labor disputes and prevention.

The direct participants in these disputes were more than 68,000 persons, representing

86% of the total number of persons in these enterprises.

Branch office in Poltava acting together with local governments, executive authorities, employers' associations and trade unions involves collaboration of labor arbitrators and experts. Agreements on cooperation with all actors involved in the regulation of industrial relations were concluded.

Professionals or rather 18 labor arbitrators (including arbitrator - author of the article) help in the effective work, 5 persons of independent intermediaries and in each district information and consultation center (29 persons) were established and operate who are actively involved in monitoring of the state of industrial relations of collectives of enterprises, institutions and organizations of the region. Branch office in Poltava has five specialists.

Branch office through the media system conducts outreach to educate the public on legal issues, as well as highlighting experience thus seeking to increase the level of legal culture of the participants social - labor relations and individual citizens. For this purpose Branch office prepared newsletters, publications of regional, city and district newspapers and service bulletin, the sites of service, municipal and regional news agency "News of Poltava" in own WEB-page.[3.,4]. Twice a year sessions "hot" telephone line are conducted. Periodically interviews on radio and television are given.

Strike is a form of social protest

Article 44 of the Constitution of Ukraine stipulates that those who work have the right to strike in order to protect their economic and social interests.

The procedure for exercising the right to strike is established by laws of Ukraine, taking into account the need to ensure national security, health, rights and freedoms of others. Barring a strike is possible only on the basis of the law.

Even a third of the textual part of the Law .[1.] is devoted to the strike.

Strike is a temporary suspension of work by collective voluntary workers (absenteeism, failure to perform their job duties) companies for the purpose of settling a collective labor dispute (conflict). The strike can be initiated if conciliation failed to resolve a collective labor dispute (conflict) or the owner or authorized body avoids conciliation procedures or fails to comply with the agreement reached in the course of resolving collective labor dispute (conflict).

Chapter III of the Law .[1.] provides procedures for strikes and includes a number of articles: Article 17. "Strike", Article 19. "The decision to declare a strike", Article 20. "Guidelines strike", Article 21. "Conclusion of an agreement on resolving a collective labor dispute (conflict), monitoring its implementation", Article 22. "Recognition strikes illegal", Article 23. "The decision on the recognition of the strike illegal", Article 24. "Cases in which the strike is prohibited", Article 25. "Addressing labor dispute (conflict) in the case of the prohibition of the strike", Article 26. "Ensuring the sustainability of the enterprise during the strike", Article 27. "Safeguards for workers during the strike", Article 28. "The consequences of employee participation in the strike".[1.].

The Law .[1.] provides mandatory conditions under which a strike is possible. Firstly, it can be started when it was preceded by conciliation. Second, the decision to declare a strike or disagreement with a strike is taken at a assembly or conference workforce. It is also defined body leading the strike. There are other required procedures, including written notice seven days prior to the strike of the owner, or his representative, as well as prevention providers and consumers of firms.

The strike as a social phenomenon is a form of manifestation of protest, which characterized certain criteria that distinguish it from other protest social issues.

The protest is usually massive, public event, or certain categories of citizens, which is aimed at attracting attention - subjects of the general public, employers to unresolved problems in different areas of society and is accompanied by the slogan, in some cases, the use of visual tools (posters, symbols), audio and video equipment.

Protests take place in various forms. They can be in the form of rallies, demonstrations, strikes, street procession, march, march-walking, assembly, picketing, fasting and so on.

Among the variety of forms of protest

strike occupies a special place that has its legal nature, the features.

The difference from the other strike protest (rallies, demonstrations, marches, pickets, meetings, fasting, etc.) is as follows.

First, a strike can only be applied by workers, individuals, who are employed by a legal entity or individual entrepreneur under the labor agreement. Other protests can be applied not only employees, but also by other categories of citizens (pensioners, students, the unemployed, etc.).

Second, the strike is regulated by the Law of Ukraine [1]." Holding rallies, demonstrations, meetings, street processions is regulated by the Decree of the Presidium of the Supreme Soviet of the USSR "On the procedure for organizing and holding meetings, rallies, street marches and demonstrations in the USSR" dated 28 July 1988, p. Number 9306-XI in the part that does not contradict the laws of Ukraine. Procedure for the rest of protests such as hunger strikes, picketing is not regulated by law in Ukraine. It is true that the legislature does not recognize some forms of protests, although they have a place in public life in Ukraine. Among them distinguish hunger, including collective, self-immolation and so on. Usually these activities are radical and are accompanied by a person voluntarily, knowingly harms to health for the sake of meeting their requirements.

Thirdly, the strike made exclusively during working hours, at a time when workers according to the laws, conditions of employment and collective agreements, works rules are required to perform their work duties. Other protests are usually held after hours (e.g. lunch breaks or on weekends, public holidays or non-business), but there are cases where workers protest actions - rallies, pickets, meetings are held simultaneously with the strike, and it is quite permitted by law - part of the ninth article 19 of the Law of Ukraine [1] (in the absence of constraints in the implementation of the law by the court according to the law).

At last time, the strikes are ways to pressure the employer in order satisfy the demands of workers. Spectral effects of other protests can be directed not only to the employer (employers), but also public authorities and local governments.

Of course, the strike was different from other protests, but along with the differences strike has similar traits to them. So, strike, like all protests, appears amid unresolved disputes and is usually massive, public, attracting the attention of the public and the media.

After analyzing the characteristics of the strike, which allow to separate it from other protest social issues, it can be simply concluded that any strike is a protest, not any protest is strike.

The Law .[1.] defines the list of cases in which to hold strike banned. There is a list of professions whose members are not allowed to strike. In particular in Ukraine (Article 24) public authorities (except clerical and support staff) (prosecutors, courts, and the Armed Forces of Ukraine, government, safety and security) have not the right to strike.

In case of an emergency Parliament of Ukraine and the President of Ukraine may prohibit strikes for a period not exceeding one month. Further ban must be approved by the joint act of the Parliament of Ukraine and the President of Ukraine. In the case of war situation martial law prohibiting strikes comes until canceled.

Conflict situations that may arise in enterprises, institutions and organizations must be addressed in the legal framework in accordance with Article 25 of the Law, when the service's recommendations to resolve conflict is not included by service filing the application for solving the conflict respective regional court.

Company received the decision to declare a strike by organ of trade union or other organization of employees that is authorized in accordance with Article 3 of the Law .[1.] to represent the interests of employees, the general meeting by a vote of employees and is considered adopted if it receives the majority of employees. The decision to declare a strike is in a protocol.

Employees of the enterprise independently decide whether to declare a strike announcement in a company.

No one shall be compelled to participate or not to participate in the strike.

Authority, headed strike shall notify in writing the owner or authorized body not later than seven days before the strike, and the continuous current production for fifteen days.

The owner or authorized body

(representative) must as soon as possible to prevent suppliers and consumers, transport organizations and other interested companies, institutions and organizations on the decision of employees to declare a strike.

Location during the strike of workers, who take part in it, is defined by body (person) that controls the strike, with the consent of the owner or the authorized body (representative).

In the case of meetings, rallies, pickets outside the enterprise body (person), who heads the strike, must notify the scheduled event local executive authority or local authority not later than three days.

Authority (person), leading the strike, acts during a strike within the rights under this Act, informs employees about the course of settling a collective labor dispute (conflict).

Powers authority (s) as head of the strike are terminated unless members signed an agreement on the settlement of collective labor dispute (conflict), and if the decision on cancellation or termination of the strike.

Safeguards for workers during the strike are under Article 27.

Participation in a strike of employees, excluding strikes declared illegal by the court shall be regarded as a breach of labor discipline and can not be grounds for disciplinary proceedings.

By decision of the employees or the unions by the strike fund from voluntary contributions and donations may be formed.

For employees who did not participate in the strike, but due to his conduct were unable to perform their work duties, representatives are kept wages in an amount not less than the established law and the collective agreement concluded at the plant, both in time just not the fault of the employee. Accounting for these workers is the responsibility of the owner or the authorized body (representative).

Also, it is most important that the persons who are the organizers of the strike, the court acknowledged illegal, or that do not perform decision to recognize the strike illegal, as well as individuals who impede curb illegal strike, are called to disciplinary or administrative liability under the Law. .[1.] Procedure and safeguards provided for in Articles 43 and 252 of the Labor Code of Ukraine is not applicable to these persons.

And Article 28 of the Law [1.] provides for the consequences of employee participation in the strike. The organization of the strike, the court recognized illegal or participation therein is a violation of labor discipline. The strike workers who take part in it are without charge. Time employee participation in the strike, the court recognized that illegal, is not counted in the total and continuous employment.

The main direction of Branch office in Poltava considers prevents conflicts, timely and effective responses to them in the latent stage. These actions occur periodically in the trolleybus public traffic companies in Poltava and Kremenchug, at the enterprises of the sugar industry, housing - public utilities area, institutions of in the nonprofit sector. If at the beginning of the activities of Branch office in Poltava in 2001 in Poltava region there were 17 strikes in manufacturing, for example, employees of the holding company "AvtoKraz" (Kremenchug, Poltava region) 6 times suspended its work by requiring payment of arrears of salary. In recent years, social - labor relations demonstrate the absence of strikes in the Poltava region, it is also the positive result of activities of Branch office in Poltava.

Conclusions

National Service analysis showed that dominant and immediate causes of collective labor disputes in enterprises, institutions and organizations are:

- considerable arrears of wages;
- mass violations of the law in terms of pay and safety (delays and payment of wages, non-payment and indexing of income and compensation for loss of wages due to violation of the terms of payment; violation of the minimum wage; discrepancy tariff rates, salaries level established by law, sectoral agreements, unpaid bonuses, allowances for hazardous working conditions);
- numerous violations of social rights and guarantees of employees, on remuneration, a significant number of companies that suspended their activities and to which applies the procedure of liquidation, bankruptcy or reorganization;
- low level of wages in certain sectors of the economy;
- violation of social and labor rights of

employees.

Comparative analysis of the dynamics of collective labor disputes and claims of employees shows no trend to a decrease or increase in their number, but can be seen clearly in a cyclical dynamics of disputes, the time interval which is 4 years.

Condition of political relations in Ukraine leads, firstly, to improve workers protest activity in general, who understand that at this time their actions to protect their rights can be most effective, and secondly, on the basis of political events in groups often manifested leaders associated with certain political parties and thoroughly interested in the maximum draw attention to the situation in the company, institution, or organization. Third. One of the most significant constraints that impede the transformation of conflict in collective labor dispute is the absence in the workplace leaders or active enough action groups that can take on the organizational issue of the collective labor dispute.

Number of collective labor disputes remains low due to a number of constraints:
- unwillingness of employees to long-term focused work in the settlement of collective labor disputes, willingness to use "big" protests;
- lack of teams of leaders who can take on the organizational issue of the collective labor dispute;
- fear of losing their jobs with limited employment;
- lack of legal culture;
- unregulated issues primarily responsible for violations of the Law of Ukraine "On the procedure for settling collective labor disputes (conflicts)" in existing legislation, lack of enforcement of decisions of conciliation.

The cases retrying at National Service to register a collective labor dispute and assist in its decision proves the fact of application performance by employees procedures for settling collective labor disputes (conflicts). It can be concluded successfully determined once a collective labor dispute, the parties in the event of disagreement are turning to new procedures for resolving collective labor dispute again.

The practice of National Service shows that most participants preferred the conciliation commission. At present, the most urgent is the requirement of employees to payment of unpaid wages, and the company for which registered collective labor disputes usually are in poor financial condition. Therefore gratuitousness procedures of conciliation commission works as a determining factor. It is also important that the decision of the conciliation committee in accordance with the requirements of the law, is binding. Furthermore, it is this procedure that allows the conflict to the negotiating table, to find compromises to reach agreement on the requirements of employees, negotiate joint implementation of measures that can satisfy both sides.

Long-term resolution of the dispute in alcohol production (Poltava region) is due on the one hand the presence of excess capacity in the country for the production of ethanol, delay in creating the conditions for the production of alternative products, on the other hand the resistance of local government employees and attempts to eliminate this company, which is the economic basis for the existence of the small city. Additional reasons were neglect or failure to respond to the demands of the employer's employees.

Poor knowledge of the Laws of Ukraine is in the field of conflict and labor. It should be noted that employees, unions and other bodies are authorized to represent them, do not make full use of the laws of Ukraine for collective rights in the field of labor relations. Terms ignorance participants and sometimes indifferent employees or union leaders restrain them from entering into collective labor disputes and conflicts.

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An Application of the Kalman Filter for Market Studies

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Abstract

One method of isolating the useful signal from the noise is by using a soft- processor Kalman filter. There are many applications of how one could use a Kalman filter: using navigation systems, such as satellite or radio, and sonar tracking systems. The guidance systems in military applications is another use of Kalman filter. In the recent years, they form the basis of GPS, which is used for car guidance.

Key words: filter; kalman; signal; system; application
J.E.L. Classification: C02, C61, G11

1. Introduction

The mathematical theory on which Kalman filter is based could be shortly described as follows.

Let Y_n = 1,2,… observed data, q x1 vectors.

The sequence (Y_n) is assumed to have the structure

$Y_n = S_n + \eta_n = C_nX_n + \eta_n$,

where (S_n) is the information carrier signal, while (η_n) is the perturbing noise signal. More precisely, we accept a dynamic representation

$S_n = C_nX_n$, n = 1,2,…

whose elements are given below.

Continuing, we start from a model of observed data

(1.1) $Y_n = C_nX_n + \eta_n$

The observing data equation (1.1) is connecting the q x 1 vector of Y_n observations with the d x 1 X_n vector. Here C_n is a q x d matrix, while η_n is a q x 1 vector of uncorrelated vector with $E[\eta_n]$ and Var $\eta_n = H_n$.

The states vector X_n is not directly observable, but it is assumed to follow a Markov process of order 1, i.e.

(1.2) $X_n = A_nX_{n-1} + \varepsilon_n$, n = 1,2,…

Equation (1.2) is describing the states behaviour. Here A_n is a dxd matrix and ε_n is a d x1 error vector, uncorrelated with $E[\varepsilon_n] = 0$ and $Var[\varepsilon_n] = Q_n$.

The initial vector X_0 is assumed to have

(1.3) $E[X_0] = a_0$ and $Var[X_0] = P_0$

and the errors are assumed to be uncorrelated two by two, i.e.

(1.4) $E[\varepsilon_t\eta_s^{'}] = 0$ for all s,t = 1,2,…

and

(1.5) $E[\varepsilon_tX_0^{'}] = 0$ and $E[\eta_tX_0^{'}] = 0$ for all t = 1,2,…

The matrices A_n , H_n , Q_n, C_n are assumed to be not random. The statements (1.1) and (1.2) show that X_n could be written as a linear combination of ε_s and η_s for $s \leq n-1$ and X_0 for any n.

2. The general case of the Kalman filter

Kalman filter is a recursive estimator from the linear estimators class of least squares.

The matrices A_n, H_n , Q_n, C_n are assumed to be known for any n.

Let Ω_n be the sequence which contains all of the observations made until moment n inclusively.

Let $a_{n|n}$ be the optimal linear estimator of X_n based on observations of Ω_n. The dxd matrix of mean squared errors (EPM) of $a_{n|n}$ is

(1.6) $P_{n|n} = E[(X_n - a_{n|n})(X_n - a_{n|n})^{'}]$

Given $a_{n-1|n-1}$ and $P_{n-1|n-1}$, estimators $a_{n|n-1}$ and $P_{n|n-1}$ of X_n and $P_{n|n}$ based on information

of Ω_{n-1} could be computed using the prediction equations

(1.7) $a_{n|n-1} = A_n a_{n-1|n-1} + \varepsilon_n$, for n = 1,2,…

and

$P_{n|n-1} = E[(X_n - a_{n|n-1})(X_n - a_{n|n-1})']$

$= E[(A_nX_{n-1} + \varepsilon_n - A_n a_{n-1|n-1})(A_nX_{n-1} + \varepsilon_n - A_n a_{n-1|n-1})']$

$= E[(A_n(X_{n-1} - a_{n-1|n-1}) + \varepsilon_n)(A_n(X_{n-1} - a_{n-1|n-1}) + \varepsilon_n)']$

$= A_nE[(X_{n-1} - a_{n-1|n-1})(X_{n-1} - a_{n-1|n-1})']A'_n + E[\varepsilon_n\varepsilon'_n]$,

i.e.

(1.8) $P_{n|n-1} = A_nP_{n-1|n-1}A'_n + Q_n$, for n = 1,2,…,

The mean of crossed terms of the product are zero, by (1.4) and (1.5).

Since X_{n-1} is a linear combination of ε_s and η_s , $s \le n - 1$, and X_0 , this size is also uncorrelated with η_n.

The equations (1.1) and (1.7) are providing a prediction for Y_n ,i.e.,

(1.9) $Y_{n-1} = C_n a_{n|n-1}$

The prediction error is

(1.10) $V_{n-1} = Y_n - Y_{n|n-1} = C_n(X_n - a_{n|n-1}) + \eta_n$

with EMP

$F_{n|n-1} = E[V_{n|n-1}V'_{n|n-1}]$

$= E[(C_n(X_n - a_{n|n-1}) + \eta_n)(C_n(X_n - a_{n|n-1}) + \eta_n)']$

$= C_nE[(X_n - a_{n|n-1})(X_n - a_{n|n-1})']C'_n + E[\eta_n\eta'_n]$,

from which we get:

(1.11) $F_{n|n-1} = C_nP_{n|n-1}C'_n + H_n$

The mean of cross terms of the product are zero by (1.4) and (1.5).

Updating equations tell us how to update the estimator of the X_n matrix and corresponding EMP matrix, as soon as a new observation upon Y_n become available. They are

(1.12) $a_{n|n} = a_{n|n-1} + P_{n|n-1}C'_nF^{-1}_{n|n-1}(Y_n - C_n a_{n|n-1})$

$= a_{n|n-1} + K_nV_{n|n-1}$

(1.13) $P_{n|n} = E[(X_n - a_{n|n})(X_n - a_{n|n})'] =$

$= P_{n|n-1} - P_{n|n-1}C'_nF^{-1}{}_{n|n-1}C_nP_{n|n-1}$

$= P_{n|n-1} - K_nC_nP_{n|n-1}$, n=1,2,…,

where $K_n = P_{n|n-1}C'_n(C_nP_{n|n-1}C'_n + H_n)^{-1}$ is called Kalman gain.

The equation (1.12) shows us that, the higher the predicted estimator is the more adjusted the estimated state will be.

The equations (1.7), (1.8), (1.12) and (1.13) are constituting the Kalman filter. Given X_0 and P_0, the Kalman filter provides the optimal linear estimator of the state as new observations become available.

3. The gaussian case

Now, let's consider the linear system again

(1.14) $X_n = A_nX_{n-1} + \varepsilon_n$

$Y_n = C_nX_n + \eta_n$, $n \ge 1$

where $X_n \in R^d$, $\varepsilon_n \in R^p$, η_n , $Y_n \in R^q$ are random variables and A_n and C_n are deterministic matrices of d x d and q x d matrices, respectively.

We will now assume that the vectors (ε_n, η_n), $n \ge 1$, are independent and have the same multidimensionall Gaussian repartition with mean 0 and covariance matrix equal to the unit matrix and X_0 has a Gaussian repartition with mean x_0 and covariance matrix P_0. Finally, we assume that the A_n matrices, $n \ge 1$, are non-singular.

For any $n \ge 1$, let F_n σ-algebra generated by $Y_1,\dots,Y_n$ and

(1.15) $\hat{X}_n = E[X_n|F_n]$

(1.16) $P_n = E((X_n - \hat{X}_n)(X_n - \hat{X}_n)'|F_n)$

where ' ' means the transpose. When F_n is known, $\hat{X}_n$ is the best (in the sense of mean square) estimator of X_n (based on observed data until moment n) and P_n is the conditional covariance matrix of the errors.

Let's denote P (respectively P_0) the set of symmetric matrices non negatively defined (respectively positively defined) of d x d dimension. For any $P \in \mathbf{P}$ and $n \ge 1$ we define

$\Phi_n(P) = (A_nPA'_n + I)(I + R_n + R_nA_nPA'_n)^{-1}$

where $R_n = C'_nC_n$ and I is the unit matrix of order d. Then $\Phi_n(P) \in \mathbf{P}$ and Φ_n takes P_0 into itself. The recursive equations of Kalman could be written as

(1.18) $P_n = \Phi_n(P_{n-1})$

(1.19) $\hat{X}_n = (A_n - P_nA_nR_n)\hat{X}_{n-1} + P_nC'_nY_n$

The fundamental result shown in the following is that the applications Φ_n , $n \ge 1$, are contractions in P_0, if we endow P_0 with the Riemann metric δ which is invariant to

conjugacy. More over, the fact that those contractions are strict and/ or uniform , depends on the observability and controlbility properties of the system (1.14).

These results are demonstrated in their natural context, considering the symplectic group of matrices which are invariant to P_0. In this context, they could be seen as a generalisation of the Perron-Frobenius theorem.

The present study, made by Bougerol (1993), is elementary, in some sense.

Some of the utilized ideas are existing already for the symplictic matrices (see, as an example, Shayman (1986)). The semigroup H was already induced in a different context by Wojtkowsky (1985). Note, finally, that the contractibility property of Ricatti transformation is a generalisation of the nonnegative matrices under Hibert metric (see Birkhoff (1957)).

4. The semogroup of the hamiltonian matrices

We associate to the (1.14) system, the matrix M_n of order 2d, defined by its block form:

$$M_n = \begin{pmatrix} A_n & A_n'^{-1} \\ R_n A_n & (I + R_n)A_n'^{-1} \end{pmatrix}, \ n \geq 1.$$

The M_n matrices are part of the simplectic group Sp(d,R)which is defined by the set of the whole matrices M of 2d order such that $M'JM = J$, where

$$J = \begin{pmatrix} 0 & I \\ -I & 0 \end{pmatrix},$$

and I is the unit matrix of order d. Since $M^{-1} = JM'J$, we could see that $M' \in Sp(d,R)$. We write

$$M = \begin{pmatrix} A & B \\ C & D \end{pmatrix},$$

where A , B ,C ,D are matrices of order d, results that BA' and $A'C$ are symmetric and

$A'D - C'B = I$.

The set H of Hamiltonian matrices could be defined as

$$H = \left\{ \begin{pmatrix} A & B \\ C & D \end{pmatrix} \in Sp(d,R) \middle| A \text{ este invertible}, BA' \text{and } A'C \in \mathcal{P} \right\}$$

Let's define three subsets H_1, H_2 and H_0 of H as follows:

$$H_1 = \left\{ \begin{pmatrix} A & B \\ C & D \end{pmatrix} \middle| BA'' \in \mathcal{P}, A''''C \in \mathcal{P}_0 \right\}$$

$$H_2 = \left\{ \begin{pmatrix} A & B \\ C & D \end{pmatrix} \middle| BA' \in \mathcal{P}_0, A'''C \in \mathcal{P} \right\}$$

$H_0 = H_1 \cap H_2$.

Observe that H_2 is the dual of H_1 (in the sense that $M \in H_1$ if and only if $M' \in H_2$).

We will use the following well-known result.

Lemma 1.1. *If P,Q* $\in$P , *then* I+PQ is invertible.

We will firstly prove,

Proposition 1.2. *H is a semigroup under the operation of product of the matrices, and* H_1, H_2 *and* H_0 *are bilateral ideals of H.*

Proof. Let $M_1, M_2 \in H$ and $M_3 = M_2M_1$.

For i=1,2,3 we write

$$M_i = \begin{pmatrix} A_i & B_i \\ C_i & D_i \end{pmatrix}$$

and note $Q_1 = C_1A_1^{-1}$, $P_2 = A_2^{-1}B_2$. Since $M_1 \in H$, matrix $C_1'A_1 \in P$ and since

$Q_1 = A_1'^{-1}(C_1'A_1)A_1^{-1}$ results that $Q_1 \in P$. In a similar way, $P_2 \in P$. Then we have $A_3 = A_2A_1 + B_2C_1 = A_2(I+A_2^{-1}B_2C_1A_1^{-1})A_1 = A_2(I + P_2Q_1)A_1$.

From Lemma 1.1 results that A_3 is invertible. In the following we will use the statement

$A_2'D_2 = C_2'B_2 + I = C_2'A_2P_2 + I = A_2'C_2P_2 + I$.

Since $C_3 = C_2A_1 + D_2C_1$, we have

(1.20) $A_3'C_3 = A_1'(I + Q_1P_2)A_2'(C_2A_1 + D_2C_1) =$

$= A_1'(I + Q_1P_2)(A_2'C_2A_1 + A_2'C_2P_2C_1 + C_1) =$

$= A_1'(I + Q_1P_2)A_2'C_2(A_1 + P_2C_1) + A_1'C_1 + C_1'P_2C_1 =$

$= A_1'(I + Q_1P_2)A_2'C_2(I + P_2Q_1)A_1 + A_1'C_1 + C_1'P_2C_1$.

This representation of $A_3'C_3$ shows that $A_3'C_3$ is in P. In a similar way(or by using the transpose), we get the fact that $A_3B_3' \in P$. Therefore, $M_3 \in H$, so H is a semigroup. Moreover, if $A_2'C_2$ or $A_1'C_1$ is invertible, then (1.20) shows that $A_3'C_3$ is positively defined. So H_2 is a bilateral ideal of H. Similarly, H_1 is an bilateral ideal of H and so $H_0 = H_1 \cap H_2$ is.

The following result is useful in association with the fact that the system (1.14) is observable and controllable with the fact that the associated Hamiltonian matrices are in H_1 or H_2.

Proposition 1.3. *Let*

$M_n = \begin{pmatrix} A_n & B_n \\ C_n & D_n \end{pmatrix}$, $n \geq 1$,

A matrix in H. *Then* $M_n M_{n-1} \dots M_1 \in H_1$ *if and only if*

$\det (A_1' C_1 + A_1' A_2' C_2 A_1 + \dots + A_1' \dots A_n' C_n A_{n-1} \dots A_1) \neq 0$

and $M_n M_{n-1} \dots M_1 \in H_2$ *if and only if*

$\det (B_n A_n' + A_n B_{n-1} A_{n-1}' A_n' + \dots + A_n \dots A_2 B_1 A_1' \dots A_n') \neq 0$.

Proof. For any

$M = \begin{pmatrix} A & B \\ C & D \end{pmatrix} \in H$

let $\xi(M) = A`C$ and $\alpha(M) = A$. We will firstly prove that if $M_1, M_2 \in H$, then

(1.21) $\xi (M_2 M_1)x = 0$, $x \in R^d$,

if and only if

(1.22) $\xi(M_1)x = \xi (M_2)A_1 x = 0$, $x \in R^d$.

We will firstly use the following properties:

(i) if $P,Q \in P$ and $(P+Q)x = 0$, then $Px = Qx = 0$;

(ii) if $P \in P$ and $M'PMx = 0$ for any arbitrarily matrix M, then $PMx = 0$.

We know from (1.20) that if $Q_1 = C_1 A_1^{-1}$ and $P_2 = A_2^{-1} B_2$, then

(1.23) $\xi(M_2 M_1) = A_1'(I + Q_1 P_2) A_2' C_2 (I + P_2 Q_1) A_1 + A_1' C_1 + C_1' P_2 C_1$.

The right side is a sum of non negative symmetrical matrices. Therefore, if (1.21) holds, then $A_1' C_1 x = 0$ and $A_2' C_2 (I + P_2 Q_1) A_1 x = 0$. That implies $C_1 x = 0$ (since A_1 is invertible) and $A_2' C_2 A_1 x = 0$ (since $Q_1 A_1 x = C_1 x = 0$). The reciprocal results immediately from (1.23). Now, from the equivalence between (1.21) and (1.22) we conclude the following:

$\xi(M_n \dots M_1)x = 0$

$\Leftrightarrow \xi(M_1)x = 0$ & $\xi(M_n \dots M_2)\alpha(M_1)x = 0$

$\Leftrightarrow$ ….

$\Leftrightarrow \xi(M_1)x = 0$ & $\xi(M_2)\alpha(M_1)x = 0$ & … & $\xi(M_n)\alpha(M_{n-1}) \dots \alpha(M_1)x = 0$.

Since the matrices $\xi(M_i)$, $1 \leq i \leq n$, are nonnegative and $\alpha(M_i)$, $1 \leq i \leq n$, are invertible, the before statements are equivalent to

$[\xi(M_1) + \alpha(M_1)' \xi(M_2)\alpha(M_1) + \dots + \alpha(M_1)' \dots \alpha(M_{n-1})' \xi(M_n)\alpha(M_{n-1}) \dots \alpha(M_1)]x = 0$.

This proves the first statement. The second one is obtained by duality.

5. The contraction property

For any matrix

$M \in \begin{pmatrix} A & B \\ C & D \end{pmatrix} \in H$

we define an application Φ_M: $P_0 \longrightarrow P_0$ by

(1.24) $\Phi_M(T) = (AT + B)(CT + D)^{-1}$, $T \in P_0$.

The fact that the right side member P is an well-defined element of P_0 will result from Proposition 5, which follows.

A direct computation shows that

(1.25) $\Phi_{MN} = \Phi_M \circ \Phi_N$, $M,N \in H$.

Let's note that (1.17) could be written as

$\Phi_n(P) = (A_n P + A_n'^{-1})(R_n A_n P + (I + R_n)A_n'^{-1})^{-1}$,

which shows us the fact that $\Phi_n = \Phi_{M_n}$.

Therefore, by (1.18), we have

(1.26) $P_n = \Phi_{M_{n-1}} (P_{n-1})$.

This equation is so called the discrete Ricatti equation. The classic Ricatti equation is similar. In the regularity and bounding hypothesis, if P_t , $t \in R_+$, of the matrix differential equation

$dP_t/dt = A_t P_t + P_t A_t' - P_t R_t P_t + S_t$, $P_o \in P_0$,

where R_t, $S_t \in P$, $t \geq 0$, then there exists a family $N_t \in H$, $t \geq 0$, such that $P_t = \Phi_{N_t} (P_0)$ (see Herman (1979)).

Definition 1.4. The Riemann distance δ in P_0 is defined by

$\delta (P,Q) = \left(\sum_{i=1}^{d} \log^2 \lambda_i\right)^{1/2}$, $P, Q \in P_0$

where $\lambda_1, \dots, \lambda_n$ are eigenvalues of PQ^{-1}.

Mass (1971) proves that δ is the Riemann distance in P_0 when this set is considered as a metric Riemann space. Particularly, (P_0,δ) is complete and is the usual induced topology. Home ownership is the distance δ to the conjugation and reversal invariance: for any invertible matrix A and any P,Q $\in P_0$ we have

$$\delta(APA^*,AQA^*) = \delta(P,Q) = \delta(P^{-1},Q^{-1}).$$

We will prove that Φ_M is a contraction in (P_0,δ) for any M $\in$ H.

Proposition 1.5. *Let*

$M = \begin{pmatrix} A & B \\ C & D \end{pmatrix} \in H.$

Then

(i) *For any* T $\in$ P (*respectively* P_0), CT + D *is invertible and* (AT + B)(CT + D)$^{-1}$ $\in$ P (*respectively* P_0);

(ii) *if* M $\in H_2$, *then* (AT + B)(CT + D)$^{-1}$ $\in P_0$ *for any* T $\in$ P.

Proof. Let T $\in$ P . The matrices P = $A^{-1}B$, Q = CA^{-1} and S = A(T+P)A* belong to P. Since

CT + D = QAT + QAP + A^{*-1} = (QS + I)A^{*-1},

By Lemma 1.1 results that CT + D is invertible.

Now, the relation

(AT + B)(CT + D)$^{-1}$ = (AT+AP)A*(QS + I)$^{-1}$ = S(QS + I)$^{-1}$

Gives us the end of the proof.

In the following we will use the euclidean norm in R^d and the operator norm induced in the set of matrices: if M is a matrix of order d, then

$$\|M\| = \sup\{\|Mx\| : x \in R^d, \|x\|=1\}$$

Proposition 1.6. *Let* T,S $\in P_o$ *and* α = max $\{\|T\|,\|S\|\}$.

For any P $\in$ P *we have*

$$\delta(T+P, S+P) \le \frac{\alpha}{\alpha+\beta}\,\delta(T,S)$$

where β = inf {<Px,x> : $\|x\|$=1}.

Proof. The mean theorem implies

$$\log\frac{a+r}{b+r} < \frac{m}{m+r}\log^+\frac{a}{b} \quad (1.27)$$

(where $\log^+x$ = max(logx,0)) for 0<a, b≤m şi r>0. It is known (Gantmacher (1959, Cap.10, §7)) that the eigenvalues of TS^{-1} are real, positive and have the following minimax representation. Let

$$\lambda_1(T,S) \le \lambda_2(T,S) \le \ldots \le \lambda_d(T,S)$$

The eigenvalues of TS^{-1} written in decreasing order; then

$$\lambda_k(T,S) = \min\{\max\{\frac{<Tx,x>}{<Sx,x>} : x \in V\} : V \in \Gamma_k\},$$

where Γ_k is the set of k –dimensional linear subspaces of R^d , 1≤k≤d. We will prove that

$$|\log\lambda_k(T+P, S+P)| \le \frac{\alpha}{\alpha+\beta}|\log\lambda_k(T,S)|,$$

1≤k≤d.

Let's firstly assume that $\lambda_k(T+P, S+P) > 1$. Inequality (1.27) implies that

$$\log\frac{<Tx,x>+<Px,x>}{<Sx,x>+<Px,x>} \le \frac{\alpha}{\alpha+\beta}\log^+\frac{<Tx,x>}{<Sx,x>}.$$

Then,

$|\log\lambda_k(T+P, S+P)| = \log\lambda_k(T+P, S+P) = \log\min\{\max\{\frac{<(T+P)x,x>}{<(S+P)x,x>} : x \in V\} : V \in \Gamma_k\} = \min\{\max\{\log\frac{<Tx,x>+<Px,x>}{<Sx,x>+<Px,x>} : x \in V\} : V \in \Gamma_k\} \le$

$$\le \frac{\alpha}{\alpha+\beta}\min\{\max\{\log^+\frac{<Tx,x>}{<Sx,x>} : x \in V\} : V \in \Gamma_k\} \le \frac{\alpha}{\alpha+\beta}\log^+\lambda_k(T,S).$$

Since the left hand-side is positive, we firstly have

$$\log^+\lambda_k(T,S) = |\log\lambda_k(T,S)|$$

and then (1.28) holds. When $\lambda_k(T+P, S+P) = 1$, inequality (1.28) is obvious. Finally, if $\lambda_k(T+P, S+P) < 1$, then we use the relation:

$$\lambda_k(T+P, S+P) = \frac{1}{\lambda_{d-k+1}(S+P,T+P)}$$

And apply (1.28) to the eigenvalue $\lambda_{d-k+1}(S+P, T+P)$.

It is obvious that (1.28) immediately implies the stated result.

Theorem 1.7. *We have the following properties:*

(i) *For any* M $\in$ H *and* T, S $\in P_0$,

$$\delta(\Phi_M(T), \Phi_M(S)) \le \delta(T,S).$$

(ii) *For any* $M \in H_1$ (*or* $M \in H_2$) *and* $T, S \in P_0$,

$\delta(\Phi_M(T), \Phi_M(S)) < \delta(T, S)$.

(iii) *For any* $M \in H_0$ *there exists* $0 < \rho(M) < 1$ *such that, for any* $T, S \in P_0$,

$\delta(\Phi_M(T), \Phi_M(S)) \leq \rho(M)\,\delta(T, S)$.

Proof. Let $M \in H$. Then we have $P, Q \in P$, where $P = A^{-1}B$, $Q = CA^{-1}$ and

$$M = \begin{pmatrix} I & 0 \\ Q & I \end{pmatrix} \begin{pmatrix} A & 0 \\ 0 & A'^{-1} \end{pmatrix} \begin{pmatrix} I & P \\ 0 & I \end{pmatrix}.$$

Let's consider

$\tau_P(T) = T + P$, $\tau_Q(T) = T + Q$,

$\gamma_A(T) = ATA'$, $\sigma(T) = T^{-1}$

defined on P_0. From (1.25) we get

(1.28) $\Phi_M(T) = (\sigma \circ \tau_Q \circ \sigma \circ \gamma_A \circ \tau_p)(T)$.

We already noted that γ_A and σ are isometric in (P_0, δ). From Proposition 1.6 results that τ_p and τ_Q are contractions.

This fact, together with (1.29) proves (i).

If $M \in H_1$, then Q is invertible, from which results that τ_Q is a strict contraction(by Proposition 6). Similarly, if $M \in H_2$, then P is invertible and τ_p is a strict contraction. In both cases, (ii) results from (1.29) as well.

Now, let's prove (iii). Let $M \in H_0$. Then P and Q also are invertible. More over, $\tau_p(T) \geq P$ for any $T \in P_0$, in the sense that $\tau_p(T) - P \in P$, from where

$(\gamma_A \circ \tau_p)(T) \geq APA'$ and so

$(\sigma \circ \gamma_A \circ \tau_p)(T) \leq (APA')^{-1}$.

Fie $a = \|(APA'^{-1})^{-1}\|$ and $\varepsilon = \inf\{\langle Qx, x\rangle : \|x\| = 1\}$.

From Proposition 1.6 rezults that for any $T_1, T_2 \in P_0$ we have

$\delta(\tau_Q[(\sigma \circ \gamma_A \circ \tau_P)(T_1)], \tau_Q[(\sigma \circ \gamma_A \circ \tau_P)(T_2)]) \leq$

$\leq \frac{a}{a+\varepsilon}\,\delta((\sigma \circ \gamma_A \circ \tau_p)(T_1), (\sigma \circ \gamma_A \circ \tau_p)(T_2)) \leq \frac{a}{a+\varepsilon}\,\delta(T_1, T_2)$.

Since σ is an isometry, this inequality together with (1.28) implies (iii) with $\rho(M) = \frac{a}{a+\varepsilon}$

6. Conclusion

As an application to the contraction property, we will give an immediate proof of a classic result of R.E. Kalman. Let's assume that the system with constant coefficients

$X_n = AX_{n-1} + \varepsilon_n$, $Y_n = CX_n + \eta_n$, $n \geq 1$,

Is controllable and observable. The controlbility for the general system (1.1), (1.2) comes to

$\det(I + A_nA_n' + \ldots + A_n \ldots A_2 A_2' \ldots A_n') \neq 0$, $n \geq 1$, and the observability to $\det(A_1'R_1A + A_1'A_2'R_2A_2A_1 + \ldots + A_1' \ldots A_n'R_nA_n \ldots A_1) \neq 0$, $n \geq 1$, where $R_n = C_n'C_n$, $n \geq 1$.

Let M be the Hamiltonian matrix:

$$M = \begin{pmatrix} A & A'^{-1} \\ RA & (I + R)A'^{-1} \end{pmatrix}$$

From the proposition 3 results that there exists an integer $p > 0$ such that $M^p \in H_0$.

Thus, Theorem 1.7 gives us the fact that there exists a power of Φ_M which is an uniform contraction. From the fixed point theorem, there exists a matrix $P \in P_0$ to which all the solutions P_n of the equation (1.18)converges when $\mathbf{P_0} \in \mathbf{P_0}$.

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The Risk- an Element that Influences the Success of an Entrepreneur

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Abstract

The main objectives of this paper are: to highlight the important role of the entrepreneurial risk and, also, to determine the particularities of the business creators and of the risks that the entrepreneurial activity it involves.

The base of this research was the specialized literature that offers a wide and varied range of theoretical issues related to the innovative and pragmatic field of entrepreneurship.

In the business world, the route from the identification of an opportunity to the optimal exploatation of it isn't without risks whereon the entrepreneur assumes in order to succed.

The result of this research is represented by the idea that although the entrepreneurship presents some risks, the consideration of a certain degree of controlled risk may produce positive effects, and also were identified the main issues regarding the entrepreneurs and their risks.

Key words: entrepreneurship, entrepreneur, business, risk, progress.
J.E.L. classification.: M13, L26

1. Introduction

The study of risk and of its implications on entrepreneurship represents a topic of great interest not only for entrepreneurs (persons that are permanently under the influence of a certain degree of risk), but also for the specialists who performed various researches in order to find out as much information as possible regarding this phenomenon and its effects for the business creators.

The entrepreneur is often exposed, in a lesser or greater extent, at certain types of risks that arise from the exercise of his profession and from his actions and, that may cause, equally, moral and material effects on different intervals of time.

Every entrepreneur assumes a certain degree of risk when he/ she starts a new firm, but the mode of reaction of each of them at the identification and the management of the entrepreneurial risk is influenced by the particularities of personality of each creator of firm.

The identification of the main issues regarding the creators of business and their risks contributes to the creation of a clearer image of the risky situations that the entrepreneurs have to face.

2. The Risk - an Element that Influences the Success of an Entrepreneur

2.1. The entrepreneur- a person with impact on the progress

The entrepreneurs have captured the attention of the specialists through their considerable potential and through the way in which they manage to exploit their qualities in order to fulfill a great professional ideal, namely the dream of being the creator of a business and to contribute to its development, and, thus they have an important word to say on their personal evolution, but also, on the the progress of the society and of the humanity.

The creators of entreprises are persons ambitious and capable of great achievements, people who can influence not only their personal and professional development, but also they may have an important impact on the economic development of the region in which they operate, and through the innovations that they achieve, the entrepreneurs can influence the progress of the mankind.

Also, about the entrepreneurs it can be mentioned that are people who believing in

their ideal and in their own forces, they mobilize all their skills (traits such as: creativity, courage, high intelectual capacity and, not least, high degree of seriousity) and they work hard to succed.

The entrepreneurs may also present a negative trait, so in order to accomplish their strong desire for success and profit, they may neglect what is truly important in life: the attention for the family members, for friends and even for the own person.

Regarding the essentials characteristics of the creators of businesses, Marius Ghenea [1] believes that "an essential quality of an entrepreneur is the right attitude", and certain specialists [2] consider that "another defining trait for the entrepreneur is the finalization of the efforts and his involvement in starting a business." It can be said that another characteristic of the creators of entreprises is represented by the fact that "an entrepreneur confronts with new changes, with innovations, so the assumption of the risk becomes a necessity." [3]

The strong degree of motivation that underlies any profile of a successful entrepreneur makes this character to take some risks, and among the reasons that determine the creator of business to risk there are: the desire of affirmation, the desire for gain, the desire for high income, the desideratum to demonstrate his capacity and that he can achieve success, the desire to bring certain benefits not only for himself or for his family, but also for society, the desire to create his own job, the desire to create jobs for others, the desire for achieve prestige, and others. Regarding the motive for choosing the entrepreneurial career, some authors [4] claim that "the motivation for actions of the entrepreneurs lies in their dissatisfactions." Also, about the motivations of the entrepreneurs, Delia Popescu [5] mentions that "it can distinguish several determinants of the entrepreneurial behaviour: the sociocultural environment, the family background, the experience or the professional environment and the system of education."

The multitude of risks that an entrepreneur may face make that the choice of the entrepreneurial profession to be a possible option only for the persons with a high degree of motivation. The idea that the risk can impede the start of a business is also supported by some specialists [6] who affirm that "for many people, the dream of become boss and of earn enough money is sufficient to stimulate them in becoming entrepreneurs. But the lack of capital, the characteristic risk of any business can inhibit many people."

Irrespective of the qualities that they possess, of the motivations and of the assumed risks, it can be said that "the entrepreneurs contribute, through their actions, to the modification of rate, form and location of the economic development. So, the abundance and the quality of the available entrepreneurs are important causes of the growth and of the development." [7]

2.2. The risk- an important determinant of the modern economies

The risk manifests itself in a variety of types, in all fields of activity, but especially in the field of entrepreneurship where is given a real interior and exterior fight for achieving success, where both the satisfactions or the success and the failure are more strongly visible.

Regarding the consequences that the risk or the materialization of an uncertain event can produce, it can be mentioned that those effects can concretize either in satisfactions, in favorable results or, on the contrary, in results below expectations.

The moral and material implications of the risks that the entrepreneurs endure in order to obtain various personally and professionaly achievements are issues that can produce effects either for a small or larger period of time and some of them can generate results for all the lifetime of the creator of business.

The identification of the entrepreneur's risks and of its effects and possibilities of reduction and even of elimination of their occurrence are important objectives for scientists who realized in their studies different analyses of risk and of its implications for the business creators and for the progress of the society.

The large number of risks that the different actual activities involve, was also noted by authors as D. Popescu [8] who claims the fact that "the manifestation, in the current period, of the trends of risks' increase led to the shaping of the so-called "risk management" that aims to reduce the degree

of risk afferent of the various activities. It is based on the thorough evaluation of the phenomena and processes, and on the strategic management of all resources of the enterprise."

From the moment that decides to start a business, the creator of an entreprise can be confronted with several forms of risks that can have a significant influence not only on aspects such as: his financial resources, his welfare, his social image, but also on his health and on his relation with family and friends. Regarding the types of risks of the entrepreneurs, authors such as D. Popescu [9] mentions that "any entrepreneur, regardless of the degree of motivation, has to face the following risks:

a) the risk of the business- a significant proportion of all enterprises fail within the first five years, primarily due to the poor managerial training;

b) the financial risk- the entrepreneur invests all or almost all of his financial resources in business;

c) the career's risk- leaving a secure job, for an uncertain future;

d) the family and social risk- a business supposes little free time for family and friends;

e) the psychological risk- the risk of personal failure if the business fails."

Also, about risk, authors as Tanţău [10] claims that "in businesses, the risk presents consequences that influence the course of an action. These consequences depend on the probability of apparition of a certain event that may cause certain losses."

An entrepreneur may achieve success when assumes some risks taking account of his personal moral and material capacities.

Usually, the risks are seen as determinants of unwanted events, but they also can generate favorable effects and it can be said that they are necessary in entrepreneurship because the fact that the calculated risks can produce a positive impact on the results of the business and on the expectations of the creator of business. The idea that the risks can be beneficial it also appears in the work of Tanţău [11] who claims that "in certain business, a great part of the revenues arises precisely due to the assumption of certain risks. Therefore, the most risks should not be seen by their negative impact. So, the risks should be limitated, and the entrepreneurs should configure a clear system of risk management, but who also enable, at the same time, the obtain of incomes. For achieve these two objectives, the risk must be measurable and estimated."

Although "in general, the entrepreneur is willing to assume certain medium risks, and the management of the risk in the small/ medium entreprises mostly has an intuitive character" [12], in order to prevent, to reduce and even to eliminate the eventual occurence of the unfavorable and uncertain events it is important for an entrepreneur to know and to apply in his entreprise the management of risk. Regarding the risk management, specialists such as D. Popescu [13] mentions that it "is a cyclical process, with several distinct phases, which takes into account both the permanent evaluation of the risk, but also a conduct of control of it. The phases of the cycle are: the identification of the risk, the analysis of the risk and the reaction at risk", and in the opinion of author Tanţău [14] "the management of risk is at the same time a set of tools and techniques, but also a necessary process to implement the strategies of development of an enterprise. The management of risk also includes all those processes of management and of conception of the organizational structures necessary for the efficient implementation of the tehniques and of the methods of measurement and of risk control."

3. Conclusions

As a conclusion it can be said that the entrepreneurs are persons who have significant intelectual qualities that support them in the process of transformation of their dreams and objectives in real facts.

Also, it can be concluded the fact that every entrepreneur has a certain motivation for the choice of his career and that he has his own manner to understand and to react at the occurence of certain unfavorable events, but he can obtain a lot of achievements when he assumes calculated risks considering his moral and material capacities.

Last, but not least it can be said that every entrepreneur has his unique way to perceive the risk and react to it in function of his personality, of his degree of training and of his experience in life and in the field of entrepreneurship.

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A Critical Review of Service Quality

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Abstract

The aim of this paper is to draw attention upon the importance of service quality and the evolution of the concept accross the years. In order to attain this goal, the authors will make a review of the "service quality" concept – for what does it stand and how it can be measured?, as well as the most notable managerial implications associated with service quality.

Keywords: services marketing, service quality, SERVQUAL, SERVPERF
J.E.L. Clasification: M31

1. Introduction

In 1970s, the services marketing area started to become a subject of interest. It was the time when marketers still believed that the marketing concepts applied for products, would also work for services [1]. However, that failed to happen, leading to a vivacious and continuous search for those elements that could individualize and offer a clear view of the services' essence.

Throughout the years that came, marketers tried to find the right definition for the service concept. But their views were divergent, hardly homogenous.

However, accross the time, most of them subscribed to a definition according to which services are more likely to be "acts or performances rather than objects", intangible and not owned [2][3][4]. The definition was also completed by the very aim of services, namely that of satisfying the customer [5][6].

Still, Edvardsson considered that such a definition relied too much on the services characteristics, failing to underline the very essence of services [7].

These characteristics refer to the services' ability of being intangible, perishable, heterogenous and inseparable [8][9]. A service cannot be experienced until it is purchased (intangibility), it is produced and consumed at the same time (inseparability), it cannot be stored as products can be (perishable) and it cannot be performed in the same way each time (heterogenity).

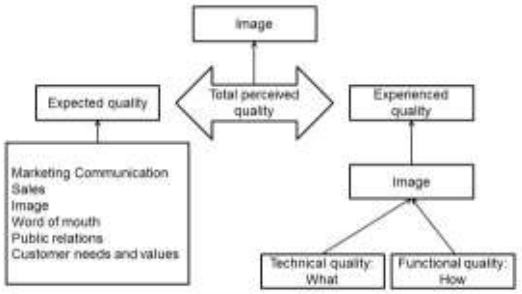
Further in the paper, the authors will deal with the definition of the "service quality" concept and the methods used in the process of measuring it. Finally, in the end of the paper, the authors will present several managerial implications implied by the service quality.

2. Defining service quality

One of the first attempts in trying to explain what service quality stands for was made by Grönroos, in 1982 [10]. According to his theory based on previous conducted researches on the subject, service quality is defined by three major dimensions: technical quality, functional quality and image. By technical quality, Grönroos refers to what the customer actually gets – the service itself, as a result of his/her encounter with the provider of the service. Functional quality, on the other hand, relates to how the technical quality (the core service) is offered to the customer. The image is how the provider of the service appears to be in the eyes of the customer. Moreover, Grönroos sustained that the functional quality was what can make the difference between the same services offered by different providers, assuring a certain competition advantage.

Two years later, Grönroos refined his findings and managed to bring more light on the service quality matter, proposing one new concept – perceived service quality, and a model of total perceived service quality (Figure 1).

Figure 1. Total perceived service quality



Source: Grönroos, C., *Service Management and Marketing. Customer Management in Service Competition,* 3rd edition, John Wiley & Sons Ltd., West Sussex, 2007.

In Grönroos' view, perceived service quality is the outcome of the customers' evaluation between what they expect to get and what they perceive they have been delivered. In other words, the gap between expected service and the experienced one, thus the gap between the expected quality and the experienced quality [11].

What is of vital importance in this equation is how customers' expectations are borned and by what are they influenced. Creating expectations is, to some extent, the result of the provider's marketing activities and campaigns. If the provider of a service overpromises, then their customers will set very high expectations for that service and thus, the probability that they will become dissatisfied about the way the service is delivered may increase dramatically. Therefore, it is better to promise less and deliver more, managing at the same time to surprise the customer in a pleasant manner [12].

Over the years, other models explaining the essence of the service quality concept also appeared and were developed. Contemporary with Grönroos, Lehtinen and Lehtinen proposed a similar model for understanding the meaning of service quality, a model that consists of three dimensions: physical quality (physical characteristics of the service), interactive quality (the interaction between the provider's personnel and the customers) and corporate image (provider's image) [13].

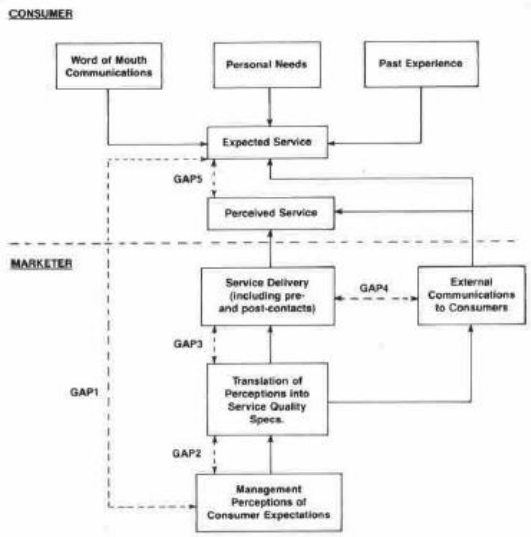
Further, Gummesson proposed a customer perceived quality model, having four dimensions: design quality, production and delivery quality, relationship quality and technical quality. Apart from these, Gummesson also included the gap between experience and expectations and the influence of the provider's brand, image [14].

Moreover, in 1985, Berry, Parasuraman and Zeithaml also tried to explain what service quality was. In order to do this, they conducted several focus groups with customers and in-depth interviews with representatives from the providers' side. The areas of services taken into consideration were: retail banking, credit cards, securities brokerage and product repair and maintenance. As a result of that research, they succeeded in establishing 10 determinants of service quality, namely: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding and tangibles [15].

Furthermore, they even settled a service quality model (Figure 2) based on five different kinds of gaps that appear at different levels [16]:

- The gap between consumers' expectations and management perceptions over these expectations,
- The gap between the management perceptions of consumer expectations and the firms' service quality specifications,
- The gap between service quality specifications and the actual service delivery,
- The gap between the actual service delivery and the external communication about the service,
- The gap between the expected and the perceived service.

Figure2. Service quality model



Source: Berry, L., Zeithaml, V.A.,

Parasuraman, A., "Quality Counts in Services, Too", *Business Horizons*, May-June 1985, pp. 44-52.

However, the initial reason staying at the base of this initiative has been that of developing models in order to understand the meaning behind the concept of service quality. Grönroos has never had any kind of thoughts on going beyond these explanations, into the measuring problem, as for him a study about the customers' perception on service quality on a particular service would normally be followed by a classic customer satisfaction research. [17].

Still, the models that have appeared for the measurement of service quality are mainly based on Grönroos' theory.

3. Measuring service quality

Measuring service quality is subject to both qualitative and quantitative methods.

Although, qualitative methods in the area of services are less common than the quantitative ones, they seem to be quite appreciated for helping the researcher to accommodate better and easily with the area of interest and better consider the dimensions involved in the process of measuring service quality. Moreover, what makes qualitative methods suitable for this area – services, is the possibility of gathering data on dynamic, experiential processes and the interactive nature of services phenomena [18].

One such qualitative method is the critical incident method. According to it, respondents are asked to recall and recount experiences with a certain service, those who deviate from normal, in particular, either in a favourable or unfavourable way. Respondents are asked to describe as detailed as possible these experiences in terms of what happened during that experiences and what made them label these experiences as being critical. Such an approach is useful in identifying the problem areas and the strengths, making the management more aware about what should they do better and what should they keep doing [19].

However, the quantitative methods seem to be more popular with researchers and thus, more used in the studies they are conducting. One of the most well-known such quantitative methods is SERVQUAL.

In 1988, after defining the 10 dimensions of service quality and elaborating a service quality model, Parasuraman, Zeithaml and Berry took the next step. It was the first attempt of measuring service quality with the help of a dedicated instrument that they called "SERVQUAL". The base of this instrument was residing in the qualitative research that led to the 10 dimensions of service quality. Thus, the authors generated various facets to each of the ten dimensions. Eventually, there were a total of 97 items to be evaluated, each item being put into two statements: one measuring expectations, and one measuring perceptions. Further, each statement was accompanied by a seven-point scale ranging from "Strongly Agree" to "Strongly Disagree". Afterwards, the collections of the data was done on a sample of 200 adult respondents, spread accross five different service categories. Then, after constantly refining the results, SERVQUAL was an instrument consisting of five dimensions characterized by 22 precised items. Briefly, the five dimensions were: tangibles (physical facilities, equipment, appearance of personnel), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence) and empathy (caring and individualized attention the firm provides to its customers) [20].

Over the years, SERVQUAL was applied in both the business-to-business and business-to-consumer segments [21], as well as for a large range of services such as public services [22], tourism [23], health care [24], education [25], Internet services [26], mobile communication [27], banking [28] and the list may continue.

However, despite its wide usage, SERVQUAL is subject to several criticisms; among these, the instrument's strict orientation on how the service is provided [29], the lack of validity of its dimensions for certain services area [30][31], as well as the measurement of both expectations and experiences [32].

As regarding the last criticism, researchers tried to find the right way to assure an accurate measurement. According to the Liljander's research, the results prove the fact that measuring only the experiences,

while taking into consideration appropriate attributes for measuring, reflect a quite accurate reflection of how service quality is perceived [33].

This assumption proved to be the base for an improved SERVQUAL, namely SERVPERF, an instrument developped by Cronin and Taylor. SERVPERF is an acronym for "service performance only" and, as the name suggests, this instrument only measures the experiences [34], as opposed to SERVQUAL which measures both experiences and expectations.

4. Conclusions

Service quality has a great influence over the well going of a service firm. Therefore, the manager of such a firm should pay great attention to it and the consequences it may have on his business.

Understanding what the functional and technical quality (as according to Grönroos service quality model) refer to and how these dimensions may be developped is vital, because these are the means to the customer's satisfaction. Thus, the managers have to take care so that the expected service is equal to the perceived one. In order to assure this, it is of primary importance to understand how the service quality is perceived by customers and, at the same time, to stay truthful in the relationship with the customer, making him only promises that can be kept.

Measuring service quality is an additional assurance and an indicator of how well the provider acts in this area, as well as a tool for enhancing his performance and motivating him with the progress of his work.

To summarize, a service provider should constantly improve his interactions with the customers. Otherwise, customer will leave, opting for a provider that knows how to deal with them, enhancing his reputation and image and the repurchase of his customers that eventually will become loyal to that particular provider.

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Strategic Capacity Assessment Action at S.C. Hervis S.A. During the Crisis

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Abstract

Crisis management is an organizational function. The failure can cause serious problems for stakeholders, loss for the Organization itself or may even lead to its disappearance. Public relations practitioners are part of crisis management teams. Therefore, a set of practices and lessons from our experience the practice would definitely represent a useful clock resource for professionals in the field.

Cuvinte cheie: resources, strategy, crisis

Clasificare J.E.L.: M12

1. Introducere

The process of transition from the planned economy, strictly centralized, bureaucratic administration, at the market, decentralized, involves transformations in all sides of the political, economic, organizational, legal, social and psychological. Such a transition is the change of conception and on the leadership of the economic units, abandoning old methods, techniques and tools of management and implementation of all management companies. The decentralization of management and investment companies with a genuine autonomy requires thorough knowledge of the theoretical principles, methods, techniques and management tools that allow managers of companies, as a scientific and effective basis to assume competences, attributions and responsibilities delegated to them in the current stage of transition to a market economy [1].

This work approaches a topical issue in the context of the requirements imposed on the firm's management, the challenges of the current period of transition to the market economy, the diagnostic analysis of the starting point in designing, establishing and implementing strategic solutions for improving economic and financial viability and management of commercial companies.

2. General presentation of S.C. HERVIS S.A.

Hervis Sports company, founded in the early 70 's in Austria, has a tradition of more than 30 years in the field of selling sporting goods of the highest quality, at the best prices and with the most attractive deals. Hervis Sports stores are multi-brand concept, with 60% of the products belonging to the dedicated sports brands-Adidas, Nike, Puma, Colombia, Mammut, Wilson, Kettler, Scott Fischer, Atomic, etc., and 40% of own Kilimanjaro, X-Fact, Denali, Benger, Seems, etc. Hervis Sports belongs to the Spar Austria Group 100%.

3. Determining strengths and weaknesses at S.C. HERVIS S. A

3.1 Financial field

The complexity of the decisions involved in the management of investment projects, leading to the idea that to get some different entities with different objectives, responsibilities and corresponding methodological nature different activities [3]. In table 1 are shown the main strengths and weaknesses in financial literacy to S.C. HERVIS S.A.

Tablel 1. The main strengths and weaknesses in financial literacy to S.C. HERVIS S.A.

Strengths	**Causes**	**Effects**
Good liquidity of production	Increasing the volume of production sold	The company's ability to honor some of the short-term debts
Increased economic return	Getting profit during the analyzed	The development of an efficient activity
Indebtedness of the society is less than 50%.	Decrease in debt as a result of the reduction of medium and long term	Reducing costs with interest
The degree of restraint of assets according	The average level of investment of capital in the company	Flexibility and possibilities of adaptation to the environment
Positive amounts of net Treasury	Streamlining the availability payment	The financial autonomy of the society
The rate cut stocks	The correlation of the supply processes of production	Reducing storage costs
Weaknesses	**Causes**	**Effects**
The great crentelor recovery and repayment of debts.	The negative impact of the Romanian economy situation of the companies.	Disruption of trade flows and to honour the contracts with suppliers.
Return on total assets decreased.	Underutilization of production capacity.	The limited possibilities of the society to accomplish major investments from its own resources.

Source: S.C. HERVIS S.A.

3.2 Commercial

Within the S.C. HERVIS S.A. commercial domain is represented by two compartments: purchasing and selling, both subordinate to the Director. Because within the organizational structure of the company there is a specialized Department of marketing, the company's management owns few and incomplete information about clients, competitors and its suppliers. Hence the company's inability to seize and to adapt to the changes occurring in the time or action. Also, low interest on the part of senior management for organizing this compartment as well as the lack of a separate Department of public relations, make the company's products to be little known, in particular on the internal market. Table 2 presents the evolution of the volume of total production, and the evolution of stocks.

Table 2. The evolution of the volume of production and the evolution of stocks

Indicator	**2009**	**2010**	**2011**
The level of production delivered	126. 244. 705	108. 246. 136	107. 431. 815
The level of stocks	29. 893. 124	20. 546. 727	15. 082. 171

Sursa: S.C. HERVIS S.A

For the disposal of domestic production has been expanding the company's distribution network in the country-reusindu sale of manufactured production and valorization of 10000 pairs with stock sales slow in the society. In table 3 are presented the main strengths and weaknesses of the domain.

Table 3. The main strengths and weaknesses in commercial domain at S.C. HERVIS S.A.

Strengths	**Causes**	**Effects**
1. Harnessing the unused space by renting.	The existence of some unused space within the society.	The growth of turnover, profit.
2. Low level of prices.	Using a small factor for profit.	Advantage over competitors.
3. Export activity (over 95%).	Due to the demand reduction internally.	The growth of turnover, profit.
4. High competitiveness in the market.	Efficient use of production technologies, specialized personnel.	The company's products compete successfully in foreign markets.
5. Low levels of stocks of finished products.	Expanding distribution network internally.	Reduce storage costs, increase turnover.
Weaknesses	**Causes**	**Effects**
1. The lack of allocation of funds for the promotion of products both internally and externally.	Low interest on the part of senior management to the Organization's marketing department.	The company's products are little known, in particular on the internal market.
2. Participating in fairs and exhibitions.	Non-existent marketing department and lack of staff specilizat to deal with organizing these promotional events.	Trade fairs and exhibitions provide a complex and complete advertising; represents a specialization of the company give up.
3. The lack of an effective marketing activities.	Non-existent in the society of a specialized marketing department.	Reduced capacity of instituting the changes in the organisation and action response to trends in demand and the action of the competition.
4. Reduced attention to the internal market.	Pretty little application	The loss of business opportunities.

Source: S.C. HERVIS S.A

3.3 Resources

Hervis Sports Romania, part of the Spar Austria Group, has chosen TotalSoft for the provision of services of payroll and personnel administration. Hervis Sports trades through its 10 stores in Romania, goods belonging to the strongest sports brands in the world-Adidas, Nike, Puma, Colombia, Mammut, Kettler, Scott Wilson, etc., but also its own brands, such as Kilimanjaro, X-Fact, Denali, Benger, Seems, etc. Hervis Sports currently has a team of over 150 people and plans to increase this figure before the end of the year, by opening new stores. The partnership with TotalSoft, the leading provider of payroll outsourcing services in Romania, was achieved against the background of enlargement strategy of the business and the need to have with a vendor promptly, no matter how much it would increase the number of employees. I was looking for a partner to take over the full responsibility of the human resources and payroll and to give us the freedom to focus on us plans to expand nationwide. The selection of TotalSoft have mattered much very good references that the company has in the field of payroll outsourcing, but also the fact that utilizes a highly rated software platform in the market, said Managing Director Hervis Sports Romania. In addition to salary calculation, which will pass in TotalSoft functions since early august, the contract provides for the supply of services of administration of staff, including mandatory filing to the State authorities. Services offered by TotalSoft are based on the Charisma HCM, preferred solution to 500 national and multinational organizations, in fields such as banking, financial services, distribution, retail, medical-pharmaceutical, manufacturing, construction, engineering, utilities, public institutions. With this system are managed salaries of more than 10% of the active work

force of Romania and are based on more than 25% of the approximately 130. 000 salaries managed by way of outsourcing. Human resources domain comprises all activities within the Organization for the achievement of the objectives of assuring and developing human potential and the need for evaluation of internal factors are found in table 4.

Table 4. The evaluation of internal factors in the field of human resources

Description of strengths and weaknesses	Rating level	Important factor	Weighted score
1. Low selection of staff	2	0, 14	0, 28
2. Organizing courses for qualification.	3	0, 16	0, 48
3. The existence of a programme for the promotion of staff.	4	0, 15	0, 6
4. Small share of personnel with higher education (8%).	2	0, 15	0, 3
5. Good working conditions	3	0, 12	0, 36
6. Concern for improving the standard of training of the staff.	4	0, 13	0, 52
7. Large fluctuation of personnel.	2	0, 15	0, 3
Internal global power in the field of HUMAN RESOURCES	-	1, 00	2, 84

Sources: S.C. HERVIS S.A

3.4 Managerial

The managerial system analysis resulted in the following strengths and weaknesses, appear in table 5:

Table 5. The evaluation of internal factors in the field of management

Description of strengths and weaknesses	Rating level	Important factor	Weighted score
1. Delineation of clear aim and objectives of the society.	4	0, 18	0, 72
2. The absence of realistic strategies and policies.	2	0, 16	0, 32
3. Structural and managerial rigidity.	2	0, 12	0, 24
4. Neoperative information system.	2	0, 10	0, 20
5. Major interest for economic recovery and rehabilitation management.	3	0, 16	0, 48
6. The use of a large number of management methods and techniques.	3	0, 15	0, 45
7. Failure to comply with the requirements of rationality of the decisions.	2	0, 13	0, 26
Internal global power in the field of MANAGEMENT	-	1, 00	2, 67

Sursa: S.C. HERVIS S.A

As a result of internal factors weighted rating points that influence the management activity, a medium to large internal power of his managerial to S.C. HERVIS S.A. .

4. Conclusions

The main issues considered as strong points of the company which is the subject of a case study from the analysis of its financial scope are:

- General good liquidity as a result of the increase in volume of production sold, which lead to a revival of the company's ability to honor some of the short-term debts;
- Profitability increased due to economic profit for the reporting period and the evolution of inflation, which in turn leads to the development of an efficient activity.

In the S.C. HERVIS S.A. is a inability to seize and to adapt to the changes occurring in the environment, or because the action within the organizational structure of the company there is a specialized marketing department which makes the commercial manager of the company to dispose of the few and incomplete information about clients, competitors and its suppliers.

At the end of the SWOT analysis can come off a few conclusions: company Hervis has in large part by human resources, material and financial for the development of competitive products for both the domestic market and foreign market but also for carrying out a business profitable; Special attention will be given to retehnologizarii, the realization that quality-price ratio to be optimally, market study, meeting the needs of our clients and of their loyalty, as well as staffing for the optimal Exposition activities.

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Management of Personnel Fluctuations at the CN Romanian Post

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Abstract

The importance of the human being in the direction of a successful business is one that makes human resource management, a set of competences, skills and attitudes essential for all managers.

The mechanisms of a market economy requires effective management practice and performance at all levels, and this cannot be achieved without competent human resources, strong reasons for performance.

For any successful organization, human resources is the core around which gravitate around all other resources (financial, informational materials), and issues relating to recruitment, selection, training, professional development, evaluation, and reward and motivation are the main directions of human resources management within any company.

Keywords: human resource, succesful organization, competitive management
J.E.L Classification: M12

1. Introduction

Personnel/human resource management is the set of general and specific activities concerning safety, maintenance and effective use of personnel within the economic agents (companies, multinational companies, banks, insurance companies, etc.).

Competitive management of human resources is essential for the success of any organization. Human resources management responsibility lies with both the general manager and head of the Division of human resources, it has the responsibility to become familiar with the issue and on the procedures applied in this area by the performing companies, both in the country and abroad [2].Within this work present a pattern of recruitment, selection and hiring of human aresurselor in the company of the Romanian Post using a model interview, analyzing the satisfaction level of employees in the company.

2. Analysis of level of satisfaction at CN Romanian Post

Human resource development involved a process of training of people to perform the tasks needed by the organization. The problem is the recognition of the type of training that employees need. All decisions must take into account the training of submissive employee motivation training. There are a number of training techniques and elements necessary to ensure that a training program to be effective [3].

Assuring the necessary human resources represents one of the most important issues with which any organization is confronting, the manner in which such activity is being performed influencing the future results in a great extent.

An important condition for complete and efficient use of human resources is assuring them greater stability. The mobility of manpower appears both under the form of inputs and outputs, no matter the generating cause, and modify the scriptic number of personnel in a certain period. When analyzing the movement of human resources, a distinction may be performed between their circulation, resulted from objective causes – employment, retirement, decease, invalidity, disease, and fluctuation of human resources from causes unknown by the Company in a certain period of time – better working conditions, greater salaries, facilities awarded to employees [1].

As a result of the restructuring processes taking place at the level of the company, the HR Department has achieved in collaboration with companies specialising in training and evaluation a study to measure a number of parameters required in setting staffing policy.

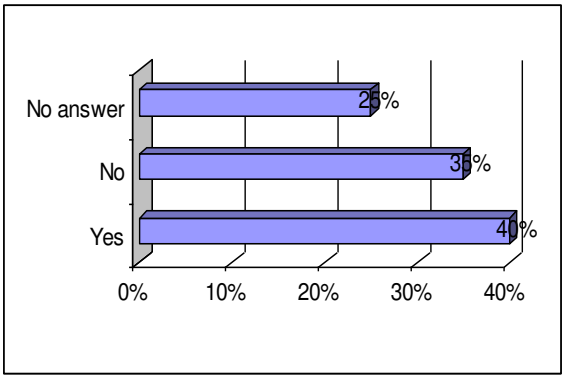
This was achieved by conducting extensive research that has taken place at the level of each Office, the Agency, through the distribution of the postal workers has a questionnaire which looked at the degree of training of the personnel, the motivation to work and working conditions.

Of data that has been collected as a result of this extensive research we selected a few that will specify how are precepute of employees motivation, personal and professional development in the company, according to several parameters that influences performance, as follows:

1. To what extent do you think that the Romanian Post fails to motivate you to achieve your objectives, purposes and objectives of the Organization?

The answer to this question is summarised in Figure 1.

Figure 1 Percentage of employees satisfied with the attainment of the objectives



Source: CN Romanian Post

A small number of participants (10%) is motivated by the Romanian Post to achieve personal goals related to profession and organization. This percentage is given to that person in the organization who can dictate and guide the activities according to its own interests. The highest proportion is given by those whose satisfaction is at a medium level (66%). This is not a thing at all because îmbucurator has the effect of a general dissatisfaction which can only be negative. In this section you can find people new staff employed with an average age of low expectations from the Organization are much higher. Is a segment that should be taken into account in carrying out the activity as a prerequisite in obtaining superior results. The final category of participants is the one whose interests and expectations coincide to a very small extent with those of the Organization (25%). The percentage of dissatisfied, makes us believe that there are errors in the selection and recruitment process, or as a result of inaccurate descriptions of the future job.

2. What factors do you think would improve your level of engagement within the CN Posta Romana? (in order of importance to insert page numbers from 1 to 5)

Table 1. Factors of motivation of personnel

Factor	**Place**
Salary	I
Rules of organisation	II
Recognition of professional achievements	III
The level of communication	IV
Professional achievement	V

Source: CN Romanian Post

Of the listed factors was removed very clear salary. As expected the physiological needs of everyday is related in a very large measure of getting a satisfactory salary, salary, which at the time was not to disappoint. Motivation level is closely correlated with the rules of organization existing in the company, which denotes the tendency of employees to have greater freedom of action in carrying out their tasks. An important factor in weight motivational a recognition on the part of owns the company management professional achievements of our employees. According to the communication on the horizontal and vertical is poor at the company level, requiring improvements to increase motivation of employees, a special importance with perform professionally to each employee.

3. The absence of factors which lead to the loss of your level of engagement within the CN Posta Romana? (in order of importance to insert page numbers from 1 to 3).

Table 2. Factors that cause the lowering of employment of employees

Factor	**Place**
The level of communication	I
Salary	II
Rules of organisation	III

Source: CN Romanian Post

The factors chosen are the same as the previous question but the order is different. Notice that a decrease in the level of communication within the Organization would be more organization than a reduction in salary.

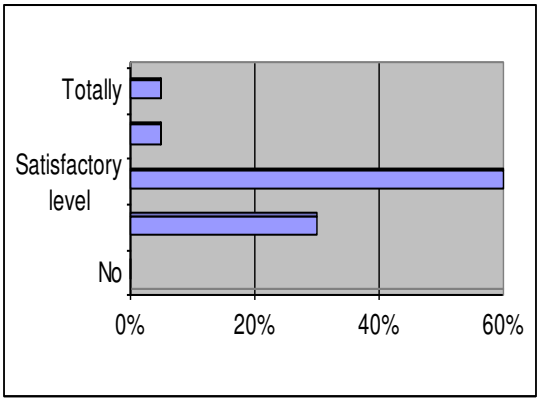
An impairment of the rules of the Organization would attract to itself a frustration on the part of employees, which would have the effect of an impairment of the results at the general level.

4. Do you think that your motivation occupy an important place in the objectives of the Organization CN Posta Romana?

The result of this questions is not at all encouraging for the organization. The percentage of those who believe that the organization is not involved in their reasoning (50%) requiring action on the part of the management organs. The involvement of the Organization in motivating staff shows that its interest is oriented to other objectives and to a much smaller extent, the staff [4].

5. Do you consider that the salary reflects the work done?

Figure 2 The percentage level of contentment in the remuneration of staff

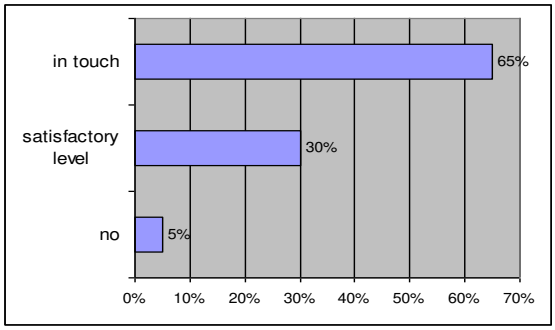


Source: CN Romanian Post

The proportion of those satisfied with the salary (10%) is given by the leading professionals in the organization. Unhappy in this case can be considered quite high (30%).

6. In the current conditions and in relation to the work performed, the salary will help to satisfy your daily needs?

Figure 3 The percentage of satisfaction of needs

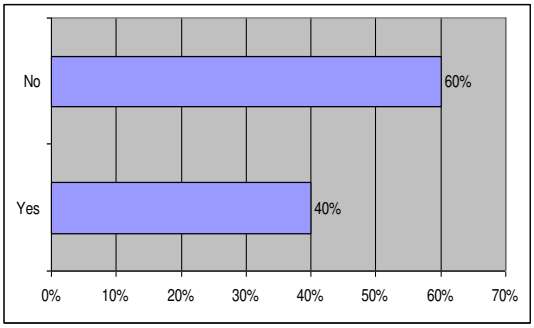


Source: CN Romanian Post

The answers to this question should coincide to a large extent with those of the previous question. But note that the 10% employees satisfied with their salary does not find it anymore. This is explained by the continuous growth of needs, at a pace that surpasses that of wage growth. The degree of discontent is explained by the large number of young people involved in the Organization, the youth who was at the time of solving specific problems: the Foundation of age a family, buying a House, etc.

7. You want to take advantage of bonuses and/or other cash benefits?

Figure 4 The percentage of employees who want bonuses

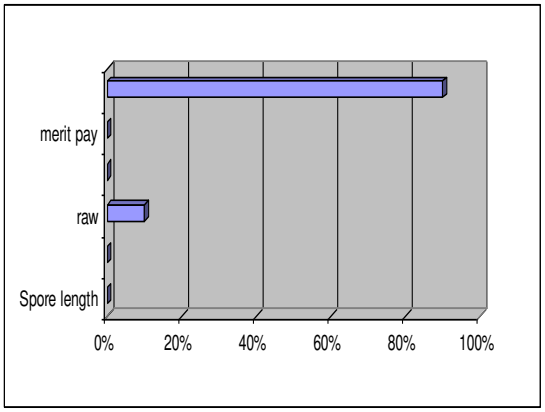


Source: CN Romanian Post

Increases are awarded according to seniority within the company and depending on the results obtained by the people working in the commercial Department. We believe that the granting of bonuses is not justified in the case of many people within the staff of TESA.

7.1 In the last 12 months that are salary increases that have benefited?

Figure 5 The level of increases awarded last year

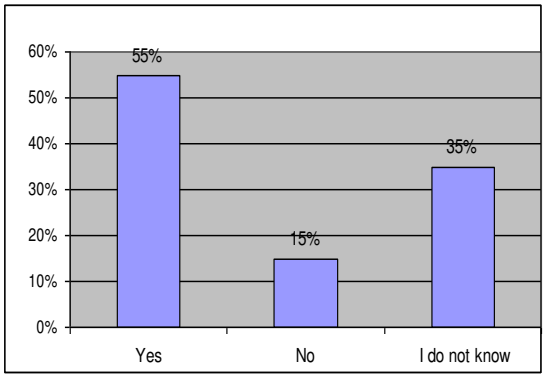


Source: CN Romanian Post

Under the prevailing wage increases amounts hote. However, the granting of which is made only to persons with a minimum of 1 year experience in the Organization and who were not prosecuted for disciplinary reasons during the year. This is a cause of frustration for people with an age less than 2 years and with very good results.

8. Do you consider that increases are generally granted in justifiable?

Figure 6 The perception of benefit increases



Source: CN Romanian Post

Note that 30% of staff did not know if the extra allowances are granted justifiably.

This result is due to a defective manner of presentation of the rules then provide extra allowances to its employees. In the commercial Department, a staff member considers that increases resulting from sales of products, are low in relation to the effort. This category formed by 15 percent. Most employees approve the distribution of increases.

8.1 Mention three reasons which justify the granting of increases?

Of the factors which justify the granting of increases we mention the following:

- direct involvement in solving all problems faced by the employee even if they exceed the strict sphere of the industry;
- supported work not only for themselves but also for the justification for strengthening the company's position and prestige of employee motivation for in its activity and the attainment of objectives;
- loyalty important contribution to increased sales in terms of the expected profit.

8.2 What are the reasons that you think does not justify the granting of increases?

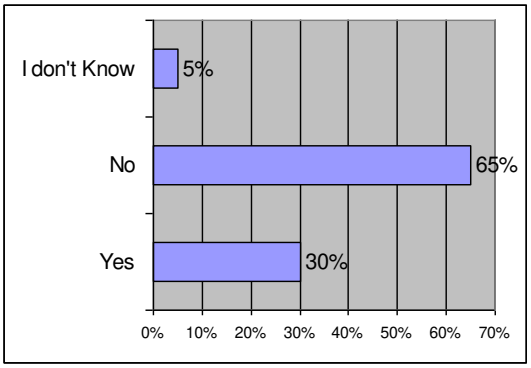
- criteria, assessment of subjective appreciation of the contribution to the development of non-company;
- scope of work of employees

In the current moment, it encourages the involvement of employees in certain moments of the work.

To maintain them in a constant voltage is required for the development of a system much more clearly to grant increases.

9. From the moment of recruitment organization have been promoted?

Figure 7 Passing percentage in the company



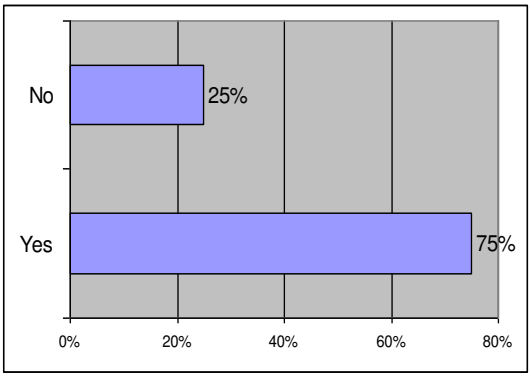
Source: CN Romanian Post

Some of the staff that fits in the percentage of 30% cannot speak of an effective advancement, a new post, but an increase in duties and responsibilities as a result of the development of the organization.

A percentage of 65% represents the personnel at the beginning of the work staff shall inform it on the same post, without exceed the duties and responsibilities set out in the job description at the time of hiring, and 5% of staff received in some tasks not part of those set out in the job description. These temporary delegari, without being accompanied by precise explanations have created confusion among the staff.

10. If you have not attended any training course, you want to follow one?

Figure 8. The percentage of employees who want to improve their



Source: CN Romanian Post

Staff development is one aspect that has been treated with great attention by senior management. However, you don't have to look like staff development is a permanent activity. Youth Development Department staff must record all specialists and managers within the company, which will include programs attended, and, especially, by what ended it. Managers create a plan for attracting and retaining people with the skills needed by the organization. Implementation of the plan shall involve the recruitment, selection, integration, training, rewarding, choosing the most appropriate benefits and evaluation of performance in order to assess if the objectives are reached. These activities represent the components of human resources management.

3. Conclusions

The importance of human resources for the work of a company is increasingly recognized and in the case of Romanian companies. Domestic enterprises have greatly recovered from this chapter.

Improvement of human resources management in their case should not be cut down just to promote new activities, to îmbunatatii those already charged.

CN Posta Romana has to begin to attract the workforce quality and qualification. It is true that faced the problem inherent to observe that this workforce has either not exactly necessary qualification, is not willing to accept the conditions offered by the company. The proposed measures are particularly counting on the human resources management, but their application will not only lead to a radical change in the situation. They need to be supported by other measures in the field of management, commercial. It is necessary for the Organization to obtain financial resources to be able to implement the proposed measures. Training process will have to begin with a re-evaluation of the concept of managers and subordinates over this area. Although it may seem simple at first glance, the old conceptions are hardly removed.

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Online Marketing for Small Strategic Thinking Farmers in Organic Farming

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Abstract

Organic farming aims at producing authentic respecting nature. Organic agriculture in the European Union is one of the most dynamic sectors. In recent years, organic farming sector in Romania has experienced strong growth by increasing the number of certified organic operators. Due to biodiversity, large agricultural areas, fallow land, fertile land, clean water reserves, Romania can be considered awaking giant of organic farming. The boom in organic production must be combined with the development part of the marketing process. Today increasingly more people are informing online. Strategic thinking farmers are aware that they must engage in online business promotion. Involvement provides small farmers a chance to address: to a larger audience, to particular groups, to communicate fast, to communicate on a personal basis with clients or potential customers.

Keywords: organic farming, social media, online marketing.
J.E.L Classification: Q 13, M31,

1. Introduction

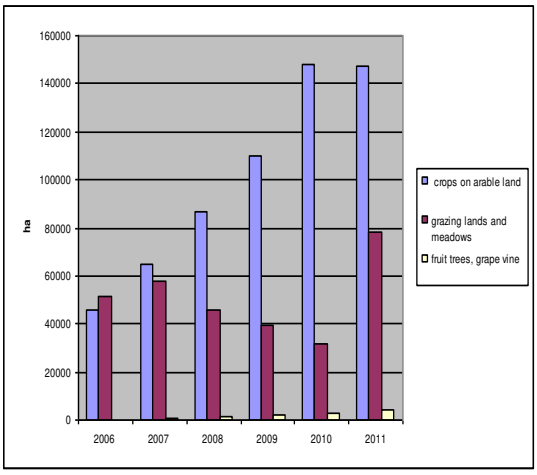
Strategic thinking involves thinking in real time and in perspective, discovering and exploiting opportunities. Small farmers with strategic thinking understand that the market for organic products present opportunities that intelligently exploited, will contribute to the farmer development. Organic agriculture develops. In the past three years has increased acreage organic producers due to support provided through grants. The Common Agricultural Policy subsidies will continue for organic farming. Many of those who grow organic are small farmers. In the market they compete with imported products from the European Union, provided in specialized stores, department stores or online. Supermarkets and hypermarkets have created districts dedicated to organic products, or have developed their own brand of organic products. Consumer interest in organic products is growing. Using online marketing is a smart way for small farmers to exploit current market conditions because in this way quickly reach consumers, offering fresh produce at reasonable prices by eliminating intermediaries additions.

2. Brief characterization of organic farming in Romania

In Romania organic farming experience a boom, increasing organic acreage and the number of manufacturers.

In the period 2007-2012, the area cultivated organically grown 3.5 times. In Romania, organic farming increases every year at a weighted average rate of 23%. In 2007, the total area cultivated by organic production was 131 448 hectares of which 46.865 surface area conversion and 84.585 certified organic. In the year 2012, the area under organic farming was 450000 hectares, while cultures from spontaneous flora (plants growing without cultivation) of certified organic area is collected from an area of about 520000 hectares. The areas in the ecological system increased by 45% in 2012 since 2011. [1]

Figure no. 1 Area planted according to the organic production method



Source: www.madr.ro

Although according to the rules of organic farming acreage has grown tremendously in the last two years the share of the area under organic farming holds the total agricultural area is only 1.6%. This places our country share among European countries with the lowest surface area organically grown. Romania surpasses just Bulgaria 0.5% and Malta 0.2%. The share of total utilised agricultural area (UAA) occupied by organic farming (existing organically-farmed areas and areas in process of conversion) in EU is about 5%.

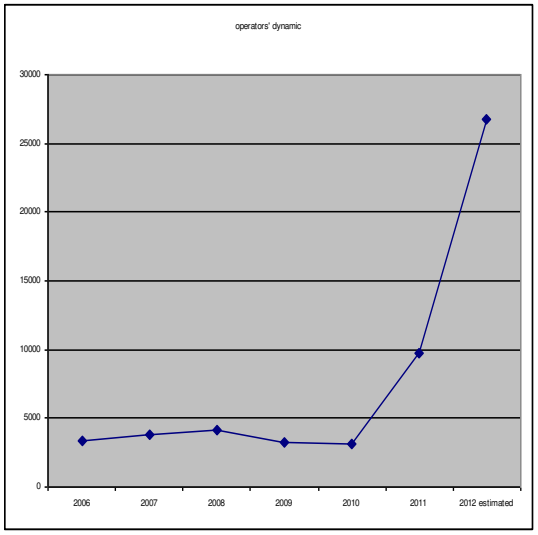
Table no. 2 Area under organic farming

Year	EU (27 countries)%	Romania %
2005	3.6	0.7
2006	3.7	0.8
2007	4.0	1.0
2008	4.4	1.0
2009	4.7	1.2
2010	5.0	1.3
2011	-	1.6

Source: http://epp.eurostat.ec.europa.eu

Since 2010 the number of certified operators in farming increased significantly compared to previous years. This was due, in particular, to existing support measures for the conversion period provided under art. 68 of the Council Regulation (EC) no. 73/2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers. Subventions granted in 2011 were about 3 million in 2011, and in 2012 of 4.5 million euro. [2]

Figure no. 3 Operator's dynamic



Source: www.madr.ro

In 2012, of the total of operators in organic agriculture, 103 are in the processing segment, 211 in the marketing segment and 26390 are agricultural producers. As regards the processed products sector in 2012 there was a significant increase in the number of processors (from 48 units in 2007 to 103 in 2012) and the assortment of organic products was much more diversified including: products processed from cow and sheep milk (feta, butter, cream, etc.), products processed from soy (milk, tofu, croquettes), sunflower oil, various assortments of bakery products (bread, pasta, cookies), products processed from rice, muesli, herbal teas, forest fruit juices, products processed from hemp seed, bee by-products (wax, pollen), products processed from pork (sausages, ham) and organic wine. [3]

In 2012 the registered processors in organic agriculture represents only 0.39% of total operators in organic agriculture. Much of products from organic production are exported. According to Ministry of Agriculture and Rural Development (MARD) 70-80% of organic products in Romania are exported annually. [3] Part of this came back to the country in the form of processed products imported from countries that have developed processing industry. So the weak point of organic agriculture is processed. A timely business during the current economic situation is the application of modern technologies in processing natural food products. [4]

The surface of a holding in organic agriculture in vegetable production ranges

from about 100 square meters, for vegetable cultivation in solariums, up to ca. 2000 hectares for field crops. The average surface of a holding in 2011 was about 20-22 hectares. [3] This shows that most of those working in organic farming are small producers, small farmers. Obviously their financial resources are limited, so money are use to promote participation in fairs.

3. Tools of online marketing

Because we live in the internet age many people, when they want to purchase a product use the online environment to gain information on price, quality, origin, etc. According to a study conducted in 2010 the Internet has a key role to document organic products, 75% of respondents said they will inquire online about organic products. [5] Due to these conditions, even the small farmer can not neglect online marketing. Any farmer who wants to be successful in selling organic products is bound to create an on – line presence. An effective way would be to create a website. But to create a professional website requires financial resources, resources that small farmers do not have, and when they have it, not always willing to direct them towards the virtual world. In the tech of today there are many ways that small farmers can promote their products and activity, to potential buyers, for free or at low-cost. Among these options are: sending emails, creating a Facebook page, blogs, uploading multimedia files, registration of business at the location-base.

- **Sending e-mails**. E-mail is the main mode of communication in professional environments. When a person buys a product the farmer may require the email address of the person, to be able to provide information about his work. In this way, it is left to the discretion of the client whether to accept or not to receipt of information from the farmer.

The farmer must create an email address that incorporates his business name. If the business is bearing his name the farmer would have to enter into a word to refer to organic products. Customer should not be intoxicated with emails or too much information in each e-mail. A message sent once to two weeks will not overload the receiver. Also, messages sent must contain useful information for the recipient. A customer does not need to be informed about the time of sowing, but will be interested in harvesting. Product prices, promotions, places where you can buy are useful information for customers.

- **Using Facebook** - Facebook is a social networking site that let users to: store pictures, videos and information and to share with others. It also allows posting comments, questions and answers. Facebook is free to use. Demographic information published in April 2013 offered the following snapshot of Facebook users in Romania: total of users 5944080, penetration of online population 69.28%. The largest age group is currently 25-34 years with total of 1 792 180 users, followed by the users in the age of 18-24**.** Male/Female User Ratio on Facebook in Romania is 1/1: 50% male users and 50% female users. [6] The large number of users makes Facebook a formidable marketing tool. Any farmer can register as a Facebook user. It is not difficult. Facebook provides its own step-by-step guide to creating a business page. A Facebook page can be created for a business, place, company, organization, brand or product, in order to connect with customers or potential clients. [7] Facebook can be accessed from any computer (a desktop or a laptop) or from an mobile device. On Facebook page a farmer can publish business name, address and contact details. It can also make a brief description of his activity and the organic products he offers. Because pictures and videos are a major element of Facebook's attractiveness the farmer can post photos of the products and production methods. In this way potential clients can learn how products are grown without the need to come on the fields or orchards. Facebook page makes it a useful tool for promoting if farmer regularly post new materials (prices, announcements, events photos, videos). Since Facebook page allows posting comments and asking questions is very important to respond quickly to any questions and comments, positive or negative. It is possible that negative comments and questions left unanswered to turn into negative publicity. [8] For positive comments farmer should address thanks. For negative comments and questions responses are necessary to be prompt. In this way the farmer show that has nothing to hide, and so builds a positive reputation. Facebook page is

an efficient way to promote products or business because it provides real-time information. It can also be used as a research tool. The farmer can run a Facebook contest or conduct a survey.

- **Creating a blog** – a blog is site that includs a series of 'posts' about farmer's interests. A blog allow farmer to promote his business, get in touch with clients and potential customers, to get feedback regarding his activity. Those who read the blog have the opportunity to make comments, positive or negative. Comments can be read by farmers but also by other visitors to the blog. How comments are handled contributes to potentate or reduction of confidence in farmer′s products. Favorable comments builds trust to potential customers in the farmer's products, and negative comments gives the chance to the farmer to improve and develop products offered or business. So, readers and customer comments, provide fast feedback of business and products. With the blog information can be updated quickly. A blog allows exchanging links with other blogs, hence, a greater dissemination of information. Farmers are good at sowing and raising product, are not trained in IT. However, blog is easy to use. Farmer writes his ideas and post it to blog. He needs to push a few buttons. Currently there are blog platforms which allow bloggers to quickly customize the look of their blog without having to know about website programming. Blog platforms use templates which can allow bloggers to get started quickly and concentrate on content, rather than manage technical aspects of website development. They are ideal for small businesses. Blogging platforms that alow farmers to create blogs are: WordPress Blogger or Tumblr. [9] For a blog to be followed the information must be refreshed and updated frequently, at least weekly. Business blogs are more effective when used in cooperation with other social media: Twitter, Facebook, You Tube. Placing on the blog buttons like: retweet and Facebook Share, including a Facebook like box to blog contribute to disseminate information provided and therefore increase the number of potential customers.
- **Uploading videos to YouTube** – is a simple way to attract potential clients. All over the world 800 million people visit YouTube every month. [10] YouTube lets farmer to show his organic products and techniques in action. Uploading videos to You Tube is completely free. Farmer can create a You Tube channel personalized with farmer′s name, logo, background or other elements. On the channel farmer can keep track of channel views, video views, subscribers, and more. [10] Using information available farmer can improve products, his videos and channel. A video show to potential clients that the farmer is a person who knows what he's talking about, he knows to cultivate organic products, he knows his business. Customers are satisfied that the person selling is the same person that cultivate and grow products. To attract potential customers (views), farmer must use some keyword tags when uploading video. Words like: organic, eco, bio, healthy, natural, cultivated in Romania, made in Romania attract people interested in organic food, people that can turn into farmer′s customers. Every video uploaded should have a goal related to farmer′s business.
- **Using location-based marketing** – by registration of business in Google Places or Yahoo!Local. 97% of consumers search for local businesses online. Google Places for Business gives access to free tools that help business get online, be found on Google Search and Maps and get closer to customers. [11] Adding listing to Google Places for Business is free. With a Google. It is possible to add images and videos, can display a running program, types of products. [12] Registration of business in Google Places system will make the farmer to be found more easily by potential customers. In addition, when used search engine Google for a search, the farmer will be better positioned in the list of offered.

4. Conclusions

Increase organic acreage and number of operators in organic farming is only the first step in transforming Romania into an organic market player. Investments in processing and promotion are necessary to move from the stage of the source of raw materials for industry to a pillar of bio industry. Organic products market is in constant growth. In contemporary economy customers are becoming more knowledgeable and have

available electronic information. One way farmers can reach potential customers quickly and convincingly is through online marketing. Like any activity, growing products or animal breeding, involvement in the online requires planning, setting objectives, monitoring. If there is not logic involved in online marketing activity will lead at wasting a lot of time and seeing very little return. Although most of the online promotional methods does not require financial resources because they are free, it require a different type of resource, time. Social media has built around frequent updates, so is not sufficient to create a Facebook page or a blog. To acquire clients information presented must be fair and updated frequently, otherwise customers may think that the farmer no longer dealing with organic products.

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The Analysis of the Total Quality Management Effects in S.C. Cupidon S.A. from Saturn Resort and their Impact on the Organization Competitiveness

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Abstract

Quality is a strategic tool for global management of the organizations that determine, in the highest level, the competitiveness of products / services / firms / companies, domestically and internationally. Customer and staff satisfaction, responsible approach of the society requirements can be ensured through a proper leadership in all organization processes according to defined policies and strategies, with the integration of basic principles of TQM. The top management of S.C. Cupido S.A. has decided to implement a strategy based on EFQM model, oriented towards customer's satisfaction, staff satisfaction and a greater community integration of organization. It can be appreciated that the degree of implementation of the approach adopted by the organization, in terms of determinant factors, is 81% of its potential (if considered all relevant areas and activities). The degree of extending of the obtained results, it covers many areas and relevant activities undertaken by S.C. Cupido S.A. (68.5%).

Key words: EFQM Excellence Model, Romanian Model of Business Excellence, Total Quality Management, determinant factors, results.
J.E.L. Classification: M 14.

1. Introduction

Customer satisfaction is a key issue in terms of service quality evaluation. Customer satisfaction depends on the balance between the expectations that customers have and what they actually experience in terms of products and services of that company. Consumers will be satisfied when will receive a service / product that exceed their expectations. Quality offersed by companies differs from quality perceived by the consumers. Reducing the gap between the two grades allow customer satisfaction achievement [1].

Excellence Model of the European Foundation for Quality Management (EFQM) was introduced in the early 1990s to serve as a framework for assessing organizations for the European Quality Award. It is now most commonly organizational model used in Europe and underlies the vast majority of national and regional Quality Awards, including the Romanian Quality Award JM Juran [2].

EFQM Excellence Award is not a standard, but rather a benchmark assessment and a management framework [3]. In practice, this model can be used:

- To recognize and promote the most effective customer experience.
- To develop organizational vision and future goals in a tangible and measurable way.
- To achieve efficiency in all processes of the organization: resource allocation,

generating business plans and management priorities.
- To identify and understand the systematic nature of the business, key links, cause-effect relationships.

The Fundamental Concepts underlying the Excellence Model are:
- Results orientation. Excellence means getting results that delight all the organization's stakeholders.
- Customer orientation. Excellence means creating sustainable value for clients.
- Leadership and Perseverance. Excellent means visionary, charismatic and tenacious leadership.
- Management based on processes and data. Excellence means managing the organization with a set of systems, processes and interdependent and related data.
- Staff involvement and development. Excellence means maximizing the contribution of employees through their involvement and development.
- Learning, innovation and continuous improvement. Excellence means discussing the current situation and put into practice the change through learning, innovation and recovering the improvement opportunities.
- Development Partnerships. Excellence means developing and maintaining partnerships that bring value.
- Social Responsibility. Excellence means going beyond the minimum legal requirements to operate the company and the effort to understand and respond to stakeholder expectations of society [2].

2. The Romanian Model of Business Excelence

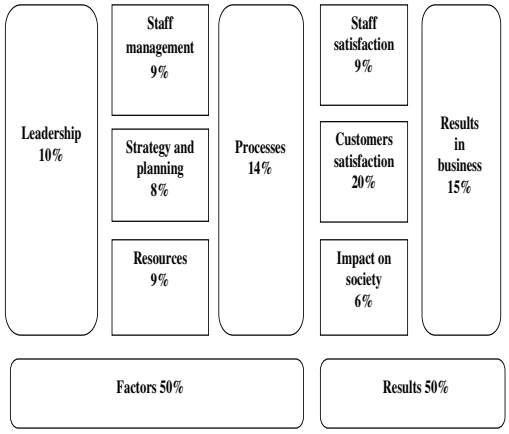
The Romanian Model of Business Excellence - Romanian Quality Award in particular - is conceptually and functionally similar to European Model of Excellence in Business used by EFQM to assess candidates for European Quality Award.

The Romanian Model of Business Excellence is a non-prescriptive framework based on 9 criteria (figure 1). Five of these criteria refer to „Determinants factors" and four to „Results". Criteria regarding the „Determinants factors" evaluate the activities undertaken to achieve the „Results". „Results" are caused by „Determinants factors" which are continually improved based on feedback from „Results". The model allows various approaches to obtain excellent results in all aspects and is based on the following premise: Company Leadership lay the foundation for Policy and Strategy, and these are implemented through People, Partnerships, Resources and Processes, in order to obtain Excellent Results, both in key performance areas, as well as on the Clients, Staff and Impact on Society [2].

The main objectives of the Romanian Quality Award are:

A. Orientation and focusing the managers and employees attention from Romanian organizations - in the most relevant and effective way – on the activities involved in the implementation of Total Quality Management (TQM), and on beneficial role of TQM.

Figure 1. The Romanian Model of Business Excellence based on EFQM Excellence Model



B. Foster companies and individuals towards the development of their concerns for continuous improvement of the quality.
C. Demonstration of beneficial results that can be obtained - in all aspects of organization activities - by implementing the principles of TQM [4].

The fundamental logic of this model - applied since 2000 to assess candidates on Romanian Quality Award - is: exceptional business results, characterized by customer and employee satisfaction through an expected impact on society and a positive impact effect on the organization, will be

achieved only through a management able to inspire, support and encourage a specific organization culture of Total Quality Management, properly directing employees and ensuring, through appropriate strategy and planning, an appropriate management of resources and processes [4].

3. S.C. Cupidon S.A. concerns regardind the continous improvement of their products or services

Quality of products and services offered by a tourism enterprise is crucial in increasing its market competitiveness by attracting new customers. Realizing this aspect the top management of S.C. Cupid S.A. is concerned about the continuous improvement of its products and services aimed to obtain the Romanian Quality Award – Model of Business Excellence.

Following the diagnosis made at the S.C. Cupid S.A. in 2011 and respectively 2012 has been highlighted effects of total quality management in the analyzed period and a number of issues that should be improved in the future (tables 1-9).

Table 1. Subcriteria and performance indicators regarding the S.C Cupidon S.A. leadership

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
LEADERSHIP INDICATORS				
a. Managers obviously are involved in promoting within the institution of the Total Quality Management (TQM) principles, especially on the following areas:	**48**	**43**	**4**	**1**
- The quality of the organizational structure of the institution; concordance between the structures adopted and institution operation;	12	12	0	0
- Qualifications, skills and experience of the management members of the unit and of its departments;	12	12	0	0
- Their ability to correctly interpret laws affecting the organization, to make decisions, to plan their acts and others;	12	10	2	0
- The quality of communication between the various governing bodies, staff and operational;	12	9	2	1
b. Managers support and get involved, providing resources and assistance.	**20**	**15**	**4**	**1**
- How to fulfill managerial roles, behaviors roles and management styles, their relevance to achieving mission objectives and ensure unit performance;	9	7	2	0
- Ways of working, competence and efficiency of administrative and technical services;	11	8	2	1
c. Managers personally involved in relationships with customers, suppliers and other organizations;	**12**	**11**	**1**	**0**
d. Managers recognize and appreciate the efforts and merits of staff	**30**	**26**	**4**	**0**
- Professional ethics of governing body, the relationship between first-line managers, mid-level (intermediate) and higher level managers, between authority, autonomy and centralization in unit operation;	12	12	0	0
- Strengths and weaknesses in the organization, operation and management of the institution;	9	5	4	0
- Projects and programs to improve the organization and the management.	9	9	0	0
Total	**110**	**95**	**13**	**2**

Evaluation of each criterion regarding the determinant factors analyzed was performed as recommended by EFQM, depending on the approach taken by the organization and it degree of implementation.

Table 2. Subcriteria and performance indicators regarding the S.C Cupidon S.A. staff management

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
STAFF MANAGEMENT INDICATORS				
a. Planning and improving of human resources:	**33**	**25**	**7**	**1**
- Implementation of personnel policy adopted in relation to the mission and objectives of the organization;	11	9	2	0
- Concerns to improve personnel policy;	11	8	3	0
- Application of criteria for recruitment, appointment, promotion and so on, of staff;	11	8	2	1
b. Supporting and developing staff competencies:	**22**	**18**	**4**	**0**
- Effectiveness of professional development of staff and promotion procedures, including the system of selection for leaders at all levels;	11	8	3	0
- Degree of knowledge and acceptance by personal of the criteria used in assessing performance;	11	10	1	0
c. If the staff of institution agrees about the previously established objectives and regularly assess their own performance.	**11**	**9**	**2**	**0**
d. If the staff of institution is involved, support and ensure delegation of responsibilities and is awarded being recognized their contribution to:	**22**	**15**	**6**	**1**
- Fair and reasonable determination of tasks, duties and responsibilities of staff;	11	8	3	0
- The efficiency of pay and benefits systems;	11	7	3	1
e. If the institution establishes and maintains dialogue with its staff; if the institution is concerned about its staff:	**22**	**16**	**4**	**2**
- Achievements and failures in personnel policy;	11	8	2	1
- Perspectives, personnel policy directions in order to protect employees and maintain institutional quality of the organization.	11	8	2	1
Total	**110**	**83**	**23**	**4**

Table 3. Subcriteria and performance indicators regarding the strategy and planning of S.C Cupidon S.A.

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
STRATEGY AND PLANNING INDICATORS				
a. Policy and strategy are based on adequate and detailed information:	**60**	**48**	**10**	**2**
- Measure of adequacy and enrollment of the mission and goals of organization in general demands of the field;	12	9	2	1
- The extent to which planning process takes into account the state plan (if is any) and is compatible with it;	12	9	3	0
- How is correlated the plan with the annual and multi-annual budgets?	12	10	2	0
- Does the organization have a sufficient database to perform properly the planning activity?	12	11	1	0
- Does the organization have a planning mechanism for using the resources and preparing the future changes or developments of the institution?	12	9	2	1
b. Policy and strategy are developed:	**60**	**47**	**12**	**1**
- How clearly are expressed and if there is ambiguity in the mission and objectives statement;	12	10	2	0
- How should the priorities be arranged depending on the mission and objectives?	12	9	3	0
- To what extent are registered pressures and how resist the organization to such pressures of random or inappropriate development of its mission;	12	9	3	0
- The correlation between the actions regarding products and services with the mission and objectives of the organization.	12	9	2	1
- The plan of activities of the institution derives organically from its mission?	12	10	2	0
c. Policy and strategy are communicated and implemented:	**24**	**21**	**3**	**0**
- Mission and objectives are well understood within the organization? Are they properly found in the documents of the organization and its practical activity?	12	11	1	0
- Are registered concerns for self-assessment of the modality to achievement the missions and institutional objectives and to what extent this is done?	12	10	2	0
d. Policy and strategy are periodically actualized and ameliorated:	**48**	**39**	**9**	**0**
- There are components of the mission and system of goals that are not well accomplished?	12	9	3	0
- The extent and manner of employment of planning officers in implementing the plan;	12	9	3	0
- What strengths and weaknesses were identified?	12	11	1	0
- How does the organization propose to remedy the weaknesses identified?	12	10	2	0
Total	**192**	**155**	**34**	**3**

Table 4. Subcriteria and performance indicators regarding the S.C Cupidon S.A. resources

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
RESOURCES INDICATORS				
a. Foreign partnerships are managed	**44**	**35**	**8**	**1**
- Providing the necessary staff, competent and stable for managing external partnerships;	11	9	2	0
- Providing and managing the adequate resources to carry out the organization's external partnerships;	11	8	2	1
- Ensuring customers satisfaction;	11	8	3	0
- Stabilizing the relationships with organization suppliers.	11	10	1	0
b. The financial resources are managed:	**48**	**37**	**9**	**2**
- Consistency of the correlation between financial resources, mission and objectives of the organization;	12	10	2	0
- Mechanisms for allocating financial resources; the "productive" distribution of the financial efforts;	12	9	2	1
- Financial planning and satisfaction of the present and anticipated needs of programs and services;	12	9	2	1
- Strengths and weaknesses in financial resources field, measures to remedy weaknesses; major orientations and future projects.	12	9	3	0
c. Buildings, equipments and materials are managed	**36**	**28**	**7**	**1**
- The correlation degree between the dimensions, characteristics and specific of the infrastructure with organization mission and objectives;	12	10	2	0
- The extent to which the material resources, equipments and facilities are adequate to the contemporary exigencies of the activities;	12	9	3	0
- Necessary comfort and functionality level of technical facilities, equipments and other components of the organization's infrastructure;	12	9	2	1
d. The technologies are managed	**12**	**9**	**3**	**0**
- The extent to which the technology used is appropriate to the contemporary requirements and to the general objectives of the organization;	12	9	3	0
e. The informations and the knowledges are managed	**33**	**28**	**4**	**1**
- The sizes, structure and capacity of the services and of the information and documentation tools;	11	9	1	1
- Providing the communication and of the electronic tools;	11	10	1	0
- Implementing the concept of computerization;	11	9	2	0
Total	**173**	**137**	**31**	**5**

Table 5. Subcriteria and performance indicators regarding the S.C Cupidon S.A. processes

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
PROCESSES INDICATORS				
a. *Processes are systematically designed and managed:*	**65**	**59**	**2**	**4**
- Process capability;	12	12	0	0
- Promptness in products delivery;	9	8	1	0
- Response time to commands;	6	7	0	0
- Deviations;	8	6	0	1
- Innovation times;	7	7	0	1
- Adaptability;	9	6	1	2
- Costs related to quality;	5	5	1	0
- Saving.	9	9	0	0
b. *The products and services are designed and developed based on customer needs and expectations.*	**72**	**59**	**12**	**1**
- Determination of the requirements related to the product / service (customer requirements, legal requirements, etc.);	12	9	2	1
- Reviewing the requirements related to the product to determine if the organization is able to meet these requirements;	12	11	1	0
- Establishing an appropriate system of communication with the customer for an operative solution to the issues that may arise in the interpretation of its requirements.	12	9	3	0
- Planning the design and development of product / service so as to fully satisfy customer requirements;	12	10	2	0
- Achieving the product / service monitoring process parameters and product characteristics, to meet customer requirements;	12	11	1	0
- Monitoring the information regarding the degree of assurance of customer's satisfaction.	12	9	3	0
c. *Providing after – sales assistance to the product and services:*	**24**	**19**	**5**	**0**
- A proper conducting of the delivery and post-delivery services activities;	12	10	2	0
- Establishing an appropriate system of communication with the customer for an operative solution to the issues that may arise after products / services sale.	12	9	3	0
d. The customer relationships are managed and enhanced	**24**	**18**	**5**	**1**
- Identification of the customer requirements related to the product / service;	12	9	2	1
- Customer satisfaction;	12	9	3	0
- Adequate system of communication with the customer.				
Total	**185**	**155**	**24**	**6**

Table 6. Subcriteria and performance indicators regarding the S.C Cupidon S.A. staff satisfaction

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
STAFF SATISFACTION INDICATORS				
a. Measurements of staff perception:	**9**	**8**	**1**	**0**
- The staff perception about the institution.	9	8	1	0
b. Performance indicators:	**43**	**31**	**8**	**4**
- Deviations from the normal working program;	11	8	0	3
- Staff fluctuations;	11	7	3	1
- Staff security (safety);	14	11	3	0
- Improving program of the staff satisfaction.	7	5	2	0
Total	**52**	**39**	**9**	**4**

Table 7. Subcriteria and performance indicators regarding the S.C Cupidon S.A. customer's satisfaction

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
CUSTOMER'S SATISFACTION INDICATORS				
a. Measurements of customer's perception:	**9**	**6**	**2**	**1**
- Customer's perception about the institution.	9	6	2	1
b. Performance indicators:	**39**	**27**	**5**	**7**
- Complaints from customers;	6	5	1	0
- Relationship with the client;	10	4	2	4
- Global customer's satisfaction;	14	12	0	2
- Improving program of the customer's satisfaction.	9	6	2	1
Total	**48**	**33**	**7**	**8**

Table 8. Subcriteria and performance indicators regarding the S.C Cupidon S.A. impact on society

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
INDICATORS REGARDING THE IMPACT ON SOCIETY				
a. Measurements of the perception:	**10**	**7**	**2**	**1**
- Perception of the community regarding the institution.	10	7	2	1
b. Performance indicators:	**20**	**11**	**6**	**3**
- Results of the impacts assessment of the organization on community life;	10	6	3	1
- Complementary measures undertaken by the institution in order to improve its impact on community life.	10	5	3	2
Total	**30**	**18**	**8**	**4**

Table 9. Subcriteria and performance indicators regarding the results in business of S.C Cupidon S.A.

SUB-CRITERIA AND PERFORMANCE INDICATORS	Number of answers	TQM effect		
		+	-	0
INDICATORS REGARDING THE RESULTS IN BUSINESS				
a. Results regarding essential performances:	**30**	**24**	**6**	**0**
- High quality level of products /services offered by the organization;	10	8	2	0
- Correct ratio of quality / price of products / services offered by the organization;	10	9	1	0
- Continuous improvement of quality of products / services offered by the organization.	10	7	3	0
b. Indicators regarding essential performances:	**40**	**34**	**6**	**0**
- Market share;	11	9	2	0
- Turnover / employee;	12	12	0	0
- Capital rentability;	9	7	2	0
- Sales rentability.	8	6	2	0
Total	**70**	**58**	**12**	**0**

Approaching refers to the methods adopted by the institution to meet each point of the criteria, and the evaluation was carried out taking into account:

- Suitability of the methods, tools and techniques used in relation to the approach taken;
- The extent to which the approach is systematic and based on prevention;

- The extent to which the approach taken was integrated by the working methods adopted by the organization;
- The existence of analyses / periodical systematic evaluations;
- Implementing improvements based to the results of this analysis / evaluation.

The implementation degree is the extent to which has been implemented the adopted approach (compared to its full potential), and the evaluation was performed according to a proper and effective implementation of the approach:

- Vertically, at all hierarchical levels of the institution;
- Horizontal, in all areas and activity sectors;
- In all processes involved;
- In all services involved.

Evaluators assessed separately the approach and respectively it implementation degree, in percents (Table 10) and expressed the overall result, as the shares indicated by the EFQM model.

Table 10. S.C. Cupidon S.A. determinant factors evaluation

Determinants factors	Approach	Implementation degree, [%]	
		Global	According EFQM
Leadership (10%)	- The organization has strong evidences regarding systematic and solid approach, and respectively, prevention systems. - There are clear evidences of development and improved efficiency as a result of regular evaluations. - There is a good integration of the adopted approach in normal operation and planning activity.	86.4	8.64
Staff management (9%)		75.5	6.80
Strategy and planning (8%)		80.7	6.45
Resources (9%)		79.2	7.13
Processes (14%)		83.4	11.68

Evaluation of each criterion referring to the results was performed according to the excellence degree and respectively, to the extending degree of obtained results.

Evaluation of excellence degree of obtained results was based on:

- The existence of positive trends and / or good performance (a certain time interval);
- Reporting to the organization objectives.
- Comparison with other competing tourism enterprises, comparable in terms of performance with S.C. Cupidon S.A.;
- The existence of evidences demonstrating that the mentioned results were effective obtained based on proper approach.

Evaluation of the extending degree of the results was performed according to:

- The extent to which the results "covering" all relevant activity fields of the institution;
- The extent to which there are full series of results for each sub-criterion considered;
- The extent to which it was understood and presented the relative importance of each sub-criterion.

The evaluators assessed separately the excellence degree and respectively, the extending degree of the obtained results, in percents (Table 11) and then calculated the overall result.

Table 11. S.C. Cupidon S.A. results evaluation

Results	Degree of excelence	Extending degree, [%]	
		Global	According EFQM
Staff satisfaction (9%)	- Many results show positive trends and / or continuous good performance on a period of at least 3 years; - In many areas you can make favorable comparisons with predetermined objectives; - Many results represent the effect of the approach.	75.0	6.75
Customer's satisfaction (20%)		68.8	13.76
Impact on society (6%)		47.4	2.84
Results in business (15%)		82.9	12.44

According to the analysis can be appreciated that the degree of implementation of the approach adopted by the organization, in terms of determinant factors, is 81% of its potential (if considered all relevant areas and activities). Regarding the extending degree of obtained results, it covers many areas and relevant activities undertaken by S.C. Cupid S.A. (68.5%). It is recommended to continue the organization approach primary oriented on results, which will take the form of ensuring continuous improvement of products / services quality to meet customer requirements, but also on improving the organization's impact on society.

The main direction of action established based on the diagnostic analysis, which will be implemented in summer 2013 are the following:

- Maintaining the position on the market;
- Increase length of stay;
- Improving the general environment by expanding green spaces and walking paths, creating an optimal space for sociability (open meetings);
- Improving the comfort degree of actual receiving structures at a level corresponding to 4 and 5 stars categories;

- Reviewing the diets by reducing their severity and also their diversification;
- Strong development of recreational and entertainment activities;
- Development of prophylactic area;
- Diversification of the tourism products with products such as „form restoration and health";
- Protecting and enhancing the environment;
- Relocation of charges based on the quality level;
- Pursuing a higher quality of products and tourism infrastructure;
- Reviewing the personnel programs through technical training taking into account all the new technologies and equipment and management training using the modern systems in the tourist activity;
- Launching a promotion program to improve the company image;

4. Conclusions

The EFQM model is based on the principle that customer's and staff satisfaction and also integration of the organization in the life community are obtained through leadership, policy and strategy, personnel management, resources and processes. Ultimately, all this leads to excellent operational results.

The advantages of this approach are huge. In particular, it is a rigorous and structured approach to improve the institution state, an objective evaluation based on a number of criteria widely accepted in Europe, an assessment based on facts and not on individual perception, a way to reach a coherent orientation and consensus on actions to be taken by each employee, from the same excellence vision.

The analysis conducted in S.C. Cupidon S.A relived that the degree of implementation of the approach adopted by the organization, in terms of determinant factors, is 81% of its potential, taking into consideration all relevant areas and activities. Regarding the extending degree of obtained results, it covers many areas and relevant activities undertaken by S.C. Cupid S.A. and also some activities need to be improved. This is the reason why the top management of S.C. Cupidon S.A. identified and established the main directions which will be implemented in summer of 2013.

It is recommended to continue the organization approach primary oriented on results, which will take the form of ensuring continuous improvement of products / services quality to meet customer requirements, but also on improving the organization's impact on society.

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The Trends in Banking Management of Romania

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Abstract

In a banking environment such as Romania's, constantly changing and subject to the pressure of a fierce competition, all the attention of the banks management teams is oriented towards the costs and their possible reduction in regard to maximizing the profit.

In our opinion the main challenge for the Romanian banking system is to compete to reduce bank costs - as far was a frantic competition between banks mainly aiming at filling the market share. Also consider that 2013 could be a more difficult for the banking sector in Romania.

The profitability of banks is likely to fall under pressure to reduce interest margins and competition, increase investment costs for expanding networks, but also the global liquidity crisis.

Key words: banking market, competition, credit, deposit
Clasificare J.E.L.: E59, F33, G21, G24

1. Introduction

In Romania, the competition continues to grow, new banks foundet and therefore, the customers have the opportunity to choose of the banks that they will meet their specific needs in terms of financial-banking services.

In the financial-banking sector, services and products are all similar in their effect, therefore a bank must maintain competitive advantage.

Quality of services is an area in which an organization is able to act and is and key to future developments. One of the secrets to insure a good service to the customer is understanding the needs and desires wishes it.

The main objective of the banking market is to offer additional benefits to the banks customer, advantages will result from two important consideration [1]:

- Tariff's most financial services should fall as a result of higher domestic market. Competition will be the main factor of a sale, although can be envisaged reducing profit margin of the bank;
- The customer will benefit from increasing freedom of choice by targeting the institutions that offer lower prices or by obtaining the services that were not previously available.

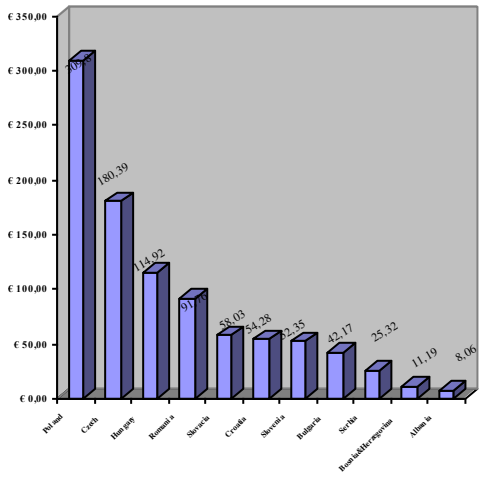
2. Romanian banking market overview

Total bank assets from Central and Eastern Europe (CEE) had the last year, similar to 2010 and 2011, a generally positive inclination although the European economy has been affected by the recession. [2]

Romania remains the fourth largest banking market from CEE the total value of bank assets is 91,76 bilion EURO slightly above the average for Central and Eastern Europe for the first time in the last years.

Our country has been surpassed by countries like Polond, Czech and Hungary. (Figure1)

Figure 1. Total banking assets CEE
-bn EUR-

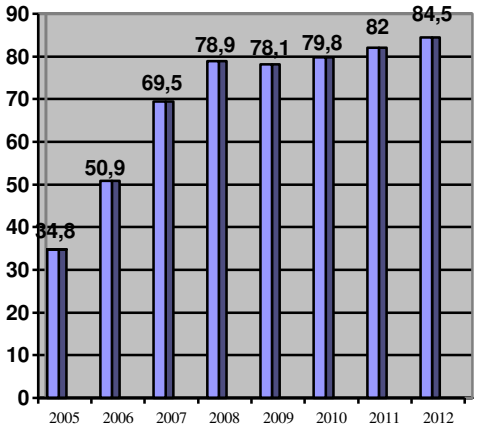


Source:www.ecb.int

Increasing inclination was determined in principal, for the secound consecutive year, by Poland, who stays a leader with a total bank assets of 309,80 bilion EURO being a powerful engine of growth, if we consider the market size of the area. In the same time, countries like Croatia, Slovenia and Bulgaria, recorded insignificant increases on the value of bank assets for the year 2012.

The activity of credit institutions from our country continues to be moderate in 2012 as shown by the evolution of total net assets increased by only 2,8 bilion EURO. (Figure 2)

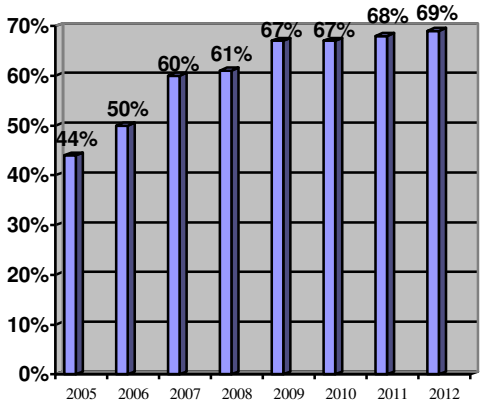
Figure 2. The evolution of the aggregated bet bank assets
-bn EUR-



Source:www.bnro.ro

Given the international economic and financial context, years 2011 and 2012 can be characterized by a moderation of activity in the banking system from Romania, it was confirmed by total net bank assets development as well as they share in GDP. (Figure3)

Figure 3. The evolution of the share net bank assets/GDP



Source:www.bnro.ro

Regarding the bank loans in the Central and Eastern Europe it increased by approximately 13% in nominal terms compared with the values recorded in the previous year.

Their distribution according to the destination is not equable valid for all countries in this area, there are significant differences.

So if countries like Slovenia, lending activity focuses on the corporate sector, at the other end are countries such as Romania where the attention is focused on the retail and consumer loans register a higher level.

Credit institutions in our country had to face pressures caused by fierce competition recorded in the banking sector and because the parent bank reduced the volume of funding.[3]

Difficult situation recorded in the groups levels and their decision to focus on banks markets where is operating the banking institution mother determined foreign owned banks operating in our country to reduce the exposure to the Romanian banking sector, which can put pressure on local subsidiaries in Romania. [4]

Total bank loans continued on a decending inclination in 2010, the volume of granted funding was 61,2 bilion EURO with

about 3.3% smaller then the previous year. The main causes who stand on this development were determined in part by:

- fear of risk
- non-performing loan
- low profitability
- decrease the available income of population
- increased inclination for savings

All these factors have influenced the lending process and helped to get a negative evolution.

Regarding the structure of the loans, lending Coorporate segment continued to grow in 2012 reaching a level of 26.7 billion euros, while household loans remained at a relatively stable nominal values.

High growth rate of non-governmental credit (granted to households and non-financial companies) until 2008 was replaced by a contraction in the last two years. So if the growth rate of loans in lei reached negative levels in real terms since 2009, this inclination being maintained and last year, foreign currency loans had a different dynamic pace of growth in real terms and reached negative values in January 2010, resuming positive growth, but quite insignificant for the second half of 2012.

Unfortunately, Romania recorded the highest level of non-performing loans from CEE countries.

Evolution of these non-performing loans continued to increase in 2012, although the growth rate was lower than the previous year, leading to a worsening of credit quality in many banks, which significantly affected the profitability of the entire banking system, the recording at the end of a year was a lost of about 100 million EURO.

All of these factors: reduced lending activity, increasing the number of non-performing loans and higher costs determinded by the changes in regulations imposed by the National Bank of Romania regarding the lending process, leading to an increase higher and higher of pressure on costs to credit institutions activity, prompting them to exert a strict control on medium and long tremen on them.

In the year 2012, deposits recorded a positive inclination in many CEE countries. Therefore, unlike the pre-crisis years (2005-2008), many countries in the CEE growth deposit exceeded or was at the same level as that of loans.

Despite the tendency of savings of the people in our country, the deposit value in Romania remains below the average of CEE countries.

The nominal value of total deposits continued to grow in 2012, reaching 40.5 billion EURO. So, the tendency to save was visible last year. This is because of the appetite of people to save and showing a higher precautious in the management of revenues. [5]

However, the average loan /deposit ratio recorded in CEE countries has stopped his strong performance launched in the years before the economic crisis. While in some cases it decreased for most of the countries is still one above par.

In terms of penetration of the cards on the national market, Romania has great potential for development, more so in the last two years the number of valid credit cards and debit cards had a slight decrease inclination compared to the 2007 -2008.

The number of valid card and the value of transactions increased in 2012, compared to 2011. So, there were about 13 million valid cards in circulation and the total value of payment was 1,335 billion EURO from 1,071 billion EURO in 2011.

However, Romania and Bulgaria recorded, per capita, the lowest levels of value of card transactions in CEE countries belonging to the EU. The report credit /capita (0.13) registered in Romania is two times lower that the one in Poland (0.25).

It can be said that in 2012, the banking system was profitable, although only 25 of the 41 banks operating in Romania were actually profitable.

The top ten players in the banking market, the changes were relatively small, considering the total net assets: BCR and BRD remain the biggest players according to market share with a small decrease for both banks in 2011 (Table1).

Besides the two banks recorded the worst financial losses due to costs associated with obtaining non-performing loans.

Table.1 The evolution of banks' market share

Bank	**2010**	**2011**	**2012**
BCR	19.8	20.1	19.27
BRD	13.9	13.6	13.1

CEC Bank	6.4	7.0	7.35
Transilvania Bank	6.2	7.3	8.08
Raiffeisen Bank	6.5	6.7	6.45
UniCredit Tiriac Bank	6.0	6.3	6.85
Volksbank	5.8	5.0	4.51
Alpha Bank	6.2	4.7	4.50
ING Bank	3.6	4.0	4.51
Bancpost	3.9	3.5	3.31

Source: author's data

The banks situation for 2012 is:

- BCR remains in first place with a 19,27% market share, smaller then 2011, the total value of assets is 70,6 billion lei.
- BRD achieve a market share of 13,1% compared to 13,6% in 2011 and 14% in 2010.
- Transilvania Bank managed the biggest increase reaching 8,08%, up by over 0,7% from 2011.
- CEC Bank, obtain a growing market share of 7,35% compared to 2011. Bank is the most important financial institution owned by the state, and one with a strong network of agents in rural areas.
- Unicredit Tiriac Bank recorded a growth of 0,5% compared to 2011, reaching a market share of 6,85%, despite the problems faced by the parent bank at home.
- Raiffeisen Bank has returned to the share that was in 2010 and 6,45%, after having an increase in 2011 to 6,7%.
- Voksbank Romania has a share of 4,51%, due restructuring efforts after a powerful exploded in the mortgage for the population.
- ING Bank reached 16,5 billion lei and a market share increase by one percent.
- Alpha Bank continued to lose ground because of the crisis in Greece, reaching at 4,5%.
- BancPost, like all Greek banks is losing ground, recording only 3,31%.

3. Conclusion

In the Central and Eastern Europe, Romania has the least banked population together with Bulgaria and Poland. So our country has a level of bankarization of 56% of the population over 15 years, well below the average of 80% of Central and Eastern Europe.

Banking market in the region suffered a severe decline after the 2008 banking crisis, but started to recover since 2010.

According to Study Financial Market Data Services (FMDS) of GfK, the population level of bankarization has increased lately and is expected to grow further, given the undeveloped potential of countries such as Romania and Bulgaria.

The most used bank products are current accounts and bank cards. So, in the first half of this year in Romania, one third of Romanians have at least one current account, and over 40% of the citizens of countries have a credit card. Almost 39% has a debit card and 4,5% of the people a credit card. Compared to 47% of the population in Central and Eastern Europe has a current account, while about 50% have a credit card.

Consequently the main, short and medium term, inclinations of the banking system in Romania can be mentioned:

- increased funding pressures
- reduced lending activity
- increased orientation to attracting projects co-financed from EU funds, considering the low rate of absorption and the fact that there is potential for co-financing of such projects, some banks already positioning itself in this segment
- controlling costs and optimizing the branch network
- changes in the competitive environment, there are already inclinations of consolidation at he levels in the banking groups.

All these factors leading to optimize the banking branch network and then to develop and improve alternative distribution channels to replace traditional network size. [6]

Banks in our country allied European inclinations of development in alternative channels such as mobile and internet banking.

Under these conditions, the main short and medium term inclinations of the Romanian banking system include: small banks repositioning by targeting niche segments, a potential consolidation of the

banking system, increased competition to attract and retain "good" customers, increasing the level of penetration the cards.

As a result credit institutions in Romania have changed the orientation of the rapid expansion mainly based on quantitative targets, to a more qualitative guidance regarding strategy, branch network, product portfolio and cost control.

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Models of Voter Behavior

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Abstract

When there is only the voter in the voting booth in front of the ballot, what is he thinking? His interests? Or his fears? Gestures or words to any of the candidates? How orient the voter in the maze of offers and candidates? Is the choice you make entirely rational? Or does it include trace elements, feelings, likes and dislikes, fears, hopes? No doubt that in many cases, the answer is multivalent.

Key words: voter, attitude, model, behavior.
J.E.L. classification: M31

1. Introduction

The development of decision-making process of voters preoccupied the specialists from the `50s. Of these, the American school of research, which includes Lazarsfeld, Berelson and Katz, developed various theories and explanatory models that we tested on the occasion of various electoral confrontations in the era. In these theories, the focus was either on socio-demographic elements, or the voter`s rationality. In these years that followed, the explanatory models of electoral behavior have been developed and diversified, with progress in shaping consumer behavior of products and services.

2. Theoretical considerations

n 1986, Denis Lindon, from the inventory of existing explanatory models and from a thorough analysis of the factors that can interfere with the electoral decision, he proposed a general structure of an "ideal" explanatory electoral model: the vote of an individual is the result of an interaction between the individual's political attitudes, on the one hand and on the other hand, the actual election offer (the number and the characteristics of candidates). The political attitudes, although, can be "explained by the socio-demographic characteristics of the individual, by his past and his personality through his current living conditions, by some influences from their family, their friends and political organizations, and by the recent developments. [1]

Although the advanced model by Denis Lindon is theoretically correct, however, due to the large number of issues that should be taken into consideration, it has possibilities of practical application rather limited. However, there are operational models that take into account a smaller number of factors. They can be grouped into three categories, according to Denis Lindon. [2]

a) socio-demographic models: correlation based on the electoral socio-demographic decision of the individual

b) psychoanalytic models origins: they consider the establishment of relationships between the deep and past electoral decision and the personality of the individual

c) attitudinal models: this time the electoral decisions are correlated with the individual's political attitudes.

Zaharia build an explanatory model from the category of attitudinal patterns "with a strong application "that" highlight how voters think and how they decide the election" items that "should be taken into account in the drafting of the electoral of the candidate. [3]

Trying to unify the value system of the individual and the society in which he lives, given that many individuals value system differs from the system of socially accepted values. In this situation, when the rationality understands the relationship between value systems and decision voter, the voter thinks it is an image of themselves as reasonably as possible, though, for others, it seems unreasonable. [4]

The result in what can and should be a party or a candidate seeking to compete successfully in an electoral competition is:
1. To identify the main segments of voters (to be determined on the basis of socio-demographic, but also attitudes and behavior)
2. To determine the main factors influencing the choices of each segment of voters
3. To agree endogenous components-political program, language, dress etc. with the expectations of voters who intend to be addressed.

3. Models of electoral behavior

Currently, the literature distinguishes three categories of explanatory models [4]

A. Socio-demographic patterns. Socio-demographic models aim to highlight the probabilistic nature relationships between social and demographic characteristics of voters (sex, age, level of education, profession, occupation, income, place of residence, religion, etc.) and their vote. There are many disputes about how socio-demographic characteristics of an individual or a corporate can be held liable for the political choice. However, as will be seen in one of the subsections, such inferences can be made. It should be emphasized, however, that they should be interpreted more as trends, as inclinations, as probabilities rather than a strictly defined statistical and causal relationships(for example, whom only vote with the party X or the candidate Y will be voted only by townspeople etc)

B. Models of psychoanalytic inspiration. These models explain the voting behavior of an individual as being primarily inspired not by rational considerations, but it profoundly affect attitudes and even unconscious on the candidates. These attitudes include: the need for authority and rebellion against authority, fear and desire security, degree of identification-as perception, not unconscious desire-of the voter with his candidate, on the contrary, the hatred and aggression towards it. These models have a high degree of arbitrariness or, at least, the analysis made in the light of them may be more difficult to quantify. The result of an election campaign is a feeling in the minds of voters, with all its train of features: irrational collective imaginary, ineffable, hope, imagination, self-suggestion, etc. The psychoanalytic theories have had a deep impact on marketing in the 50s, especially in terms of research on motivation: commercials for products whose packaging is addressing to the consumer subconscious, stimulating fantasy and imagination, the use of sexual symbols in promoting products etc. So, an electoral campaign can successfully use techniques for creating the image of the candidate corresponding to one or another of the dominant models of voter decision that he wants to persuade. However, a candidate who wants to be seen as a bringer of peace in a world governed by chaos risks, if the techniques are not properly mastered, to be assimilated with the messenger of that chaos (see the video of PDL in the presidential election in 2009 between the two rounds regarding the restoration of communism if PSD returns to power).

C. The attitudinal models are most commonly used and present the vote of an electoral election as a resultant vector with cognitive components and affective dimensions of his personality.

In extremis, the decision to vote for a candidate can be assimilated by the decision to buy a product. Analyzing how making a purchase decision if the buyer is forced to choose between several brands representing the same type of product, it is found that there are many attitudinal explanatory models of its decision, on which we will mainly stop in this book.

C1.The disjunctive models: the buyer believes that it must be chosen the brand with the best score for an attribute, no matter the importance of the attribute to the consumer (for example choosing a perfume that has a special package, even if it is more expensive or does not smell so good as another scent that the consumer would have chosen).

C2.The connective model: the buyer sets a minimum threshold for each attribute that you consider important. The brands that have not scores "to pass" to all attributes that are considered important will not be bought.

C3.The lexicographic model: the buyer operates in a sequential manner. He ranks attributes of a product according to the importance you attach to the overall assessment of the product. Then compare the marks on the most important attribute and retain the one that has the highest score. If

there is a tie between several brands, the buyer goes to the second attribute importance, and so on. This pattern is the opposite situation of an impulsive, unconscious choice, the buyer can not justify why he purchased that product.

C4.The compensatory model: unlike the three previous models, this model developed by Rosenberg and Fishbein, believes that it is recognized by a buyer offset the lower scores on some attributes and higher scores on the other hand, for the same product. In essence, it is a linear-additive model, the consumer choosing the brand with the best overall score, obtained by summing the products between the importance of the attribute and the scores of each brand on that attribute.

Another classification proposed dividing the attitudinal models into two classes: compensatory models and non-compensatory models. The compensatory models show that the high score obtained for a product compensates the low score obtained by the same product for another attribute. The compensatory model highlights the importance of the overall evaluation of the product. The non-compensatory models assume that high scores for a product attribute does not compensate for low scores obtained for another attributes. [4]

The same classification considered the non-compensatory models as hierarchical; the buyer chooses an attribute of a product and compares it to the same attribute of another product. The process continues for all the attributes and then is ranked according to their scores. The non-compensatory models have as submodels, the conjuctive disjunctive and lexicographical model (discussed above) and, in addition, the elimination of their appearance. In the decision model, each product is viewed as a collection of aspects (attributes).The choice is done hierarchically, the alternatives are compared on the most important attributes, and alternatives as "crossing threshold" are removed. This second classification concludes that persons placed in a position to choose between several products used in 90% of cases, the lexicographic model, followed by the compensatory model. In terms of the provided information and the description of the models, the two classifications do not differ significantly. They show concern for refining researches and theorists working tools in the analysis of consumer decision-making process (and in this case, the voter).

How do these models predict the decision of the electoral strategy of the party or the candidate? The answer to this question might be formulated by analyzing the consequences of using each of the four models:

The disjunctive model is the least rational and therefore the possibilities that have the candidates to influence voters who adopt this model are very limited. It must be identified and emphasized those attributes likely to cause spontaneous decisions from voters. In practice, both the identification and the improvement of the attribute are very difficult.

The connective model is synonymous with the choice by exclusion. The voter will eliminate the candidates who have a weak point, considered as unacceptable. The interest of the candidate is to improve its image on the dotted improperly attributes, the weaknesses, as SWOT analysis which will be further developed. For this it is necessary to change the behavior in the manner required by the electorate and to emphasize the change on all the occasions in public. But we must take into account that an enhanced image process is too long and another sudden change in the behavior leads to counterproductive and low credibility.

If the decision model applied is lexicographical, the candidate will determine the hierarchy of attributes that the voters make, will use a simple call strategy on the most important attribute in order to emphasize the differences in relation to other candidates. The communication effort in this direction should be maximum, provided that the actual candidate possess the qualities that he highlights (or create the impression that the created image fits to him) in its communication policy.

If the voters decide in a compensatory manner, the candidate has the interest to determine the hierarchy of attributes and try to improve their obtained scores in all the attributes, but especially determinant attributes. The communicational strategy must rely on a called multiple strategies or the ideal content should be different depending on the target segment which it is addressed and the communication effort should be distributed in a balanced manner between the various determinant attributes.

4. Conclusions

These models can be applied equally to a consumer product or service, and also to a person who votes on a party or a candidate. The identification of the type of conduct adopted by the voter is essential because the party or the candidate will have to formulate different strategies to adapt better to the way of how the voters choose the decisions.

A serious analysis of the political market is impossible without studying voter behavior (or user) offers political, macro-environment is an essential component of marketing that can be influenced by marketing actions of the political structure. The study of human behavior is essential for understanding how people will react - most often very different - methods of marketing of that structure.

Voter behavior is required, we consider a special field of study of marketing as methods of market analysis - with complex issues and continually adapt - requires knowledge of the mechanism of transformation of social needs in bidding policy.

Romanian society, like all contemporary societies, is in, let's say, a natural and continuous change, amplified by the news and untimeliness of the transitional period. The pace of change is becoming greater, which makes us believe that it could become downright insurmountable, having already seen the consequences of human behaviors and attitudes that are showing their inability to cope.

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A Study Regarding the Tourism of the Area Iron Gates

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Abstract

The paper wants to highlight the importance of promoting the tourism area "Iron Gates". Analyzing the current situation of the tourism in the area we can say that the tourist area Iron Gates is a tourist area with a quite valuable potential.

Key words: tourism; tourists; focus group.
J.E.L. Classification: L83; L80.

1. Introduction

The tourist area „Iron Gates: is located in the south western Romania along the Danube valley, belonging to most of the Western Carpathians (Banat Mountains) and the western extremity of the Southern Carpathians (Cerna, Mehedinti and Tarcu Mountains). However this is a complex cross-border, where the Danube is the generator of the impact on the landscape.

If from the past until present, the gravity center of the tourist traffic was either Herculane or Drobeta-Turnu-Severin, it seems that the future includes new forms of tourism such as those caused by the increased interest for the areas with agro-tourism attractions and portions of parks and nature reserves, which will raise the attractiveness of Danube, placing in the area a new pole of attraction. The less conventional accommodation structures that exist in the area between Orsova and Svinita, demonstrates, fully, the interest for a new form of tourism in the area.

The tourist area „Iron Gates" is a less mature area, because the main tourist activities and tourist flows are centralized in a few poles like: Baile Herculane, Orsova and Drobeta Turnu Severin, each of these being representative for a particular type of holiday. For example, Baile Herculane is a traditional center for health tourism, staying for at least 7 days, Orsova is a recently established center for the weekend tourism and Drobeta Turnu Severin, a traffic tourism or a transit with a short stay. Extending this tourist area by including in the circuit and other areas of interest will lead to the increased tourism phenomenon.

In our country, the situation of the resorts went into a period of decline after the revolution of 1989, which decreased the quality of tourism into an alarming proportion. However, some states, earned over time an undeniable reputation. Among these states, one of the most known, Herculane, enjoys a place of honour, because of the history of places, springs, establishments spa and other advantages in the area.

Herculane Resort is located on both sides of the river Cerna, one of the most beautiful gates of the road between Bucharest-Timisoara, at a distance of 364 km railway from Bucharest and 169 km from Timisoara.

Herculane Resort,is a city which is dominated by a permanent tourist resort of international interest, the resort itself comprises two districts: Zavoi and Pecinisca.

Herculane Resort is accessible by all means of transport. It is on the main thoroughfare-rail and road-Bucharest-Timisoara, which binds to the major capitals of Europe.

One of the favourite targets of tourists is "Pestera Haiducilor" and "Grota cu aburi", but you can also visit "Piscul Ciorici", "Varful Elisabeta", "Poiana cu peri" etc. On the mountainous ridge are some tips such as: "Piatra Camenei", "Inaltatul", "Medved", "Varful lui Stan".

Among the various trips, the ascent at White Cross is the most enticing and often sought.

"The Cat's Path", how it is named the trail that goes to the left, from 50-60 m of the

White Cross, leads to Jelarau source and from here to Suscu (1200 m).

Leaving to the left "The cat's path", you can arrive at "Serban's Cave" and "Serban's peak", where we can also find "The Domogled peak" (1106m).

There are many other interesting places to be visited, marked or unmarked trails that lure the tourists coming from every area.

You can organize trips at Semenic and Valea Cernei, Cheile Cernei, in Drobeta Turnu Severin (Podul lui Traian, Tabula Traiana), in Targu Jiu (the museum complex Constantin Brancusi), you can also the monastery from Tismana, tours at Ponoare Karst.

The develop strategy of promoting the tourism resort must start by understanding the strategic thinking of all the activities and its implementation. Marketing plays an important role in the elaboration of this strategy by providing the required information to develop the strategic plan. However, in Romania, the place that is occupied by marketing in the structure of a business differs from one case to another, so, in some cases, marketing is lacking or is only "with the name".

2. Results

The research of tourism phenomenon integrates a wide thematic range, from the conceptual clarification and defining its place in the strategy of development, to highlight the determinants, the development trends and the forms of expression of the coordinates and market mechanisms and also to assess its impact on economic, social cultural, environmental and political plan. All this are based on using a variety of data resources, of a research tool where are not missing the mathematical models and comparative analysis, on the achievement of some investigations from a marketing perspective or modern management. [6]

The existence of each individual, but also of the society as a whole, it would not be possible without consumption, each of us having the role of a consumer. Everyone feels the need to leave the environment in which he lives every day in order to recover physically and mentally after a day, a month or a year of working or simply he wants to visit new places and meet new people. That person becomes a consumer of tourist services when deciding and going on a trip for a few days, or only to spend a vacation.

Romania, by the variety of the natural elements, by the multiple evidences of a millenary history and culture, also by buildings acquired over the years, has a reach tourism potential exploited to some extent. In what follows I have tried to present a study about a wonderful tourist area which came into obscurity.[5]

This theme follows a very important issue, namely the consumer awareness towards the tourist area Iron Gates.

Just hoping that I will find the answer to this question, I have conducted a group discussion (like "focus group") at which took part a number of 10 people. To form a homogeneous group of people (this is required in such studies) were chosen people whose main feature (common) is the passion for tourism in general and especially the lovers of mountain and hiking outdoors.

To study the awareness of the tourist area Iron Gates were used information derived directly from the consumers.

The structure of the group who took part at the discussion, according to the criteria of gender and age was as follows:

- under 20 years: 2 males and one female, total: 3 people;
- 20-40 years: 3 males and 2 females, so a total of 5 people;
- 40 years: a male person and a female, so a total of 2 people

It can be seen that the group of the 10 subjects had a total of 6 males and 4 females.

Regarding the origin of the participants, they come entirely from urban municipalities respectively Drobeta Turnu Severin and Resita. The close relatively of those who participated at the discussion represented by the investigated tourism product can be build in a hint of bias towards the studied area, taking into account that we are talking about an area from their home counties.

The discussions were held, of course, due to the tourist area Iron Gates, taking into account the study of awareness of the potential tourism of this area.

Due to the absence of technical means that are necessary for such methods (audio and video devices), the assessment and quantification of the answers was difficult. That is why this discussion group has

proposed a more general objective, that of revealing the awareness of the studied tourism product among some potential consumers.

The receptivity of the people who participated in this discussion was high, recording important contributions of the participants in treatment the proposed topic. This made the task easier for the animator (moderator), especially since there was a very clear common direction about the opinions of the participants.

The discussions in the interview group had as main objective, as stated, assessing the awareness of potential tourists on the tourist area "Iron Gates".

Being limited by the lack of special technical means for such studies, the discussions on this subject can be summarized by presenting some conclusions drawn as a common direction regarding this topic.

As a general conclusion of the interview group, it may be said that the awareness of tourist towards the tourist area "Iron Gates" is very low, the area being least promoted in order to attract a large number of tourists.

The knowledge of the participants at the interview was limited, largely, to the following aspects:

- the most participants at the interview felt that the area "Iron Gates" is limited, as tourism potential, only at the area Gura Vaii;
- also, most of the subjects have never visited the area "Iron Gates", their „outputs", as tourists, are limited at visiting Herculane resort;
- regarding the tourism potential of the area, most of the participants knew only the existence of several caves in the area (especially the Grotto Outlaws);
- regarding the floristic richness of the area, the knowledge of the participants was limited, largely, only at the existence of the black pine of Banat in the area, and speaking about the fauna, all knew about the existence of a large number of vipers in the area;
- the few participants who had visited the area as tourists, were unanimously agreed that the lack of infrastructure facilities (mainly access roads) and the travel arrangement (no tourist signs and ancient markings) consists the biggest problem which with the area" Iron Gates" is facing;
- everyone who visited the area (actually only 2 out of 10 people) had done with their own („outputs" of few days with accommodation in tent) and declared themselves very satisfied with the scenery and generally by the encountered natural beauties;
- all the participants in the discussion agreed that the area is far less promoted and the interest of tourism enterprises, especially of the authorities towards promoting the area, is very low;
- about the anthropogenic potential of the area, most of the subjects knew the features and the elements of the existing tourist attraction in the area, especially those from Herculane resort, that are in fact, well known.

3. Conclusions

After the discussions and the interactions of viewers between the participants, concluded the need for a higher promotion of the resources for a superior recovery of the existing tourism potential.

The presented conclusions illustrates, therefore, a low degree of knowledge speaking about the area, which combined with the lack of planning for tourism, leads to remain in anonymous the beautiful area Iron Gate with all its riches and beauty.

The tourism plays an important role that can't be challenged in the national and international economy, in the social behavior of those who practice it in the existence of those who ensure the operation just because of the scale that it took.

The romanian tourism decline has various causes such as economic crisis, low consumption, exchange rate, low quality of services, poor management, marketing almost nonexistent, the lack of strategy and development concept clearly enough field, myopia government policies, dilapidated state of infrastructure, significant investments, competition in the area etc.

Effective exploitation of tourism potential can not be achieved with current national infrastructure.

Tourism is a great chance of rapid economic development of Romania. It has to respond adequately to the Romanian option of integration into European structures and international. Recovery tourism is beneficial throughout the country and its international promotion can become an element of

recovery of Romania. Basis of existing material can be effectively used only by professionals who have mastered the techniques operations and international tourism.

Without tax incentives, without aggressive promotion, without quality services, without modern infrastructure, Romanian tourism will remain only a perpetual chance. It is clear that, for Romania, tourism is a big chance that it must be capitalized at the beginning of the third millennium.

The romanian tourism success depends on the design and implementation of an aggressive marketing- positive, by creating strategies to promote the regions and to build strong brands that will be imposed on a market characterized by fierce competition.

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Exploiting the Potential of Agritourism in the North East Region During the Current Crisis

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Abstract

This approach has amply analyzed the influence of the current crisis in the development of the agritourism sector from the North East Region.

The study examines the evolution of some important indicators of agritourism activity and identifies the main causes which contributed to the outlined trends.

The research reveals that the principal condition of sustainable development of rural tourism depends on how bridging strategies, specific policies are correlated with those of the area, which will result in: the orientation of investment towards activities in rural areas, shaping and determining the most appropriate forms of organization of rural tourism; development of support industries in downstream and upstream support rural tourism, counseling and support for business development for farmers and agritourism.

Expanding business in rural tourism depends on creating favourable conditions: food supply, promoting traditions, crafts and the specificity of the countryside, the promotion of housing, the improvement of infrastructure, equipment and services.

Key words: agritourism, rural tourism strategy, tourism management, sustainable recovery
J.E.L.: M16 International Business Administration P5 Comparative Economic Systems

1. Introduction

Endowed with a great potential in agritourism, the North East region, arousing the interest of tourists is independent of the economic situation. Special conditions in running businesses in rural areas require the creation of preconditions for the harmonization of the economic components of the natural environment: offering various packages of agro-products, the existence of a variety of offers for accommodation; rhythm and supplies in a timely manner with traditional gastronomic products, traditional folk art, craft; promotion of folklore and traditional habits through the packages offered; the existence of an offer for highly paid jobs in rural areas; the creation of the necessary infrastructure in public and private services sector; arrangement of natural surroundings and the observance of ecological requirements.

2. Considerations on the potential productivity of agritourism in the North East Region during the crisis

Researching sources of data from statistical directories, online publications and statistical data according to an enquiry conducted by young entrepreneurs in tourism show the following conclusions on the potential productivity of agritourism in the North-eastern Region during the crisis [1]:

a) The North East Region has a potential interest in agritourism, which capture tourists' interests and tourism entrepreneurs despite the crisis. During the crisis it has maintained the trend of increase in pensions, the number of seats to the category "pensions, villas and chalets "reaching in 2010 and the number 7933 units reaching 401 graded overall Northeast regions in 2011.

b) The preference of tourists for the same sort of tour packages is the same. Thus, the most sought-after rural tourism product packages remain in the areas of Bukovina and Neamţ area. The second – area, guesthouses segment is Ceahlău Mountain, particularly in the areas of Ceahlău, Durău, Bicaz.

c) Brand notoriety had a decisive impact in maintaining particular preferences for foreign tourists. Specific offerings of rural tourism and agritourism in Bucovina are most often accessed, due to the notoriety of the brand.

d) Investments, how to manage EU funds for investment and advertising were the key factors for stimulating the rural tourism and agritourism in some areas. The two main resorts of the North East region, Vatra Dornei and Durău benefited from different sources: European funds and particular investments for the development of winter sports in Durău.

e) Better use of the potential in agritourism versus previous periods of crisis in the areas which have diversified leisure travel services. Significant investments have been made in the Arini areas, with ski slopes, ski lift, ice rink, sports fields, swimming pool, which has led to an increase in the number of tourists and make better use of rural tourism potential of the area. Investments in the Piatra Neamţ – skiing, gondola, chairlift and tubing have attracted tourists who visited touristic packages.

f) Most areas in North Eastern Region have not adopted and implemented strategies and crisis action plans (local or regional), crisis measures at local and regional level in order to protect and encourage rural tourism and agritourism;

g) In most areas of the Northeast Region, the development of tourism, including the agritourism and rural tourism are not correlated with environmental projects. Tourism Practice in Romania shows that ecotourism strategy remained in reality only in the draft stage.

Evaluation of how to exploit the potential of agritourism must be made in a realistic way, based on the findings and observations on the spot and at the same time, depending on the evolution of the main indicators and tour consumer behaviour during the crisis, compared to previous periods.

Offering accommodation to the North-East Region has increased both in terms of existing units and 18.8% of the seats offered with 3.8% in the period 2009-2011. Moreover, the ability of the guesthouses accommodation has seen a steady growth since the establishment of their initiative, the North East Region has increased four times its capacities. Most of the new pensions were put into service in Vaslui county (pensions by increasing the offer of 31.1 per cent) followed by Romania (16.9%). However the highest levels of capacity in graded accommodation shall be maintained in the counties of Suceava and Neamţ (49% and 47%). Overall, the number of pensions recorded an increase of 6% over the period of the crisis, these accounting for 12.9 percent of those throughout the country.

Table 1. The evolution of guesthouses, villas and chalets (places)

Province	%2010/2009	%2011/2009
Bacău	0,9	3,7
Botoşani	16,9	0,1
Iaşi	1,3	21,6
Neamţ	2,6	-0,3
Suceava	9,0	13,8
Vaslui	31,1	5,0

Source: calculated after Anuarul statistic al României, online, www.insse.ro/cms

Most belong to the middle category of accommodation comfort environments. Suceava is the only county in the Northeast Region with a 5 *. Botoşani County, which has the lowest number of hostels in the region and which records the highest number of seats (23 places for all degrees of comfort). The services offered are: accommodation and meals. Additional services include low cost activities: buggy rides, sleigh rides in winter, hiking, and picnics at Stânele. Most guesthouses have rooms equipped with TV, hot water, breakfast included and access to an equipped kitchen. Rarely is given full Board/half board, laundry service as under. Young entrepreneurs in the tourism investigation revealed three main groups of additional services for the Northeast Region:

1) Services, which should be developed as a priority: carriage rides, tobogganing, cycling, hiking, picnics in the henhouse, transport from the train/coach, ping pong tables, billiards, participation in traditional activities (milking cows, sheep curd preparation, cooking traditional foods, traditional dances, painting eggs, pottery, carving, etc.)

2) Services that should be provided on request of some groups of tourists: ATV

rentals, horseback riding, skydiving, paintball, hunting, fishing, gathering mushrooms, forest fruits, pool, spa, sauna, jacuzzi, hairdresser, training pets etc.

3) Potentials Services: archery, car rides, swimming pool, setting up craft workshops, establishment of recreational areas.

Good access to the rural tourism packages in the Northeast region is reflected by the increase in the number of tourists arrivals in hostels in 2011 with about 40 000 people compared to 2009 and the number of overnight stays with 3.1% overall Northeast Region. Most arrivals were registered in the counties of Neamţ and Suceava, registering the highest number of overnight stays (with about 30 percent higher than in the Neamţ). High season periods remain December and July-August. The lowest level of tourist activity was recorded in the second half of January, February, March, October and November.

Reduction in the income in the period of crisis has marked some changes in tourism consumption:

1) Spend a smaller number of nights in the same bed;

2) Reduction to a single night of the weekend tourism;

3) Raising claims against the quality of services and the requirement for the greater number of value added services provided in hostels;

4) Increased interest and dining preference within the own resources;

5) Predominance of appointments on telephone through agencies or specialized units.

The crisis marked the period and some changes in terms of application segments that have appeared in the House of the North-East Region: grandparents with grandchildren, lovers of extreme sports (rafting, endure and climbing); aficionados of organic products, and closets;

Considering the main developments in rural tourism trends, achieving a maximum of touristic services utility is closely related to the overrun of the main constraints related to infrastructure, tourism, environmental factors, the existence of administrative services, supportive resources, the opportunities for achieving financial equilibrium of the fauna, the political and social conditionality, the existence of information and tourist information centres.[2]

3. Necessity of rethinking the correlation between tourism strategies and development plan

Rethinking the correlation between tourism strategy and strategic plan for development of related tourist areas should be balanced with [2]:

1) Retrieval of business (including projects and business plans) in the content of the rural development policies. In this sense, a positive influence could be the professional identity valorized in rural areas, through its correlation with crafts and traditions of the area; own production of handicraft goods and art handicraft is strongly encouraged; gourmet products from the farm are better sold;

2) Applying modern strategies of tourism from the European model. In this sense one can mention the experiences of European countries: Austria has created "village tourism" and "Recreation Resort rest" in the countryside with a decisive contribution to the development of those areas; Belgium through association of agritourism investors and has created new niches, with a decisive contribution to the development of those areas; Finland by practicing rural tourism and recreational activities in the form of riding and skiing, or in small wooden "castles" has brought a considerable contribution to the development of rural areas; the French model of agro-tourism, which has become a real problem-solving solution of some agricultural problems;

3) Stimulation of farmers and investors for the conclusion of contracts for time sharing their information could constitute a solution and also boost long-term cooperation with a view to the creation of new tourist and agro tourist pensions;

4) Promoting rural tourism and levers available to decision makers on the grounds that the rural countryside and rural life is a common property of all inhabitants of an area, and the great potential of rural space is equally of concern to all.

5) Use of European instruments for availability of funds and the implementation of policies linked to the rural tourism

strategy: the European Agricultural Guidance and guarantee fund (EAGGF); The European Regional Development Fund (ERDF); The European Social Fund (ESF).

6) Rethinking of strategies to launch the Romanian tourist village on the world market through the decision makers at mezoeconomic level. The complex process of launching on the market of the village, as a tourism product, should be permanently monitored through the use of consumer/ and tourist vision. The existence of the necessary logistics for knowing consumer preferences and the need to boost the tourist promotion of the Romanian village in the European market.

7) Linking policy of tourism product tourism strategy for the area. Product policy should be foreshadowed by natural factors, infrastructure (general and specific), quality of service, achieving the internationally-agreed standards of comfort. In this context there can be suitable tourism products, in accordance with the requirements of the Organization accepted by the owners.

8) Strategic management and the factors that underlie the development of rural tourism in the North-East Region should be focused on solving the problems of infrastructure and logistics divisions, those related to the tourist offer and the knowledge of quantitative and qualitative level of the human factor.

9) The main objectives of the strategy planning may include: harnessing the potential of agro tourism; decreasing seasonal, referring to the extension of the tourist season and exploitable for a period exceeding the limits considered specific season; attracting a greater number of Romanian and foreign tourists; Economic and social efficiency of rural tourism activities, through enhanced cooperation and development of partnerships; diversification of rural tourism, by adopting any form of possible alternative activities and facilities in the area concerned; preservation and conservation of the environment and tourist attractions.

Adoption of a framework policy for the prevention of threats to the natural environment because of the natural factors and abusive behaviour from some owners: measures to combat soil degradation and protection of the areas exposed to the risk of flooding. For this purpose it is necessary to achieve the afforestation in order to correct the abuses made by some owners, through irrational deforestation of certain tourist areas have produced damage in a natural ecosystem. Improving the impact produced by some phenomena requires urgent implementation of public infrastructure, support for less- favoured areas, and improve the quality of the landscape.

The concerns for tourist guesthouses approval should be accompanied by measures which improve the level of development of the area.

Conclusions

Correlation of tourism strategies and policies with those in other fields requires a relationship between tourism and agriculture, tourism and industry between the impact of modernization and the prelaunch of the Romanian village. Pushing forward agricultural programs and support through innovative tourist holdings requires the deployment of new agricultural, handicraft activities in the presence of tourists: carpet weaving, sewing and singing folk music, painting eggs, sheep shearing, etc.

Main measures on the part of local decision-making factors such as financial aid, investment in the development of tourism and craft activities, actions to promote rural tourism, planning for development of sports should be directed towards those areas where farmers are willing to carry out these activities and stand at tourists.

In conclusion, it is possible to boost rural tourism by improving the strategic capacity of the rural space, which requires a collective effort on the part of from all the factors involved in the development of tourism and the economic development of tourist areas in the North-East Region.

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Employee Motivation Theories and their Applications in Modern Organizations

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Abstract

The essay is dedicated to the determination of the essence of employee motivation in today's business environment. The main need-based and process-based theories of motivation and the possibility of their application in modern organizations are considered. The existence of the relationship between employee motivation and organizational effectiveness is proved by author.

Key words: motivation, content theories of employee motivation, process-based theories of motivation,
JEL classification: M54.

1. Introduction

Employee motivation is the most burning problem faced by employers in today's fast-moving business environment. The thing is that unmotivated employees prefer to spend little or no effort in their jobs, produce low quality work and leave their job in an organization for better proposals. On the other hand, employees who feel motivated to work are likely to be creative, enthusiastic and productive, turning out high quality work that they willingly undertake.

That is why the given essay is dedicated to the development of better understanding of various employee motivation theories and the determination of possibility of their using in modern organizations.

2. Defining Employee Motivation

The Webster's online dictionary defines motivation as the psychological feature that arouses an organism to action toward a desired goal; the reason for action; that which gives purpose and direction to behavior [1]. It goes without saying that motivation is the willingness to work at a certain level of effort. Every employee has different ways to become motivated. For this reason employers need to get to know their employees very well and use different tactics to motivate each of them based on their personal wants and needs, values and goals, intentions and expectations.

According to Edwin A. Locke and Gary P. Latham [2], the concept of motivation refers to internal factors that impel action and to external factors that can act as inducements to action. We can safely assume that the internal motivational factors are created from within the human itself and can be affected by the wish to perform or self-development. Instead, the external motivation factors are created from the outside and are outside control of an individual. These could include organizational policies and practices, working conditions, salary, interpersonal relationships etc. Obviously, motivation can influence not only the acquirement of person's skills and abilities, but also the way and the degree in which these skills and abilities are exploited.

We identified that in the whole world there are numerous definitions of motivation, which is logical, because there are many different personalities, interested in doing research in this broad subject area, as well as various motivation theories and programs exist in organizations at all times.

We completely agree with Dwight D. Eisenhower [3], famous as the thirty-fourth President of the USA, that "motivation is the art of getting people to do what you want to do because they want to do it". Moreover, we

have every reason to believe that motivation is an effective and dynamic instrument in the hands of every manager for inspiring the workforce and creating confidence in them. Through the employee motivation, management creates "will to work" which is necessary for the achievement of organizational goals.

3. Historical Overview of the Field of Employee Motivation

It's important to keep in mind that historical views on motivation, although not always accurate, are of interest for several reasons. For one thing, these approaches provide a foundation for contemporary thinking about motivation. For another, because they generally were based on common sense and intuition, an appreciation of their strengths and weaknesses can help managers gain useful insights into employee motivation in the workplace.

One of the first writers to address work motivation over a century ago was Frederick Winslow Taylor (1856 – 1915), an American mechanical engineer who believed that workers are mainly motivated by the paycheck and they don't like working at all [4]. Taylor suggested that workers would need very close supervision and that production should be broken down into small but measurable tasks in order to ensure the highest possible output from workers [5]. Over time workers got bored with the routine nature of their repetitive tasks, they wanted something more than just pay. From these and similar observations we may generalize and say that Frederick Taylor was right at the point he started but wrong on where he believed the need for motivation stopped.

3.1. Content Theory Approach to Employee Motivation and the Possibility of its Application Nowadays

By the 1950s, several new models of work motivation emerged, which collectively have been referred to as content theories. Often criticized as being descriptive, these theories focus on what motivates employees to choose certain behaviors.

The most recognized of all the content theories of motivation is Maslow's Need Hierarchy Theory, which suggests that as individuals develop, they work their way up a hierarchy based on the fulfillment of a series of prioritized needs (see Figure 1).

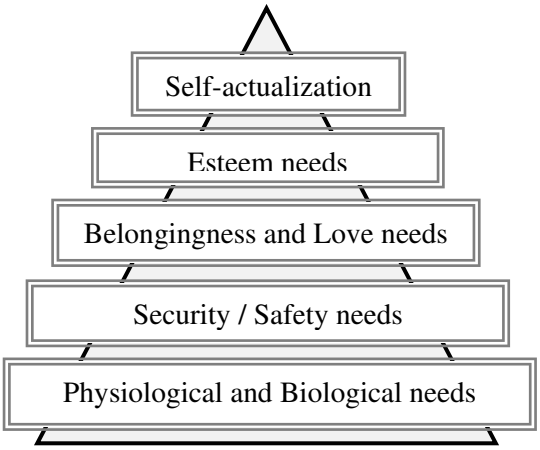


Figure 1. Maslow's Hierarchy of Needs, an original five-stage model [6]

On the basis of the given model we can assume that physiological needs are the basic needs for sustaining human life. These needs include food, shelter, clothing, rest, air, water, sleep etc. They lie at the lowest level in the hierarchy of needs as they have priority over all other individual needs. Unless and until these basic physiological needs are satisfied to the required extent, other needs do not motivate an employee in organization.

Speaking about security or safety needs, it should be mentioned that these are the needs connected with the psychological fear of loss of job, property, natural calamities or hazards. An employee wants protection from such types of fear. He prefers adequate safety or security in this regard i.e. protection from physical danger, security of job, pension for old age, insurance cover for life and so on. The safety needs come after meeting the physiological needs.

Social needs, which include such things as love and belongingness, occupy the third position in the hierarchy of needs. Being the most prominent psychologist of the 20th century, Abraham Maslow (1908 – 1970) suggested that an employee is a human being, which desires to belong to one or another group, regardless if these groups are large or small. By the way, Abraham Maslow argued that esteem needs include the need to be respected by others, need to be appreciated by others, need to have power and finally prestigious position. Once the previous needs

are satisfied, a person feels to be held in esteem both by himself and also by others.

And, finally, self-actualization needs. This is the highest among the needs of the hierarchy of needs advocated by A. Maslow. Self-actualization is the desire to become what one is capable of becoming. It is a "growth" need. Here, a person feels that he should accomplish something in his life. He or she wants to utilize his/her potentials to the maximum extent and desires to become what one is capable of becoming. Though everyone is capable of self-actualization, many do not reach this stage.

Practically, physiological needs of employees in modern organizations can be met by offering a fair competitive wage and lunch/coffee breaks so that the employee feels comfortable that his/her basic needs are satisfied. Next, an organization can ensure that the work facility is safe, so that employees feel physically safe. Modern organization can also have a fair progressive discipline policy ensuring job security. Besides, managers can encourage employees to participate on work teams and/or sponsor informal gatherings so employees may socialize to help meet their social needs. A reward and recognition program for good performance or perfect attendance could help managers to satisfy the employee's esteem needs. Finally, to help satisfy employees' self-actualization needs, organizations can offer in-house development, or offer reimbursement for tuition or relevant training seminars.

On the whole, however, Maslow's theory of motivation is widely accepted but there is little empirical evidence to support it in modern organizations. The pattern of hierarchy of needs may not be applicable uniformly to all categories of employees, because each person has plenty of needs to be satisfied, which may not necessarily follow Maslow's need hierarchy.

To bring Maslow's need hierarchy theory of motivation in synchronization with empirical research, American psychologist Clayton Alderfer (born in 1940) redefined it in his own terms [7]. His rework is called as "ERG theory of motivation". Instead of the five needs that are hierarchically organized, Alderfer proposed that basic human needs may be grouped into three categories, namely "existence" (E), "relatedness" (R) and "growth" (G). Actually, existence corresponds to Maslow's physiological and safety needs, relatedness corresponds to social needs, and growth refers to Maslow's esteem needs and self-actualization [8]. Alderfer believed that needs are met in no specific order, while Maslow's theory states that needs are met one by one and in a specific order.

Another content theory of the same period is Herzberg's Two Factor Theory, also known as the Motivation-Hygiene Theory, which postulates that there are certain factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction [9]. Famous American psychologist Frederick Herzberg (1923 – 2000) classified these job factors into two categories: hygiene and motivational factors.

Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. But if these factors are non-existent at workplace, they lead to dissatisfaction. On the contrary, motivational factors motivate employees for a superior performance. The motivators symbolized the psychological needs that were perceived as an additional benefit [10]. Generally, Herzberg's Two Factor Theory can be a valuable aid to managers of modern organizations because it points out that improving the environment in which the job is performed goes only so far in motivating employees [11].

Furthermore, McClelland's acquired-needs theory is the one content theory of employee motivation that received the greatest amount of support in modern organizations. According to this scientific approach, individuals acquire three types of needs as a result of their life experiences [12]: the need for achievement, the need for affiliation and the need for power. All individuals possess a combination of these needs, and the dominant needs are thought to drive employee behavior.

Actually, David McClelland (1917 – 1998), an American psychological theorist, stated that most people do not possess a strong achievement-based motivation. Those people, who do, display a consistent behavior in setting goals. That is why oorganizations meet achievement needs by providing employees with challenging assignments,

competitions and rewards for excellent work. Power needs may be met by offering opportunities for advancement and increased responsibility. And employers can meet affiliation needs by creating a team environment that is safe and respectful for all employees.

Acquired needs theory indicates the following characteristics and attitudes of achievement-motivated people in modern organizations:

achievement of objectives matters more than material or financial reward;

greater personal satisfaction is felt by achieving the goal than from receiving praise or recognition;

money is regarded as a measure of success, but not the end in itself;

neither status nor security are prime motivations;

achievement-motivated people constantly looking for ways of doing things better;

achievement-motivated people will gravitate towards jobs and responsibilities that challenge them and satisfy their needs - for example sales and business leadership and management;

achievement-motivated people have the capacity to set high personal goals that they believe to be attainable [13].

It's self-evident that all four of these content theories are helpful in understanding employee motivation on the basis of needs. However, other theories of motivation also have been posited and require consideration.

3.2. Process-Based Theories of Employee Motivation, Widely Used in Modern Organizations

Process-based theories of employee motivation are concerned with how motivation takes place. They focus on why people choose certain behavioral options to fulfill their needs and how they evaluate their satisfaction after they have attained their goals. Two of the most recently popular process theories with a cognitive perspective are the Expectancy and the Equity Theories of Motivation.

Thus, Expectancy Theory is based on how we want something and how likely we think we are to get it. The formal framework of expectancy theory was developed by Victor Vroom, a business school professor at the Yale School of Management, who was born in 1932 in Montreal, Canada.

This motivation theory states that if an individual believes he or she can do something then he or she is more likely to accomplish it. Thoughts and efforts are vital to this theory because if someone does not think they are able to do a task, he or she is not likely to put forth much effort. Therefore, motivation is decreased. Failure does not motivate a person to try harder. Successes, even if they are small, motivate people to improve [13].

In deciding how much effort to put into a work behavior, individuals are likely to consider:

their expectancy, meaning the degree to which they believe that putting forth effort will lead to a given level of performance;

their instrumentality, or the degree to which they believe that a given level of performance will result in certain outcomes or rewards;

their valence, which is the extent to which the expected outcomes are attractive or unattractive.

On the contrary, Equity Theory attempts relational satisfaction in terms of perceptions of fair/unfair distributions of resources within interpersonal relationships. It was first developed in 1963 by John Stacy Adams, a workplace and behavioral psychologist, who asserted that employees seek to maintain equity between the inputs that they bring a job and the outcomes that they receive from against the perceived inputs and outcomes of others [14]. It is worthwhile to mention that inputs are logically what we give or put into our work. Outputs are everything we take out in return. These terms help emphasize that what people put into their work includes many factors besides working hours, and that what people receive from their work includes many things aside from money [15].

In short, we each seek a fair balance between what we put into our job and what we got out of it. But how do we decide what balance can be considered as a fair. The answer lies in Equity Theory. What matters here is that the three primary assumptions applied to most applications of Equity Theory in modern organizations can be summarized as follows [14]:

employees expect a fair return for what they contribute to their jobs, a concept

referred to as the "equity norm";

employees determine what their equitable return should be after comparing their inputs and outcomes with those of their coworkers. This concept is referred to as "social comparison";

employees who perceive themselves as being in an inequitable situation will seek to reduce the inequity either by distorting inputs and/or outcomes in their own minds ("cognitive distortion"), by directly altering inputs and/or outputs, or by leaving the organization.

4. Conclusions

Coming to the conclusion, it is important to note that most organizations which operate in different fields are spending so much money trying to inspire employees that they have spawned an industry, often called as 'the motivation industry". It's a multibillion-dollar business in which top gurus command fees of up to $65,000 for a speech. Billions of dollars of rewards are sold to companies – from T-shirts to exotic vacations – to be dangled in front of workers to boost performance. Trouble is, there has been exhaustive academic research trying to find out what motivates workers, and it has turned up almost no evidence that motivational spending makes any difference.

In general, motivation offers several benefits to organizations and their employees: higher efficiency, reduce of absenteeism, reduce of employee turnover, improvement of a corporate image and good relations and encouraging of initiative and innovation. Thus, we can't disagree with Rick Pitino [16], highly successful and noted American basketball coach, who said: "The only way to get people to like working hard is to motivate them. Today, people must understand why they're working hard. Every individual in an organization is motivated by something different".

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Emotion Management in Health Care Services

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Abstract

An exploratory investigation of the relationship between employees' emotions and their outcome at work was developed in this study based upon three main dimensions resumed by the scientific literature in this field: a) affectivity as a determinant of attitude at work; b) the emotional state of mind as a determinant of employee behavior; c) working activities that involve employees emotions.

This paper focuses on the analysis of the last dimension, referring to health care services, area where the emotional involvement of healthcare professionals is extremely high. Starting from the idea that the emotional health of employees is directly reflected in the quality of health services, we believe it is essential to draw attention to some activities that involve more than performing the tasks and responsibilities mentioned in the job description.

Key Words: emotional management, medical services, emotion in health care services, medical staff, patients-medical staff relation.
J.E.L Classification: I 12, J 24, L 84

1. Introduction

Emotions management in the workplace is a relatively new subject in the literature. But, in the last three decades there has been a growing concern of researchers from different fields such as psychology, economics or management, regarding this concept. Challenges emerged from the economic and social environment, increased pressure from both inside and outside the organization, gradually more active requirements expressed by the clients, business risks or the growth of stress factors are just some aspects that contributed to the emergence of the study regarding the employees' behavior in workplace. With the time pass, an increased influence of those factors led to some changes in the management style and in some organizations' vision.

2. The increasing importance of feelings

A new tendency arouse in rivalry arena of the economic activities: a shift from "rational organization" to the "emotional organization" [3]. This represents actually a trend that generated a new approach to economic entities. In this context, the emphasis is on analysis of the elements of emotional and social impact on health human resources, in terms of cause-effect relationships.

The effects are particularly noticeable in the services field where direct contact with consumers may generate high emotional involvement. If we focus on the healthcare sector, we see that affection, communication, emotional involvement and sensitivity are key elements in building relationships between healthcare professionals and patients. Obviously, the most important position is held by doctors.

Latest studies on human resources in the health sector have a significant contribution in redefining the role of human capital in the sanitary units. The researchers point out that the medical profession whose purpose is the "defense of the most precious value of human - health" is clearly superior to other professions which only satisfy the specific needs [1].

Practicing a medical profession emphasizes, among other things, its acting a psychological role. The nature of activity

involves the expression of some specific emotions, very deep. Beyond the effective responsibility, physicians represent a real moral and psychological support for patients. According to the Code of Medical Deontology, the physician should be an ethical-professional model that prioritizes the interests of the patient in detriment of any other type of interests [13].

Physicians' behaviors play a key role to improve the health of the patient. Therefore they must provide trust and safety that health problems will be solved.

The literature underlines the importance of adjusting feelings and emotional expressions of the physicians to the patients, especially when they communicate the diagnosis. Physician behavior in such situations generate a series of questions, such as: How much emotional involvement is there in this interaction? What professional attitude must they have to the patient? How to manage the patient's feelings and emotions in a critical situation? [9].

3. Managing Emotions at Work

Feelings have nowadays become one of the most valuable aptitudes an employee can have. Regardless of all the technical knowledge one may have, the way we display our image in front of our bosses, our clients and even our partners set the difference from work performance to mediocrity. Emotions are therefore managed in order to create a sense of courtesy, warmth, happiness or even sadness.

And all this aspects have a greater resonance when talking about medical services. Patients should not only be cured from their medical problems, but they ought to get comforted for the emotional pain that an illness may entail [4], [6], [5].

Arlie Russell Hochschild [5] first presented in a theoretical manner how employees actually manage their emotions at work. Skills are no longer defined in this perspective in terms of technical competencies, but of the means the employees use to handle their own emotions when interacting with clients. This process where feelings get actually managed in order to display a publicly desired image was called by the author as "emotional labor".

Such efforts of displaying other feelings than the ones a person may actually have were thought to be best applied in the service industry where the interaction between customers and employees is the key ingredient for companies to survive in a competitive environment. In order to better understand this standpoint Wharton [11] has argued that services are best differentiated from goods by the fact the first represent "intangible activities, that are created and consumed simultaneously as they are delivered to the end customer through the social interaction between their supplier and the client" (1993, pp. 206).

Even though we may speak of private companies or public institutions, services are the ones that finally dictate how employees should really perform a specific role when interacting with clients or citizens. And this activity gets even tougher when a person should hide feelings of sympathy or sadness towards a grieving patient in order to show an image of professionalism and to offer comfort for any physical of mental pain.

4. Emotional effort in health care services

Depending on the job a company requires an employee to perform, there can be identified different types of efforts like the physical or intellectual ones. However, the current scientific literature on organizational behavior and human resource performance speaks of a third type of effort: the emotional one [10].

Furthermore this gets more difficult in case of physicians who have to interact with patients and their families. How would the medical staff feel in a situation when they would need to tell a family that one of his members is about to die and there is nothing else to be done? Surely that physician would try to display an image of comfort and understanding for the family's potential loss or grievance. This is actually where the emotional effort really interferes as the medical staff ought to perform not only the therapeutic act, but also the emotional support for both patients and their families.

Some authors [8] even argued that such situations can actually estrange someone from his or hers real way of being. Though a worker may succeed to perform a certain display of comfort or courtesy, some of the experiences from his personal life may set a

mark on his emotional background.

For example, a physician who is in the middle of a separation process from his wife will surely find it difficult to smile in front of his patience. However, in this domain, not doing your job properly will certainly affect the services you provide (in this case medical treatment), but it will also influence the patients' well being.

In order to avoid alienation from the authentic self, Conrad [2] suggested three components for emotional labor that companies or institutions should consider when evaluating the performance of their employees and their effort. The first one is the emotional harmony component where a person actually feels the emotions he displays. The second one is the emotional deviance where the worker perform a different role than the one required by the company. Such situation can be subject to disciplinary measures as employees may show feelings of angriness, annoyance or disrespect that may alter the relationship with customers and their perceptions over the service quality. The third component in this perspective is emotional dissonance. Such situations may come up when a worker shows the emotions a company requires him, but may not actually internalize them as his true believes. This is the part where one could notice the highest emotional effort, but it may also be the situation that determines the uppermost turnover rates.

Patients tend to ask for understanding and comfort when being treated by an illness. This could actually be an instinctive way of performing their role of grievance. However, some medical staff may only consider they are doing their job when performing the physical treatment without taking into consideration the emotional impact an inappropriate behavior can have over the patients' general well of being. It comes almost naturally to think of the difference between public and private medical providers. While the later know that carrying for patients does not only mean to apply medicines, but to comfort the ones who suffer, the public institutions may have a propensity to not take into consideration this perspective.

For instance, an abortion clinic may certainly not only perform the act of helping women to solve an unwanted pregnancy. It will also have the responsibility to not point the blame on the person who decides to pursue this step in her life. Nurses or physicians who may love children can find difficult to perform this act and moreover to support women in their decision to make an abortion.

A study of this kind was made by Wolkomir M. and Powers J. [12] with the help of participant observations and in-dept interviews in an abortion clinic. The authors think that "workers labeled patients as distinct types and developed specific interactional strategies for each type that enabled them to meet patient needs while simultaneously maximizing the rewards of emotional labor and minimizing costs" (Idem, pp. 155). In this perspective, costs were actually represented by the moral discrepancy between taking a life and the one of the medical act of saving the mother. Patients that were easy to deal with in such cases (e.g. women who made the decision and were comfortable with it) made work much easier for the staff as they only needed to perform the medical act.

Things however became complicated when the patient did not have a clear picture of the consequence the abortion may have or when their decision was not entirely made. Feelings like anger or sadness from women who wanted to take an abortion were increasingly hard to deal with and were perceived by the nurses and physicians as situations that consumed all of their energy.

5. Conclusions

In our opinion, emotion management is one of the most significant criteria for evaluating service performance in the medical domain and the effort entailed by such acts should certainly not be overlooked.

Companies should know how their employees perform their role in the interaction with clients in order to develop the best cultural practices when providing a service.

It is of a greater significance for hospital managers to influence the image physician and nurses exhibit to patience. Such encounters may affect the perceived quality of medical services, but can also alter patients' physical and emotional health.

As we have already argued emotion

management has a special role when coming to evaluate health care service performance. One should not forget however that a physician's activity entails a large number of pressures, especially in situations where so-called ethical dilemmas arise. It is important to note that medical activities involve a sequence of emotional states that may have a direct influence on the quality of services.

The patient is the primary evaluator of quality regarding the health act. Doctor-patient relationship is a key factor in determining the quality level of services received. In most cases, particularly serious cases, this relationship is special, affective type, in which attachment is mutual, both from the patient and the doctors. It should be noted, however, that regardless of the emotion felt, the physician is responsible for the proper treatment of the patient.

In this context, we believe it is essential to make a careful monitoring of the factors that directly affect the emotional health of medical staff, especially doctors, so that high pressure situations may not influence, in a negatively way, the quality of the therapeutic act.

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The Importance of Communication Proficiency in Management

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Abstract

The modern times that we all are living, asks us to relate and communicate more and better. The technological boom that helps us communicate faster and easier but the ability to communicate is held only by few. In the business world, communication has become one of the most powerful progress instruments through which charismatic managers raise their business trajectory and through which they send constructive ideas towards the coworkers. The modern manager has to improve constantly their communicative proficiency in order to maintain and improve his company position. The markets evolution, globalization and the prolonged crisis make the managers' adaptation process to more be accelerated and those who can't keep up to risk losing the competition and bankruptcy. All these can be easily avoided if the manager has good communicative competence and preoccupations towards perfecting the communication process in the firm he manages.

Key words: communicational proficiency, managerial communication, organizational communication, communication.
Jel classification: D22

1. Introduction

Communication is for every manager an activity that leads to efficiency [1], an instrument that solves the problems that appear and helps fulfilling the tasks. Because of this, communication tends to be one of the most difficult aspects in managers' work especially that without a proper communication, managerial or organizational activities can't take place. Communicative competences are a ''must have'' in transmitting messages both inside and outside the company. The proper reception of the message can be obtained by using efficient communicative strategies that also ensure getting the feedback. To accomplish his role, a manager can rely on the functions of communication, being interested all the time in research, documentation to ensure the best possible relations with all the coworkers. The lack of communication and especially the lack of communication practice can raise exposure obstacles. On the other hand, communicative competence can be developed at any age through study and practice.

2. Literature review

In order to achieve the aim and objectives of communication, the style of communication has to be adequate to the interlocutor [2]. During the time, the interests towards communication and its effects in the organizational life led to the appearance of a lot of theories and patterns and the number of scientific researches increased constantly each year. So, they have come to the conclusion that it is very important to have an open communication between managers and employees [3] in order to maximize the efficiency of the organization through transparency and communication [4]. Researchers' preoccupations in communication targeted towards other aspects like: communication as an occupational discipline [5],

managerial efficiency [6], leadership [7], organizational communicative improvement programs [8] and so on. In order to realize a detailed analysis of the organizational and managerial communication it is necessary to broaden the approach of the researchers by integrating theory and practice [9].

Communicative competences and their features related to managerial efficiency are actually instruments of evaluation of the managerial talent, are the ones that make the difference between a good manager and a so called one. If a manager knows how to communicate, he will win the trust of his coworkers [10] and will have a positive influence on the environment where he works. Perfection in communication can be obtained by organizing from time to time a training program for all the managers or the ones that are related to communication in the firm.

No matter of the communication form or technique, the most important aspect is efficiency [11]. An important feature of the managerial communication is the nonverbal communication [12] through which they can send relevant information to the receivers. Very important is also the way the manager talks to the employees [13] especially if the firm has recently passed through a major change, the aim of the messages being the one of reducing the incertitude towards the new strategy [14].

3. The research methodology

The quantitative empirical research results presented in this paper is a part of a larger research applied in a poll.

The data was gathered through interviews using the face to face investigation technique.

The instrument used to gather the data was the questionnaire which besides the identification data also contained a number of 10 questions related to communication features and the importance of abilities in communication of the managers of the firms that took part of the poll and was applied to the people with leadership and decision function on all three managerial levels.

This part of the questionnaire was adapted according to the features of the efficient negotiator [15] and the meaning difference was used, the four level choice.

The research unit is set as being the person with the leadership and decisive function in the firms that took part in the research: team leaders, supervisors, managers, department leaders, consultants, general managers and compartment managers.

The observation unit is represented by companies from Dambovita County, mainly based in Targoviste.

The period used to gather data by interviews was January – August 2012. The data were process in a data base as Microsoft Excel sheets.

We appreciated that a better image of the information extracted by the poll is give through medium average of the subjects' estimations. That is why it was calculated the medium score for each type of answer to the 10 questions related to communication process using the formula:

$$\bar{X} = \frac{\sum x_i * n_i}{\sum z_i}$$

Where:

x_i = relative frequency,

n_i = the grade given by the subject

z_i = the total answers.

The study had the aim the analysis of the managers' attitude toward the importance of communication abilities.

Presumptive hypothesis of the research were:

I – Dambovita's managers show a moderate interest towards communicative competences

II – managers underestimate the importance of abilities in communication.

4. The dimension and structure of the sample

The study was realized on a representative sample of 360 firms from each CAEN domain using a random simple scheme.

The sample structure according to the Dambovita Register of Commerce [16] data is representative for the real distribution at the county level (diagram 1).

It was applied 400 questionnaires to more than one manager in few bigger companies and 394 were validated.

To establish the size of the representative sample in order to gather significant statistical data the formula Taro Jamane,

method that starts from the whole number of people without taking into account the characteristics of the population and is recommended for small groups:

$$M_E = \frac{N}{(1+N*e^2)}$$

Where:

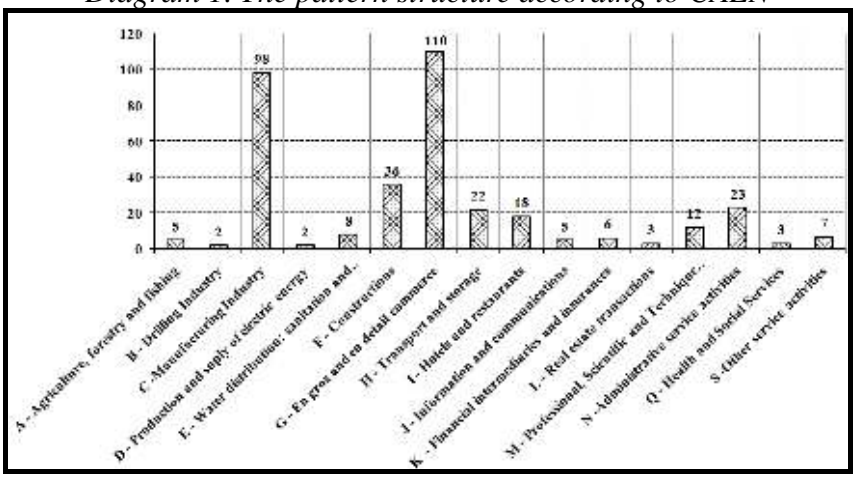
e = is the maximum admitted error,

N = is the measure of the studied group.

The maximum admitted error degree considered is 3%.

The targeted group is represented by all the companies having a number of employees between 10 and 49 from Dambovita County, that means 602 firms.

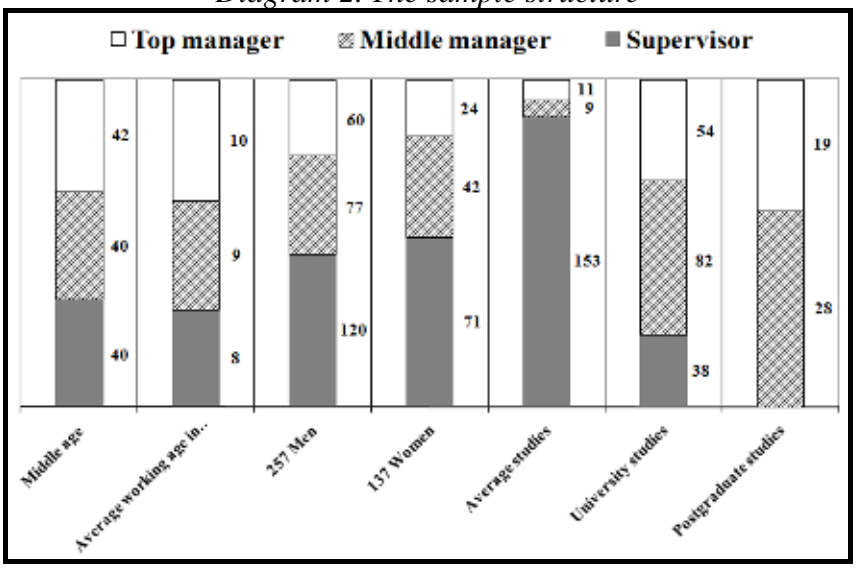
Diagram 1. The pattern structure according to CAEN



Source: Register of Commerce data base for County Dambovita, 2012

The 394 managers questioned in the study form a similar sample that reflects the reality of the Dambovita County (diagram 2).

Diagram 2. The sample structure



Source: Collected subjects answers

With the average age between 40 and 42 and the 257 men and 137 women managers, they have an average age in the firm somewhere between 8 and 10 years.

From the educational point of view, from the first line managers or supervisors (191) that took part in the research, 80.10 % graduated average studies.

Managers of middle level (119) in 68.9 % graduated university studies or postgraduate (23.52%).

From the 84 top managers 64.28 have university studies and 22.61 % have post graduate studies.

The education level of the sample we used is: 44.16 % with bachelor degrees; 11.93 % master degrees or similar and 43.91 % with average studies.

5. The results of the research

For a better clarification of our respondents' opinions, we sought to clarify the importance of communication needed and effective skills in uncertainty and complex circumstances.

We asked the questioned managers to tick according to their importance characteristics of the communication abilities evaluated on a scale of 4 points from 1- unimportant to 4- very important. In the table below we have noted with R- the total response, with n- the absolute frequency and with % - the average.

Table 1. The importance of abilities in communication

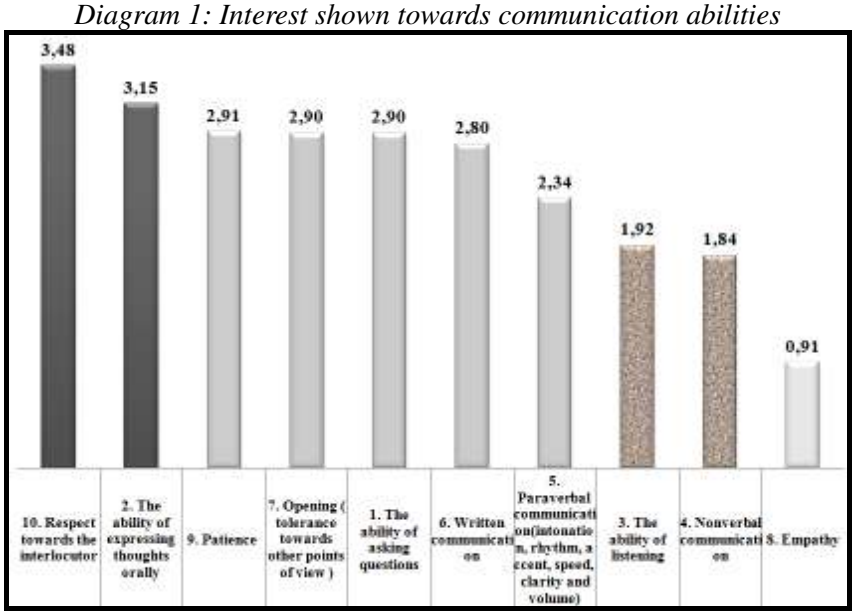
	R	4		3		2		1	
		n	%	n	%	n	%	n	%
1. The ability of asking questions	394	72	18,27	24	62,44	58	14,7	18	4,57
2. The ability of expressing thoughts orally	394	152	38,58	184	46,70	41	10,41	17	4,31
3. The ability of listening	394	21	5,33	36	9,14	28	71,8	54	13,71
4. Nonverbal communication	394	42	10,66	58	14,72	19	48,4	10	26,14
5. Paraverbal	394	67	17,01	10	25,89	17	43,9	52	13,20
6. Written communication	394	12	30,71	14	37,82	87	22,0	37	9,39
7. Opening (tolerance towards other points of view)	394	162	41,12	114	28,93	76	19,29	42	10,66
8. Empathy	394	18	4,57	55	13,96	61	15,4	26	65,99
9. Patience	394	16	41,37	10	25,63	96	24,3	34	8,63
10. Respect towards the	394	23	58,63	12	31,73	36	9,14	2	0,51

Source: Poll out survey data

Because all the answers received were extremely varied in evaluating a single communicating ability, we chose that our analysis is better to show the average score.

Managers' attitude towards communication skills can be easier seen in the diagram below:

Diagram 1: Interest shown towards communication abilities



Source: Poll out survey processed data

The answers show that two of the ten characteristics: (1) respect towards the interlocutor and (2) the ability of expressing thoughts orally; were considered **very important** for communication getting average scores between 3.48 and 3.15.

Most of the managers (90.36%) think that respect is the main ability that facilitates good communication; among the answers a very low percentage (0.51%) considers it unimportant. So the ability of verbal expression of thoughts is appreciated by 85.28% of the managers as being the second best ability and very important for communication; only 4.31 of the respondents consider it unimportant.

Five of the features enumerated in the questionnaire were evaluated as being **important** for communication and got the following average scores: patience (2.91) opening and ability of asking questions (2.9), written communication (2.8) and para-verbal communication (2.34).

Patience is appreciated in a percentage of 67% very important and important, only 8.63% of the respondents think it is unimportant.

Opening in communication (tolerance towards other points of view) is appreciated in a percentage of 70.05% very important and important, 10.66 % of the managers think it's not important.

The ability of asking questions, the third characteristic important for communication was appreciated by 80.71% of the respondents as very important and important and 4.57% think it's not important.

Written communication in 68.53% was appreciated as very important and important and 9.39% appreciated it as unimportant.

The last of the five communicative abilities of the group appreciated as important is para-verbal communication appreciated in 57.11% as being a little important or not important. Here, the appreciation towards the value of this feature for importance is lower, (42.89%) but very close 50 % made the average score to maintain between 2 and 3 points.

Active listening (1.92) and nonverbal communication (1.84) were evaluated **less important** abilities for communication.

Listening capacity is less important or unimportant for 85.54% of the responders, only 5.33% step it as very important.

Nonverbal communication is a little important and not important for 74.62% of the respondents, only 10.66% appreciated it as very important.

Considered as **not important** as communicative ability, the empathy got an average score of 0.91, the respondents appreciated in an average of 81.47 % that it is unimportant and a less important, only 4,57 % thought it is very important.

6. Conclusions

Out of the ten communicative abilities presented to the managers that took part in the survey, seven were appreciated as being important or very important the other three were not taken into .account.

From the point of view of the specialists in communication each of the features is important but the level of importance is varies according to the context of communication.

The resulted difference can only show that managers underestimate the importance of abilities in communication and so it confirms the second hypothesis of our study. This conclusion is supported also by the other results of the survey that shows managers interests for the practical abilities of the employees.

We can also conclude that that these answers show incomplete knowledge of what communication and communicative abilities are so, a not very big interest for this subject.

Not being major priorities of the questioned managers like the financial aspects of the company, the state of the national and international economy, the administrative and law chaos and so on, we can say that Dambovita's managers show a moderate interest towards communicative competences and so it confirms the first hypothesis of our study.

For the managers that are aware that it is necessary to keep up with the time we live in, we recommend:

- Permanent development of communicative competences for study and practice;
- Use of all the communication channels exploiting technology of the communication.
- Preoccupation for periodical organization of training and improving communication skills programs in their company.

It is the easy way to put in the shadow a topic and than to throw all the blame on a on it as "bad communication".

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Mergers & Acquisition Trends on the Romanian Investement Market in 2013

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Abstract

The value of the mergers and acquisition market doubled last year, reaching 788 million dollars, although the number of the transactions diminished as a comparison with 2011, according to Ernst & Young [1]. The same audit company is estimating an increase of the mergers and acquisition market, especially coming from privatizations, financial sector and energy.

Key words: merger, acquisition, investment market,
J.E.L. Classification: M21

1.Introduction

Net or new investments are represented by the expenditure for assembly works, construction, installations, equipment and transport means, other expenditure for creating new fixed assets for developing, modernizing, rebuilding the existing ones as well as the value of services related to the ownership transfer of the existing fixed assets and lands paid from other units (like, for example the notary duties, commissions, transport, loading and unloading the expenditure).

The research method used for this article is the method of observation, as a main method presented according to the methodology of the research. The happenings on the investment market were firstly observed, then gathered, summarized and written. In the time period of economic crisis faced, there are only few major investments left to be concluded, some of them coming out as a result of past major investment projects performed

Although the number of the investment transactions diminished slightly in 2012 compared to 2011 (114 transactions during 2012, in comparison to 120 transactions during 2011[2]). This increase was assured by doubling the average of the transactions for which the values were made public.

Despite all the instability and confusions, despite the macroeconomic situation, the year of 2012 was a good year for the mergers and acquisitions market [3]. The most important transactions took place in business sectors like agriculture, electronic commerce, renewable energy and real estate. The investments came from the following countries:

- USA – 8 transactions
- France – 5 transactions
- Cyprus and Great Britain – 4 transactions each
- Germany and Canada – 3 transactions each.

Germany, as main investor, was replaced by the USA.

On the other hand, there was no Romanian investment outside the Romanian borders, called outbound investment. This is a clue to the fact that the local players are no longer interested in outbound, but they keep their focus on consolidating the business inside our country. The most appealing sectors, depending on the announced values of the transactions, were the real estate sector, retail sector, production, fast moving consumer goods, energy and mining.

The year 2012 meant also an increase of the number of transactions with strong companies, but also continued the tendency from 2011 and 2012, when the companies being in insolvency or being in other difficult situations were dominating the local transactions.

If we take into account also that in 2012 the biggest transaction from the last 2 years was accomplished – the producer of chemical fertilizer AZOMURES was bought by the AMEROPA HOLDING. With this big

transaction, the trust of the investors in the Romanian economy was reinforced.

2. Trends on the Romanian market

If during 2011, the Romanian mergers and acquisition market were equally split between the foreign investors and the local ones; in 2012 the foreign investors had 54% market share. The percentage for the foreign investors is higher and this indicates that the Romanian investment market presents a high interest for the investors coming from abroad. They are seeking for attractive opportunities to invest in.

Even since the financial year 2009, an important role for the investment market of Romania was played by the World Bank. Its role was a major one, because the involvement had great impact on defrosting the way Romania was perceived abroad. World Bank has assisted the Romanian Government in designing and implementing the crisis response, strengthen capacity for improved governance, and provide detailed advice on key reforms.

World Bank will involve also to strengthening the procedures inside the General Secretariat of the Government and Ministry of Public Finance in order to assure that new policies are approved only when financing is available over the medium level.

A sector that will be developed during the future, a project already approved by the World Bank is the transport sector. The World Bank officially approved the national transport sector strategy, and this translates into the approved investment program for the coming years 2014 - 2020 and the 2013 and 2014 proposed budgets.

The percentage of the investments private equity type has decreased, almost at half, from 35% in 2011 to only 18% in 2012. This decrease underlines the difficulty of foreign investors to identify interesting objectives in Romania to the extent of their portfolios and also focusing on selling the portfolio companies owned for a very long time.

3. Previsions for 2013

In 2012 the mergers and acquisition market registered a dynamic tendency, tendency that continues in the beginning of 2013 also. This trend will be supported by the wanted political stability and by the privatisation process that will be restarted, as well as the waited transactions from the financial sector and of the renewal energy sector. From this point of view, for sure 2013 will be better than 2012.

The first quarter of the year was very promising for Romania, because several major foreign investments, in amount of over 2 billion Euros, were announced. These investments will be made in industries like agriculture, wooden industry, and alternative sources of energy.

Investors should stick with stocks. Patient investors can pick up bargains during periods of weakness -- of which there could be plenty in early 2013, when things will likely be messy in Washington and on Wall Street. But with economic disaster averted overseas, and as the clouds of fiscal uncertainty at home begin to part later in the year, the corporate profits can continue to grow modestly on the back of good-enough economic growth. Cash-rich companies that can manufacture growth in a tepid economy will deliver the goods to shareholders.

In the following, several examples of investment are given, for the year of 2013.

4. Investments on fuel market

OMV Petrom will invest until 2015 approximate 200 million Euro in redeveloping of the mining located in Suplacu de Barcau [4], in order to unlock some supplementary reserves of coal, according to the declarations of the company's representatives.

OMV Petrom is operating with highly mature veins and lately, OMV Petrom succeeded in reducing the rate of the decline of the production to approximate 1% per year. In the present, in the present moment, the company supplies approximate 40% from the needed crude and gas in Romania. The projects for the development and the investments in innovation are and will always be essential in order to maintain the production on a stable level.

5. Austrian Group opens a fifth branch in Romania [5]

The Austrian group Holzindustrie Schweighofer made it public: they are going to invest around 150 million Euro, in a lumber plant that is going to be build in Reci region, near Covasna County.

The plant is going to be functional starting next year and will assure work places for approximate 650 people. This is going to be the fifth production unit owned by the Austrian investor in Romania.

6. Chinese competitors on wireless and routers market and on energy market

TP-LINK, worldwide and local leader on wireless routers is opening its representative office together with a logistics centre in Bucharest city. The centre will act as a regional hub that is going to assure the distribution and the technical support for TP-LINK products for the users from South-Eastern Europe. The branch located in Bucharest will be organised and will function as a limited liability company, having a social capital in amount of 1, 6 million Romanian Lei and, for starters, will have 10 employees. Up to the end of the year, a call-centre will follow, for which additional hiring will be done.

Company China Huadian Engineering will invest over one billion Euros to construct a new group in addition to Rovinari thermo plant located in the Energetic Complex from Oltenia region. The project developed by the Chinese in Romania will add a capacity of 600 de MW to the existent power.

7. The biggest photo-voltaic park in Romania

Promocion Inversolar 65 from Spain will perform an overall investment of 100 million Euros in what it is going to be the biggest photo-voltaic park in Romania and one of the biggest in Europe (having around 200 hectares). Also, the park has 317.000 solar panels and it is almost ready to function near Sebes, in Arad County.

The park has a total power of 65 MW and this power could satisfy the needs for 100.000 inhabitants. This project created 700 work places.

8. Investing in a technologic centre built in Cluj

It is not easy to start constructing a town, due to the economic contextual reasons, but, if the available funds can be invested, every dream becomes true.

A little town similar to Silicon Valley will be built in Cluj County, as a result of an investment of 300 million Euros [6]. The town is going to be spread over 300 hectares. Many IT companies and apartments for IT specialists are going to be build here. The technologic centre will be ready within the end of this year. The project includes also a business accelerator, for entrepreneurs and for business ideas. The works to the Romanian reproduction of the American town started from March and are estimated, in the first stage, to 10 million Euros.

This means soon enough, Cluj will have its own Silicon Valley, no need to travel to America to enjoy a walk; this will become possible after the construction phase will be finalised.

9. Michelin plans to expand his business in Romania

Michelin is operating in over 170 countries, has 113,443 employees, Net Sales of 21.5 billion Euros.

The famous tyre producer Michelin, with a turnover of 500 million Euros and 2 billion (of which two-thirds were growth investments) invested only during 2012, released the information that intends to invest [7] in a marketing centre located in Bucharest that is going to be opened till the end of 2014. This branch is going to coordinate the entire marketing activity in Bucharest. Furthermore, the French producer takes into account opening a new plant in Zalau.

Michelin is present on the Romanian market since 2001, and, in the present moment, owns three plants, all producing tyres.

10. Conclusions

Although the mergers and acquisition market finds itself still in crisis, the investors are still interested in high returns on investments. Many transactions took place and many more are waiting to happen. The investments made with the help of the mergers and acquisition continues, even if it

is done with less impact as in the past. This situation is temporary, due to the economic restrains, according to the specialists, that expect the market of mergers and acquisitions to expend to the extent of glorious years of the past.

The tendencies on the investment market are hard to be predicted. The investors tend to select very carefully the companies and projects worth invested in. Due to the economic crisis, the investment options remain limited.

One can never predict with great accuracy what the future has in store, but, analyzing the figures, it is clear that things are still happening, even if not to a big scale, as it was the case in the past.

Prospects for foreign direct investment continue to be full of risks and uncertainties. The flows of the global foreign direct investment exceeded pre-financial crisis in 2012, but the recovery is expected to level of in 2013. Despite record cash holdings, transnational corporations have to convert available cash into new and sustained foreign investment, but are very unlikely to do so while the instability remains on the international financial markets. Even so, half of the global total will flow to developing and transition economies, underlining the important development role that the foreign direct investments can play, including here even the least developed countries. A broader development policy agenda is emerging and has inclusive and sustainable development goals at its core. In what concerns the investment policy, this new paradigm poses specific challenges.

At the national level, it includes integrating the investment policy into the development strategy, incorporating sustainable development objectives and ensuring relevance and effectiveness.

At the international level it is necessary to strengthen the development dimension of international investment agreements, manage their complexity and balance the rights and obligations of States and investors.

In the end of 2013 the image of the mergers and acquisition market will become clearer, the amounts transferred will be public released and the comparison could be made. One thing is for sure: the investors have the sums; they are just waiting for interesting opportunities to be issued.

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Social Networks – Challenge and Oportunity in the Development of Personal Brand Marketing Strategies in the Virtual Environment

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Abstract

"Personal brand" is a popular present-day marketing term, and what makes it of interest are mainly its two components: on one hand, the individual, and on the other hand, marketing itself. In the circumstance in which every brand has its own strategy, that every one of us builds more or less consciously, it becomes necessary to somehow translate the strategies employed for developing, strengthening, and maintaining brands, from the organizational level to the individual level.

This paper suggests a case study regarding employing the means available through social networks such as LinkedIn, Twitter and Facebook within the Romanian cultural space, intended for developing one's own personal brand.

Keywords: Personal brand, virtual environment, social networks, career, personal development.
J.E.L Clasification.: M31

1. Introduction

Simultaneous with the development of IT, the Internet has become the most utilized communication vector in developing an efficient personal brand related to the individuals' personal development. Specialized literature reveals the fact that the history of the "personal brand" concept is comparatively brief, since its beginning is quite recent by comparison to the onset of the first signs of general marketing.

The originality of the present paperwork derives from the novelty and the character of neologism of the "personal brand" concept.

2. Literature review

The need for developing a personal brand through social networks, as a component of a larger strategy of developing the personal brand consists in the following reasons: through the Internet the individual identity can be made public, projecting it in for directions: who you are, what you do, how you do it, where are you aiming at [1]; moreover, the personal brand is something that no one can deprive you of, and cannot be detached from you [2]; from the financial and economic viewpoint, regarding developing businesses, the employees' personal brand may attract stakeholders [3]; the personal brand is one of the chief instruments that can confer a stable competitive advantage on the human resources market[4]. Brand and brandings are omnipresent and universal [1].

Moreover, a study presented in [5] reveals the fact that people make use of the appropriate social network profiles in order to get online information on companies, products, or brands.

According to [6], social media represents a series of activities, practices and behaviors

carried out between communities that convene on-line in order to share information, knowledge and opinion by means of mass media. Social media marketing is different from traditional marketing, therefore it requires special attention and a strategy in order to attain the trademark image and loyalty.

4. Objectives and method

The present study aims to highlighting the way in which social networks are employed by young people between the ages of 18 and 35, residing in Romania, of high school or university level training, for the purpose of building personal brands.

The study was built based on 1.900 questionnaires, 1.856 out of which were declared valid. The questionnaires were implemented in one of the largest university centers in Romania- Iasi, although, beside Romanian respondents, it was also proposed to Erasmus students from partner universities within the program, from Spain, the Czech Republic, Turkey, Greece, France.

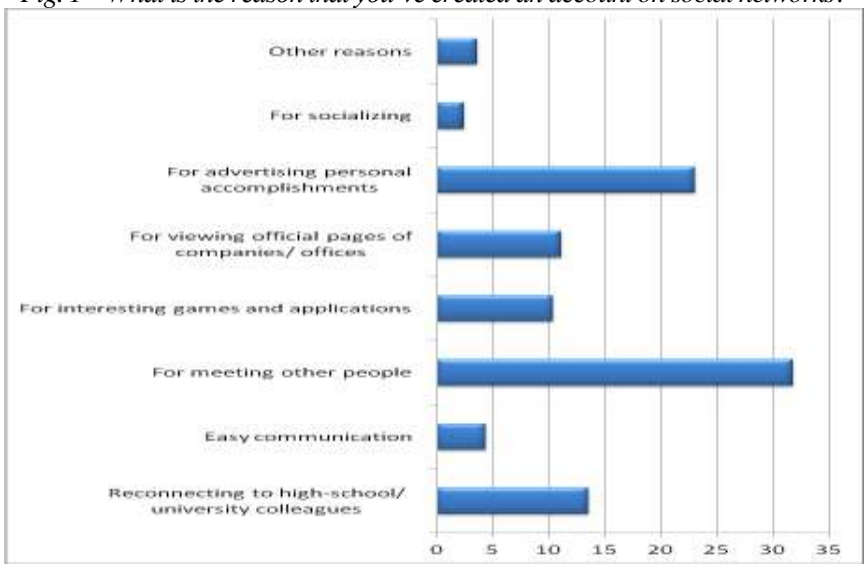
5. Results

In conceiving the questionnaire, we began from the assumption that the Internet offers the following advantages:

- constantly provides information to and from clients;
- financial resources necessary for communicating over the Internet are comparatively low;
- it is working 24/7 - a maximum of availability

Fig. 1, related to the motivation behind the creating an account one or more social networks, reveals the following: the main reason for creating such accounts is that of meeting other people, the reason why a social network is there in the first place. The second reason pointed by the respondents on this question, of an approx. 18% is accessing games and applications on the respective social networks. 20% of the respondents are making use of their account on social networks for viewing official pages of companies or professional offices, fact that may be classified as strengthening companies' brand.

Fig. 1 – What is the reason that you've created an account on social networks?



Once we know how much time those in question spend on social networks, a most important feature of our scientific approach is identifying where the users log in to social networks, situation shown in fig. 2. Thus, nearly half of the respondents log in from their home computer/ laptop. That signifies the fact that, in most cases they may upload personal information to their accounts, such as pictures and movies, in a relaxed state of mind, and having time available. A quarter of the respondents access social networks from their mobile devices, which implicitly leads to lack of constraint from several viewpoints: they may connect from anywhere, at any time and they make take advantage of Smartphone

technology gadgets and they may upload authentic pictures and movies instantaneously. A mere 16% connect from work, mostly for reviewing news/ novelties.

Fig. 2- Where do you usually access your social networks accounts?

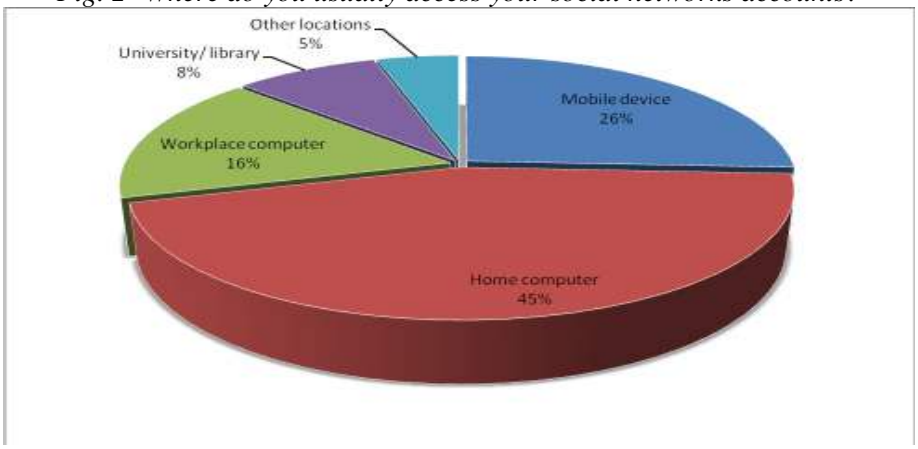
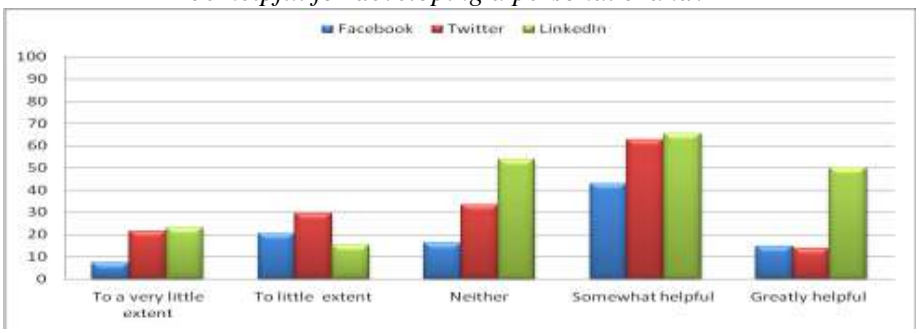


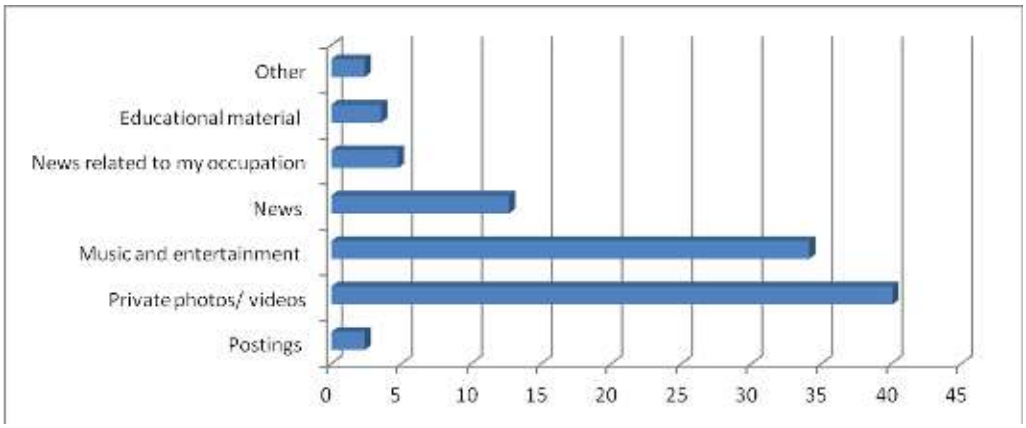
Fig. 3 illustrates what respondents believe regarding the extent to which posting certain information on social networks may ease their developing a personal brand. Thus, most of those questioned believe that most helpful may be the information of Facebook, ranking second yet at little percentage difference is the Linkedin account. Least helpful proves the Facebook account, just little over 10% considering that information posted there may help develop a powerful personal brand.

Fig. 3 - To what extent do you believe your account on either of the following social networks may be helpful for developing a personal brand?



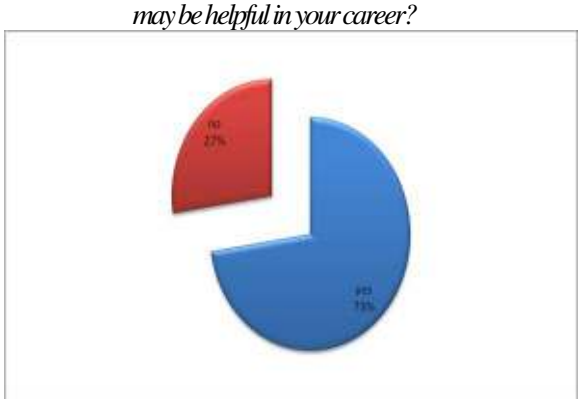
From the viewpoint of creating, consolidating and strengthening personal brand through social networks, we've also questioned the participants in regard to their interests when accessing other people's accounts as visitors, results being shown in fig. 4. Thus, some 40% are interested in picture and video postings, of those whom they visit, which implicitly leads to developing personal brand, based on private information posted on social networks. A little over a third of the respondents are directly interested by music or entertainment postings on friends' pages. Some 12% are interested in news previously accessed by friends, whereas a mere 4% follow news related to their field of activity.

Fig. 4- What are the aspects you are interested in when visiting other people's accounts on social networks?



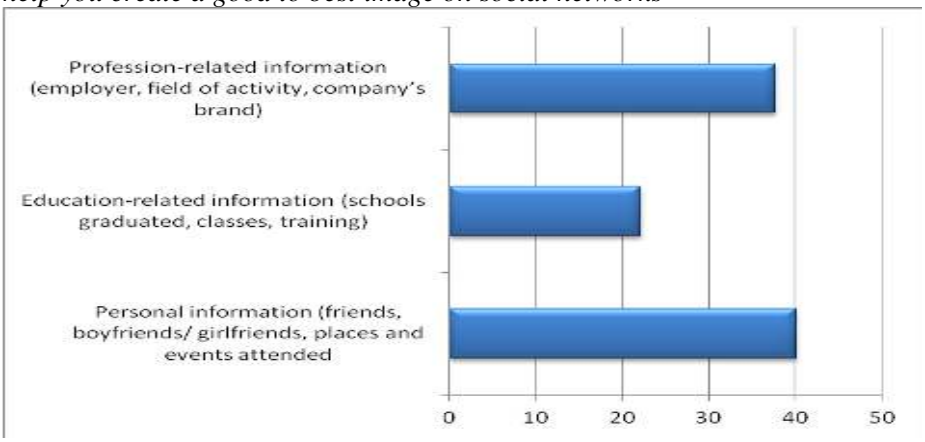
Since personal brand does not necessarily means a career, the last question posed within the study refers specifically to this aspect, in a way that the respondents are urged to express their opinion regarding the fact that a personal brand may or may not prove helpful in building a successful career. The results, as illustrated in fig. 5, highlight the fact that a mere 27% of them (taking into account the 3% of the respondents who do not own an account on either social network) do not see any connection whatsoever between a powerful personal brand and a successful career. Most respondents (over 70%) are aware of the fact that a powerful personal brand may represent the foundation stone for a career.

Fig. 5- Do you believe that developing a personal brand may be helpful in your career?



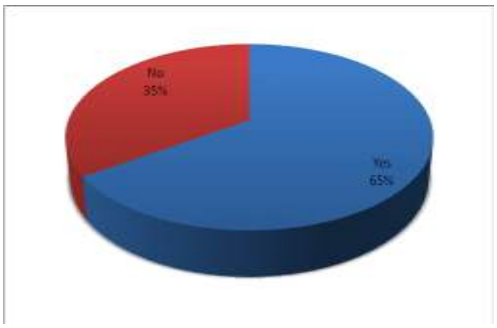
Within the context that 92% of the respondents believe that a well conceived personal brand may help the with their career, one of the points in the questionnaire referred to the nature of the information that, once posted on socializing sites may implicitly be conducive to creating a good to best image. The results are shown in fig. 6. Thus, some 40% of the participants consider that private, family-related information is that that is most helpful to draw the attention to them among friends. One third of the respondents hold on to the opinion that the profession-related information (such as job, employer, possible promotion, position, etc) may have positive impact on friends, whereas a mere 20% believe that education-related information regarding courses pursued, schools graduated, trainings they took part in, might play a role in creating a favorable image for them.

Fig. 6- Please choose a single type of information from among those listed below that you believe may help you create a good to best image on social networks



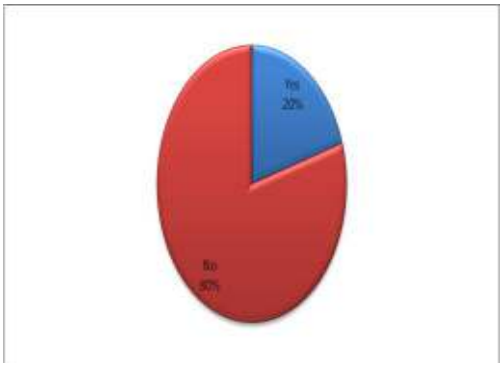
Considering also the scenario according to which there is a chance that a solely Internet-based personal brand may have a mostly virtual component, detached from the near reality, we questioned participants to the studio also in regard to posting fake information or omitting some truths on social sites. The results are shown in fig. 7 and they confirm the hypothesis of a fake personal brand on social networks, since about two thirds of participants in the study, owning accounts on at least one social network, have at least once posted fake information on themselves.

Fig. 7- Throughout your activity on social networks, have you ever lied or posted fake information?



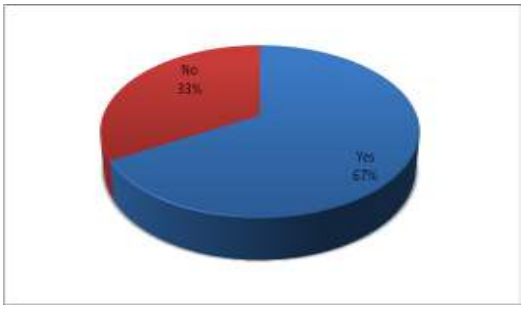
Correlated to the previous question, fig. 8 shows the responses related to declining real identity within the virtual environment. One may notice that at least 20% of the respondents have at least once declined their real identity over the Internet, on their accounts on social networks.

Fig. 8 - Have you ever pretended to be someone else on any of your social networks accounts?



Given that within the online environment there is also a possibility of transferring brand capital from the employer to the employee and vice-versa, one of the questions within the study referred to the fact that, provided the existence of social groups made of employees of certain companies, what is the percentage of respondents who belong to such groups. The results, as shown in fig. 9, indicate that 67% of social networks users participating in the study do belong to such groups (we note the fact that some 79% of the respondents to the questionnaire work full-time).

Fig. 9- On either social network, do you belong to any group made of co-workers?



6. Conclusions

The implicit conclusions of this study may be extrapolated and formulated thus: the majority of people targeted by the study own at least one account on at least one social network such as Facebook, Twitter or LinkedIn. This aspect emphasizes once more the idea that one may create, consolidate, and communicate a personal brand by means of social networks.

We conclude to the present study that most respondents are aware of the impact and the general importance of personal brand, all the more of that of personal brand, which in most cases they associate to "a good or a very good image" in the eyes of friends. By ranking the type of information that in the general opinion would implicitly lead to a powerful personal brand, we are deriving the following classification: personal information, profession-related information, and lastly, education-related information.

We notice a general awareness regarding the veracity of an exclusively online personal brand, built on social networks (at least 20% have declined their true identity on social networks and at least 65% have posted fake information).

Regardless of the fact that most respondents perceive the developing of a personal brand as an opportunity for developing their career, most of them relate to it in a domestic, non-professional fashion; they connect to social networks for relaxation, mostly from their home computer, posting private information, and besides, they are following on acquaintances' social websites the same type of information-mostly personal, family-related.

Based on the information acquired, we may refer to a mutual transfer of image between companies' that the respondents work for brand and personal brand, provided that over a third of those employed belong to employees' groups.

The initiators of this study aim that in the near future extrapolate the study at European level, for the purpose of achieving a comparative study regarding the Romanians' and the Europeans' perception concerning the creation and development of personal brand by means of social networks, considering a series of particularities that would be defined at the moment of implementing the project. It is also perforce that later on, a similar study should be applied to a sample group representing top employers, to be able to make a connection between what is being offered to, and what is expected to be gotten by employees.

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Particularities of the Marketing Communication Strategy through Social Media

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Abstract

Consumers are confronted daily with dozens of decisions on buying a product and more than ever they refer to Social Media as the main and most important source of information and impressions from consumers worldwide. This article tackles the issue that companies nowadays still struggle with: understanding, properly using and incorporating Social Media marketing efforts into the overall marketing communications strategy. Moreover, it presents the particularities of communicating through Social Media instruments, as well as the advantages and disadvantages of using such online communication environments, thus offering companies a comprehensive guidebook on this matter.

Key words: Social Media, marketing communications, strategy, Web 2.0, word-of-mouth.
J.E.L. Classification: M31

1. Introduction

Communication through Social Media differs from traditional communication by the fact that the results are not achieved immediately. To lead a successful Social Media campaign, the company should allocate resources specifically to deal with these online environments and strive continuously.

After launching the company's presence via this online channel and entering into a social network, the challenging part starts, actually supporting interactivity. In order to build a long-term, sustainable relationship with the consumer, based on credibility, the company must prove continuous involvement. Only this way will it be able to capitalize on the positive effects of using Social Media marketing.

The development of Web 2.0, the Social Web, means that the Internet is not just about search anymore, but about social context, hence the growing importance of the word-of-mouth. Taking into account the fact that search is free online, consumers' efforts are reduced to a minimum and the information available is practically endless, favoring a quick and easy access. Internet search can be a step in the buying process or it can be a continuous activity, done by the consumer out of the pleasure of gathering information about a certain product or type of activity, service [1].

The online information sources can be classified in two major groups:

- Personal sources: user generated content, potential consumers;
- Impersonal sources: generated by the company.

The less knowledge a person has of a certain area, the more he will search and trust personal sources. Increased use of the Internet and Social Media has led to the evolution of a new communication channel for companies. This is practically a new opportunity for companies to reach more people through their messages, right where and when they actually start searching. Therefore, companies can have a proactive approach towards consumers and be closer to them.

In a Social Media Examiner research [2] on 3300 U.S. marketers, the author points out that companies have finally realized the importance of Social Media: 90% of the

interviewed marketers said that Social Media was important for their overall marketing communications strategy. However, almost half of them have an experience of less than a year with this kind of online communications channel.

Companies use Social Media with two main goals in mind: some wish to promote or sell online, without having as final objective online word-of-mouth generation, and others clearly define this objective.

A great example where the online marketing strategy objective was to generate word-of-mouth was the famous online prints campaign from BMW, Audi and Subaru that turned into a viral success, propagating it rapidly worldwide.

They created such a big buzz that afterwards a Bentley print appeared in response to the three. But no one knows if it is really true, as the print is considered to be too obscene to actually belong to the company. What should be highlighted in this campaign is that through these series of prints, such intense online word-of-mouth was generated that even after a few years the campaign was remembered by consumers.

Social networks, generating online word-of-mouth, are a very useful instrument in the overall marketing communications strategy. Moreover, the companies should at least monitor and react to negative online word-of-mouth more often than offline word-of-mouth, because dissatisfaction with a product spreads more quickly and generally, dissatisfied consumers will vocalize these feelings as opposed to satisfied consumers, who publicly express their delight with a product less frequently.

2. Rules for generating positive online word-of-mouth

In order to generate positive online word-of-mouth companies have to follow three general rules [3]:

- To communicate a clear and interesting enough message as to be spread, that means to create "buzz";
- To choose and contact a relevant group of influencers, out of the three previously identified types [4]: "Social Broadcaster" type, "Mass influencers" type and "Potential influencers" type.
- To choose the appropriate channels for broadcasting the message. According to Daedalus Millward Brown [5], each social network has its own specific image, with which the company will automatically be associated, once it has an active account on that network. For example, Twitter is associated with self-development, achievements, innovation, leadership and Facebook is associated with stability, sense of belonging and feelings.

The second rule can be put into practice correctly by companies only after having an in-depth knowledge about the groups of influencers. The "Social Broadcaster" type (1% of Social Media users) is made up of influencers with a very broad audience. For example, bloggers with a very high number of followers (people that read every new post). According to ZeList [6], the most influential blogs in Romania are: umbrelaverde.ro, bookblog.ro, tudorchirila. blogspot.com. The "Mass influencers" group (16% of the Social Media users), generate approximately 80% of the impressions and opinions about products.

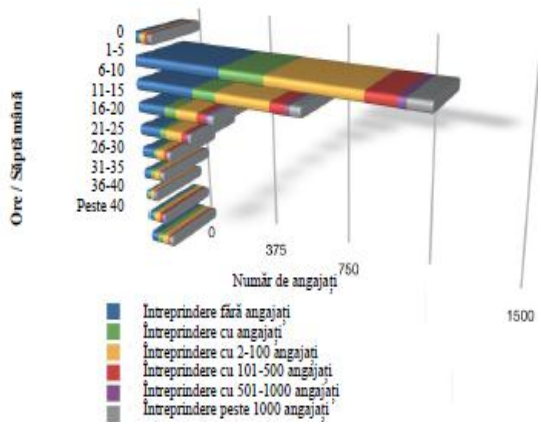
The "Potential influencers" group (83% of the Social Media users) consists of regular consumers who can have an impact on their family, relatives or friends.

Nowadays, the Social Media instruments with most users and which are also used by companies in their marketing communications strategy are: Facebook, Twitter, LinkedIn and blogs [7]. One can easily see that the first three are from the social networks category.

3. Particularities of marketing communications using Social Media instruments

A particularity of the communication using Social Media instruments refers to the relationship between company size and the time invested in social media marketing [8].

Figure 1. The relationship between company size and the time spent on Social Media



Source: Stelzner Michael A., 2011 Social Media Marketing Industry Report, Social Media Examiner, April 2011, pg. 14

Therefore, there is an inverse relationship between the size of the company and the time invested in Social Media. This could be explained by the fact that a smaller company has a lower marketing budget, hence a lower communications budget. Therefore, it will try to seize every opportunity that has a low cost.

Taking into account that using Social Media is practically free, a small company will focus heavily on using it, especially since Social Media instruments can possibly reach many potential customers (of course, depending on the specific company and segment of customers addressed). Nowadays, however, large companies tend to use more traditional communication channels. The main reason for this would be that they are used to these channels, can predict the results that can be obtained from the campaign, and the budget is not necessarily a problem for them, as opposed to small businesses that have much lower budgets.

For an online word-of-mouth campaign, the company must target key influencers and provide them with the product so that they can try it and see its benefits. The influencers will spread word-of-mouth further in their networks of friends. It was found that an influencer affects the views of 14 people [9].

A survey [10] conducted in 2006 in the United States showed that word-of-mouth influences to a greater extent the purchase intention when it comes to fast-food's, flu drugs and breakfast cereals. Conversely, online word-of-mouth influences to a greater extent the purchase intent for technological products and computers. Some of the reasons identified for these specific product categories, for which the influence on the purchase intent is performed online are specialized sites and product ratings.

Daedalus Millward Brown urges the use of Social Media and explains, "You have to go where the consumer is" [11]. As arguments, they claim that on social networks people are much more open and transparent, so they are much more likely to express their true opinion about a brand.

In essence, the marketing communication activities conducted on Social Media for generating word-of-mouth have unique characteristics that other communication methods do not possess. Consumers have the greatest confidence in word-of-mouth, word-of-mouth spreads ideas more quickly, and the information generated from word-of-mouth are in the context of a story, therefore allow the proper interpretation of each consumer's way of thinking. Last but not least, a satisfied customer shares that feeling with 3-5 friends, yielding an exponential spreading of the message [12].

4. Advantages and disadvantages of using Social Media instruments

Michael Stelzner identified the following advantages of using Social Media instruments in the overall marketing strategy of a company [13]:

- Creates business exposure;
- Increases website traffic;
- Better ranking positions in the search engines;
- Develops new partnerships;
- Reduces marketing costs;
- Generates increased turnover.

The advantages identified by Michael Stelzner don't include a series of strengths of Social Media, among which the main is to generate word-of-mouth and to monitor it.
Other advantages of using Social Media instruments are: to increase awareness and improve brand or company image or to create a bond with customers and to receive feedback from them.

If not used properly, Social Media can also create disadvantages for the company:

- Loss of consumer credibility. Once the company has launched Social Media marketing, it should support a high level of interactivity with customers or else risk losing credibility with consumers;
- Generating negative word-of-mouth from customers. The company has no control over the results, thus the generated word-of-mouth can sometimes be negative. Therefore, the company can be exposed to "attacks" from various dissatisfied consumers. The propagation of negative word-of-mouth on the Internet is more intense and lasts longer, as people's comments are being archived for a long time. However, if a company has dissatisfied customers, it is better to know in advance and try to solve the problems,

before they have a huge impact on sales.

5. Conclusions

Consumers have always relied on the recommendations of family, relatives or friends when they made the decision to buy a product or service, but word-of-mouth began to have a more important role in recent years due to the emergence and intense development of Social Media.

Wishing to cut costs, companies have turned to alternative methods of promotion, cheaper but effective. Thus they have turned their attention to Social Media and Internet. Moreover, on emerging markets, Social Media and word-of-mouth are the main influencers in consumer purchasing decision. Therefore, we can state that Social Media's power should not be neglected in the marketing communications strategy of the company.

As a general trend, due to the fact that virtual communities are rapidly expanding, benefiting from increasingly more social environments where they can interact, there is more generated online word-of-mouth.

The trend of increasing connectivity and the desire to communicate virtually stimulates even more the need for expression of individuals, enabling them to share their thoughts and impressions about brands, products or companies [14].

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Vulnerabilities in Romanian Tourism Development

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Abstract

Once the communism was removed and our country has joined with european democracies, the change in political, economical and social regime determined the touristic sector to fall into o deep crisis.

Although Romania, in terms of tourism is considered one of the European countries with the most rich and diverse natural and human tourism resources, tourism development in our country has experienced various structural problems, which were the low competitiveness of tourism, delaying privatization, poor quality of infrastructure and tourism services.

Keywords: tourism, service, quality, privatization, fiscal policy
J.E.L. Classification: L83

1. Introduction

In terms of tourism, Romania has good potential, being considered as a future tourist destination. In this regard, the development of tourism in our country should act as a major goal and a means of overall economic and social development in the current national policy development and integration into European structures. This will be done only if it will yield significant improvements on the quality of Romanian tourism products and services.

2. Tourism development in Romania

At the beginning of this century and millennium travel and tourism industry is, worldwide, the most dynamic sector and at the same time, the most important generator of jobs. From economy point of view, tourism constitutes the main source of recovery of national economies of those countries with important tourism resources and exploit them properly.

In this context, the main arguments that determine the necessity to develop tourism, resulting in the following [3]:

- tourism resources are practically inexhaustible, tourism is one of the economic sectors with real prospects for long-term development;
- advanced management and utilization of tourism resources accompanied by effective promotion on foreign markets can be a source of increasing foreign exchange earnings, contributing to the balance of payments;
- tourism is a safe labor market and the redistribution of the unemployed from other sectors heavily restructured;
- tourism through its multiplier effect, acts as an activator element of the global economic system, creating a specific demand for goods and services that result in an increase in their production area, thus contributing to the diversification of national economy structure;
- harmonious development of tourism throughout the area of economic growth and social and mitigation of imbalances between different regions, constituting a major source of increase in household incomes;
- tourism as a means of developing rural areas by extending specific offer and create jobs in rural areas other than traditional ones, improving living conditions and increasing incomes of the local population;
- while respecting and promoting the principles of sustainable development, tourism is a means of protection, conservation and recovery of the potential cultural, historical and architectural heritage of country folk;
- the adoption of a strategy for sustainable tourism development and

enforcement of environmental protection measures, the fundamental values of human existence (water, air, flora, fauna, ecosystems, etc.), Tourism has also an ecological vocation;

- the social tourism manifests itself as an active means raising education and training and human civilization with a special role in the use of public leisure.

Romanian tourism offer is very diverse and includes the following main forms of tourism products and programs that: Romanian seaside holidays, holidays in the mountains in summer and winter treatments, spas, tours with visits to some areas of cultural and historical interest, organization of congresses, symposia, seminars, hunting and fishing activities, etc. agritourism.

Today in our country are about 160 resorts and spa towns holding cleaning mineral resources, of which 24 are of national importance spas with recognition and internationally.

Tourism development in our country has experienced various structural problems, which were the low competitiveness of tourism, delaying the privatization process, poor quality of infrastructure and tourism services.

The transition period was able to reflect all the problems facing tourism industry in Romania. If the communist regime of Romania tissue around a mystical aura of the chosen people and official speeches praised Romania's natural qualities and the quality of people who inhabit the years after the fall of communism collapsed archetypes ruthless communist discourse.

Suddenly Romania remained exactly as it was actually unusable infrastructure heiress, who places it in a slacker, and with a nationalized economy has blocked chances rapid development of important sectors such as tourism. Moreover, people and places lost their skills and chances to develop tourism in Romania were real fast at the beginning of transition but things have been convergent evolution. On the contrary, fell advantages that Romania was in the tourism sector: natural resources landscape, coastline and mountains, cultural and religious legacy of churches. Unfortunately, these are not enough attractions and tourists seeking a welcoming environment, quality accommodation, restaurants and other entertainment worth the money. None of this has not resulted in a clear travel [2].

In Romania, delaying privatization tourist facilities and the lack of fairness of the process itself, which unfortunately hide economic interests that have brought great disservice for Romanian tourism. But currently most at risk for Romanian tourism is losing start competing with neighboring states. Thus, our classic rivals, Bulgarians, known since 2002 visible progress on import of tourism, while in the case of Romania, the situation does not look good. Tourism policies in Romania have known and still know so structural weaknesses and functional. Privatization later realized, was the main cause of this stagnation. In 2003, 40% of tourist assets were privatized and, more importantly, they totaled 44% of the housing units.

Poor quality of services, all derived from delays in privatization was, is order functional weaknesses which, in a highly competitive international market, its effects are felt. Can be considered constant Romanian tourism in recent years is the poor quality of services. The number of employees increased tourism, unfortunately not training them. As a result of long storage of tourism assets in state hands, managers of tourist locations were not motivated to change staff or invest in training sessions, but rather these interim managers have delayed a fact that brought major disadvantages Romanian tourism and even their business [2].

Tourist market competition is strong, Romania's main competitors are strong countries can boast a pretty substantial advance. Thus, in countries such as Greece, Turkey, Hungary and Bulgaria in recent years, tourism has experienced an unprecedented development. Perhaps more comparable socioeconomic, Bulgaria is the country that has managed in recent years to attract foreign investment to rebuild the tourist. A clever political marketing and cultivating business relationships with Germany brought a great advantage Bulgaria. Presence in major tourist catalogs Neckermann and TUI increased the Bulgarian tourism, especially seasonal tourism on the Black Sea. In Europe generally great battle was won for those countries with access to clear water and a

varied landscape in the coast: Slovenia, Greece and Turkey.

More interesting is how Hungary, a landlocked country, managed through effective management quality and attract more customers than the Romanian seaside. Lake Balaton twice attract more foreign tourists than Romanian seaside.

Turkey, Greece and Bulgaria, are great competitors of Romania's tourism market. Tourism development in these countries has evolved linear, without much major political and economic obstacles. These countries have developed highly effective program of tourism development, which consisted in providing tax incentives and promoting the coherent state and the business involved in this sector, the realization that only by providing quality services loyal customers can be led to real development. In Central and Eastern Europe, tourism industry seems to be a profitable investment in tourism is concentrated increasingly more from western countries have realized the potential new entrants into the European Union [2].

One drawback in the development of tourism in our country is the state of infrastructure. Thus, air infrastructure does not allow a significant tourist traffic and many airports in country operază foreign markets. Road infrastructure (streets, roads, highways) and railway infrastructure puts us in a not very honorable in Europe. Few investments have been made in this area were always accompanied by a long series of delays and postponements that have brought only disadvantages of tourism development [2].

Another problem is the situation in which the spas, which are disastrous consequence management. State buildings, which tourism experts say should be replaced rather than refurbished, lack of basic road infrastructure to support tourism development and to encourage travel, tourism stagnation are causes of Romania.

In terms of quality tourism services, tourism privatization latter had negative consequences of this view. Thus, the same employees can be found everywhere careless, poorly stimulated by wages offered and a chronic lack of respect for the tourist. With privatization, the owners have realized that this is probably the most important tourism marketing, with important consequences on customer loyalty. Tourism experts say that retaining a customer / tourist costs 10 times less than attract a new customer.

Another role in the development of Romanian tourism plays local governments. Extremely important in the context of fiscal decentralization are local, as they began to play a decisive role in the progress / regress Romanian tourism. Attribute local tax collection led to the creation of a relationship between tour operators and local officials. In many resorts, public-private partnership is virtually nonexistent and this has led to the perpetuation impossible for tourism infrastructure quality standards: sewage over 100 years old, demolished road infrastructure, poor public services [2].

Regarding fiscal policy, in financial terms, the state has not done much to stimulate growth and attract quality investors. The proposed alternative would be a more relaxed fiscal policy necessary investment in tourism, knowing that tourism profits are small and only sustainable long term. In comparison, Greece and Turkey have created a very friendly environment for investors who want to develop business tourism.

In Romania, the main weaknesses identified in the tax system are [1]:

- although seasonal season lasts only three months, building or resort fees are paid for a full fiscal year;
- public services are paid twice because local government provides questionable and payers are required to manage their own infrastructure;
- excessive taxation requires tourism operators pay 14 plants and 3 local taxes (taxes are 35% of the prices of hotels and restaurants);
- tourism profit rate is 2-6% annually, one of the lowest in the economy. Hence tax fraud, a phenomenon realized at the level of authority. In Turkey and Greece, taxes are 4-5 times lower than in Romania because the authorities have realized that besides tourism sector can develop and related areas.

Reducing corporate tax Romanian economy could positively influence the Romanian tourism. Starting a consistent set of financial measures to support the economy in general and tourism in particular, would be

as sustainable singurs that the executive can take to remedy the situation.

Another aspect concerns investments and promotion policies just because money for to promote tourism are very few and European funds are difficult to access.

As recommendations, we can mention: tax reduction because the reduction would bring great benefits and investors in tourism, encouraging and developing business tourism, meetings and motivational efficiently promote Romanian tourism, Turkey is a good example where Free State promotes tourism - private or public (free for charter trips, even complete elimination of income tax, free advertising guidelines consular services and lobby state), tourism development areas (the Hungarian model) and transformation the Bucharest in central urban attraction [2]. For this recommendation to materialize, it needs restoration and rehabilitation of the old part of Bucharest entire infrastructure of the city, the development of regional development programs with EU funds for development of SMEs - SMEs in tourism. This recommendation makes sense since the absorption capacity of EU funds will improve considerably.

3. Conclusion

To become competitive in the European market and especially the Eastern European is a growing according to international statistics. Romania must take urgent steps out of the inertia that entered the Romanian tourism over 20 years. Already Bulgaria, Greece and Turkey are far ahead of Romania as tourism development level. Disability must be recovered in a relatively short period of time, but we can see how the lesson taught by our neighbors.

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Analysis of Motivational Theories on Approaches of Human Factor at Next Automobile Company

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Abstract

The study aims to identify the methods used to motivate employees in the company Next Automobile. The company tries to use a wide range of motivations to keep staff form for sales activity. Salaries are based on specific job responsibilities and sales consultants have wages calculated according to the number of vehicles sold. There are theories that analyze organizational factors and theories that combine the two categories of factors in explaining human behavior at work. Research was performed using a questionnaire designed to obtain information about the methods and motivational systems that are used and that could be used in the future with efficiency. We identified positive points, and aspects requiring improvement, after which we made a proposal for improving the motivation process in this company. We have highlighted the motivational theories that society uses to motivate employees and conclusions are based on answers of employees.

Key words: motivation, organizational factors, employees, analyze, improvement.
J.E.L. Classification: M12

1. Introduction

Motivation is a major component of management and a subject of the most commonly treated in the literature, so it captures a wide variety of approaches, often contradictory.

In terms of the concept underlying the management, we distinguish two major meanings of motivation: motivation narrowly and motivation in broad sense [1]. In terms of work psychology, motivation is defined as the sum of internal and external energies which initiat and support a effort oriented to a goal of this organization, which will satisfy individual needs [2]. For an individual to be motivated to work, he must be satisfied that doing a certain activity, it will satisfy their own necessities [3].

The study is based on a survey conducted through a questionnaire to gain a complete picture of how to use motivational methods and identify the commonalities between what the company offers as motivation and what really motivates employees. We also identified points that do not match or better said human needs that are found in all 35 employees of the company Next Automobile and are not found in the methods used by the company today. Among those needs met that wish to mention the need for development needs of belonging, and the need for safety regarding work. Also we noticed the use of the theory of "X" and "Y" which is manifested in two directions - positive and negative.

Fig.no.1. Aged of employees at S.C. Next Automobile



Source: the conducted study

Fig.no.2. Seniority of employees at S.C. Next Automobile

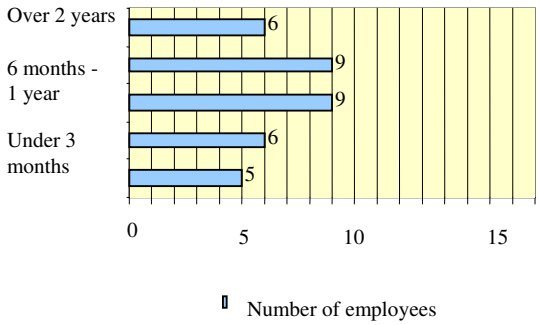
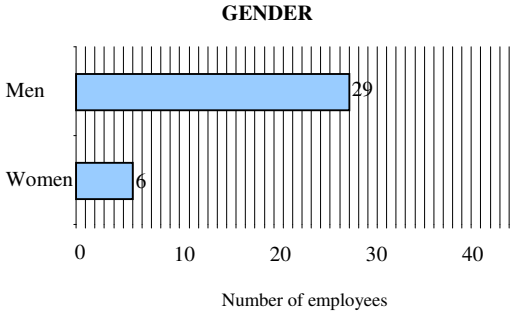


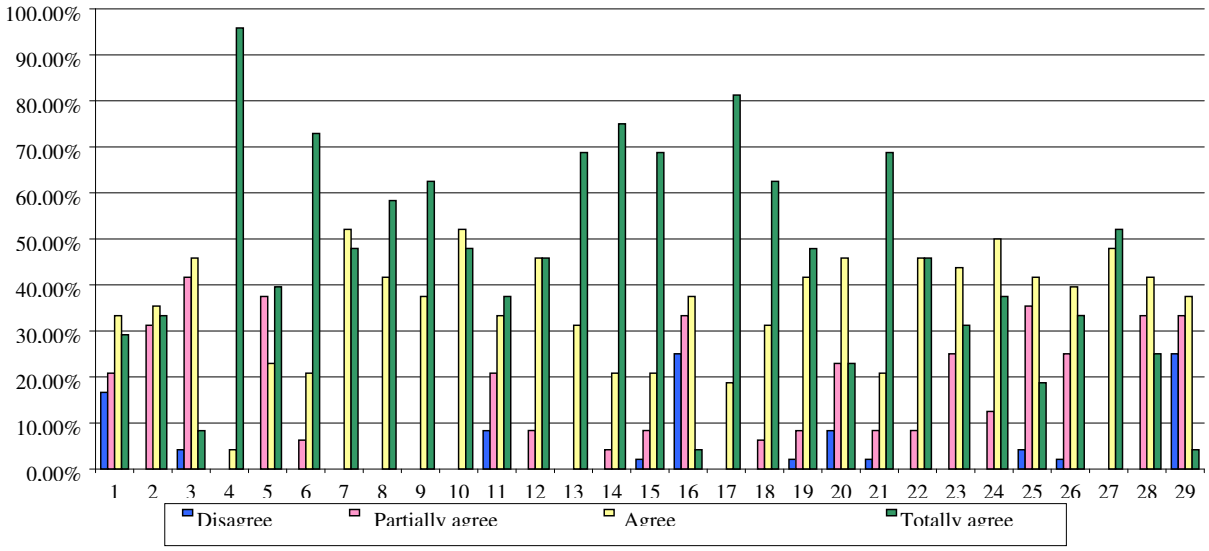
Fig.no.3. Gender of employees



2. Analysis in the present

Includes questions that reflect the situation at the moment in terms of motivation in this company.

Fig.no.4. Score given by employees currently



Question 1: *"I am happy (a) my current salary package"*. Percentages are divided half for those who are not or partially satisfied, half for those who agree and totally agree, which means that the package is not sufficiently motivating salary but not a critical factor, demotivator.

Question 2: *"I think a percentage of sales benefiting motivates me to sell more"*. Opinions are divided in similar proportions to „partially agree, I agree and I totally agree", which means that from this point of view the company motivates its employees to sell more by providing percentages, but this system is preferred only half of employees. atmosphere in the company and increase

This shows a very pronounced orientation towards a stable income employees and less than directly proportional to revenue results. So we can say that employees focus on business rather than the acceptable limit to make a greater effort to generate higher revenues.

Question 3: *"I believe recognized my merits"*. Percentages obtained "partially agree" and "agree" are the majority demonstrating that employees feel that they are recognized merits only a small extent and measures should be taken by management in this regard, adopting various methods to remedy this situation would lead to a better employee motivation.

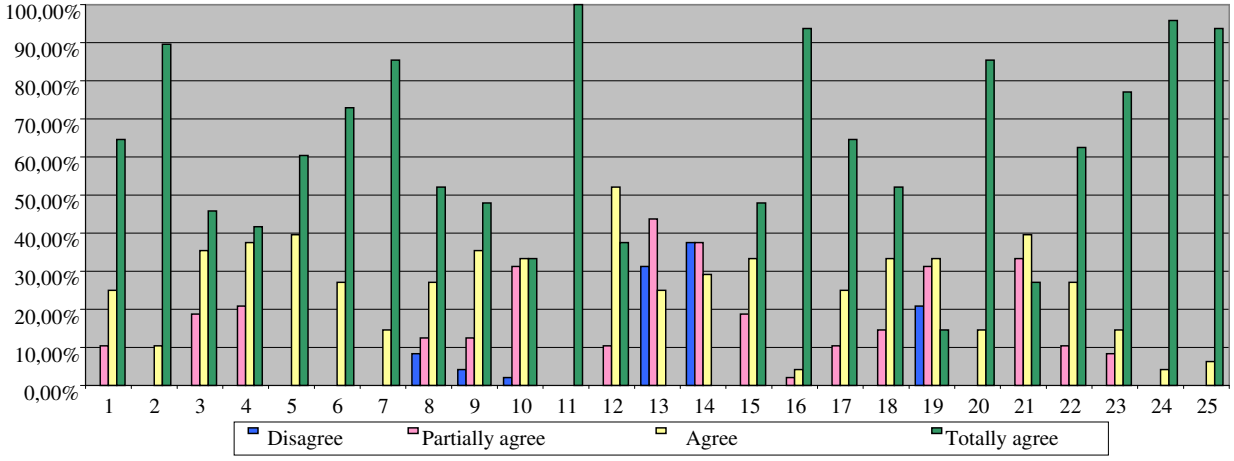
Question 4: *"I think my major contribution to our company"*. Most of the 35 employees agree with this statement understanding their role and considering the value brought by each of them as important. Company management should focus on motivating policy that encourages employees to submit increasingly more effort and work more efficiently and thus bring better results.
Question 5: *"Preparing for that I received so far helped me better fulfill my responsibilities"*. They have given major score for "partially agree" and „I totally agree".The general impression is that the training they have received to date is insufficient to carry out the specific responsibilities with maximum efficiency. \
Question 6 and 7: *"I think i work enough"* and *"I think my results so far are good enough"*. Ratings majority are "partially agree" and "totally agree". This shows that employees believe they can work harder and better but not sufficiently stimulated.
Question 8 and 9: *"That part of an international network makes me more motivated to reach my goals"* and *"Being part of an international network makes me want to be increasingly better "*. Most employees are perfectly willing, which means that their needs according to Maslow's hierarchy of needs in terms of membership are largely covered.
Question 10: *"I helped with ideas / solutions solved new problems / have streamlined the work of company / department"*. Employees responded with "agree" and "strongly agree" in almost equal proportions, proving that their views on the contribution to the company is good or very good. This combined with the opinion expressed by employees on non-recognition of their merits is a major motivation.
Question 11: *"I think the reward received for ideas / new solutions is satisfactory"*. Opinions are divided between the 4 variants, proving that sometimes their opinion about their impact on the Company can not see in the results and rewards.
Questions 12 and 13: *" I work in a united team "* and *"Team in which I work is distinguished by solving team"*. Most employees agree and totally agree, but there are reserves and possibilities for improvement.
Question 14: *"Internal communication firm providing me all the information I need to perform their duties"*. The answers to this question are quite positive, mostly entirely agree. Note that the organization provides employees the information they need.
Question 15: *"I think they are well integrated into the work team"*. Employees are considere well integrated in the team they work.. There are also less positive opinions. \
Question 16: *"I believe that the responsibility they have at this time correspond my training"*. Opinions are divided, the majority percentages are divided between variants "disagree", "partially agree" and "agree" instead very few employees are in full agreement 4.17%.
Question 17: *"In the future I want to take on new responsibilities in the company"*. Employees generally believe that assuming new responsibilities in the company is one of the opportunities that could benefit in the future.
Question 18: *"Atmosphere is pleasant work"*. Responses to this question show that employees do not have a very good opinion about the atmosphere at work.
Question 19: *"I feel safe at this job"*. Most employees feel safe workplace current, majority proportion in this category are divided between "totally agree" and "agree".
Question 20: *"The equipment that i use make me feel safe at work"*. Opinions are quite divided, the percentages are relatively close, but with a positive tinge. There must be seen the equipment with problems and be solved because can occur cases of injury to employees, which would prevent the use of that employee a period of time.
Question 21: *"I know I can count on colleagues when there is a problem"*. Based on feedback we see that teamwork is one of the strengths of this company.
Question 22: *"My coordinator directly encourages me and stimulates me to become better"*. Most of their department coordinators stimulates employees to become better.
Question 23: *"I am perfectly satisfied with the work area (eg, sales, engineering, and so on)"*. Most employees are relatively satisfied or satisfied with the area in which they work. Others are less happy or unhappy.
Question 24: *"There are people in the company where I can go to for advice when a*

problem is beyond me". Employees in the company believes there are people who can help them solve overshadow problems. Creating an internal communication system where experienced people to be encouraged to share the information we have, so we can eliminate the stress of lack of information.
Question 25: *"I think i have chances of advancement"*. There are many opinions for employees "partially agree" and those who "i am agree", which leads to the idea that the chances to promote exist, but all depends by employees.
Question 26: *"My opinion is taken into account"*. Employees generally believe that their opinions are taken into account. Paying more attention to this aspect can actually improve the working atmosphere and hence employee motivation.
Question 27: *"I think i work more than they are paid"*. The general opinion is that employees work more than are paid (about 52.08% "totally agree").
Question 28: *"I think my company is interested in long-term development"*. Most employees do not believe their company is interested in developing long term. This result corresponds with the views about job security.
Question 29: *"I believe that my offer experience in versatile fields"*. Approximately 60% of employees responded with "partially agree" and "agree", the rest being only partially agree with the statement. Usually this is the case in a small company, where positions are highly specialized, an employer must cover several administrative or operational needs of the company.

3. Analysis in the future

Includes questions aimed at obtaining information about the desires, methods and motivational systems that could be used in the future of this company and that could be fully effective.
Question 1: *"My results/results of others stimulate my competitive spirit"*. 90% of employees believe that networking stimulates the results of other employees.
Question 2, 3 and 4: *"I want to be the best in my area firm", " I have to prepare better to be better "*and *"The experience that i'll gain will help me in the future be the better "*. Most responses is a "totally agree". Both employees and companies tend to invest in their long term development.
Question 5, 10 and 11: *"I think I am sufficiently prepared in the field that i work "* and *"I believe that employees still need training"*. Most employees are considered sufficiently well trained in the field working. The vast majority of employees see training provided by the company as a benefit, the employee understanding the impact of this long term.
Question 6: *"I think I deserve a higher salary"*. Most employees believe that deserves a higher salary.
Question 7 and 8: *"I think my expectations from my coordinator should be expressed more clearly"* and *"I think my expectations of the coordinator should be expressed more clearly"*. 85% of employees believe that the expectations of coordinator of them should be expressed more clearly, and only 50% believe that their expectations of the coordinator should be expressed more clearly. Deduce a complaint from employees to the coordinator directly in terms of communicating expectations, but the second percentage has a quite pronounced dose of subjectivity. A good manager is primarily a good communicator.

Fig.no.5. Score given by employees for future



Question 9: *"I think the atmosphere could be improved"*. 90% of employees believe that the atmosphere can be improved to somewhat or radical.

Question 12: *"I think I need additional safety equipment to feel secure"*. 50% of employees believe that they would need additional safety equipment. Personal security is one of the most urgent needs of an individual and must be addressed. Issues regarding safety at work can seriously affect the group atmosphere.

Question 13, 14, 15, 16, 17 and 18: „*My coordinator acts with me as if I were indifferent to the needs of the business*", *"My coordinator considered that i should be directed to do my duties*", *"My coordinator believes that if i have satisfactory working conditions i found satisfaction in job*", *"My coordinator believes that i learning to accept responsibility "*, *"My coordinator believes that i have the best performance when i receive the responsibility and freedom to carry out a project"* and *"My coordinator think that i can contribute much more than normally seen and I underused talent"*. The first three show a style of type X, the other referring to a style of type Y. Notice a slight difference in favor of style Y, therefore we encourage this type of behavior coordinators team / department.

Question 19: *"I think that not enough emphasis is placed on organizational culture"*. 65% of staff agrees that there is sufficient emphasis on organizational culture.

Question 20*: "I think preparation and/or my experience recommend me to other responsibilities in related fields"*.Sensing that can do more things/can handle different types of jobs, an employee will feel a little safer because it is becoming more indispensable (it will be very difficult to recruit another person who can do everything do it).

Question 21: *"I would like to take more account of my opinion about the field in which I work"*. They desire to express yourself more account of their opinion. In this way they will bring impact to the company.

Question 22 and 25: *"I think I would be a good coordinator"* and *"I trying to have an overview"*. These questions are designed to check if wish to advancement expressed in previous questions is based on trust.. Nearly 50% think it would be great coordinators, nearly 40% believing they still have something to learn.

Question 23 and 24: *"I try to understand the needs of those around me"* and *"I try to help those around me to solve their problems"*. These questions are designed to verify the individual in terms of personal involvement in relationships with peers and to compare them with expectations that they have from others.

4. Conclusion

Based on the survey results we observed using motivational theories in a lesser or greater:
- Theories of hierarchy of needs (Maslow's theory, ERG theory - Existence, relatedness, Growth) of all 5 categories of physiological needs are satisfied and and this is not in totality. exist in the light of these theories an obvious need manifested by satisfaction of other needs;.
- Theories, „X" and „Y", manifesting both the positive and negative direction. The majority of employees have no motivation to act according to theory X, remaining at the level of the Y or oscillating depending on the situation from theory to another, thus not having business continuity and no results.
- Dual factor theory - we propose that they should focus on the development of employees, increasing recognition of their work in various ways, and encouraging initiative and responsibility.
- Theory acquisition success - although employees want to maintain a high level of performance that is encouraged sporadic but not enough by firm.
- Theories of human capital - our suggestion would be that they always benefit from training through a program of continuous training and well established on the basis of employees' personal and professional needs, to have a career development plan for each employee in order to allow both personal development and change ritual activity.
- Theory expectancy - is manifested through the desire of employees to get new responsibilities and to try tasks increasingly complex. On the other part we can see that employees are already highly motivated to evolve, expectations or better probability of success is high if they will find inner strength to fight for their fulfillment. Here a role it has direct coordinator that can grant or deny this occasion of employees (depending on the direction the company). It can direct, guide each employee receiving new responsibilities or changing old ones.

Employee motivation theories presented above are not fully implemented and some not in a manner consistent reason which leads to a low motivation of employees of this company is reflected in the results obtained in daily activities in employee performance.

Following the research we carried out and the conclusion we reached, our proposals are:
- Organizational culture - employees expressed their desire to be involved in defining and developing solutions to improve business activities. These lead to a higher employee satisfaction and full realization in the work environment and the development of environmentally firm, market consolidation and not the least performance.
- Training employees - our suggestion is that manager with the company to define human resource manager in the company training plan and career development for employees. The plan must be permanent (long-term) and relevant for both business and employees.
- Atmosphere and communication - our suggestion would be that they provide a clear definition of the above and stimulating employees in these respects.
- Recognize - this was clearly expressed by employees as a suggestion for improvement. Following the survey we found that employees want a permanent recognition. At this point merits recognition is achieved through share sales. Our suggestion is that the general manager and responsible human resources show transparency in granting this percentage, but to use and other methods of financial and non-financial motivation (like giving rewards , congratulations employee in meetings or meetings of the company).

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The Importance of Marketing Activities during the Economic Crisis

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Abstract

The aim of the article is to present the impact of the global crisis on the marketing activity. In this period of crisis, in order to diminish the negative influences of the crisis, the marketing budgets must be made more efficient. Consumers, especially in a time of crisis, become more careful, get more informed, look for alternatives. Panic is the first negative effect which the economic crisis brings in the consumers' consciousness. Not all consumers are affected at the same level by the financial crisis. The winners of the crisis are not necessarily the big companies, but those which applied strategic principles and competition strategies. A mistake which a company can make in a period of crisis is that of searching only temporary solutions and abandoning any strategic measures on a medium or long term.

Key words: marketing strategy, economic crisis, online marketing, customer direct marketing.
Clasification J.E.L.: M31, M37

1. Introduction

At the moment, economy is confronting itself not only with an economic-financial crisis but also with a dangerous crisis of credibility and trust. Because of the repeated mistakes and of the decisions without any real background, the consumer becomes more and more sceptical and mistrustful of companies and their offers, a situation in which the companies must treat critical problems by elaborating some offensive marketing strategies and to define the policies through which they can regain their lost credibility.

In the last few years, the business world recorded deep changes, so that the managers and the enterprisers were obliged to make special efforts for a permanent adaptation to the market in order to face the sudden changes which interfered in the consumers' behaviour, in the competitors' actions, in the customers' and providers' attitudes, the speed of reaction being able of making, in this period of crisis, the difference between winners and losers.

In this period of crisis, when they want to reduce costs, the companies reduce their marketing budgets, in most cases giving up to the values that they sustained, without trying to find cheaper channels and ways of communication.

Any marketing strategies in a period of crisis must first plan this moment from the minute when it is known that it started and only after that to offer solutions in order to pass over this period in an efficient manner. The marketing strategy represents the most difficult thing to make in a situation of economic crisis, the uncertainty factors are mainly on the market and they affect the relations between the organisation and its environment. The present economic crisis creates through its amplitude, a domino effect, bringing to the fore not the problem of the possibility of hitting an organisation but the problem of the moment when it is inevitably done.

During of crisis, in order to diminish the negative influences of the crisis, the marketing budgets must be made more efficient by making customers faithful and attracting them by building a strong, distinct brand image.

Marketing strategies in a time of crisis must be analyzed both in relation with the

evolution progress of the company's market and in relation with the potential that it has and the structure of the components of the marketing mix. The periods of economic crisis affect two major components from the process of purchase with major influences on the entire market and especially on the marketing strategies: the purchasing power and people's behaviour[1].

The purchasing power affects the volume and the structure of the consumption, being in advantage the products with a high degree of utility, with reduced prices and payment facilities. People's behaviour modify the criteria of evaluating material goods and services, these appreciating more the quality and the reliability than the image benefits and being less available to invest in new products, which were previously unknown. Also, for the products of long use or those which are not of strict necessity, the decision of purchasing is postponed [2].

Consumers, especially in a period of crisis, become more careful, get more informed, look for alternatives. There passed the time of those who offer and think they have a large market outlet. The market becomes more fragmented, competition loses its location, value becomes a very relative concept, trust does not represent a guarantee anymore and the only element which offers trustfulness is the creation of a direct relation with customers.

In a period of crisis, one of the first measures adopted by the companies' management was the reduction, sometimes substantial, of the marketing budgets. Promoting the business is essential for any enterpriser, and neglecting the communication actions may lead to significant losses on a long-term. In a time of crisis, the companies must adopt concrete strategies so that their message can get at the market domain to which it addresses.

Now it is fashionable the so called "crisis" marketing. In crisis situations, not investing in marketing or reducing severely the budgets is as if you got ready to make your way out of the market.

2. Marketing Strategies

The influences of the economic-financial crisis on the marketing activity of companies are obvious in all the components of marketing mix, taking into account the fact that a large part of these, especially small companies reduce their marketing budget without getting ready, by elaborating a strategy of managing crises, through which they may be able to revaluate opportunities when they appear. This makes that, in a period of crisis, the companies which are better organized, from the point of view of marketing, to dominate the competitors less responsive to change.

The crisis is synonymous with the drop of consumption, the compression of economy and the lowering of the volume of sales. In this case, any organisation will re-evaluate the reference criteria, and one of the best measures would be the market share. Even if the volume of sales drops, even if their value drops, even if the profit drops, only one measures remains unaffected by the crisis and that is the market share. And when the crisis ends, the fact that our organisation has maintained its market share will be translated in a considerable bigger volume. But this market share cannot be maintained through lack of activity and perspective, it is directly linked to the marketing activity too.

Lately, more and more companies decided, when recalculating their budgets, to reduce the expenses for advertising and marketing. But specialists in communication say that advertising is the one which bring the biggest volumes of sales in difficult periods and the companies must take advantage of the opportunities from the next periods. Advertising in a period of drop in economic activity should not be seen as an obstacle for profit, but as a collaborator to profit. It is thought that the raise of the market share brought by advertising can be made with a more efficient cost policy during recession. A solution to pass over periods of crisis is involving consumers in the marketing activities of the company.

In a period of crisis, the company must focus more on the customers' needs, that is why the present customers are more important than the potential customers, the higher importance being given by the fact that it is less expensive to invest in programmes of making these loyal than attracting new customers.

The use of marketing research in a period of crisis, a period in which consumers desperately look for a better offer, cheaper

products, is a necessity [3] . More companies use reductions, coupons and discounts as a strategy of attracting customers in this period and the majority of clients admit that these methods have a certain effect, motivating them to buy. Of course that in order to attract customers, the advertising messages must be congruent with the recession.

Because this period of crisis causes a battle of perceptions and not of the reality, what matters is to make the difference and to place products in a good manner, in order to combine perception with reality. Marketing places not only the product or the service but the entire business. A difference through innovation imposes the prices desired by the company even in a period of crisis. The permanent highlighting of the competitive advantage, especially if the company manages to maintain a balance in the price policy, to maintain the consumers' interest, has a good image and it preserves its profitability.

If a company did not early infer the rearrangement of the market in which it develops its activity and it did not elaborate a plan B for a period of crisis, then most probable it is not ready to operate with the appropriate strategy or tactics. The sudden changes that interfere in the consumption, in the competitors strategy, in the providers' attitude and in the customers' payment possibilities make the rethinking of future orientation to be the number one priority of all companies.

The selection criteria to choose marketing strategies in a period of crisis are the following:

- efficiency criteria (the level of strategic costs; the duration of recovering strategic investments, the level of revaluation of existing resources; financial needs attracted by the capitalization of the strategy);
- risk criteria (the degree of strategic risk; the degree of competitive risk; the stability of the strategy in aleatory conditions of the market);
- opportunity criteria (strategic opportunity; the level of anticipating results).

Most companies reacted on the international economic crisis by reducing expenses, postponing investments and a severe diminishment of advertising budgets. These measures did not always prove to be efficient. The winners of the crisis are not necessarily the big companies, but those which applied strategic and competitive principles.

The main measures recommended to be taken in sales in a period of recession or economic unsafety, are related to:

- a precise application of rule 80:20 in what regards customers, an identification of the most profitable on the short-term and an assignment of resources for them; ignoring unprofitable customers on a short-term; a partnership with powerful companies;
- redefining the objectives and the task of the sales force, establishing a way of remuneration in accordance with the accomplishment of tasks;
- rethinking the role of the sales force: encouraging the salesmen who produce new customers and reducing costs with those who just manage a customers' portfolio;
- reducing the number of specialists or technical experts and using them just to serve customers who bring significant incomes to the company;
- reducing the costs of serving customers with at least 30% by identifying distribution channels with reduced costs as the Internet, by reducing the number of employees in this domain or by using temporary employees;
- eliminating services which are not clearly required by customers and offering services which are paid;
- personnel deductions in all the departments, from those employees with low performances[4].

In the distribution policy, reducing the budget may be considered a mistake. In the context of the economic-financial crisis, a better analysis of the market is necessary in order to identify the consumers' needs and desires, their reactions, so that the companies can revise their portfolio, so that they can adapt their marketing strategy for an efficient use of the budget [5]. The companies which apply efficient marketing measures, in the distribution policy, in moments of crisis, can raise their sales, while those who choose to reduce the budgets do not outrun a quite small growth.

An important role belongs to the sales force which can successfully contribute to the adaptation of the company's activity to the turbulent environment from a period of crisis to diminish the consequences of the crisis on the marketing policy.

In the product policy, in a period of crisis it is not a favourable moment to launch new products or packages. Looking for new niches for new products or promoting them are elements of the strategies for a growing economy.

The central point of the product strategy in a period of crisis must be the customer. In periods of crisis, the losers will be those organisations which think they know better what and how they must sell, and not the consumer and there will survive only those which will learn to listen to their customers.

In the future, business will be of two types – on the Internet or none. The presence on the Internet ensures to business a global spread. The online shops represent a cheaper source of goods; these appeared before the crisis and their main trump is represented by the low costs of maintenance, this having a direct effect on the costs of products. At the same time as the beginning of the economic collapse from the start of the year 2009, the online shops were affected too so a lot of them were closed and those which remained had to adapt themselves.

The online marketing is an advantage in a time of crisis for those who use it in an intelligent way. Consumers get more informed before buying online a product or a service. Most people make important decisions on the purchase (budget, brand, product, shop) after having been informed online.

The price in an online shop is smaller than in a classical shop. This thing is still not enough in a period of recession because even before the crisis the price was smaller. In order to attract the customer it is necessary to resort to certain marketing methods.

The present economic conditions forced consumers to become much more selective when they choose where and how to spend their money, that is why the marketing campaigns must be applied in a creative manner. Making a partnership directly with a marketing company proves to be less expensive and more successful than the alternatives from inside the company.

The direct marketing specialists are useful especially for attracting customers and maintaining them. In an unstable economy, companies cannot rely on the recognition of the brand and on the mass marketing to survive. Indeed, direct marketing, both in its traditional form and in his integrated one, is essential for targeting consumers' specific needs, offering impulses and formulating the most efficient solutions for small and medium companies.

The direct marketing tools correctly used may sustain the business of a company in a time of crisis. In the present economic context, more than ever, a promotion campaign must aim at obtaining a direct answer, a clear action from the person to whom the message is presented. The direct marketing tools come to meet the need of palpable, measurable results. The direct marketing is, by definition, a mechanism of promotion which allows you to send clear messages to an identified audience [6].

3. Conclusions

In crisis situations, not doing marketing is as if we were getting ready to close the business. Lastly, not the budget is our problem, but rather how efficient we use it, how we pursue the media channels and the approaches which will allow us to communicate more efficiently with our consumer, which will ensure us that we know our consumer and that we respond to his expectations, that we have managed to start a dialogue so that the sale of our products and services can actually respond to a well-identified need.

Panic is the first negative effect which the economic crisis brings in the consumers' consciousness. Advertising agencies must be flexible and capable of adapting to the new changes from consumers' attitudes or behaviour.

Now when the markets are becoming stable, we need a professional and sophisticated marketing. The companies which will cut the marketing budgets will create the premises of failure.

In a period like the present one, what matters is to promote yourself as much as possible in order to send your message and

your offer to the customer. A reorientation of the resources assigned to a channel to another channel is normal, but the complete giving up to promotion is a major mistake.

Not all consumers are affected at the same level by the financial crisis. The good marketing is that which understands the problem which the consumer has to solve. There is a need more than ever to know how the customer redefines his value and how he reacts in case of a crisis.

Business may remain profitable during economic crises too when: these focus on a gradual development; we focus on regaining lost customers; we manage to obtain new customers deriving this benefit from the customers who already exist; we get involved into cheaper promoting strategies.

A successful marketing is led by a marketer who understands very well from the point of view of the business the problem which the consumer has to solve [7]. In a period of crisis, you must know how the consumer redefines his value and how he reacts in a case of crisis. The consumer is looking for durable products, which offer safety and whose proportion price/quality is perceived as being very good. Market researches are essential in a period of crisis: we must devote enough time to get in touch with consumers, to find out their points of view, their suggestions and to study directly the way in which they interact with the product or the service of the company.

A mistake that a company can make in a period of crisis is that of searching only temporary solutions and abandoning any strategic measures on a long or medium term. We do not have to forget that an economic crisis usually has a quite long duration and even if the market is much more unstable as usual, we do not have to neglect the objectives on a long or medium term. The company must have a vision and the horizon of this vision must get over the estimated period of crisis.

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The Current Stage of Shale Gas Exploration and Exploitation in European Countries Compared to the U.S. Situation

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Abstract

World countries are more and more concerned about finding new sources of energy, given the fact that the consumption is growing and the deposits of natural / conventional gas, known and currently exploated, can only provide the demand for a short period of time. Unconventional gas identified and exploated currently in the world, include shale gas, tight gas, sandstone/carbonate rocks, CBM-Coal bed methane and Methane Hydrates. Of all these, shale gas presents the hightest interest. The explanation may be based on one hand on the american model of success regarding shale gas exploitation, and on the other hand on the geological predictions, which indicate potential shale gas resources in various european countries. The interesting fact is how each country will choose to convert resources in shale gas reserves and to exploit them for the benefit of the economy, the society and the environment.

Keywords: shale gas, technology, fracturing, development
J.E.L. classification: O13

Introduction

Shale gas currently represents a concern of several european countries governements, a reason of worry for the population and for various environmental organizations, a reasearch topic for many institutions from the healthcare, environment and technology fields, attempts to harmonize the EU legislation. If we accept that each country has its specific elements, in terms of resources and reserves of shale gas, of legislative framework, the overall level of economic and social development, the dependence on imports and the orientation of the energy policy, it is natural to find different models of approach regarding exploration / exploitation of shale gas. This paper presents the current stages in terms of shale gas exploration in the U.S. and also in some european countries.

1. U.S. situation

In the U.S., even if shale gas was considered "the boom of the moment", there were necessary, although, two decades of research and testing, until the new unconventional resources begin to reconfigure the new energy market. U.S. reserves of shale gas (mostly located in Texas, Apalache, Illinois and Michigan states) are estimated at about 24,400 billion cubic meters, which would be enough to ensure consumption for a period of 100 years and a production that represents 35% of the total production of natural gas. [6]

The pioneering phase of this fuel was conducted in Texas state during the period 2000-2010. It is known that, with allmost 10-15 years ago, the technology of hydraulic fracturing has been used very little, because the costs were huge, two to three times higher than in the case of conventional deposits of gas. As technology has been upgraded and improved,

shale gas exploitation has become cheaper and a growing percentage of these resources has become recoverable from rocks. Currently, in 16 U.S. states, companies continue to extract shale gas using hydraulic fracturing. In the same time, in other ten states there are local moratoria required for temporary not using this method, applied until the completion of some detailed studies regarding the impact of hydraulic fracturing on the environment. We should also mention that, at present, certain states like New York, Maryland and New Jersey have banned hydraulic fracturing temporarily (even though this method has been greatly improved through intensified research in this direction) and Vermont could follow their example. [8]

In these states, shale gas exploitation was banned after, in November 2011, the Environmental Protection Agency of U.S. (EPA) published a 190-page report showing that hydraulic fracturing is responsible for several incidents of massive pollution and earthquakes and will conduct a thorough study in this regard which will be ready by the end of 2014. [1]

On the other hand, at the end of 2012, South Dakota and Alaska joined the group of U.S. states that have updated their regulations on oil and gas exploitation, answering in this way, to the issues raised at a large-scale by hydraulic fracturing.

Therefore, on 18 December 2012, the Council of Environment and Mineral Resources of South Dakota (a subdivision of the Ministry of Environment and Natural Resources of the State) has proposed some changes to its regulations on gas and oil, by which the Council wishes to have more information regarding the fluid chemicals used in the technology of hydraulic fracturing and also wishes to solve the problem regarding the restoring of unused production wells. [10]

On December 20, 2012, the Commission for the Conservation of Oil and Gas in Alaska has proposed the add of an amendment to its regulations on hydraulic fracturing. The amendment contains several requirements, such as a mandatory analysis, before and after the drilling, of the water used for fracturing and a compulsory isolation of the fluids that are used for fracturing. It is also mentioned that these new regulations will be approved, very likely, after several months of public consultation.[10]

The size reached, currently, in the U.S., regarding shale gas exploitation can be put both on the account of substantial deposits that it holds, and also on some particular aspects: the areas where shale gas reserves exist, are easily accessible and far away from human communities, population density is lower compared with the European states populations, so there is a smaller impact; the gas deposits are located at lower depths than those in Europe; there are fewer environmental regulations, and the owner of a land has all the rights for the subsoil mineral reserves, compared to Europe, where the reserves, in most of the countries, belong to the state. [9]

Referring to the importance of shale gas, the American professor, John Deutch, quoted by CNN Money, said: "In the 50 years I have worked in the energy sector, shale gas revolution is, by far, the largest event that I witnessed. [2]

2. Europe's situation

For *Europe*, it is estimated that shall gas deposits could be valued between 18,000 and 35,000 billion cubic meters (located in Norway, Sweden, Netherlands, Austria, Poland, France, Ukraine, England, Romania, Czech Republic etc.). But the production of conventional gas in Europe will drop in the future, and demand will continue to grow, which will mean the need of increasing imports at a level of 450 billion cubic meters by 2035. [11]

In these conditions, shale gas exploitation could help reducing imports (mainly originated from Russia), improving EU supply security, even much smaller prices, thus ensuring, theoretically, better conditions for economic growth and social welfare.

Poland is the first european country which launched a real industrial exploitation project on the long term, being determined to substantially reduce its dependence on the russian gas.

It is assumed that Poland would hold large reserves of shale gas that wants to use to reduce its dependency on imported natural gas from Russia and build gas power plants to replace the coal as the primary source for electricity. The National Institute of Geology of Poland considers that the potential of shale gas reserves is valued at 1,920 billion cubic meters, which means that Poland would be the third European country after Norway and the Netherlands, reason for which, so far, were issued 109 licenses for shale gas exploration, for some large state-supported companies (PGNiG, PGE, Tauron, Enea, KGHM Polska Miedz), and some giants like Chevron, ExxonMobil, Eni, Marathon, 3Legs Resources and BNK for perimeters of Baltic Sea area. But, so far, it hasn't been reached yet, the stage of shale gas extraction.

Officially, ExxonMobil announced its withdrawal, because the results of the first prospects were not satisfactory. "Commercially speaking, we couldn't identify a constant and justifiable flow of hydrocarbons in the two blocks that we have drilled near Krasnystaw, Lublin Basin (South-East) and around Siennica, Podlasie (East) Basin", said Adam Kopysc, spokesman for ExxonMobil Exploration and Production company. [4]

On the other hand, the French company, Total, decided to take the full license owned by ExxonMobil which ensures 40% of the mining rights on Chelm and Werbkowice perimeters, and aims to continue the research and begin a commercial exploitation, if the results will be convincing [10]. To remember is that the geology of the country is different from the american one and it may require more advanced technologies to extract the gas.[5]

Poland is the first European country currently working on the elaboration of a specific tax framework for companies which extract shale gas. A special charge of shale gas will be introduced in 2015 as a "mechanism that will ensure that poles obtain fair income without discouraging the investors and the production," said Jan Vincent-Rostowski, Minister of Finance of Poland. [3]

In *Ukraine*, where it is estimated to exist the fourth largest deposit of shale gas in Europe, valued at about 1,200 billion cubic meters, licenses were issued to mining companies Chevron and Shell, but neither here were made significant steps, so far. [8]

At the 43rd World Economic Forum in Davos, on January 24, 2013, a contract which valued about $ 10 billion was signed between Ukraine and Shell company, regarding a project for the development of the exploitation of shale gas. Holding the 4th place in Europe on shale gas reserves, Ukraine hopes to develop this resource, overcoming the controversy regarding hydraulic fracturing technology and to reduce its dependence on energy from Russia. The signed contract should allow Ukraine to partially use its own gas resources. The production expected by the authorities to be achieved is of about 10 to 20 billion cubic meters of gas per year in the next 15 years. Ukraine imports large quantities of gas from Russia, and in the recent years, the gas supply was effectively stopped by Gazprom, with the intention to determine Ukraine to agree to pay higher prices for the imported gas, with economic consequences which have reverberated across the entire Europe[10].The relatively low population density may be a factor able to promote the development of shale gas deposits in Ukraine.

France was the first European country to ban hydraulic fracturing. The moratorium was imposed in 2011 and still remains in force, but the discussions in this regard are likely to be resumed. France is among the richest European countries in this kind of reserves, the shale gas potential being estimated by the U.S. Department of Energy (DOE) to 5,300 billion cubic meters. This estimated volume is more than 21 times higher than the reserves from Lacq area, Pyrenees-Atlantiques region, where gas were extracted for half of century. But, in the absence of exploratory drilling by hydraulic fracturing, method banned in France by a Law introduced on July 13, 2011, this evaluation cannot be validated [10]. It has to be specified, that in France, three-fourths of the consumed electricity is generated by nuclear plants. On February 26, 2013, The Academy of Sciences held a debate attended by several representatives of scientific research, and among the topics that were discussed was also included the one on shale

gas, more accurate, it has been questioned the problem of the ignorance of these resources that exist in the subsoil of France. This conference was held following the publication of a report called "Scientific research face to face with the challenges of energy", conducted by the Academy of Sciences on January 14, 2013. This report is criticizing the government's policy in the field of unconventional hydrocarbons, and stresses that "decisions were made in haste, without opening the file". By this phrase, the institution targets directly the decision to maintain the moratorium on hydraulic fracturing even in what is concerning the scientific research. The conclusion, after the debate held in February 2013, is that France is not aware of the resources stored in its subsoil. "For a developed country like ours, we have very poor knowledge of our subsoil," said Mr. Nicolas Arnaud, hydrogeologist at the University of Montpellier. It is believed that the political and economic decisions are not taken wittingly and may not therefore be justified as scientific arguments.

Regarding the shale gas, there are opinions that the estimated data on the reserves, made by the Department of Energy of the United States, do not match, withouth any doubts, with the reality. These can be either higher or lower than the estimates, but for scientists, the problem is a different one: to know if, one day, they will be able to give, finally, a true evaluation, scientifically founded, about shale gas reserves in France. This answer can not be given as long as hydraulic fracturing technique is forbidden, even for scientific research. [10]

But the debate on unconventional hydrocarbons in France is far to come to an end. Within the National Assembly, the Minister of Productive Recovery unveiled on February 19, 2013, that he is for the technological experimentation on the French territory. The Minister would like to entrust to a public company the research on shale gas extraction techniques. However, he stressed that the experiments should be conducted under the control of the government and parliament. Even former Prime Minister, Michel Rocard believes that the wealth of France, of over 5 billion cubic meters of shale gas, according to an evaluation. should be exploited. But, Madam Delphine Batho, the Minister of Ecology, Sustainable Development and Energy, declares herself, on the contrary, reluctant regarding the public funding of studies that would subject alternative hydraulic fracturing techniques. "I think oil companies have the means to finance their own research on drilling techniques", she declared. [10]

The point of view of the Minister makes clear that there is no question about raising the moratorium on hydraulic fracturing technique for shale gas in France. However, the question arises whether it can be found a way to raise the moratorium for scientific purposes and, in particular, for a research that would solve the environmental problems which appear from hydraulic fracturing technique, the only technique used so far. [10]

Great Britain, even if it was among the first countries which gave licenses for shale gas exploitation, in 2011, it banned their extraction through hydraulic fracturing, after two earthquakes occurred in a region where were conducted this kind of activities. But, in 2012, Edward Davey, the Minister for Energy and Climate Change of the UK, has revoked the decision and announced that hydraulic fracturing presents no risk. "Shale gas is a resource with significant potential for the UK. It could contribute significantly to our energy security, reducing the country's dependence on gas imports", said Davey. "My decision is based on evidence. It comes after studying in detail the latest scientific research and advice of professionals in this area", said the british official. [3]

In *Ireland*, Enegi Oil company announced on February 21, 2013, that they have taken steps at the Oil Business Department of the Irish Government, to obtain a license to explore shale gas. This initiative comes after the successful completion of its own program of research, "Clare Basin Licensing Option". Thanks to this program, the company would have received an award in February 2011 and since then, the work to gather and evaluate the technical data has intensified, analyzing, simultaneously, new geological data for the formulation of a provisional estimate of the potential of the area. The results of the

program revealed that the whole area has a strong potential in terms of shale gas. Furthermore, the conducted studies have allowed the discovery of a region located in a seismic zone with significant shale gas resources. In November 2012, Enegi Oil group declared that an independent report estimated that the resources explored in "Clare Basin Licensing Option" program were evaluated at 101 billion cubic meters of shale gas, of which 33 billion in areas with high potential. The General Director of the company, Alan Minty, made the following statement: "We believe that the surface covered within "Clare Basin Coverage Option" program has a great potential. Based on this idea, it is necessary the beginning of broader explorations. For this reason, we applied for an exploration license that would allow us to perform our work and prove the potential that this region owns. [10]

In *Switzerland* it was created a favorable current regarding shale gas. The Vice president of the Anonymous Society for Swiss Oil (SEAG), Patrick Lahusen, recognized the energy revolution that currently the first world economic power (the U.S.) experiences, and he is convinced that Switzerland holds too, its substantial reserves of shale gas. "We face a true revolution. All theories according to which, on our planet, there are reserves of gas for only 20-30 years, may be forgotten. We have supplies for at least 200-300 years", he said. In Switzerland, Patrick Lahusen created several companies and he stays at the origins of 8 of the 18 exploration wells on Swiss territory, in the last 50 years. Convinced that Switzerland has in its subsoil huge resources of natural gas, he believes that he could start exploring using the recently discovered techniques, once the Swiss government will give endorsement: "There have been incidents and pollution. But recently, new regulations were introduced to reduce the environmental impact. Currently, a new method of fracturing the rock is available, without using water and other chemicals. It uses propane in liquid form, which, after fracturing, goes up to the surface in gaseous form, where it is stored and can be reused. "It is intended that SEAG and the American company eCorp International associate to perform about 30 drillings in Switzerland. [10]

Recently, *Germany* declared that its state is favorable regarding shale gas exploitation and that authorizes its extraction through hydraulic fracturing, but must be considered, however, certain conditions. Therefore, the German government banned the practice in certain protected areas, while the Ministry of Economy and the Environment prohibits fracturing in areas of sheltered waters and mineral springs. At the beginning of February 2013, the Upper Chamber of the German Parliament (Bundesrat), representing the 16 federal states of Germany, declared its agreement with the adoption of a resolution by which to require the environmental impact that shale gas exploitation could have on the environment. This step aims to ensure people and remove the idea that all natural gas extraction techniques are harmful to the environment. [10]

Also, the Environment Minister, Peter Altamaier, is for the banning of hydraulic fracturing in hydrologic protected areas to avoid any popular movement.

Aware of the energetic potential of shale gas and the wealth of its subsoil, Germany gave a larger spread to the debate on shale gas and is preparing to adopt a law which targets regulations about shale gas extraction, without banning it. The German government is currently in the process of adopting a law to regulate activities related to shale gas.

According to the estimates of the Federal body of Geophysical Sciences, Germany would have shale gas reserves of 1.3 billion cubic meters. [10]

These resources, once exploited, could allow Germany to become self-sufficient in this regard and would contribute substantially to the security of supply and energy price stability. Moreover, Germany is considering a gradual ending in the production of nuclear electricity till 2022.The use of shale gas shows great importance for Germany, given that its consumption is estimated at 86 billion cubic meters per year. [10]

In *Bulgaria*, the withdrawal of the license to explore and exploit gas (awarded in June 2011) for a perimeter of 4.398 km^2 located in the

north-east of the country, occurred after some protests of environmental organizations and people, regarding the risks involved by the working method. The decision of the Bulgarian government is motivated by the lack of data to ensure environmental protection in the area of exploitation, as a result of using the method of hydraulic fracturing. [5]

Regarding Romania, although the American company Chevron obtained the concession in 3 blocks in Constanta county and another one in Vaslui county, and the government has not extended, at the end of 2012, the moratorium established in the same year regarding the exploration and exploitation of shale gas, the prospecting works are delayed because of some protests of the local population. In one town and two villages from Constanta county, on December 9, 2012, were held referendums on this topic, which were not, however, validated, due to the poor turnout of residents.

Conclusions

If in the U.S., the successful exploitation of shale gas led to a transition from the status of importing country to the status of exporting gas country, as well as to a real process of re-industrialization of the country, by relocating from Europe, to the North-American continent, of various energy-intensive industries, not the same can be said about the situation in Europe.

In Europe, so far, there is no country where shale gas exploitation has already started. But there are countries whose governments and parliaments are for the use of hydraulic fracturing, as extraction technology of shale gas (Poland, Ukraine, Turkey), as are others that have totally banned the use of this technique, not only for exploitation, but also for prospection and even for the scientific research of shale gas reserves (France), or preferred to establish temporary moratoria, to analyze better the environmental impact.

In Western-European countries, the progress is slow in this regard, with the exception of Great Britain, which recently raised the moratorium on shale gas mining. Not only France, but also the Netherlands and Luxembourg have suspended the prospective works, while in Austria the costs of compliance with the environmental regulations make shale gas exploitation uneconomical, even if those resources would be in the subsoil of the country. [8]

It is expected that, after the first successful shale gas exploitation will be seen in some European countries, the reluctance of other countries regarding the use of hydraulic fracturing may diminish, but the situation will continue to be very different from one country to another. Therefore, the European Parliament, after adopting two resolutions, one on the industrial effects of shale gas exploitation and the other one analyzing the impact that hydraulic fracturing has on the environment, recommended to its member countries to be cautious and to consult the population in this thorny problem.

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SWOT Analysis on Shale Gas Exploration / Exploitation in Romania

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Abstract

Shale gas have become an attraction for almost all countries in the world, in search of new resources. In USA (which represents a real model of success), shale gas provides reliable, affordable, organic energy, responsibly produced. But/ However, these results have been reached after some intense technological and ecological activity research, performed in more than 20 years. Shale gas exploration generated extensive controversy in many European countries, the main reason being related to the possible dangers which their extraction technology implies. The SWOT can be a useful tool/ method.to underline the right decision regarding the exploration and the exploitation of shale gas in Romania. The real value of the estimated geological shale gas reserves, along with impact studies on health and environment can contribute to local, regional and national, economic and social development.

Key words: shale gas, resources, exploitation, impact
J.E.L. classification: O13

Introduction

It is known that the economic development and the welfare of the population depend on the resources of the country, on their quality and quantity, but also on the capacity to exploit and use them efficiently, thus ensuring a sustainable development.

A very important non-renewable resource is represented by the natural gas. Natural gas can be „conventional" or „unconventional". The Petroleum Law 238/2004 (Art.1(3)) states „Natural gas include free gas from methan gas deposits, gas dissolved in oil, those from the head of gas associated with the oil deposits and gas resulted from the extractions of condensated gas mixtures". [7]

Shale gas belongs to the category of unconventional gas and is natural gas trapped in fine grained sedimentary rock, less porous and less permeable, called shale. Shale gas was discovered for the first time in U.S., with more than 25 years ago, and it have been exploit for about 15 years. The technology used for the shale gas extraction is called hydraulic fracturing (HF), a proven technology used since the 40s in more than one million wells producing oil and natural gas.

Statistical data shows that the current natural gas production in Romania is about 11 billion cubic meter/year (more than three times lower compared with the maximum production of 35 billion cubic meters, recorded in 1986), and the domestic consumption (represented by people and companies) is evaluated at 15-16 billion cubic meters/year. It can be observed a difference of 4-5 billion cubic meters of gas, represented by imported gas, mainly originated from Russia. [7]

Even if the known deposits at this moment in our country are valued at almost 100 billion cubic meters (which is considered to be sufficient for 10 years), the increase of the domestic consumption determines the orientation towards projects on source of gas diversification. In this context, it can be observed that, for more than 2 years, the interest for shale gas resource knowledge has increased and the concerns for their exploration/ exploitation have intensified. This approach, became, also, the subject for debate for specialists in the political, economic and social field, and a reason of concern for a large part of Romania's population.

In this context, this paper aims to develop the SWOT analysis elements, for an accurate understanding on what would imply the shale gas exploitation / exploration in Romania.

1. Identifying opportunities in shale gas exploitation

Even if the issue of shale gas shakes the entire world, they are, for now, an economic reality only in North America, where, after more than 15 years, there have been clear successes.

Therefore, currently, it is considered that the Americans provide over 30% of the gas consumption from unconventional resources, compared to only 3%, as it was 10 years ago. One effect of the development of shale gas extraction was the strong cheapening of gas on the American market, which came to cost, currently, five times less than in Europe. In April 2012, prices have fallen to $ 70 per thousand cubic meters, due to higher production, this rate being the lowest from the last 10 years. Meanwhile, the Europeans were buying Russian gas with more than 400 $ per thousand cubic meters.

Shale gas exploitation led to the increase, with 50%, of U.S. natural gas production, generated more than 600,000 new jobs and contributed with more than 20 billion dollars to the local budgets of some U.S. states, showed Derk Magness- project leader for the development of natural gas from gas-bearing clays of Chevron company, in Central and Eastern Europe- at the World Energy Council, Central and Eastern European Forum for Energy (FOREN- June 17, 2012). Also, the natural gas from gas-bearing clays provides heating for 56 million of American households, generates a fith of the U.S. electricity needs, creates raw material for fertilizers, plastics, etc. Given the recorded results so far, the U.S. has proposed to invest, during the period 2013-2018, 400 billion $ in shale gas production, leading to a number of 5 million jobs created in this field. [4]

The opportunities of ecological exploitation of shale gas in Romania would be: a higher gas production, which would satisfy the increasing domestic demand; the reduction of imports from Russia; independence and safety on the energy market; the cost reduction of gas, which will be reflected in the decrease of population and economic agents bills, and further, they can reduce the production costs and the selling prices of their products; new jobs and growing incomes. All this facts could be premises for the regional and national development of Romania.

2. Strengths of the shale gas exploitation

There are opinions that state that Romania would have important deposits of shale gas, following the argument that gas trapped in rocks is found where it exists or it existed and were extracted oil deposits. Knowing that Romania, was in the early twentieth century, the third world producer of oil, it can be assumed that the shale gas resources are considerable. [2]

Hydrocarbon production in our country dates back to 1857 for crude-oil and to 1909 regarding natural gas. It can be stated that Romania has tradition and experience in this activity.

3. Which would be the possible threats / risks that may arise from the exploration / exploitation of shale gas?

The aspect that creates the greatest debates and the highest rejection of population from different countries, targets environmental risks that can arise from the working technology (hydraulic fracturing) used for the exploration and exploitation of shale gas, and also because of possible errors and human mistakes.

As a brief description, the working method, in the case of shale gas, comprises four steps: (1) a vertical well is drilled until the shale layer is reached (less porous and less permeable rocks), (2) the drill then runs horizontally through shale formation, (3) the fractures created are kept open though the high pressure injection of water (90%), with sand (9.5%) and other chemicals (acids, chlorides, salts, etc.0.5%) enabling circulation gas flow, (4) after the gas is extracted, the pressure is released and the water returns to the surface. [8]

This process could generate several potential dangers, such as: it could affect groundwater; the methane could escape into the atmosphere and potency, so, the effect of global warming; it could generate earthquakes; it would occupy large areas of

land, disturbing transportation and community life; it could affect population health.

The risk of water pollution

(a)The extraction of shale gas requires *the use of large quantities of water* (between 2300 and 4000 cubic meters) in rock formations, in order to recover trapped gas at a distance of one or two kilometers (or more) below the surface. Regarding the required quantity of water, API (American Petroleum Institute) says that it is lower than in the case of other trade or recreational activities. For example, in 2009, in Pennsylvania, all hydraulic fracturing activities used only 5% of the volume water used for recreational activities such as golf and skiing. Paris water consumption, is on average, 550.000 cubic meters of drinking water per day compared with a consumption of 10,000-15.000 cubic meters required for drilling. [1]

(b) If drilling is not done properly, there could be *the risk of groundwater contamination and the risk of discharge of wastewater or chemicals.* [8]

Water can be contaminated with chemicals used in hydraulic fracturing, as well as with waste water from fractured or crossed formations, which contain heavy metals (As, Hg) or radioactive particles. [7]

On the other hand, The American Petroleum Institute says that the studies conducted by the Environmental Protection Agency (EPA) and The U.S. Water Protection Council have confirmed that there is no direct link between the hydraulic fracturing operation and the impact on groundwater. As an explanation, it is reminded that wells are drilled at a distance from those for the drinking water , the fracturing is performed very deep, far below the level at which there are aquifers, and when a well is drilled, it is coated with layers of cement and steel which play the role of a barrier between the well and the drinking water. Official concerns regarding the impact on environment and health induced by HF (hydraulic fracturing) appeared in 2010, when the EPA (Environmental Protection Agency), at the request of the American government, decided to study the impact on drinking water and public health. It is mentioned, this time, that in U.S. were found several major gas leak into the environment and groundwater were contaminated with gas and fractionation fluids.

Being aware of the existence of views and fears that HF can contaminate groundwater, Derek Magness, project leader for the development of natural gas from gas-bearing clays of Chevron company, said on June 17, 2012 (FOREN) that using two established technologies-horizontal drilling and hydraulic fracturing, natural gas from gas-bearing clays can be developed in a safe procedure regarding environmental protection. Hydraulic fracturing method, used to open the pores of reservoir-rock, is performed at a depth of 3-4 km., below the aquifers level. Besides this natural protection, Chevron company practices stipulate that the well used at drilling should be composed of several layers of steel and cement, to prevent any possible contamination. [3]

The risk of air pollution

Air pollutant emissions may occur due to the transport of heavy trucks and pressure aggregates, as well as from the manipulation of fluids that contain dangerous substances and which can evaporate into the air.

So far, studies show that shale gas wells pollute some more than conventional gas, because there are being used more wells, and hydraulic fracturing consumes a lot of energy from diesel engines. Thus, the HF process obviously generates *CO2* and other *air pollutants*. It could be said that shale gas is as harmful for the climate as it is the exploitation of coal. [3]

According to the U.S. Environmental Protection Agency, hydraulic fracturing process used for shale gas exploitation is considered to be the second source of greenhouse gas emissions in the U.S. after the coal-fired power plants. [5]

The biggest fear is related to possible *gas leak* outside the probe by accidental leakages in pipes, if there are cracks, or in valves and other equipments. Methane is considered a very dangerous gas and emissions are difficult to measure. United States Environmental Protection Agency (EPA) has developed and published a study which showed that shale gas emissions are 2.2%, which means sligthtly above the level of gas

emissions from conventional sources. It also states that the level of emissions will decline as a result of environmental practices that prevent gas leakage or burning, and that are currently applied in most of the new wells. EPA is working on the most comprehensive study so far, in terms of all aspects of shale gas and which aims to reduce public fears. [5]

The risk of potential earthquakes

Because of hydraulic fracturing, which means *injecting large volumes of wastewater, it is believed that the seismic movement may intensify*. A study of The U.S. Geological Survey shows that there has been recorded an increase of frequency and magnitude of surface earthquakes felt in the U.S. and associates this change due to the drilling activity for oil and gas. [7]

Regarding the risk that the HF produce seismic movements, Mr. Derek Magness said that Chevron is conducting complete seismic studies to place the operations at a safe distance from tectonic faults; the seismic activity of the area is closely supervised thoughout the operations using acoustic sensors and other established technologies, which allows to precisely identify the extent of cracking in the reservoir rock. [3]

The risk of noise pollution, occupying land areas, affecting transport and community life

Another risk of shale gas is the *occupation of large areas of land* required for digging wells, parking and handling heavy equipment, space for surface equipment, gas processing facilities and their transport, accessible roads. This could lead to the *removal of some areas from agricultural circuit, land desertification, degradation of wild flora and fauna, landscape destruction, transport congestion, destruction of roads and driveway network, bridges, noise pollution*.

Specialists state that hydraulic fracturing is a noisy process, but that lasts only five days, after which the gas will start to flow. Then, the trucks, the portable offices and the containers are taken to another site of operation. [5]

Regarding the danger generated by the transportation, an observation of the European Parliament comprises the following comparison: if for a platform with eight wells there are required 4000-6000 transports within six months to ensure the functioning of wells, to ensure the functioning of wells for a typical commercial center there are needed about 15000-25000 transports within a year of operation.

In terms of landscape destruction, Bruce Niemeyer, one of the regional directors of Chevron, considered as a remarkable aspect related to shale gas mining "the absence of anything remarkable going on" above the ground. Marcellus area from Pennsylvania (U.S.) did not look at all like a field of gas wells, like anyone would expected to look. [6]

It can be said that currently, the impact on local communities in Europe may be lower than it was in America at the beginning of the activity of this industry, and, in the future, may still diminish.

Risks on health and quality of life

Hydraulic fracturing method realizes the deep pumping of large quantities of water (90%), sand (9.5%) and *additives (0.5%)* to break the layer of the rock and release the gas. Another big concern is related to *these additives, which contain 600 chemicals* (instead of 4, the number of chemicals used to exploit conventional gas), some of them considered carcinogenic. The dissatisfaction of the population is also connected to the aspect that it is not communicated clearly what chemicals are being used, invoking issues related to the protection of a particular "trade secret." [7]

Exploiting companies only resume to mention that these chemicals, in their majority, are found in common products that we already use (such as cosmetics and home cleaning products). But, according to a list provided by The New York State, we find that among the *750 chemicals identified by the researchers, there are: 58 substances with problematic properties , 6 substances that require special attention because of their potential effects they may have on humans and on the environment (acrylamide, benzene, ethyl benzene, naphthalene, ethylene, tetrasidin, isopropilbenzen /*

Cumene), 17 substances are considered toxic to aquatic organisms; 38 substances are classified as toxic to human health, 8 substances are considered carcinogens, 7 substances are classified as mutagens, 5 are classified with negative effects on the reproductive function.

U.S. Department of Health, found, after analyzing a study on hydraulic fracturing, that this procedure can be done in a safe manner in New York State area. The study details the potential impact of hydraulic fracturing method for a variety of environmental factors, starting with the impact on water resources, to the impact on air quality. It was also analyzed the potential impact on the socio-economic field and on the quality of life. It states that, in order to avoid potential hazards, it is necessary to comply with the regulations adopted during the last years.

4. Weaknesses in shale gas exploitation

It is estimated that shale gas reserves in Romania would be located at depths greater than those in the U.S., which would mean higher costs. Also, the perimeters of Romania, which have already received the operating license, are located in populated areas and this aspect concerns the inhabitants in terms of health and safety. Moreover, in Dobrogea region, these blocks are close to the seaside resorts and some important sights, which questions the development of touristic activity in this area.

Conclusions

Shale gas exploitation has proven to be a real success for the U.S. economy. More and more countries, consider, at present, that the exploitation of these resources can bring economic and social benefits, which is why they decided their exploration.

At european level, it is found that the attention and the attraction for shale gas differ from the U.S., but differ from one country to another and from one period of time to another. Because of the controversy regarding the technology of work- hydraulic fracturing, in some european countries like Bugaria, Ireland, France, Czech Republic shale gas exploaitation has been banned, in the German state of North Rhine-Westphalia was introduced a moratorium, and in England and other countries were conducted extensive public protests against this method of working. (HotNews.ro). For some time, in some of these countries (England, Ireland, Germany), the situation has changed, in that many fears were removed as a result of scientific studies conducted and it was decided to exploit shale gas.

In Romania, even if the temptation of politicians and Romanian specialists in exploration / exploitation of shale gas is high, there is a strong opposition from the population and various environmental organizations, generated by the concerns regarding environmental protection and safety of life. The lack of complete information and the lack of dialogue with the population on the benefits and threats related to the prospect of exploration / exploitation of shale gas appears to maintain this situation.

For the population, in particular, we believe that extensive actions are needed for a properly and complete information, from competent and responsible bodies/ individuals regarding all the issues related to shale gas.

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Education Development as a Prerequisite for the Formation of a Competitive Wage System in Consumer Cooperative of Ukraine

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Abstract

The article reviews intellectual and innovative factors of education development. These factors influence on wage system and increase it competitive.

Key words: education, wage system, competitive, consumer cooperative.
J.E.L. classification: A23, J30, F 12

Introduction.

The importance of higher education in the economics of Ukraine as a major factor in the formation not only of a competitive economics, but also a new quality of society as a whole is growing.

Therefore the problem of supporting the development of education and science is deeply social and refers to the priorities of social development and also directly linked with the national interest, improvement of quality of life and national security.

However higher education should not be a mirror of social and economic problems, but rather a tool to overcome them, a window into the future. So in most countries of the world where knowledge has become the driving force science and education are given priority. In the Materials of final board "Higher Education in Ukraine – European dimension: progress, problems and prospects" it indicates that we have to create conditions for the proper positioning of the dignity of the teacher, scholar, intellectual, rather than passively observe the marginalization of Education [1, p. 1].

The article aims is to identify the main factors of education development and find out their impact on competitiveness of wage system.

Results

The education reforms conducted abroad are focused on current and future needs of society, the efficient of resources using including directly educational systems. Ukraine can not and must not remain aloof from these global trends. A comprehensive and deep modernization of the education system - is imperative educational policy of Ukraine, its main strategic direction.

Strengthening the role of globalization in terms of innovative components of economic development of countries, inextricably linked with the development of information technology, determines the need for highly skilled labor force characterized by the prevalence in the composition of its functions elements of a higher, creative order.

First of all, it concerns the security of the labor force, able not only to perceive accumulated by previous generations the volume of empirical and theoretical knowledge, assimilate it, but also to systematically raise the level of competitiveness, trying to apply a creative approach to the use of the knowledge gained.

It should be noted that in the creation of a competitive environment activation of the innovation processes of social development led to increasing the role of education and training in the development of human resources.

The increase in the quality requirements of the labor force with the development of modern technology requires constant improvement of knowledge and skills of the individual during working life to ensure its productive employment, occupational mobility and competitiveness.

First of all, the implementation of the tasks will require the inclusion of the individual in the system of continuous education.

Improving the quality of educational

services aimed at providing the conditions for the formation of a system of continuous education so-called "life-long education" to improve vocational structure of the labor force, acts as one of the most effective ways of increasing the competitiveness of the national workforce. With the increasing importance of innovation factors of competitiveness of national economies is the development of education, quality of education is a necessary precondition for sustainable and innovative dynamic changes in the economy, the transition to innovative information model of social development.

Standards of education in Ukraine are traditionally high, which manifests itself primarily in the higher level of coverage of education, literacy of the adult population, maintaining a high proportion of people with higher education.

A comparison of the index and the index of education rankings with an index rating and regional human development index in 2011 is presented in the table 1.

Table 1. Indexes and ratings indices of education and regional human development in 2011 [2, p. 23]

	Level of education		Level of regional human development	
	Index	Rank	Index	Rank
ARC	0,374	17	0,495	9
Vinnitsa	0,339	21	0,441	24
Volyn	0,352	19	0,484	17
Dnipropetrovsk	0,456	12	0,484	15
Donetsk	0,285	26	0,397	27
Zhytomyr	0,462	10	0,460	22
Transcarpathian	0,330	23	0,507	7
Zaporizhia	0,464	9	0,489	11
Ivano-Frankivsk	0,332	22	0,484	16
Kiev	0,492	5	0,489	13
Kirovohrad	0,402	15	0,437	25
Lugansk	0,216	27	0,412	26
Lviv	0,371	18	0,521	5
Mykolayiv	0,394	16	0,485	14
Odessa	0,466	7	0,469	20
Poltava	0,488	6	0,528	4
Rivne	0,414	14	0,516	6
Sumy	0,291	25	0,471	18
Ternopil	0,315	24	0,469	19
Kharkiv	0,531	3	0,556	3
Kherson	0,449	13	0,468	21
Kmelnytsk	0,519	4	0,496	8
Cherkasy	0,461	11	0,493	10
Chernivtsy	0,347	20	0,489	12
Chernigiv	0,466	8	0,450	23
Kyiv city	0,825	1	0,695	1
Sevastopol city	0,618	2	0,579	2

Given that the index of regional development is determined on the basis of determination of 9 indexes: the demographic development, labor market development, material well-being, the living conditions of the population, education, health and health care, social protection, ecological situation, the financing of human development, it can be concluded that level of education is one of the most influential factors in the formation of the regional human development.

Thus, the rating of the index level of education of Kiev - 1 corresponds to the first ranking of the regional human development index, Sevastopol is a 2 rating as the index level of education, and on the regional index of human development.

Modern civilizational trends have an impact on the system-reform education in Ukraine. The first trend is the increasing globalization of the economy, the relationship and interdependence of the world.

Deep processes of this trend are stipulated due to the development of science, technology, production, leading to the formation of the world's total economic space and planetary information field, the results of an intensive exchange of material and spiritual production.

The second trend is caused by the formation of a positive environment for individual human development, its fulfilment in this world. It is these trends contributed significantly to the reform of the education system of independent Ukraine [3, p. 179].

However, despite the positive indicators of the standard of education in Ukraine, in the development of the education system in the 1990s there has been a build-up of negative trends: inadequate funding of education, regional uneven distribution of educational facilities in the country, the ineffectiveness of the reorientation of education systems to the needs of the labor market, inadequate curricula of the education system that does not provide graduate and professional life skills necessary for their

employment in the new integrated economics.

It should be taken into account that the high standard of education serves an important factor since the country's competitive advantages. First of all, it is the need of information and intelligent technologies in the educational process in order to manage the modern methods of the educational process, significantly improving the quality of training of highly skilled specialists.

At the same time providing access to the world achievements of science and education, the development of the education market increases competition between universities in both domestic and foreign markets, as those who do not provide a sufficient quality of education can not compete.

Experience shows that competition - is an effective factor in the development of the education system, which makes it necessary to implement a set of measures to overcome the disadvantages and consequences of self-isolation, improve the system of education at the level of modern requirements, the implementation of its information, the introduction of innovative technologies in practice, the development of new methods and criteria assessment of knowledge, overcoming the contradictions between domestic and world level education, joining the national system of education in the global educational space.

In the transition phase of the accession of Ukraine to the World Trade Organization, which involves growing openness of the national economics, there may be significant transformational change. This primarily refers to the need to ensure access to national education market foreign institutions that have developed material and technical base and financial resources to support the introduction of new methods of educational process [4, p. 33]. Consequently, this leads to increased competitive pressure on the education market by foreign institutions, while among the internal factors of increased competition in this market should be allocated, first, the deterioration of the demographic situation in the country, increasing the number of educational institutions offering educational services.

The transition to a postindustrial society makes it necessary to review not only the technology of education, but also directly to its content, clarify the optimal structure of knowledge for all age groups. It is considered essential to ensure a regular updating of knowledge with the acceleration of technological change processes in order to prevent the rapid aging of the least mobile of the content of education. Developed countries pay considerable attention to the growth of the educational component of human capital, since employers are interested in preparing skilled and educated professionals to high-tech manufacturing. That is why they help finance educational institutions, scholarships paid the most talented students, provide training in the workplace. Attach the so-called "investment" in young professionals, which provides employer means that it is potentially interested in fixing this specialist industry.

For its part, the government is also interested in constructive cooperation with employers, as corporate payment for education allows to redistribute public funds more task-oriented and reduce the financial burden on the state budget In a number of countries implementing programs under which employers who provide temporary jobs first graduates are now provided wage subsidies.

It is considered appropriate to the application of incentives for the employers to provide permanent jobs for young professionals. In particular, some countries have a support to employers who offer permanent jobs for young professionals, especially in the case when, during the practical training, the trainees successfully show their talents and realize their knowledge.

In our opinion, it is necessary to take into account the dominant influence of educational factors on the validity of the formation of a competitive environment in the labor market competitive pay system and human development. This degree of adaptability of education and training to dynamic changes in supply and demand conditions in the labor market, and to provide labor, professional qualification options that meet the needs of social and economic development of society, are the determining factors of growth competitiveness - capacity of human resources. Functional characteristics of education in the formation of innovative

society is not only "... ability to provide those learners accumulated in previous years the knowledge and skills but also the ability to perceive and use in practice, new scientific ideas, technological tools and production methods to form in the innovative abilities, initiative and enterprise" [5, p. 34].

Inadequate response system of vocational education directly related to the maintenance of the production sector, the changes in the employment structure in transformational change led to the preservation of old patterns Training Workers. Vector selection experts shifted from prioritizing work related to the implementation of their inherent creative features, jobs that do not require high-level qualifications. Thus, according to a sample survey of the population of economic activity conducted by the State Statistics Committee of Ukraine, much of specialists with higher education are not forced to work in the specialty (70% of those in the physical, mathematical and engineering, 46% - biological, agronomic and Health Sciences 76% of technical experts in applied sciences and engineering) [6, p. 7]. Ultimately, this leads to gradual depreciation of their accumulated knowledge and skills of professional skills, and thus weakening the competitiveness of the workforce.

The instability of the current situation on the labor market relates primarily to the specifics of the present stage of transformation of economy of Ukraine, which appears due to the lack of a clear correlation between the level of education of employees and amount of income received by them. Current income is the result of differentiation of restrictive state fiscal policy, since the state, acting as employer-monopoly in some segments of the labor market, established a monopoly low prices for high-skilled labor.

However, please note that, even if the manufacturing and technological innovations dictate the feasibility of employment of additional workers, employers may refrain from it if the marginal cost of hiring such excess. This may make the problems of the education system, because on the one hand, it signals that there is market demand in certain trades and trying to adapt the size and structure of its production in accordance with them. On the other hand - graduates can not find a permanent job in the specialty, because of their employers' costs of hiring too large, although the salary of the workers may be low.

Wages in the present socio-economic situation is the most important factor in shaping the attitude toward labor, ultimately determines the state of motivation to work.

In most cases, young uncompetitive in the labor market because of experience, specializing almost absent, and a limited number of vacancies in the business can not get it. To enable a first job graduates of educational institutions directed the Verkhovna Rada of Ukraine of the draft law on quotas of jobs for graduates. However, the effectiveness of this law is to be determined by the extent to which employers received training requirements caused by the quality of educational services and the level of interest of employers in hiring members of this category of employment.

Educational services in the system of consumer cooperatives in Ukraine are provided by 23 educational institutions of first level of accreditation and 2 educational institutions of fourth level of accreditation. The need to ensure competitiveness of the national labor force in the face of increasing integration in the global economy stimulates the formation of a competitive wage system. The quality of the latter undoubtedly related to the educational level of workers, in particular the system of consumer cooperatives.

Given that, in our research, uncompetitive remuneration system both in terms of level and mechanism of formation is the disincentives influx of skilled labor in the system of consumer cooperatives, it is necessary to qualitatively improve the training of students in economics.

The increase in training of specialists in this sector is stipulated by higher prestige of obtaining these specialties and a guarantee (at the current time) to obtain a sufficiently high and stable income.

The task of increasing competitiveness and consumer cooperatives in particular, necessitates improving training engineering professionals to meet the needs of modern information technology. With the intensification of innovation processes need to ensure the growth of the country's competitiveness, particularly of consumer cooperation in technical and technological fields, increasing the relevance of training of

scientific and technical profile.

It should be noted that the employment of young people who are first entering the labor market, rather problematic, since this contingent is least prepared for by the existence of a highly competitive labor market. Lack of experience, lack of professionalism and poor feasibility obtained in higher and secondary vocational schools of knowledge in practice, preference in employment are more experienced and skilled workers reduces the chances of youth employment after graduation in higher education. It is therefore necessary to pay due attention to improving the competitiveness of the national youth labor market, including consumer cooperatives, which could lead to maintaining high educational level of the human resources of the country in the long term and ensure the realization of competitive advantage.

The Cabinet of Ministers of Ukraine "Ukrainian breakthrough: for people, not politicians" in particular includes:

- government ordering according to the needs of society and of its funding from the state budget;
- expanding the autonomy of higher education institutions and the democratization of domestic life;
- adaptation of Ukrainian higher education to European standards and requirements of the Bologna process, keeping the best achievements of national education, providing compatibility curricula of higher education institutions within Ukraine and other European countries;
- increased state control over the quality of the educational process, denial of licenses universities, where the process does not meet the established standards;
- ensuring the implementation of the priority right to higher education from the state budget gifted children from low-income families;
- formation mechanisms of identification and selection of gifted young people and giving it the socio-pedagogical support and more.

Conclusions.

In the current circumstances it is necessary to take into account that educational services should promote the absorption of graduates of the body of knowledge and skills on a particular specialty, to ensure obtaining of a new social status in the society, and development of technological and psychological self-organization. This is possible only by improving the quality and competitiveness of university services, achieving the educational institution a competitive advantage over other universities that offer services similar in content, scope and purpose, in a particular segment of the labor market.

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A Managerial Early Warning System for the Sustainable Knowledge Based Organization

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Abstract

The article aims to highlight the main characteristics of a managerial early warning system which is designed especially for the sustainable knowledge based organization.

In order to achieve our goal we used an ethical approach and focus on case study as the research strategy. Based on the results of a documentary study and in-depth interviews, we have selected three sustainable knowledge based organizations from the business environment from Iasi and Madrid. For each of them, we have conceived, tested and validated a managerial early warning system, based on an artificial neural network.

The results have showed that the artificial neural network, on which the system is based on, must include at least 28 factors. As a consequence, it has theoretical and managerial implications. On the one hand, it proposes a new strategic instrument. On the other hand, it highlights the most important elements that are influencing firm's profitability.

Keywords: strategy, artificial neural network, sustainable knowledge based organization, early warning system.
J.E.L. Classification: L21, M1, M14

1. Introduction

As the economic environment became more dynamic, complex and uncertain [1], [2], [3], the need for new types of firms and strategic instruments had increased. As a result, the sustainable knowledge based organization has been developed [4] and the early warning system, which was especially developed for anticipating natural disasters [5], was introduced at the organizational level [6].

Based on these we ask ourselves, what is the structure of a managerial early warning system, conceived for the sustainable knowledge based organizations? Which will be the elements that should be included its structure if we would like to use it in order to anticipate the future threats and opportunities?

We will answer to these questions in the following sections of this article. Next, we will summarize the particularities of the sustainable knowledge based organization and the ones of the early warning systems and we will present the methodological approach that we used. In the fourth part, we will highlight the main results and in the end we will indicate some directions for further research.

2. Characteristics of the sustainable knowledge based organization and managerial early warning systems

Developed against the backdrop of globalization, the sustainable knowledge based organization is an economic entity that aims to increase its short, medium and long term market value by dealing with knowledge, economic, social and environmental issues. It is usually described as a complex and adaptive system that combines the economic, social and environmental objectives with the ones regarding knowledge in order to adapt to the challenges that occur in the micro- and macro-environment [4].

As we may notice from Figure 1, its main characteristics combine the interests in knowledge creation, dissemination and use with the ones in developing a partnership with the members of the community in which it operates.

Figure 1. Main characteristics of the sustainable knowledge based organization



Source: [7]

So, it differentiates from the post-bureaucratic firms, that had been consecrated in the specialized literature, by its way of perceiving the employees (who become knowledge workers which are concerned with developing themselves and ensuring that the future generations will have access to the same quantity of natural resources), the multiple categories of objectives (focus on economic, social, environmental and knowledge issues) and the implementation of programs that bring benefits to all the stakeholders [8].

Starting from these, when a strategy is developed several aspects must be taken into account. The managerial early warning system is the one that may satisfy this need since it combines the internal with the external perspective, the subjective approach with the abstracted one.

The managerial early warning system is a strategic instrument that allows protecting company's competitive advantages by scanning, analyzing and interpreting the factors from the micro- and macro-environment [9], [10]. It may be based on a managerial debate [9] or it may use an artificial neural network [10]. The first one will be subjective and time-consuming while the second one will be abstract and will necessitate additional efforts in order to increase managers' implication in strategy's implementation. As a consequence, we assume that a managerial early warning system should combine these approaches in using both managerial debate and artificial neural networks. The managerial debate should be use in order to identify strategic factors, to build scenarios, to develop strategic answers and to formulate the future strategy. The artificial neural network should be use for determining the future evolution of the elements that may influence firm's performance.

3. Methodology

The research goal was to identify the main elements of a managerial early warning system which is based on an artificial neural network and designed especially for the sustainable knowledge based organizations.

In order to achieve our goal, we aimed to:

- identify at least one sustainable knowledge based organization in the business environment from Iasi and Madrid;
- determine the most important factors that may influence firm's strategy;
- conceive a managerial early warning system based on an artificial neural network;
- use the developed system for anticipating the threats and opportunities that may appear during 2013 – 2015, base on the events that succeeded in 2007 – 2011.

We used an ethical approach and we combined the advantages of using the documentary study and in-depths interviews

with the abstract character of the artificial neural network.

The documentary study and the in-depths interviews focused on identifying sustainable knowledge based organizations in the business environment from Iasi and Madrid. According to data published on the Chamber of Commerce website, there are 72 potential sustainable knowledge based organizations in Madrid and 49 in Iasi. Then we analyzed the annual informs of each of these companies. The units of analysis were represented by the characteristics of the sustainable knowledge based organization, namely: multiple categories of objectives (economic, social, environmental etc.); planning on short, medium and long term; open organizational culture; investing in human resources; collaborating with other firms and reduced number of first line and middle managers. In the end, we noticed that only 23 firms could have been described as "sustainable knowledge based organization" (16 were from Madrid and 7 from Iasi).

During 15th of July 2012 – 1st of February 2013, we have contacted the managers of these companies in order to establish a meeting. This had two goals. First of all, we wanted to check if the firm has an internal knowledge base and the activity is organized around interdependent teams. Secondly, we wanted to present them the possibility of participating to the development of a managerial early warning system. Only 9 managers have accepted the meeting. In the end, 5 firms met the last two conditions and only 3 (1 from Madrid and 2 from Iasi) accepted to participate to the development of the early warning system.

Further, we conducted an in-depth interview with the managerial team from each company and we identified the main factors that may influence their strategy. These were presented in a "cause-effect" map and reunited elements from the micro- and macro-environment.

We collected data regarding the evolution of each of these factors, during 2007 – 2011, from internal (annual reports) and external documents (Eurostat, World Bank databases). In order to estimate the future value of these, we developed an artificial neural network using *Allyuda NeuroIntelligence*. The main characteristics of the artificial neural network were a learning rate of 0.7, a momentum of 0.8 and a target error of 0.01.

Based on the results offered by the artificial neural network we determined the main threats and opportunities that may appear during 2012 – 2015 for each of the selected firms. The results for 2012 were used for an external validation. In other words, in March 2013, we presented our assumptions for 2012 to the managerial team. Each of them confirmed it and their answers served as a validation procedure for the managerial early warning system's structure.

The results that we had obtained for 2013 – 2015 were used in the Spanish company in order to develop scenarios and establish the future strategy.

4. A viable strategic instrument for the sustainable knowledge based organizations

For each of the selected companies, we had developed a managerial early warning system that aimed to identify the opportunities and threats that may influence company's profitability during 2013 – 2015. According to this, we followed three phases: predicting (scanning the environment), diagnosing (identifying the future threats and opportunities) and reacting (developing scenarios and building the strategy).

First, we had analyzed the evolution of factors that were describing the *socio-demographic environment* (population's distribution by education, wage and age etc.), *economic environment* (inflation, interest rate, foreign investments, economic growth rate, employment rate, taxes etc.), *technological environment* (investments in research & development, product and process innovation, technology absorption etc.), *legal environment* (efficiency of the legal system, market deregulation, protection of the intellectual property etc.), *political environment* (corruption, transparency of the decisional process, government efficiency etc.), *profitability* (incomes, costs, profit etc.), *competition* (number and characteristics of the most important competitors, the degree of industry's atomization etc.), *customers* (satisfaction, company's dependence, lost customers etc.), *human resources* (satisfaction, education, retention etc.) and *services / goods* (quality, price, time and costs generated etc.). Each of these was discussed during the managerial debate. In

the end, we obtained a list of 30 to 35 factors, depending on company's activity. For the firms that were operating on a stable market the number of factors was less than for the one that was activating on an instable market.

The evolutions that these factors had during 2007 – 2011 were introduced in an artificial neural network (Table 1). Based on a back-propagation algorithm, these estimate the values that these indicators will achieve from 2012 until 2015. The level of confidence for these estimations varies from 90.5% to 95% depending on environment's complexity and volatility and on market's maturity.

Table 1. Characteristics of the artificial neural networks developed for the selected sustainable knowledge based organizations

Firm / Characteristics	A	B	C
City	Madrid	Iasi	Iasi
Size	Medium	Small	Big
Industry	Services	Services	Production
Firm's experience on the market	7 years	8 years	103 years
Economic volatility	Low	High	High
Market maturity	Low	Low	High
Number of factors included in the artificial neural network	30	35	31
Number of learning cycles in the artificial neural network	486	1174	3176
Average training error in the artificial neural network	0.004178	0.00736	0.004291
Level of confidence	95%	90.5%	95%

Besides, we have noticed, that no matter the size of the firm or the domain of activity, this is vulnerable to economic phenomenon. This generated most of the identified opportunities and threats (Table 2). We also noticed that the changes that will occur on the competitors and clients level will generate a couple of opportunities while the transformations that will succeed at the political level will stimulate the appearance of some threats.

Table 2. The opportunities and threats that will appear during 2013 – 2015 for the selected companies

	Opportunities	Threats
Firm A	• slow economic growth; • reducing the taxes; • reducing the bureaucracy; • increasing investments in education.	• reducing the foreign direct investments; • slow growth of corruption; • increasing market's deregulation; • reducing the entry barriers; • reducing market's size.
Firm B	• slow economic growth; • reducing industry's atomization; • increasing market's regulation; • increasing market's size; • increasing the exchange rate for euro.	• increasing the price of combustible; • increasing the inefficiency of bureaucracy.
Firm C	• slow economic growth; • reducing the inflation; • reducing the number of employees from the domain; • reducing the number of competitors; • increasing the demand on the international markets.	• increasing the inefficiency of bureaucracy; • increasing the level of corruption; • increasing the imports; • reducing the demand on the national market.

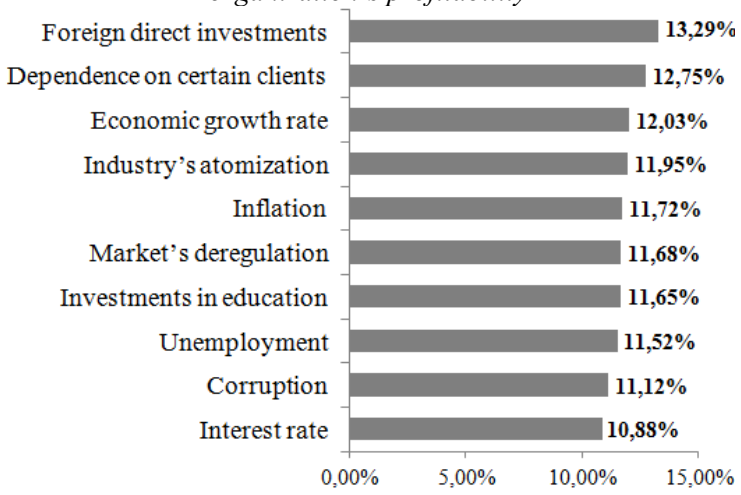
As we may remark from Figure 2, the foreign direct investments are influencing the

small, medium and big companies from Iasi and Madrid, from production and services area. In other words, what happens with the national economy is affecting the firms and, on the same time, is affected by their behaviour. Therefore, the foreign direct investments are occupying the first position while industry's atomization is placed on the fourth place.

Another important aspect is represented by the level in which the firm is depending on a reduced number of clients. If this dependence increases then the organization becomes more vulnerable. It has to deal with the elements that are affecting it directly and also with the ones that are affecting its clients. Any event that will cause reducing the profitability of its clients will be perceived as an indirect threat since it will also diminish its own financial performance. This result may have been generated by the fact that all the analyzed firms were operating in the business to business area. Therefore, the financial problems of their clients have a powerful impact on firm's performance. In the business to customer area, firms are usually distributing the indirect risks (except for the ones that are offering exclusive goods or services or the ones that are satisfying a special need).

If we strictly refer to the 10 most important elements that influence the profitability of the sustainable knowledge based organization, we observe that the highest influence is exercised by the economic environment, customers and future human resources. The investments in education guarantees company's access to certain value and quality of knowledge. This will be used in order to satisfy clients' demands (it will stimulate innovations regarding firms' products and / or processes) and it will generate added-value in the economic environment. Therefore, this ranking is highlighting the double perspective from which knowledge is analyzed in a sustainable knowledge based organization. It's a purpose in terms of creating and disseminating and also an instrument when it comes to increase company's profitability and to ensure its short, medium and long term market value.

Figure 2. The most important elements that may influence sustainable knowledge based organization's profitability



Last but not least, we identify that 28 factors were common to all the analyzed companies. More than 50% of them were referring to intangible aspects of the business environment (like, efficiency, bureaucracy etc.) which reflects the importance that knowledge creation, dissemination and use have it for the sustainable knowledge based organization. In other words, when a strategy is developed for the sustainable knowledge based organization, managers should take into account not only the internal factors that encourage knowledge creation, dissemination and use (namely, organizational culture, human resources' satisfaction etc.) but also the external factors (like, investments in education, bureaucracy, efficiency of the legal system etc.).

5. Conclusions and further research

Through this methodological approach,

we demonstrated that a managerial early warning system, based on an artificial neural network, is a useful strategic instrument for the sustainable knowledge based organizations since it is capable of anticipating the future opportunities and threats. These have theoretical and managerial implications since it extends the literature and it offers a new strategic instrument.

Despite these results, the research is limited by the fact that we only concentrated on 3 firms from the business environment from Iasi and Madrid and we only use the artificial neural network for estimating the future value of the strategic factors. The results may have been different if we had used an artificial neural network based on the feed-forward propagation algorithm or if we had combined the artificial neural network with the rough set theory.

Starting from these, we aim to extend the research so that we could generalize the structure of the managerial early warning system and to develop a comparative analysis between the results that are offered by an artificial neural network based on a back-propagation algorithm, one that is based on the feed-forward propagation algorithm and one that is combined with the rough set theory.

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Implementation and Development of the "Employer Branding Management" Concept on the Romanian Labor Market in the Current Economic and Social Context

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Abstract

The Brand represents the most valuable assets of a company, so brand management is an important new activity in companies. Although normally concentrate their branding efforts towards developing new product and corporate trademarks, branding can be also used in Human Resources, more precisely in Resource Management.

Having a value-centered culture of the "employer of choice" kind means having under control a few key features: internal and external good reputation, identity, image, corporate social responsibility, leadership, empowerment, personnel policies and strategies. Each and every of these features is critical and must be integrated within the brand's global vision.

Investigating of the position of employer of choice are directly proportionate to respecting ethical principles in influencing employees, regardless of the adopted style.

Keywords: Employer's Brand, Brand Strategy, Employer's Branding, Brand Equity.
J.E.L Clasification.: M31

1. Introduction

The Employer's Brand is the virtuous circle thereby increasing employees' motivation leading to an increase in employees' performances, that is also conducive to improvements in client's relationship, and increases the brand's net value ("brand equity"), having an effect on employees' motivation and attracting suitable people to work within the organization. They somewhat justify the usefulness of the Employer's Branding through the benefits that the relationship employee -client - a perspective that emphasizes on the internal marketing and on the relational marketing. [1]

2. Literature review

Employer's Branding is essentially a three phases process. Firstly, when a firm develops a concept of particular value it is potentially and practically offered by employees. That proposition adds value that represents the core message conveyed by the Employee Brand. It is essential that this valuable proposition come from a comprehensive audit of the characteristics that make the company an ideal place to work. Once the proposition of value was established, the second step in the Employer's Branding is represented by selling it on external markets. The third phase of Employer's Branding

implies achieving the brand promise, made in order to attract recruits to the company, incorporating part of the organizational culture, and in order to keep the existing ones. In other words, that latter step means selling the Employer's Brand on the internal market [2].

Categorizing companies on these criteria is not neglected in Romania neither. Every year, the Capital magazine makes a top 100 employers based on the criteria: workplace conditions, communication within the workplace, salary and benefits package, professional formation quality [3].

A study undertaken by James O'Rourke IV, on 3,000 subjects, shows that 60% of those had knowledge of behavioral abuses by bosses. The reasons they don't make them known are: the company's lack of interest in such issues, lack of protection (anonymity, protection against reprisals, etc.) [4] Therefore the leaders' ethic must be a relevant ingredient for the connection between the reality of the brand and its promises.

There are five steps to be taken for developing a powerful Employer's Brand [8]:
- understanding your organization
- create a convincing brand promise for the employees who reflect the brand promise to the clients
- develop standards for quantifying the achieving of the brand promise.
-rallying all the practical people to support and strengthen the brand promise and,
- execute and measure.

A powerful Employer's Brand *lowers the recruiting costs of the company* as, due to their loyalty, the organization does not need to replace existing employees with new ones, the retention costs being lower than recruiting and induction costs. What is more relevant, a high level of involvement makes employees work better (*enhances efficiency*) and be more careful with company assets. Successive studies showed that employees' strong involvement makes the company *grow*. *Young companies* that are riding the waves but do not have a consecrated name, may use Employer's Branding to attract the people fit to make the company grow. A particularity of the Employer's Branding in such companies is that it is developed *organically* and often it is "*a direct extension of the founder's personality.*"

In the context of employer's marketing, the Employer's Brand can be regarded as a set of distinctive images about a potential employer, as they appear in the mind of target groups – potential employees[6].

3. Objectives and method

This paper has importance for all because the Employer's Brand is little talked of in Romania, although intensely used in branding and human resource management in the international environment. Indispensable as a survival and development instrument of economic and non-economic Romanian companies, Employer's Brand has a huge potential from the perspective of sustainable development, competitiveness and the diminishing of labor migration from Romania companies to other European companies. Moreover, the case study is a novelty, being the first notable to have recorded results.

This paper analyses how personal brand is perceived by applying a series of cross questionnaires, in the sense that in 119 companies were applied two types of questionnaires to be able to identify employer's and employees' opinions. From each of the 119 companies, 5 questionnaires were applied for employees .

The 119 companies in which the study was conducted are located in the North-East Region, private-capital companies with more than 50 employees. The questionnaire addressed to the employer was filled in by the HR department manager and the questionnaires addressed to employees were filled in by persons hired at least as middle management from various departments. The questionnaire was applied from April 2012 to October 2012.

4. Results

The first questions of the questionnaire addressed to the employees respondent to the study refer to the identification of the company size and of the activity field, and the answers are illustrated in figure 1 and figure 2. Thus, the majority of the companies participating to the study have from 100 to 200 employees (approximately 80% of them), and 10% have even more than 200 employees, which gives relevance to this

study. The main fields where more than half of the targeted companies operate are, in order of importance: commerce, service providing and the industrial, financial-economic field.

Fig. 1 – How many employees have you got?

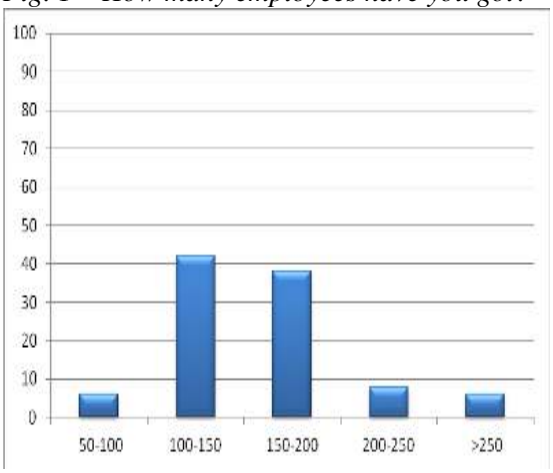
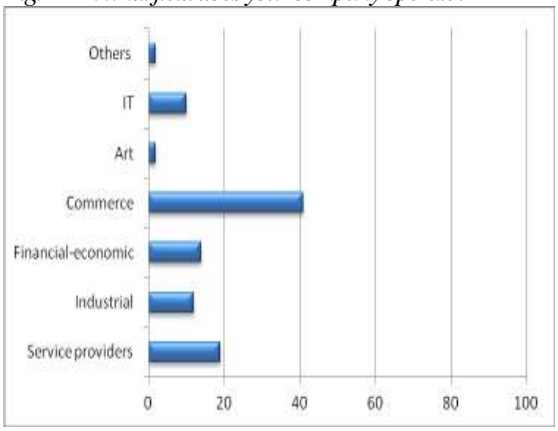
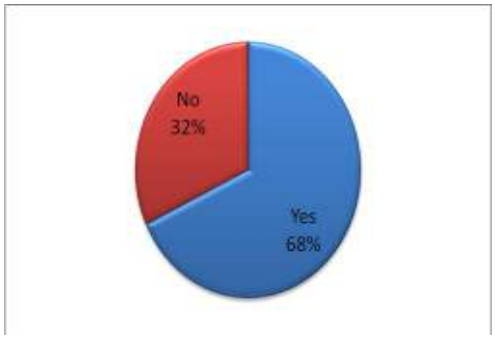


Fig. 2 – In what field does your company operate?



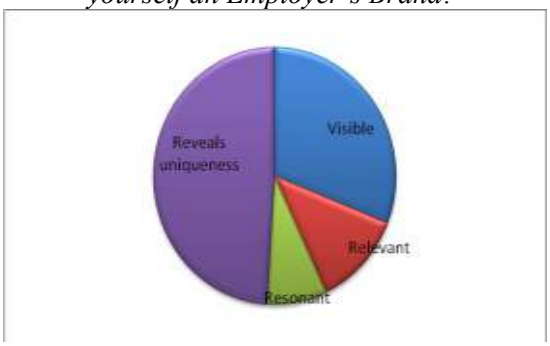
Questioned about their perception upon the company, meaning that if they reckon the company having Employer's Brand, the majority of the respondents – employer's representatives have answered they reckon the company as having Employer's Brand, as it results from figure 3.

Fig. 3 – Do you reckon your company as having Employer's Brand?



Those who considered that the company they represent has got Employer's Brand were asked to check one characteristic according to which they answered affirmatively to the previous question. The results are shown in figure 4 and indicate that the representatives believe the company's uniqueness as being a defining characteristic of their brand (almost half have given this answer), a quarter of them believe that the fact they are visible on the economic market offers them the Employer's Brand statute. Less than 10% have considered their company relevant for the economy, at least regionally, this being a motivation for the Employer's Brand.

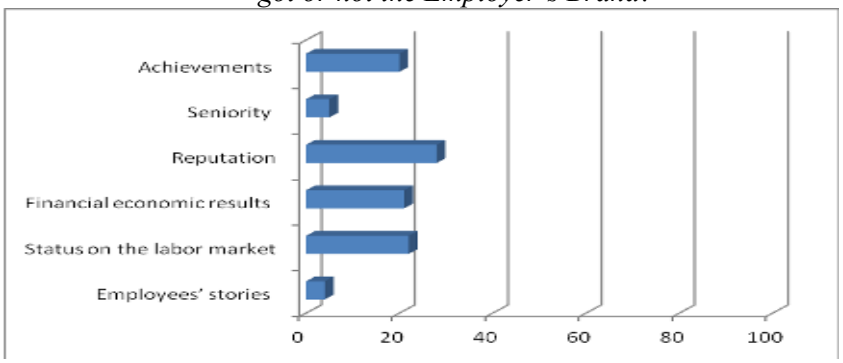
Fig. 4 – Check what characteristics of the following you fulfill in order to consider yourself an Employer's Brand?



[7] confirms in a way the result to this question because the idea that an Employer's Brand cannot exist in a static market environment can be found here, needing dynamics. Therefore companies need, in order to build an Employer's Brand with its own characteristics, to establish an evaluation system for employers and a way to obtain a feedback from partners. A category of company's partners can be considered candidates to hire in that company or even their employees when they were candidates. From this perspective, the employees were

questioned about the criteria they take into consideration to state about a company that it has got Employer's Brand. The results, as they are shown in figure 5, indicate that the company's reputation is the first aspect they think at, followed closely by 3 characteristics that obtained roughly equal values in the survey: the economic-financial results, the statute the company has got on the labor market as well as the accomplishments (product innovation, available marketing).

Fig. 5 – As a candidate for employment, on what criteria do you decide that a company has got or not the Employer's Brand?



As it has been demonstrated, the employees' performance and implicitly the company's performance are a result of the reward in a way or another, figure 6 shows the results at the question *Which is the employees' reward form – in order for the satisfaction of the employees' work to be assured?* At this question, for 43% of the companies, the motivation is being done by salary only (with the notice that in these cases the salary is much above the average), 18% of the companies offer performance bonuses, and 13% of them special results bonuses. For 26% of the companies, the advantageous way agreed by both the parties to motivate is the incentives (holidays, family special events, anniversaries).

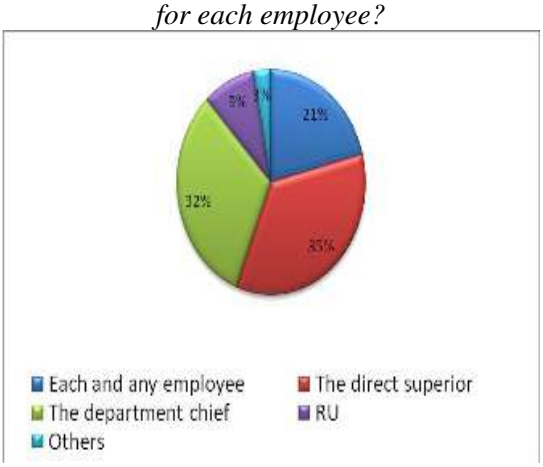
Fig. 6 – What is the employee's reward form – in order to assure the employees' work satisfaction?



The company's performance mirrors the employees' performance who, at their turn, can work following courses, specializations, trainings, even if it is just updating the information in the work field.

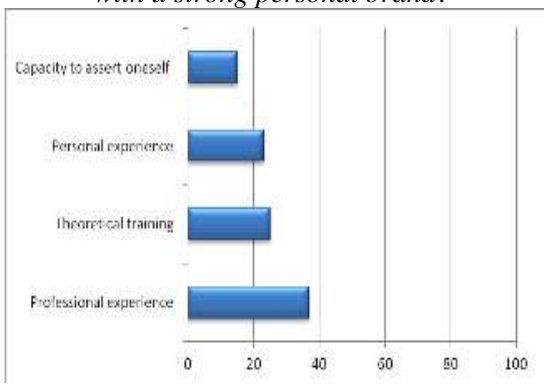
Because we consider this to be very important, training the Employer's Brand companies' employees, we interviewed the companies' representatives about who establishes the training needs for each employee. The answers to this question are shown in figure 7 and indicate the fact that most of the times the direct manager or the head of the department is the one who establishes the training needs. So, in each of these two cases, we underline the fact that it is a person who is permanently in touch with the employee and can objectively evaluate these training needs. In 20% of the cases, each employee decides what he needs from the training and necessary competencies point of view, HR assigning about 10% of the training needs.

Fig. 7 – Who decides the training necessities for each employee?



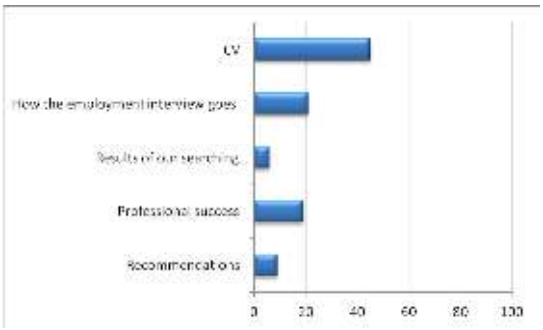
Starting from the hypothesis that Employer's Brand positively blends with the personal one, we were interested in finding out the company's interest point when they decide to hire a candidate with a strong personal brand. As figure 8 shows, work experience is substantially ahead, with approximately 40%, followed by theoretical training, a bit more than 20%. Work experience is another point of interest, (approximately 20%) and the candidate's imposing capacity, in front of colleagues and managers, through ideas, speech, education, communication, etc.

Fig. 8 – What is the company's point of interest when they decide to hire a candidate with a strong personal brand?



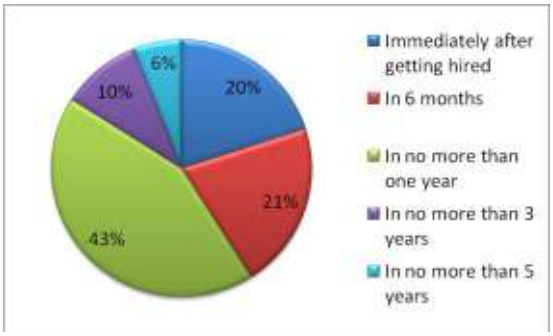
Asked about the criteria upon which somebody has got personal brand or not, the companies' representatives gave answers shown on figure 9. Thus, almost half of them make this assessment on the basis of the CV, on the assumption that it contains all the relevant information about that person. Approximately 20% of the companies have taken into consideration the way the interview went in order to assess the candidates' professional achievements. Less than 10% of the companies make this assessment based on the research results obtained by each human resources department.

Fig. 9 – Upon what criteria you assess that a candidate has got personal brand or not?



On the other side, according to [4] a successful Employer's Brand shall not resume to just attract and keep talented people. He shall also try to encourage, motivate the employees in order to continuously improve the productivity and the quality of products and services. Employer's Brand is a kind of commitment made by the employer to the employees. Taking into consideration that it should be one on long term, another question put to the employees was the one about the time period in which a company (branch) realizes that it hired a candidate with a strong personal brand. The answers (figure 10) showed a large period of time, meaning that almost half approximated one year, 20% think immediately after hiring, and in 6 months it can be clear that you have chosen a person with a strong personal brand. A lower percentage, of only 10% chose 3 years as the necessary period of time for observing the employee's personal brand.

Fig. 10 – How soon can a company (branch) realize if it hired a strong personal brand candidate?



5. Conclusions

The reputation of the company and its brands, the admiration or respect they generate have a direct effect on recruiting, relations with partners, the financial world and larger communities where the

organization operates. A valuable proposition should first of all be relevant to people, and then it must be different from the competition's.

Companies participating in the study consider that one of the most important characteristics that gives them the status of companies with an employer's brand is their uniqueness, while employees think that employer's brand should be reflected in the reputation the company has, in its financial results and last but not least, in the status the company has on the labor market (how attractive it is for graduates, for instance, or for people with a vast confirmed experience in a field).

External company reputation is a source of pride for the people working for it. They boast with their workplace, they feel they belong to an elite group. They know that the name of the company in their resumes will count if they want to leave at a certain time.

The management of the organization, plays an important part in transmitting the spirit of Employer's Brand by supportive actions. The leader is the one at which people are looking to see if the new direction is taken for granted, if changes are made or if it is just rhetoric. The mission of the Employer's Branding manager is to remind the management that what they say and do influences a lot employees' perception about the organization.

At question about reward form, for more the 40% of the companies, the motivation is being done by salary, 18% of the companies offer performance bonuses and 13% of them special results bonuses. For a quarter of the companies, the advantageous way agreed by both the parties to motivate is the incentives

Work experience is substantially ahead, with approximately 40%, followed by theoretical training, a bit more than 20% when we talk about the company's interest point when they decide to hire a candidate with a strong personal brand. Work experience is another point of interest and the candidate's imposing capacity, in front of colleagues and managers, through ideas, speech, education, communication, etc.

Internal measurement systems show what is important for the company. As such, actions connected to Employer's Branding should be measured and assessments made public to employees, proving hence the solid efforts of the company in keeping their promises.

From this stand, the results of the questionnaire confirmed that in the companies considered to have an employer's brand, employees' training is more intense than in other companies having no employer's brand and many times the costs are supported by the company at certain financial or time restrictions for employees. In the most of the times the direct manager or the head of the department is the one who establishes the training needs. So, we underline the fact that it is a person who is permanently in touch with the employee and can objectively evaluate these training needs.

It is relevant for the authors of the study to continue investigating this topic, making a comparative analysis between companies with an Employer's Brand or a potential one, classified according to development areas of Romania. A comparative analysis of the achieved results at various periods of time would also be relevant, awarding time for strategy implementing and having employees' and employers' opinions on Employer's Branding inquired again at a later time.

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Study on E-commerce Market Segmentation

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Abstract

E-commerce has experienced an explosive growth during the latest years. In 2012, the transactions made in Romania exceeded 218 million euros and over one million buyers. The average value of a transaction was 60 euros for payments in foreign currency, and 45 euros for payments in RON. The buyers' average age is between 25 and 34 years, being 83.5% urban population.

Since these criteria of market segmentation are widely recognized, this paper intends to present the results of a study aimed at testing the level of significance of other potential variables of market segmentation for on-line commerce: the subjects' level of education, income and gender.

The conclusion is that, despite the relative low average value of a transaction, the income is the most important criterion in market segmentation.

Key words: e-commerce, customer, on-line buyer, on-line payment, transaction.
J.E.L. classification: L81, L86, M31.

1. Introduction

E-commerce represents an electronic information exchange between a business entity and its customers. In other words, e-commerce is the sale and commerce with goods and services through Internet technologies. [5]

Many people consider e-commerce as any electronically driven commercial transaction for the purchase of products like books, CDs, tickets and other products of this kind. But e-commerce, in its true sense, has a greater impact on business development and includes actually not only new purchases, but all activities that support the marketing objectives of a company, including advertising, sales and market research, payments, after sale activities, customer service and others. [2]

The selling is an interpersonal activity that completes the exchange of marketing in terms of transfer of the property over the goods or services. The selling is the representative of all the other marketing actions; without a client, there exist no organization, and without selling there is no client. To sell does not mean only to conclude a deal (I offer economic goods and for exchange I receive an amount), but to obtain satisfied clients, to make them constant etc. This means passing from a transactional attitude to a relational one. [1]

Therefore a wider range of services have developed, providing support and advice for this relatively new field of business. These services include, for example, Internet service providers, firewall security products, digital signatures, on-line transactions or complete systems to buy, and general services such as consulting, web design, website production and other advisory industries existing in the virtual industries. [2]

According to the Economic Cooperation Organization and Development (OECD), the electronic commerce (e-commerce) means to conduct business through Internet, to sell goods and services offline or online. [3]

The electronic commerce is a dynamic set of technologies, applications and business processes that unite organizations, customers, and suppliers through electronic transactions, electronic exchange of information, goods and services. [6]

According to numerous authors, there are positive signs about improving on-line consumer behavior. This behavior, together with confidence for on-line shopping, getting better every year, is directly proportional to the decrease in crime on the Internet and increasing security of payment options. [4]

2. E-commerce in Romania

E-commerce history started in 1994, but Romania's first on-line store was opened in 1997. Some authors consider that the Romanian e-commerce started in 2000, with a few large projects: eMania, Rate.ro, MagazinulTău, Okazii and eMag. [3]

Lately it has experienced an explosive growth, as it can be seen in the statistics presented in table 1.

Table 1. The evolution of e-commerce on-line payment by credit card, in Romania

(million euros)

	2008	2009	2010	2011	2012
Value of trades	53	92.8	127.8	157	218

(*Source:* www.insse.ro [9])

More than one million customers, representing over 11% of the total of about 9 million Internet users existing in Romania, contributed to these transactions in 2012 [11].

The average value of a transaction was 60 euros for payments in foreign currency, and 45 euros for payments in RON [7].

Regarding the categories of products purchased, the application is closely related to the existing shops in the market. The potential products to be purchased were the following: computers, software accessories, hardware, clothing, shoes, books, magazines, DVDs, electronics, telecommunications services, cosmetics, pharmaceuticals, baby items, tickets, vacations, travel services, hotel services [10].

Although the value of transactions made in Romania in 2012 was over 218 million euros, it is well below the level of other countries - table 2 - but there are for further growth.

Table 2. E-Commerce on-line payment by credit card

(billion euros)

	Germany	Turkey	Russia	Poland	Czech Rep.	Hungary	Romania	Bulgaria
Value of trades	28	73	6	4.5	1.8	0.95	0.218	0.12

(*Source:* http://www.gpec.ro/blog/e-commerce-romania-2012 [8])

The number of Internet users, including Internet shoppers, has increased exponentially from year to year. [4] Another positive trend in the e-commerce industry is the diversification of shopping cart, a fact certified by the increase of certain categories of products [6].

According to the studies performed regularly, there are positive signs of improving on-line consumer behavior. This behavior, together with confidence for on-line shopping, getting better every year, is directly proportional to the decrease in crime on the Internet and increasing security of payment options. [4]. There were 11.3 billion active cards enrolled in 3D Secure, in 2012 in Romania, out of which 410,000 were actually used in on-line trading, in the 3D Secure system [7].

3. Research objectives and methodology

The central objective of this study was to identify the extent to which the different criteria of market segmentation influence the quality of e-commerce user.

The statistical data on on-line transactions made in Romania in 2012 show that the average age of buyers is between 25 and 34 years [10]. Therefore it is obvious that this factor (age) is an important criterion of e-commerce market segmentation. Also, 83.5% of shoppers are from urban areas; and this is another important criterion for segmentation.

In classical trade, other important criteria are income, education and gender. This paper aims at evaluating the influence of these factors on the buying decision for e-commerce. Specifically, we aim to rank these criteria in terms of their influence. The analysis will focus solely on the quality user/non-user, without taking into account the volume of transactions made by certain categories.

The method used to obtain information was the survey, the sampling method is the random selection and the main instrument used was the questionnaire.

The questionnaire processing was done using Excel's features and analyzing the frequency distribution using χ^2 *nonparametric test*.

The **calculated value** (χ_c^2) is determined based on the data from the selective market research, as follows:

$$\chi_c^2 = \sum_{i=1}^{m}\sum_{j=1}^{n}\frac{(O_{ij} - A_{ij})^2}{A_{ij}} \quad (1)$$

where:

- O_{ij} = the result of observing the investigated phenomenon, corresponding to row ***i*** and column ***j;***
- A_{ij} = the assimilated result corresponding to the null hypothesis applied on the evolution of the investigated phenomenon, located at the intersection of the row ***i*** and the column ***j.***

The ***theoretical value*** (χ_t^2) was determined from the statistical tables based on the following elements:

- the ***number of freedom degrees*** – calculated as: $(n-1)(m-1)$, where n, m is the number of specific categories of the investigated phenomenon;
- the ***level of significance*** – determined by the probability which guarantees the result of observation.

The investigated factor has a ***significant contribution (influence)*** on the evolution of the phenomenon only if the determined theoretical value is less than the calculated one:

$$\chi_t^2 < \chi_c^2 \quad (2)$$

4. Study on e-commerce market segmentation in Arges county

According to the statistics on transactions in Romania in 2012, the buyers' distribution by gender was 54.8% men and 45.2% women, and their average salary was between 1,400 and 1,800 RON. [8] In addition, the average value of a transaction in 2012 was 60 euros for foreign payments, or 45 euros for payments in RON [7].

These facts support the opportunity and necessity of this scientific research. In this first phase of the approach, the research was limited to a narrow market territory – the Arges county.

The survey period was 1 to 10 March 2012, and the working locations were Pitesti mall and shopping galleries of the most important three hypermarkets in the city. These locations were chosen in order to include in the sample people obviously interested in shopping at the time. This feature of the target group has the advantage of increasing the representativeness of the sample, despite its small size; therefore the conclusions can be extended at least regionally.

400 subjects participated in the experiment of determining the influence of the three variables (gender, education and income) on the frequency of e-commerce use. They were randomly selected among those who frequented the above mentioned commercial areas. The following distribution resulted by centralizing responses:

Table 3. The distribution of responses according to the segmentation variables

	Total	Women		Men	
		Undergraduate education (including students)	Higher education (university and post-university)	Undergraduate education (including students)	Higher education (university and post-university)
Total subjects	**400**	**123**	**134**	**48**	**95**
Income < 1,000 RON	102	57	8	22	15
Income 1,000÷ 1,500 RON	85	38	27	13	7
Income 1,500÷ 2,000 RON	114	27	44	10	33
Income 2,000÷ 2,500 RON	61	1	32	2	26
Income > 2,500 RON	38	0	23	1	14
Users of electronic commerce	**59**	**10**	**22**	**13**	**14**
Income < 1,000 RON	5	2	1	2	0

Income 1,000÷ 1,500 RON	12	5	2	3	2
Income 1,500÷ 2,000 RON	31	2	13	7	9
Income 2,000÷ 2,500 RON	8	1	4	1	2
Income > 2,500 RON	3	0	2	0	1
Non-users of electronic commerce	**341**	**113**	**112**	**35**	**81**
Income < 1,000 RON	97	55	7	20	15
Income 1,000÷ 1,500 RON	73	33	25	10	5
Income 1,500÷ 2,000 RON	83	25	31	3	24
Income 2,000÷ 2,500 RON	53	0	28	1	24
Income > 2,500 RON	35	0	21	1	13

(*Source:* made by author)

The influence of the criterion "level of education" on the quality of e-commerce user/ non-user involves extracting the observed distribution:

Table 4. Observed distribution by level of education

O_{ij}	Users	Non-users	Total
Undergraduate education (including students)	23	148	171
Higher education (university and post-university)	36	193	229
Total	**59**	**341**	**400**

(*Source:* made by author)

This is the distribution according to the *null hypothesis* (according to which the subject's level of education does not influence his/her quality of e-commerce user/non-user):

Table 5. Distribution by level of education according to the "null hypothesis"

A_{ij}	Users	Non-users	Total	
			absolute value	%
Undergraduate education (including students)	25	146	171	42.75
Higher education (university and post-university)	34	195	229	57.25
Total	**59**	**341**	**400**	100

(*Source:* made by author)

$$\chi^2_{calc} = \frac{(23-25)^2}{25} + \frac{(148-146)^2}{146} + \frac{(36-34)^2}{34} + \frac{(193-195)^2}{195} = \mathbf{0,3255} \quad (3)$$

It seems that the influence of education on the quality of the e-commerce user/ non-user is very low.

In order to analyze the influence of the criterion "level of income" on the quality of e-commerce user/ non-user, the observed distribution must be extracted:

Table 6. Observed distribution by level of income

O_{ij}	Users	Non-users	Total
Income < 1,000 RON	5	97	102
Income 1,000÷ 1,500 RON	12	73	85
Income 1,500 ÷ 2,000 RON	31	83	114
Income 2,000 ÷ 2,500 RON	8	53	61
Income > 2,500 RON	3	35	38
Total	**59**	**341**	**400**

(*Source:* made by author)

The distribution according to the null hypothesis (the income does not influence the subject's quality of e-commerce user/ non-user) is shown in table 7.

Table 7. Distribution by level of income according to the "null hypothesis"

A_{ij}	Users	Non-users	Total	
			absolute value	%
Income < 1,000 RON	15	87	102	25.5
Income 1,000 ÷ 1,500 RON	12	73	85	21.25
Income 1,500 ÷ 2,000 RON	17	97	114	28.5
Income 2,000 ÷ 2,500 RON	9	52	61	15.25
Income > 2,500 RON	6	32	38	9.5
Total	**59**	**341**	**400**	100

(*Source:* made by author)

$$\chi^2_{calc} = \frac{(5-15)^2}{15} + \frac{(97-87)^2}{87} + \frac{(12-12)^2}{12} + \frac{(73-73)^2}{73} + \frac{(31-17)^2}{17} + \frac{(83-97)^2}{97} + \frac{(8-9)^2}{9} + \frac{(53-52)^2}{52} + \frac{(3-6)^2}{6} + \frac{(35-32)^2}{32} = \mathbf{23,2776} \quad (4)$$

It seems that the influence of *income level* on the quality of e-commerce the user/ non-user is stronger than that exerted by *education* segmentation criterion.

The observed distribution according to segmentation variable "subject's gender" is presented in table 8.

Table 8. Observed distribution by subjects' genders

O_{ij}	Users	Non-users	Total
Women	32	225	257
Men	27	116	143
Total	**59**	**341**	**400**

(*Source:* made by author)

This is the distribution according to the null hypothesis (the subject's gender does not influence his/ her quality of e-commerce user/ non-user) - table 9

Table 9. Distribution by subjects' genders according to the "null hypothesis"

A_{ij}	Users	Non-users	Total	
			absolute value	%
Women	38	219	257	64.25
Men	21	122	143	35.75
Total	**59**	**341**	**400**	100

(*Source:* made by author)

$$\chi^2_{calc} = \frac{(32-38)^2}{38} + \frac{(225-219)^2}{219} + \frac{(27-21)^2}{21} + \frac{(116-122)^2}{122} = \mathbf{3.12} \quad (5)$$

It seems that the influence of income level on the quality of e-commerce user/ non-user is the strongest, followed by the segmentation criterion "subject's gender." The insignificant influence of the variable "education level" could be explained by the inclusion of students in the category of subjects with secondary education.

The "level of income" is the variable that best segments the analyzed market, and therefore we intend to check if its influence is so significant that it may lead to the rejection of *the null hypothesis*.

Since the results of observation may be guaranteed with 90% probability, the number of freedom degrees corresponding to the frequency distribution is:

$$\mathbf{(5-1) \times (2-1) = 4}, \quad (6)$$

and the theoretical value of χ^2 is:

$$\chi^2_{t\ 4;0,1} = \mathbf{7,779}. \quad (7)$$

Note that $\chi^2_t < \chi^2_c$ and the null hypothesis is rejected in this case, and "the income" has significant influence on e-commerce, too.

5. Conclusions

Along with the generally accepted criteria (age and area of origin) which divide the e-commerce market, **income** is also important, at least in the Arges county. The influence is obvious in case of on-line transaction volume, but the conclusion was not very predictable in the context of this investigation (the quality of e-commerce user/ non-user). This is because the average income and the

unit value of a transaction record quite low levels.

The other two investigated variables (subjects' education and gender) have almost insignificant influences on on-line trading, unlike the traditional trade.

This research could be extended to more representative samples, such as a national one, or other segmentation variables could be tested.

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Possibilities of Evaluating the Effects of Implementing the Quality Management Systems within the Organisations from Romania

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Abstract

The problem encountered in present by the organisations from Romania, no matter the activity sector is that of the formal character of implementing the quality management system. The quality management system is implemented in order to obtain immediate goals (participating to auctions, fame, adopting community and international acquis), without analysing the long term effects of these implementations, without punctually answering questions like: was the implementation of a quality management system beneficial or not? Did the processes and the products of the organisation improve to such an extent that they satisfy the clients' demands and expectations?

This study tries to approach the efficiency of the quality management system, both from a theoretical and practical point of view, efficiency, which, once proved won't doubt the utility of this system successfully implemented worldwide.

Keywords: continuous improvement, the evaluation of the effects, costs analysis.
J.E.L. Classification: M21

Introduction

The process of continuous improvement of the products'/services' quality within an organisation must have as main purpose the better satisfaction of the clients' needs and expectations [9]. In this complex process, two questions must be answered: *Are the clients' demands and expectations satisfied? Are the clients' demands and expectations increasing or decreasing?*

To these questions we can answer only by implementing an evaluation system of the effects caused by introducing in the organisation a quality management system, system which should actually initiate the way to the activity's continuous improvement and performance.

No critical analysis of eventual lacks in developing and implementing the system is realised, everything was perfect, the quality system doesn't have any deficiency, its implementation has no problem, no useless costs haven't been carried out, nobody doubts the necessity of implementing this system and its effects, of financial results on long term, if we are about to improve the activity or if we are getting worse. The evaluation sticks to tracking down typical non-compliances that take place once with auditing the enterprises by certification bodies, to certification or surveillance audits, to identifying the non-compliances that refer to the manner of respecting the standard's demands, and not to the evaluation of the implementation's effects [6]. Even these audits refer to the lack of measurable, tangible objectives. The intangibility of the quality management system is one the characteristics that has to be taken into account at its implementation. Finding measurable, relevant objectives and their identification and evaluation means can represent solutions for solving this problem.

Furthermore, we can notice that, after realising the transition to the family of ISO 9001 standards from 2008, an acute lack of professional materials that bring improvements, updates, a new power to this practical and theoretical demarche, the quality management is felt. ISO 9001:2008 takes account of an approach based on the management of the organisation's processes, and from here, a more logical structure, the orientation towards the client and the evaluation of his satisfaction, as well as the top management commitment for a continuous improvement. The main purpose of an evaluation system of the quality management system is that of knowing the real situation of the organisation, of non-compliant products and services and of carrying on concrete measures for continuous improvement .

Theoretical Fundaments and Hypotheses

Thus, we can appeal to utilising some methods and techniques of the economic-financial analysis in evaluating the efficacy and efficiency of implementing the quality management system within the organisations from Romania.

As methods, we propose:

- The method of decomposing or splitting the results;
- The method of comparing the results.

We can thus realise an analysis of the wages and costs evolution on the basis of data taken from annual financial situations elaborated for a certain period of time, the elements, the factors, the causes of the phenomenon studied being highlighted; the analysis can be of structural type, being able to determine the correlation between each factor and the phenomenon analysed, as well as the correlation between different factors that operate upon the analysed phenomenon [3, 5]. Knowing the factors, their nature and the links through which they help at forming and modifying the results of the organisation's activity, as well as establishing the possibilities of improving the functioning of the enterprise as a system, represents basically a defining element of the object of the economic-financial analysis realised within an organisation. Being a qualitative analysis that utilises for the purpose of the nature's research of the economic phenomena the method of comparing the results, it is assumed that each result of the company's activity is studied, not only as a measure in itself, but also in accordance with a certain criterion, used like a comparison base, fact that will allow the knowledge of deviances interfered in time and space [2].

In order to see if the implementation of the quality management has favourable effects on the evolution of the main indicators that characterise the company's activity, we will comparatively analyse the evolution of total wages, of total costs and of profit during the analysed period, as well as of the turnover during the same period.

We can also appeal to *analyses of quantitative type* of the economic phenomena

We can thus determine, with the help of quantitative methods of economic-financial analysis: **the modification of the turnover's indicators, the rhythm of the modification of the turnover's indicators, the evolution of the turnover and the average indicators regarding the turnover.**

In order to evaluate the effects of the implementation of the quality management system, it is recommended to use the *post-factum analysis* type (*the diagnostics analysis*).

The realisation of a diagnostics of the enterprise can be motivated not only by the situation in which it encounters difficulties, but then when, as Jean Pierre Thibault says, "the enterprise has a good health state", but its improvement is wanted.

The implementation of a quality management system within an organisation brings real benefits to this one, but the improvement of the system must go on. The quality management system doesn't develop separately from the other functions and systems of the organisations, they mix themselves and they complete one another continuously, and the diagnostics analysis allows the effects' evaluation (positives or negatives) of the movement of the entire gear, in general, and of the effects of the implementation of the quality system, particularly.

In order to sustain this argument, we possess the answers that the diagnostics analysis gives to some problems like: Which are the results of the enterprise?; Are they satisfying or not and why?; How have them been obtained?; Which are the wanted

performances and objectives?; Which is the level of the performances?; What is to be done in order to achieve this level? Concrete measures that have to be carried on on short and long term.

The results, the performances and their level and the future of the enterprise can't be realised without quality.

In the light of those presented, we specify the fact that, in terms of goal, the diagnostics can be restrained to certain problems or extended as a global diagnostics.

The diagnostics realised for the evaluation of the effects of the implementation of the quality management system can be treated under double aspect: Internal diagnostics; External diagnostics.

The necessity of tracking down the quality through specific indicators has determined the usage of mathematical and statistical methods, which have grouped in a new science, named calimetrie [7]. These indicators synthesize either a group of characteristics (measurable or attributive, technical and functional etc.), or the entire system of characteristics of a product or system.

We can thus track down the effects of the implementation of the quality management system on the activity of an organisation by utilising the indicators of the qualitative performances and the indicators of the lack of quality, indicators that can synthesize the quality of the products obtained as a result of the implementation of the quality system, or we can evaluate the quality of the system itself by generating some numeric or attributive data about the implemented system, data that can constitute possibilities of comparison with the preordained referential.

We remind the partial indicators of the quality, that refer to specific characteristic of different products, the values being specified in normative documents (for example, the breaking resistance of a yarn) [4], the cumulative indicators that are used at complex products, the average quality indicators that are used in synthetic expression of the quality of the products realised on qualitative classes.

The costs concerning the quality represent the costs that are implied by the assurance of a proper quality and those necessary to give confidence, such as the losses caused by not realising the proper quality [7].

The implementation and the maintenance of an efficient quality management system in an enterprise can contribute to the improvement of its processes, assuring the losses' reduction caused by errors.

The evaluation of the efficiency of the quality management system through the costs concerning the quality has in view the costs that result from internal operations and those from external activities. The costs' elements are analysed according to the PEF cost model (prevention, evaluation, failure). The prevention and evaluation costs are considered investments' costs, and the failure costs represent (material) losses.

The evaluation of the efficiency of the quality management system through processes' cost has in view the compliance and non-compliance costs for all the processes of the enterprise.

The evaluation of the efficiency of the quality management system through the losses concerning the quality has in view the internal and external costs, caused by the non-compliant quality. Both losses categories can be material or immaterial. The cost of internal and external failures is considered material losses. Although the quantification of immaterial losses is in many cases difficult, in order to correctly evaluate the efficiency of the quality management system, we must take into consideration such losses, such as:

- The losses caused by the negative impact of commercialising some qualitatively inadequate products over the enterprise's image;
- The loss of future sale;
- The loss of sales because of the fact that, as result of commercialising some qualitatively inadequate products, other producers aim to realise similar products or substitutes of them;
- The costs for regaining the client's trust, trust lost as a result of purchasing some products non-compliant with the demands;
- The losses caused by a labour inadequate efficacy within an enterprise, for example, in the case of an inadequate ergonomics.

For evaluating the efficiency of the quality management system, we propose the usage of "financial report of activities

concerning the quality". This report has to be periodically analysed by the management of the organisation, assuring the correlation with other commercial data, like the turnover, the capitalization, the solvency, for the following main purposes [7]:

- The evaluation of the compliance of the quality management system with established referential and of its efficiency in realising the objectives;
- Establishing the objectives of the quality and of the costs concerning the quality, for the following period;
- Identifying other fields, which receive attention by the enterprise's management.

For identifying the costs concerning the quality, per total and per categories, our country uses "The quality's costs balance", presented in table no. 1 from above, which is used for:

- The comparative analysis for categories of costs for quality, for their weight in total costs concerning the quality (horizontal analysis);
- The evolution analysis of costs concerning the quality, per total and per categories (vertical analysis).

The costs analysis concerning the quality has as main objective the coordination and the maintenance under control of economic aspects of activities for assuring the quality.The analyse of the costs concerning the quality can contribute to realising the objectives specific to these stages, commencing with identifying the critical points and finishing with assuring the implementation of corrective or efficient measures of improvement. This analysis takes into account the highlighting of the costs' elements and structure concerning the quality, the level of the enterprise or of some compartments, on products or on groups of products, of the incidence of these costs on the financial indicators of the enterprise. The standard ISO/DIS 10014:2005, Guidelines for managing the economics of quality, emphasises the approach of quality's economic aspects in direct relationship with the satisfaction of the clients' demands, as Kelada appreciated. Among the costs' elements concerning the quality, the failures' analysis (internal and external) is the most important, allowing the highlighting of the corrective measures that are imposed, helping at the same time at the substantiation of the investments necessary for preventing the appearance of failures in the following processes.

Empirical model, dates and methodology

We propose utilising the Access *Cal_manag* application in order to facilitate the effects' evaluation of the implementation of the quality management system, both from the perspective of the beneficiaries, respectively of the clients, and from the perspective of the organisation that implemented the system. The program started with the hypothesis of finding a correlation between the clients' appreciations concerning the products' quality of the organisation and the qualitative control of the results of the same products, correlation that manifests during two periods of time: before and after the implementation of the quality management system, respectively which was the effect of system implementation in the light of the two coordinates. By using this application, the people responsible with attributions in the quality management process benefit of a useful instrument with the following facilities [6]:

- Creating questionnaires concerning the clients' satisfaction degree;
- Obtaining synthesis situations concerning the questions from the questionnaire before and after the implementation of the quality management system;
- Introducing situations concerning the types of imperfections ascertained before and after the implementation of the quality management system;
- Obtaining summarizing situations concerning the weight of tracked down imperfections, both at costumers, and within the organisation, in the stages reminded and obtaining the correlation wanted in the program;
- The possibility of interpreting and illustrating the clients' answers, the control's results and the correlation by utilising some statistical methods and techniques.

The *Cal_manag* application is made of the modules: *Questionnaire_structure_creation, Questionnaire_client, Lot_control, Results, Synthesis_results.*

Questionnaire_structure_creation is a module that creates the structure of the

questionnaire. The questionnaire has 12 questions and it is addressed to 14 clients. The questionnaire will be applied before the implementation and after the implementation of the quality management system.

The form *Questionnaire_structure_creation* contains the following VBA code attached to the Combo-box question_type box and to the after_update event. After creating the questionnaire's structure, we click the Questionnaire_creation button that will fill in the Questionnaire_structure table.

Questionnaire_client module is represented by a form that takes over the data from the clients and memorizes them in the Questionnaire table.

Lot_control module is represented by a form that takes over the data concerning the controls made before and after the implementation of the quality control system.

In order to operate the informatics program, data have been generated that have determined the possibility of collecting and modifying them in view of obtaining the desired result: the data obtained from the clients have be processed (14) and the results from realising the qualitative reception of five products lots, data concerning the non-compliances analysed, before and after the implementation of the quality management system (figure no. 1).

Figure no. 1 – Number of non-compliances on lots

Lot_control

Lot name	Low tensile strength	Irregular sizes
Lot 1	14	13
Lot 2	15	16
Lot 3	8	7
Lot 4	6	5
Lot 5	4	5
	0	0

Lots 1 and 2 are appropriate to the precursory stage of the implementation of the quality control system. Lots 3 and 4 are appropriate to the posterior stage of the implementation of the quality control system.

Results module is represented by a form that provides synthesis results concerning the questions from the questionnaire.

Figure no. 2 – Questionnaire results for yes/no questions

Results: Form

QUESTIONNAIRE RESULTS

Test_number	↓ 1
Question number	↓ 1

Do you entirely know the products that are manufactured and comercialized by X company?

Results

YES	57,14	%
NO	42,86	%

In the form from figure no. 2 is presented a rate situation for question 1.

In figure no. 3 is presented the final result of the clients' answers on a question related to the number of imperfections on non-compliances types.

Figure no. 3 – Results for questions of "more answers with values and comments" type

Results: Form

QUESTIONNAIRE RESULTS

Test_number	↓ 1
Question_number	↓ 12

Which are the main non-compliances detected by you on product A and what was their weight in the total of non-compliances?

Results

Low tensile strength	2568
Irregular sizes	1956
Low resistance to stitches	2112
Low resistance to the action of micro-organisms	2598
Uneven thinning (fabrics)	1306
TOTAL	10240

Imperfections types that appeared to each of the lots, to products that have been submitted to qualitative and quantitative reception are: low tensile strength, irregular sizes for STAS 6023-86, reduced resistance to stitching, reduced resistance to microorganisms' activity and uneven thinning (fabrics).

Synthesis results module is intended for providing final results concerning the situations from before and after the implementation of the quality management system.

Thus, as a result of the undertaken research it was found that there is a direct correlation between the clients' demands and those of the quality, respectively there is a significant influence of the implementation of the quality management system within the organisation.

In figure no.4 is presented a synthesis of the data from the questionnaire before and after the implementation of the quality management system.

Figure no. 4 – The results' synthesis for data from the questionnaire

SYNTHESIS RESULTS QUESTIONNAIRE BEFORE THE IMPLEMENTATION OF THE QUALITY MANAGEMENT SYSTEM			
quantity	Sold quantity	258800	
	Rejected	10540	
		9581	
amount	Resolved	959	0,371 %
	Trashes		
AFTER THE IMPLEMENTATION OF THE QUALITY MANAGEMENT SYSTEM			
Sold quantity		25880	
Rejected quantity		3236	
Resolved amount		2800	
Trashes		436	0,168 %

Figure no. 5 – Synthesis results obtained after control

CONTROL		
BEFORE THE IMPLEMENTATION OF THE		
Total defects of low tensile strength	29	
Total defects of irregular sizes	29	
Total defects of low resistance to stitches	16	
Total defects of low resistance to the action of micro-organisms	9	
Total defects of uneven thinning	20	
TOTAL	102	5,1 %
AFTER THE IMPLEMENTATION OF THE QUALITY MANAGEMENT SYSTEM		
Total defects of low tensile strength		
Total defects of irregular sizes	18	
Total defects of low resistance to stitches	17	
Total defects of low resistance to the action of micro-organisms	7	
Total defects of uneven thinning	7	
TOTAL	7	
	56	1,9 %

In figure no. 5 is presented the results' synthesis of the qualitative reception (of internal control) of the products, before and after the implementation of the quality management system. We observe a correlation between the data from the questionnaire and the data obtained from the control, with the meaning of obtaining better results, both from the point of view of perceiving the quality by the client, and from the point of view of products' qualitative control: both the number of the quantity of the products rejected by the client (from 959 to 436) and the failures' number (from 102 to 56) have decreased.

The program's objective has been touched, meaning that the hypothesis of the existence of a correlation between the clients' appreciations concerning the products' quality of the organisation and the results of qualitative control of the same products was proven, correlation that manifests during two different periods of time: before and after the implementation of the quality management system.

The data generated by the program have shown that the effects of the implementation of the quality management system within the organisation have been felt positively.

Conclusions

Analysing the economic-social context and the peculiarities of the organisations from Romania, we consider that the evaluation of the effects implementing the quality management system should focus, besides the methods of trust generation on the products and on the services of the Romanian organisations (the audit, the certification, the trust), and on utilising new methods and techniques of the economic-financial analysis in evaluating the efficacy and the efficiency of the implementation of the quality management system, of the diagnostics analysis, the application of statistical methods and techniques, of the science of a fair quality measurement, of quality management, of computer software and last, but not least, on the redefinition of theoretical coordinates.

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Career Analysis in the Public Administration System

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Abstract

Considered to be the professional history of an individual, the career is one of the most important issues the contemporary organizations are facing, be it from the public or private environment. The Romanian public administration reform in the recent years also aimed the human resources of the central or local public institutions and authorities. It has made its presence felt, either through legislative changes or by creating new tools for human resource management in public administration. In our concern, through this paper, we want to dwell on a few elements of analysis of the career in the public administration system, with reference to the institutional framework in Romania.

Keywords: professional development, institutions/public bodies, human resources, career planning, performance, mobility.
Clasificare J.E.L.: H83; M12; O15.

Introduction

By analyzing the legislation with direct or indirect impact on the career, we find that career management in the civil service is provided by the National Agency of Civil Servants together with the public authorities and institutions, by establishing the legal framework on the one hand, and the policies and tools for planning and management of human resources on the other hand, along with applying the principles of equal opportunity, motivation and transparency [1]. In Romania, local public administration career management evolves amid a regime of administrative decentralization, a context that can better serve local interests, and so, the local public services can be controlled by the elected local authorities as they are not required to subject themselves to the orders and instructions from the center [2]. We appreciate that the local development is based on the local potential, allowing local skills and resources to manage their own destiny [3]. A major role in career management is held by both the civil servants as well as by the contractual staff contributing through continuous training and professional performance improvement to the development and achievement of efficiency of the local administration.

As concerning the contractual staff of public institutions and authorities, their careers are managed, in particular, according to the Government Ordinance no. 286/2011, by institutions and authorities through the main budget administrators who may issue internal rules on the management of their careers. The occupant of the contractual position is free to decide over the involvement or non-involvement, whether to commit or not to the career by any action or non-action.

In this context, we believe that facilitating career development in public institutions can lead to the improvement of the efficiency of local administration:

a) By attracting valuable candidates (prospective employees) interested in their professional growth and able to cultivate within the organization the spirit of competition and orientation towards performance;

b) By motivating the current employees of the institution in response to their aspirations, whether it is conducted by training them, by mobility, by promotion, by advancing them on consequent salary scales or by any other specific means;

c) Ensuring the continuous need for human resources capable to meet the requirements of the organization and contribute to the achievement of its objectives.

Of course, in order to be realistic, the presented motivation methods must be completed by other methods to resist on the labor market and to attract the most competitive candidates.

1. Career debut. Career planning

Career debut is one of the most important moments in the professional life and in most cases, how we get started in your career leaves its mark on our future. The career debut is part of the result of our career planning work developed during the study period, specific to the career exploration stage in the age range 15-22, according to the correlation between career stages and age after Steers, R., as it is shown in Table 1.

Through career planning prior to the moment of the professional debut, we pass through the process of identification of aspirations, the formulation of objectives and ways to follow, as well as the development of a personal occupational concept according to the luggage of knowledge, skills, acquired abilities or/and abilities in the process of acquisition as a result of professional development programs planned based on the results of self-evaluation / assessment of individual performance and opportunities[4], [5], [6], [7].

The career plan can be predicted before the individual is integrated into an organizational structure (whether we consider an local or central institution/public authority). Designing and implementing a plan makes the difference between achieving what we want and hoping to obtain what we want. The chosen study specialty and faculty already assume the existence of such a plan. But, in reality, many people end up working in areas other than those for which they have specialized and obtained a degree. However, a timely projection of the career and setting personal development goals on short (1-2 years), medium (3-5 years) and long term (e.g. 10 years), as well as the possibility to take the necessary actions to achieve the objectives, could avoid the apparition of dissatisfaction and several lost years. [8]

The beneficiaries of career planning and development of the planning activities are both the employees, by identifying personal career objectives which can help to identify possible future employment opportunities and improve the job requirements, as well as the organization by ensuring that qualified employees are available when needed. [9]

Table 1. The correlation between career stages and age stages

Career stage	Age (years)	Career aspects
The exploration	15-22	Identifying interests and choosing the career; Obtaining the education necessary to exercise the chosen career;
Early career (the attempt)	22-30	Obtaining the first job and adjusting to its requirements and those of the supervisors;
Early career (the stabilization)	30-38	Transfers and promotions; Choosing the level of involvement; Deepening the perspective on occupation and organization;
Medium career (the development)	38-45	Establishing the professional identity; Choosing between different career paths - technical *versus* managerial etc.
Medium career (the maintenance)	45-55	Providing independent contributions to the organization; Assuming more responsibilities;
Late career (the plateau)	55-62	Developing subordinates; Active contributions to the development of the organization; Dealing with the threat of the position represented by younger, more aggressive employees;
Late career (the decline)	62-70	Withdrawal plan (retirement); Dealing with reduced responsibilities and reduced power; Development of a successor.

(adapted after Steers, 1988) – [10]

We believe it is essential to create such a career plan as early as possible to avoid the blocking in the wrong career. The development and implementation of a career plan, preferably under the guidance of a mentor, help us get what we want. The studies one opted for only assume the existence of such a plan. [8]

2. Marks of the specific course

The socio-economic conditions of the recent decades, in many cases, determine graduates from a field of study to practice in a different field.

The situation evolved in a similar way within the sphere of the public administration where in the 90s, with the privatization and/or closure of certain state economic units, a relatively large number of technical professionals have migrated to the public sector, as the public administration was fully developing under the administrative reforms specific to that period. Thus, the local public administration structures developed human resources that have gone through a comprehensive process of conversion, along with the development of the post-revolutionary Romanian public administration school.

Undergraduate and postgraduate education in management and administrative sciences developed and created disciplines or new study programs within dedicated educational structures or new ones, mainly aimed at training specialists in the fields of law and institutional management and public administration. [11]

Thus, after completing the necessary studies, any interested person who meets the general and specific conditions may participate in the contest to fill a public debutant position. The candidate admitted to the recruitment contest is appointed, according to the law, in the public service which he ran for.

Typically, obtaining this initial position and adjusting to its requirements is part of the early career. At that moment begins the onset of the civil service or probation period and according to government Ordinance 611/2008, it lasts for:

- 12 months for Class I civil servants including public services whose employment requires undergraduate studies attested by a license or equivalent diploma, or superior education studies, graduated with Bachelor degree or equivalent;
- 8 months for Class II civil servants, comprising public functions which require short-term superior education, graduated with diploma;
- 6 months for Class III civil servants, which includes public functions which require high school or post high school education, completed with a baccalaureate degree.

During the internship, specific civil proceedings are intended to be applied, such as [1]:

- the stage is performed according to a program approved by the head of the authority or public institution and suggested by both the head of the department where the newcomer will be operating and by the human resource department;
- the internship is conducted under the guidance of a civil servant with permanent status, acting as supervisor with attributions of coordination, support, supervision, providing suggestions on training programs that need to be followed by the debutant and evaluation.

The recruitment and integration of civil servants or contractual staff is the starting point of the professional itinerary of the individuals. It is the moment when the human resource management department should explore the new employees, know them better from one day to another, from one stage to another, and, beyond their knowledge, skills, abilities, to explore their aspirations and expectations, what motivates them and what makes them gain performance, what they wish for in future.

In other words, beyond the fact that the employees go through the process of discovering and learning the culture of the organization, the latter shall advise and integrate them in order to determine them to provide enhanced performance. *The debutants* must be *convinced* to aim in the future towards a professional career and not just a job. We believe that the period of training of the human resources in local public administration and the first two years of training, in particular, are crucial for the future occupant of any public office or contractual function. To confirm the importance of the early years of professional activity, we highlight the results of several recent studies conducted in the U.S., according to which "one of the reasons why a considerable percentage of 55% of the new employees fail or voluntarily leave the

organization during the first two years of employment is generated by their wrongful admission misuse and failure in assimilation into the new working environment " [13].

Arthur R. Pell, a dedicated practitioner and collaborator of several prestigious U.S. universities, associated career debut with boarding and believes that a successful *boarding* is conditioned by the design and implementation of a comprehensive plan to initiate the new employee during the first few months. In fact, according to the same author, the best plans include at least the following elements:

- Accurate explanations on the employee's individual purpose and on the collective purpose of the organization;
- During the integration process, the situations that will occur must be presented in an honest and objective manner to the new employee; otherwise our subject faces a risk of failure due to incorrect presentation of the existing situation;
- The critical key objectives of the new employee in its first months of activity, compared with the multitude of tasks;
- The major set goals and the deadlines at which they must be met;
- Another important premise for the successful integration of the new employee in the public entity is choosing a tutor/mentor.

At the end of the stage, these factors as well as many others from the evaluation stage, contribute to the achievement of the qualifier "appropriate", which opens for the debutant the way to a permanent position. Once this qualification was obtained, the debutant civil servant will be appointed as permanent civil servant, by transforming the position into a civil service of execution of the appropriate class corresponding to the graduated studies.

The occupant of a contractual debutant position will cover the training period established by law, which may not be longer than one year, and subsequently, the debutant will be promoted to the superior professional position, class or level as a result of a contest or examination.

3. Career development

The career development of the employees is a critical investment of the organization with a high level of risk, with the possibility of losing the funds invested in the employee training if they do not return more value to the organization. We find that employee development does not benefit the public entity in a very facile way. Thus, the organizations must carefully choose the ways to spend their training and development resources. An increasingly popular approach aligns the training fields and development strategies with the mission and key objectives of the organization. [14]

At the base of the career development stands the personal development plan - the career plan that every individual is free to develop.

The public authority or institution develops internal policies and tools for planning and management of the human resources, the main tools that contribute to career development planning are:

- *the individual performance evaluation report;* the individual performance evaluation process is focused on determining how employees honor their duties and responsibilities devolving on the public office or position held, in conjunction with the objectives and purpose of the organization; the results are communicated to the employees and based on these performance indicators a performance improvement plan is established;
- *the position appointment and/or predicting career paths plan*; human resource planning is necessary to achieve a more efficient and effective use of the human resources, to have more satisfied and better professionally prepared contractual staff and civil servants and to identify a more effective use of the development opportunities; [8]
- *Individual development plans, and, implicitly, professional training plans*; within the planning process of the individual development of the human resources in their professional debut period in the public entities, a major role is held by the career advisor; [15]
- *Establishing the responsibilities* for each public office / contractual position in

relation to the duties of each compartment.

Career development in public administration is seen as the progress of all legal situations and effects by promotion and mobility on a superior public position that are recorded from the beginning of the civil service work relations and last until the termination of the work relations.

The main means of career development within the local public administration are [1]:

- Promotion to the next professional class as a result of a contest or examination;
- Promotion to a superior professional class following the graduation of studies which allow advancement by participating in a contest and obtaining the qualifier required by law;
- Promotion to a higher salary level based on the professional performance and acquired seniority;
- Promotion on a leadership civil service position as a result of the participation and passing of the examination or contest organized for this purpose.

To all this is added the career mobility which is often designed in order to develop the knowledge, skills and competences by conducting internships within other public authorities or institutions, in the terms of the law, or by temporary transfers to another department of the public authority or institution.

Concluzii

The organization must identify the needs and opportunities, to plan its development directions, to forecast the human resources and to ensure for both the civil servants and the contractual staff the necessary information and the appropriate career development training [7]. The career development of the local public administration staff should be designed only in close connection with the analysis of the individual performance achieved by each civil servant or contractual employee, their aspirations, the need for training in relation to the objectives of the local public administration and implicitly, of our public entity.

In conclusion, to achieve the desired impact on individual and organizational development, the career planning process must take into account [16]:

- both civil servants and contractual staff should be seen as individuals with unique needs, expectations, skills and abilities;
- both civil servants and contractual staff feel more motivated by an authority or institution that responds to their aspirations and needs;
- the local public administration staff, taken individually can develop, change and grow in new directions if they are offered the necessary training opportunities, mentoring and guidance.

Finally, in terms of career development aspirations, we identify within the professional sphere of local public administration, at least two profiles of the modern civil servants or contractual staff. There can be found within the sector of the public activity, to the extremes, on the one hand, the *career focused employees*, committed to their professional development and career ascent, and on the other hand, there is a category of employees whom we call *passive employees*, perceived as being caught in the continuous routine of their work without being very concerned with their performance and/or promotion within the organization.

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Brand Communication For Youth

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Abstract

Focusing on the evolution of the Internet, organizations and their brands approach the relationship with the young audience thoroughly, relying on quality and differentiation. This happens because young people get bored quickly, some are shallow, but they are connected and available waiting for immediate answers and results. They are addicted to the latest technological innovations, primarily using information from the online environment and they often pay less attention to the people around them. Therefore, brands must be those that provide the necessary means for the young people to change something and to encourage them to do it quickly, keeping the original character of the proposals even if media is controlled by consumers and the practiced marketing is viral and based on collaboration.

Cuvinte cheie: brand communication, youth, strategy, technology, online
Clasificare J.E.L.: M31

1. Introduction

Today's young audience primarily manifests itself in the virtual environment based on the technological innovations, but young people are involved in real life as well, in the context of social and environmental campaigns which they initiate and develop or in which they are involved. In the studies about youth, considered as a target of the communication undertaken by many organizations, young people represent a heterogeneous public who does not have much patience, but it is eager to learn many things, being connected to reality. At least in these respects, young people can be loyal on the long term, even if they are difficult to deal with and, especially, to convince [3]. Besides, with respect to the lack of homogeneity of youth, there are differences between those with higher education and those who are still in high school, each segment having its own features and perceiving its members as different from others.

The promotional communication domain oriented towards the young audience is increasingly approached by the specialists in marketing and advertising (marketingportal. manager.ro, iaa.ro, zf.ro, smark.ro, apprentice.ro, theindustry.ro), mass-media (tvr.ro), associations of traders (ccib.ro) etc., all of them being meant to find the efficient ways of conveying business or educational messages, especially with modern electronic media.

In this paper we will refer to issues related to youth characteristics at present directing the brand communication strategies to such an audience, bringing forward the experiences of some organizations too.

2. Methodological Issues

The main objective of this study is to support the idea that the brand communication strategies must also consider and address the young public through traditional and online marketing in order to influence the purchase and consumption decisions and behaviors both internationally and in our country. Thus, using the qualitative research method we have consulted various sources of secondary information, such as: synthesis of some profile events, analysis, case studies etc. The research

started from the analysis of "Romanian Youth Focus" held at the end of last year in our country, an event enjoying international attendance, adding analysis and interpretations of articles focused on the strategies used by brands for their young customers and the presentations of practical initiatives in international companies (some of which operating on our market as well) regarding the use of marketing and communication tools to address the young audience.

The assumptions from where we have started refer to: the existence of certain features of the young audience which have to be known and used by organizations to attract young people in the members community and the existence of a significant degree of influence upon the consumers purchasing decisions with respect to the organizational promotional communication supported by traditional and electronic instruments, under the influence of a number of variables related to the conditions of application of the brand strategies for young people, the social characteristics, their standard of living, their awareness and ability to use the information technologies etc.

3. The Youth Characteristics

The report called "Tânărul în România. Profil urban de marketing" (http://research.smark.ro/tanarul_in_romania.html) shows that the most common category of young people in Romania is that of the "retired" [4]. On the other hand, according to the study "Litteris et virtues" (http://research.smark.ro/litteris_et_virtuti_.html), 81% of the respondents said they have met at least one person who has profoundly marked their life, most of them mentioning between 3 and 5 people. Likewise, for young people and for Romanians in general, the family is the central value, young people agreeing with the classical model of the family, getting married quite early, having children and their own home [10].

In its turn, Discovery has conducted a research regarding the male youth in Europe (http://www.iqads.ro/relevant/valori_de_brand.html) in which it is stated that 26% of them are people for whom it is important to support their family, when the family values are in competition with the desire to have a career and to form groups of friends [4].

After 1980 sociologists and marketing specialists delineate two generations that greatly influence the specialized research [8]:

- those born between 1978-1999 (generation Y) are narcissistic, individualistic, pragmatic and oriented towards material values, believing that they deserve to receive everything; they live in an environment dominated by the present time, the rapidity with which everything must happen, they can do more things at once and are oriented towards friends rather than towards the family; for them the advertising is a source of information and entertainment;
- the young people of generation Z, born after 2000, are analyzed in the study "Generation Z - Digital in Their DNA", developed by JWT Intelligence; the study states that 90% of them cannot live without the Internet; young people are angry because they cannot get in touch with the world and their friends when they are not online, having a strong emotional reaction; although the attention paid to the broadcasted content is lower, television remains on the first place in the media consumption of "generation Z" [10].

The young people in contemporary society are different from those of the previous generations by the fact that they belong to the digital world, whose technologies have influenced the brain, a thing explained by Nicholas Carr in his book "Superficialii" [1]: the users from this age group access the search engines for documentation, so for them only the most popular items are relevant, reducing the total number of used sources; when it comes to documentation of existing materials in the virtual medium the youth must choose content from various hyperlinks, the same thing happening due to the developing of social networks that provide updated information.

In its turn, in Romania, the "360 Insights" Agency undertook a number of studies about the narcissism and egocentrism of the youth in our country, given that there are two generations: the first – of the adolescents (16-18 years): individualistic, self-centered, confident, courageous, assertive and with a strong desire to be noticed; the second – of the young generation (19-24 years): adventurous, explorer, friendly, opened and concerned by their professional status. It is obvious that the young audience should be integrated into the community to meet new people, but also to be remarked, given that it is managed by someone and is engaged in teams to achieve success. Another interesting

aspect is that the youth believes that the state is the most responsible (85% of the respondents) for solving community problems, followed by them (35%), as well as brands and companies (26%) [9].

In an interview given to theindustry.ro, Gottfried Langenstein (Vice-president of ARTS) supports the idea that, in the case of the media, there is a shift in the consumption habits related to generations: older people still prefer classic television, young people are attracted by computers, a reason for them to start searching television stations and broadcasting in the online environment [2]. The orientation towards such a type of content is not exclusively reserved for the day it was sent; young people find out about it and they want to watch it long after the live version. The vice-president of the French-German cultural channel talks about the ARTE bilingual website which has currently become one of the most creative and advanced television sites with facilities such as the timeshift (ARTE+7), Video on Demand, interactivity (the documentaries grouped under the name "Webdocs") and the user generated content (ARTE Creative). For example, the ARTE+7 service allows the free visualization of a program a week after its first broadcast, free, its popularity increasing enormously and reaching five million viewers per month. The official of the television station emphasizes the idea that the average age of the television public of a documentary is about 50 years old, and on the Internet, of only 25-30 years. The television channel is present, in the social media, on platforms like Facebook, Twitter, YouTube, offering more interactivity especially to the young audience who becomes interested in the content. This occurs on the creative ARTE platform too since people can post content and pictures.

The companies can also intervene in the educational sector helping young people to take quicker and easier decisions about their future, based on studies such as those carried out on students of Xth and XIth grades by the nongovernmental organization "Şcoala de valori", in partnership with Unlock Research [16]. For example, one of the research results is that there are young people who manage their own businesses, but who are still undecided with respect to their professional route and are concerned about the lack of time.

4. The Study of the Brand Strategies Characteristics for Young People

Young people simultaneously use multiple devices (TV, computer, smartphone, tablet) and have permanent availability by immediate access to a communication channel, targeting immediate answers and quick results. In order to have marketing success, especially in the online environment, the organizations must create messages for communication campaigns by considering several aspects [9]:

- to be based on simplicity, the messages more easily to understand being more easily accepted;
- to draw the attention from the very beginning, because young people tend to keep their focus on a topic only for a short amount of time;
- to provide interesting content for distribution in the social networks, using the same language.

The communication campaigns must adapt to the specific of the market, the young audience being the one that sets trends. Mihaela Nicola, shareholder and CEO of the "The Group" company says that: "The younger audience prefers visual information to the detriment of the written one, small amounts of relevant information, viral campaigns, non-PR commercials which have a humoristic component and enhance customs of everyday life." [12].

It is important that the communication with the public, especially with the young one - permanently connected to the Internet, should be constant, avoiding temporary communication for a limited period, after which contact is interrupted, while waiting to return with a message during other campaigns. Simultaneously, the message the companies send by communicating with the young audience has to be achieved through BTL, which offers greater interaction and involvement and transposes the brand values into real life.

Another characteristic of the present period which can be exploited by companies is that the online presence reduces and even cancels the distance between individuals and groups through applications like Skype or Messenger, allowing initiation and maintaining the dialogue through live sound and image with people from the entire world, intermediates videos watching from a global perspective.

Nevertheless, it is not recommended that the online environment should be exclusively used

for communication towards other channels, the brands being encountered in other environments too if a coherent strategy is ensured. It is necessary to initiate and sustain a dialogue so that brands may find themselves in the position of friends, without authoritatively imposing a certain decision regarding the purchase.

From another point of view one can intervene on the strategy of public segmentation to consider interaction with the young audience in perspective even if for the moment it is not a part of the main target. In the future young people may choose a brand that they know and appreciated as active when they were teenagers or students and that offers them a competitive context in which to be appreciated [8].

To address the current young audience the brands have to approach the participative marketing, reaching a consistent target group of consumers through advertising and the social and involving actions. As the young people are very active, curious and open to new items that are wanted by many brands, especially during the age interval from 18 to 24 years old, their loyalty is hard to gain [11]. Such an orientation is called "experimentalism" in the report "Ghid de conversaţie de la român la românc" undertaken by the Unlock Market Research, many brands being interested to follow it, with the intention of attracting the community members too [17].

5. Experiences regarding Youth Communication Campaigns

The companies and their belonging brands are more and more concerned to build and to expose not only ideas about the present time but, more likely, complete scenarios. Nevertheless, for the initiators of communication projects it is quite difficult to get in touch with the young consumers only on the Internet because they need the real environment interaction via mobile phones, traditional mass-media, to which one can add tools of unconventional approach, on the street, such as: entertainment, games, competitions, music or dance etc. It is clear that the brands that always assume such creativity are those that remain in the mind of this atypical consumer category. In this respect, we shall present a series of experiences of some prestigious companies and brands which sell their products and services on the market in our country.

* The "Parental Control" promotional campaign conducted by Sprite in 2012 focused on the problem of the young people's reaction against authority to which the question of parental involvement in the social media was added. Sprite has sent messages of support to young people and launched initiatives to reduce parental control that has spread increasingly online. Through such a campaign, young people could win their favorite prizes while parents were led into believing that prizes were strictly educational. In the digital campaign, the site had two sections - one for the parents and one closer to the young people. Visitors were filtered through a set of questions to which only young people knew the correct answer. The campaign included a free telephone line by which parents were taught different things about the stages in the development of adolescents. During the three months of the campaign the website was visited by over 130,000 people, with an average of approximately 2,500 hits per day. More than 30% of the users returned several times to the site. The campaign brought a 26% increase in sales in comparison with the previous year [6].

* In the early '90s Puma changed its position from a company that produced only sporting goods to one of sport and lifestyle, a thing materialized in the current period by means of two communication projects dedicated to young people: "PUMA Social" and "PUMA Creative Factory". The "PUMA Social" platform supported the "Street Heroes" event through which the brand offered the young participants entertainment possibilities and made them interact by practicing team sports. Afterwards, teenagers could watch a concert of famous artists or take pictures using a dedicated application, actions included in an after-party. In the lifestyle segment, through the "PUMA Creative Factory", the brand has provided the interested persons the option to customize the texture and colors of Puma sport shoes which they could later purchase from a store of the company [6].

* Coming from a controversial field of activity, at least in terms of the relationship between natural resources exploitation and its some of its unintended effects, **Petrom** wanted to get involved in social responsibility campaigns, educating young people being one of the followed directions view the most beautiful places to visit in România: a website

with the campaign name where they collected all the stories of the places they visited, the namesake mobile application, the portable version of the map on the site which helps users locate the touristic objectives around them. In 2011, the "Construim pentru viitor" project developed by Petrom has helped it renovate and equip 18 schools and two non-governmental organizations from 20 communities where the company operates. In the same year, the third time in a row, the company has supported the non-formal educational project aimed at young people between 14 and 18 years old and called "Leadership authentic", conducted by the "Leaders" Foundation. For students, Petrom has collaborated with "Aspire Academy" for a program dedicated to leadership, entrepreneurship and innovation. More recently, through the "Ţara lui Andrei" project, Petrom has been involved in environmental protection, community development and education too [7].

* Having a brand in continuous development, Samsung cannot overlook the younger generation, thus having launched the "Trends of Tomorrow" campaign addressed to those aged between 16 and 18 to provide information and advice for the choice of a career. Both by means of RIUF and of a caravan reaching the major universities in the country, people from the management team, from advertising, research or human resources have spoken to students about the career opportunities and challenges in these areas. A national projects competition of personal development has been conducted as well [7].

* Following the recruitment of students in technical programs to integrate them into the company, Siemens Romania has implemented several projects which aimed at undergraduates and masters students and declared its interest to collaborate with higher education. Siemens offers various development programs for both students and graduates, all of them presented on the company's website [7].

* Interesting to approach in this study is the case of Grolsch company that has gained both in Europe and overseas, the title of "Berea oficială a artelor contemporane" [15]. The targeted audience is represented by the nonconformist young people who live in major cities, are educated, independent and active and they are constantly seeking change. Based on the slogan "Proud Sponsor of the Experimentalists", Grolsch has chosen innovative projects from the early stage of its launching in Romania: the design of a beer bottle using a mosaic and the exhibition of paintings belonging to some contemporary artists in Bucharest.

* Being mainly addressed to the young audience, Orange has used the 3D HD projection technique and touch screens permanently connected to the Internet placed in the bus stations in Bucharest to be closer to the experimentalist trend, under the new slogan "Today changes with Orange". The company has launched innovative applications for smartphones with which users can view works of contemporary art, among other things.

* Continuous innovation made by Red Bull targets young people who are active, enterprising, who make intense intellectual and physical effort, enjoying every new experience and taking decisions spontaneously. The Austrian company supports global Red Bull Music Academy (music workshop), Red Bull Flugtag (contest for amateurs of short and low lift flights), Red Bull X-Fighters Exhibition (acrobatics show on motorcycles), Red Bull Illume (contest of action and adventure photos all over the world) etc.

6. Results

Generally speaking, companies are concerned with identifying the public behavior especially that of the young people in the situation in which such a category becomes the preoccupation of those involved in their own marketing. We can talk about an exchange of value among members of the young people's community and brands which should always provide reasons for conversation to be rewarded by the dynamic consumers, through different messages addressed to them.

We can thus prove the first hypothesis of the study which claimed that there is a set of characteristics of the young audience to be known and used by organizations to attract them into community members and offer them reasons to stay, to provide ideas and support their implementation.

Successful experiences of some known companies with different business objects, still present on the market in our country, reflect the fact that they are expanding their concerns to attract young audiences through projects based on extensive marketing strategies which start with online interaction

and continue with the use of smart phones, mass-media and even with "atypical" events. It is such initiatives based on creativity that support the extension of the brand influence upon young consumers.

Taking into account the social characteristics of young people and their standard of living or even to what extent they access revolutionary technologies through more and more sophisticated equipments, brands apply promotional communications strategies that influence the buying decisions of such a social category whose members refuse any advise regarding what they should do and rely on the power of the personal example, revealing their personality as long as organizations offer them certain values to adopt. Thus, it becomes evident that the communication rules change when the recipients of the message are young people, a thing which demonstrates the second hypothesis of the study too.

7. Conclusions

The most important results of this paper refer to the context in which brands can initiate communication with young audiences characterized by curiosity, self-centeredness and openness to dialogue.

As a consequence, it becomes evident that the brands they appreciate are those that facilitate their access to products and services and offer them the opportunity to spend more time with their parents and friends. To be able to support two-way communication, brands should use simple and direct messages to address young consumers, to accept that they cannot control everything they say and let them express themselves, to prove that they care about them, to monitor the evolution of their preferences and to present the results and finally to continuously adapt their plans according to the young people's needs.

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Online Performance Through the Affiliate Marketing

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Abstract

The extension of businesses presence in the online environment permanently determines the identification of new ways to make them more dynamic, to increase their efficiency by attracting public and potential acquisitions. One of these methods is the affiliate marketing which is a practice in which the merchant (business owner) rewards one or more affiliates (partners) for each visitor or customer brought by his or their marketing efforts. Basically, through affiliate marketing there are promoted a company's products and, instead, is earned a commission if the sale is made. It works similar to real-world business based on commission, in terms of a win-win transaction.

Cuvinte cheie: online, affiliate marketing, customer, merchant.
Clasificare J.E.L.: M31

1. Particularities of the Online Marketing

On the Internet, the difference between different types of marketing (advertising, public relations, sales promotion, direct selling) becomes unclear, the website of an organization usually being a combination of them. The presence on the Internet brings to organizations a particularly important competitive advantage as an alternative not only for products promotion, but also a supplementary distribution channel.

To be successful on the Internet, marketers should know the fundamentals of the marketing process, including: the assessment of people's needs and desires; the market research; product, price, distribution and promotion policies (marketing mix) etc. Although, the online marketing has its roots in the traditional marketing concepts, it is different due to a new process – the interactivity. Now, the sellers can have anytime interactive relationships with consumers in their own offices or homes. Contrary, buyers can interact with sellers in a new way, the communication being carried out in two ways. Thus, online marketing targets individuals through the Internet, being effective for trips, shares, computers and software sale etc. It has the advantage that the organization can establish closed relationships with its potential clients, through direct communication, using personalized e-mails, pursuing their benefits, previous orders etc.

Therefore, modern marketing techniques focus on the interactive side of trading, highlighting the importance of communication techniques (relational marketing, individual consumers oriented marketing and so on). In fact, any transaction involves an intensive information exchange, on stages: information dissemination, informational contact, information exchange, decision, consensus, products and/or services traded exchange.

From this point of view, the Internet marketing expression domains are almost as extensive as in the real economy, the most common being [1]:

- web sites;
- internet advertising;
- direct marketing by e-mail;
- permission marketing;
- affiliate marketing;
- online marketing research;

- online data exchange;
- online public relations;
- Internet integrated marketing.

There is interesting that the organizations' size is an irrelevant detail on the Internet, yet. In a shopping center people can see the size of the market competitors immediately; on the Internet that is not possible. The small companies can compete with the bigger ones, but this may be changed as more and more companies entering the web, bringing the power of their famous brand names. Now, it is still the moment when new or smaller companies can establish a brand identity on the Internet. Moreover, in the online business world, companies can be quickly surrounded by competitors who state they can offer the same products in similar circumstances and they can do that immediately [2].

2. The Affiliate Marketing Concept

The affiliate marketing can be found in the online working techniques category, based on the concept of "Cost Per Action" - CPA. Specifically, the merchant or advertiser rewards one or more partners – the affiliates (publishers) for each sale, registration in a newsletter etc. that they are making on their websites. Thus, affiliate marketing can be described as performance-based marketing, as it isn't based on other traffic counting techniques, such as "cost per click" or "cost per 1,000 impressions". This technique may be associated with other specific to online marketing, such as: search engine optimization, e-mail marketing, banner-based advertising etc. [8].

In this type of marketing, a website is used to drive traffic to another, playing a significant role in the online sales strategies. The person who promotes a site earns if he persuades the visitor to access the destination site with main goal to action, particularly through making the purchasing decision.

For affiliates, such marketing represents a quick and low cost way, but not the easiest, to earn money online, if the products belong to some merchants. Basically, affiliates bring together buyers and sellers and earn a commission from that facilitated transaction.

The affiliate marketing system is based on cookies, meant coded texts sent by a server to an internet user to retain information about its behavior when he access a website. The affiliate site visitor click on one of the merchants' promoting instruments supported by the affiliate and in that moment being generates the cookie that holds information about the visitor directed from the affiliate site. If, during commissioning, the user places a product order on the promoted merchant site, the affiliate will receive a certain price percentage of that order [9].

Specifically, merchants initiate campaign urging visitors to take action (to buy), determines the percentage or amount given to the affiliates and load into the affiliate system different promotional tools as marketing actions elements with measurable results (horizontal or vertical banners, graphical banner with "special offers", generated links, newsletters enrollment, questionnaires etc.). With these, buyers need to be persuaded to buy a product from a clearly identified online store. Further, affiliates enroll their sites and apply to the merchants campaigns; after they have been accepted they have access to all available promotional tools and can use them in any ways to generate as many real decisions from the potential buyers (as visitors of the affiliates sites), called "conversions". These partnerships are developed by serious and experienced merchants who can offer quality services to the clients directed by the affiliates [7].

There are specialized networks in support of affiliates that create intermediate systems between them and retailers through affiliate programs. Such networks can help including affiliates in the specialized programs of certain merchants using a simple method. These provide applications that generate reports and payment systems for all the network affiliate programs through a single membership: the report includes commissions on product categories, tools performance report etc.

On the other side, in the affiliate networks merchants can benefit of traffic monitoring services, reports, payment processing and they can access a large affiliates database.

For affiliates, the networks access and maintenance costs are non-existent. However, there is necessary a payment from the merchants (different from one network to another) as a poundage from percentage from which they pay to affiliates as a fee for their services. Moreover, merchants give their affiliates an income (sales) percentage or a

cost per action as means of rewarding [8]. In Romania, the poundage for the affiliates is different from case to case, between 3% and 6% [6].

Internationally, the affiliate marketing has been applied by professionals since 1996 when Amazon launched its own program that offers to experienced affiliates the opportunity to earn substantial amounts [7]. Another example is the dealer CaptainGO - online hotel reservation system which provides 5% of the booking price to the affiliates that are promoting it, including TourismGuide.ro - a travel portal. If a TourismGuide visitor clicks on a CaptainGO banner and continues to make a reservation at a hotel, then TourismGuide will receive 5% of the sale.

3. Reasons for Affiliation

The affiliate marketing represents one of the online activity fields with the highest growth rates and one of the most efficient methods to earn money for the following reasons:

- it is cost effective: the internet marketing is inexpensive and there are not production costs; it isn't necessary a business location or employees;
- it targets a global market: online marketing gives the opportunity to contact people from different areas, in a quick and easy way;
- it isn't necessary a membership fee;
- there are no storage or transportation problems (the merchant due);
- it isn't necessary the customer support or an answer to their complaints;
- it is ensured a passive income: it is possible to earn money even if the affiliate is not online;
- it is possible to work from home.

To be successful with such a marketing tool, affiliates should know the market demands, learn how to promote products, what works and what doesn't on the market.

First of all, they should choose to promote successful products. It can be a mistake the involvement in too many affiliate programs that take time and bring into focus different areas. Therefore, it is better if the market demand is known and there are identified that products adapted to the promoted site topics. If that site generates significant traffic, it can be used an online research in order to get information about the reasons of purchasing decisions.

Besides banners, on the site can be used some different traffic sources to promote products. The chances to earn money increase when there is a frequent traffic sent to the commerce sites. An example is Google Adwords: it can be simply made an ad in the adwords account, then it can be used the affiliate link in the target page URL of the ad. Make sure to place the banner ads on different areas of your site's pages. Some positions will make the ads more noticeable than others.

Obviously, the affiliate has to constantly estimate the conversions and to determine if the campaign cost is less than the profit, to keep it active. Thus, it is necessary to determine the performance of each campaign and to make decisions for future action. Many affiliate programs provide statistics that can offer information in this regard, but the affiliate can use its own conversion tracking software.

As the affiliate marketing is very competitive, those involved must also be aware of new techniques and market trends to exploit most of the arisen opportunities.

When a product is promoted there is also supported the person or the company behind it, so it is appropriate that they being chosen carefully: the affiliates sites visitors are guided in the purchasing process by their advices, becoming very important to be happy with their purchases and return on those sites. Normally, companies that provide an efficient technical and commercial support to the customers will register their satisfaction. Such businesses are aimed to be included in the affiliation programs, based on a well prepared plan.

4. Romania's Experience Regarding the Affiliate Marketing

Along with the expansion of the Internet goods transactions in our country (which will reach one billion euros in 2013, in the opinion of key players), there have been created collaboration systems between: merchants (online stores), affiliates and customers. As mentioned before, the affiliate has the intermediary role. He is the website owner, being able to direct the traffic,

through links, to the online stores listed in an affiliate marketing platform or which has its own affiliate marketing system.

The best known local affiliation examples are "2Parale" and "Profitshare" - which belongs to eMag.ro. In addition, we can mention F64.ro, the biggest cameras and accessories store from Romania, and Altex - one of the leading retailers of IT&C and electronics from the local market.

4.1. The Systems' Beginning by Establishing "2Parale.ro"

The first and largest affiliate marketing network in Romania – "2Parale" (part of the Leo Burnett Romania, with over four years of experience in Romania) is a "3rd party network" type in which the merchants pay only for the results: network acts as an intermediary, providing a quick and effective solution to promote and earn money. In 2011, the company paid commissions to the affiliates worth 300,000 euros and, in 2012, almost 600,000 euros, according to the company's manager. In the last year, the network had over 230 active campaigns through which online stores have presented to the affiliates their offer and specific promotional tools. These campaigns have generated 145,000 sales exceeding 41 million lei (VAT not included) and counted nearly 60 million clicks [3]. Most campaigns were presented under the categories: "Entertainment", "Collective discounts", "Cosmetics", "Electronics" and "Tourism". "2Parale" platform has over 15,000 registered affiliates (large retailers, niche sites, websites optimization experts, bloggers, social networks and various communities) [6].

In 2011, the company extended its activity in Bulgaria, through "2Leva" system. In order to define its position on an increasingly competitive market, last year "2Parale" took the strategic decision to merge with the affiliate platform "2Performant" (holding the locally exclusive using rights), which allows it to expand in several countries from Central and Southeast Europe, as well as Turkey, as the management statements [3]. The company is also active today on the markets from Serbia, Iraq and Cyprus.

Particularly, taking full control over the affiliation platform, "2Parale" intends to invest in its development with new features capable to increase the merchants and affiliates performance from the network. In its turn, "2Performant" – an affiliate platform developed in 2010 – provides the technical system for sales recording and monitoring, as well as for all actions generated through "2Parale" network.

4.2. The Answer of the Main Challenger

eMag is the most important online store from Romania (owned by Naspers group, one of the online biggest global players), with 70% market share in Romania and, also, the largest store in South East Europe according to its turnover, with 1.3 million orders in 2011.

Since 2009, the company owns "Profitshare" – an affiliate marketing network through which affiliates has access and supports only the network owner's campaign. This system is designed on the amazon.com model, the largest online retailer in the world, who created this business in 1996.

This year, the system supported by eMag experienced a noticeable change towards the 2.0 version (multi-advertiser affiliation platform), provided by Conversion Marketing - company which is, also, hold by eMag.ro.

Until now the eMag system has paid commissions worth a million euros to its affiliate members. From now on it intends to directly compete "2Parale" through a new system version, on the Romanian online advertising market (estimated at 40 million euros this year), in which eMag (with revenues of 180 million euros estimated for 2012), has proposed to earn five million euros [4].

The advanced system "Profitshare 2.0" will attract those affiliates which have a good market position and offer quality services, which have experience in the field and a large base of customers. The earnings awarded to affiliates will be set by merchants – while Conversion Marketing and eMag will receive a percentage of the commission paid by the merchant to its affiliate.

In the "original" version – in the "Profitshare" system are involved about 25,000 affiliate sites; in addition, there are other affiliates who achieved special campaigns with Google AdWords and Facebook (the last has generated just 5% of the eMag sales). Thus, the affiliate buys online advertising from Google to attract customers to eMag products and services.

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According to the manager of "2Parale", budgets spent for affiliation on the Romanian market by the national advertisers will be about 3.5 million this year, with an increase of approx. 60-70% compared to 2012 [5]. There is estimated that "2Parale" will have 40% market share, while the companies are facing problems such as: lack of the Romanian people practice in the online commerce, developing services (payments, courier, internet covering, specific marketing etc.), aggressive communication and development of the offline retailing, low purchasing capability and so on – general issues of the e-commerce industry.

Conclusions:

Now, the merchants require performance-based measuring mechanisms for the sent messages, while the supremacy of the brand-based advertising is not so obvious. The marketers talk about omni-channel marketing and analytics to understand where customers come from and the important companies become interested in this field, too. In turn, market analysts are able to observe and analyze the characteristics and development of the affiliate marketing as more information about the implementation of the system will occur. They value the affiliate marketing and consider it as an important support in achieving of their goals in the online environment. On the other side, the fast growth of the affiliate marketing encouraged the specialists to find solutions to remove any difficulties of the system functioning, providing retailers and affiliates ways to maximize their profits and to improve business efficiency.

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Image and Identity in the Academic Field

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Abstract

In the marketing approach, the organization's image has a complicate substance. From many managers' point of view, the image is an important capital for their organizations, and a basic patrimonial element. From the marketers' point of view, the image is an important factor for the process of creating and increasing the demand for products and services, or for the market share increasing process. In a strong correlation with consumers' image, the products or services' image are symbols of publics' status and role, and a way to facilitate and hierarchize individual choices. The consumers' decision process is based in a significant measure on image.

In this paper, we attempt at presenting some general aspects concerning image and identity in the academic field and to mention some of the most important means to create and deliver the image to the organizations' publics.

Key words: marketing, academic, image, identity, image delivery.
J.E.L. classification: M31

1. Introduction

From marketing point of view, the image is a collective mental representation of a product, a service or an organization and is formed over a large time period, in a strong correlation with the value system of the involved public.

Brand's image is a synthesis of the organization's image, is a patrimonial element, and in many cases is considered as brand image of the organization's products or services.

The identity of an organization is strongly correlated with the organization's image and requires a strategic planning approach. The American professor Philip Kotler considers that the personality of a successful brand is the result of the application of an identity program creation. In his opinion, the identity refers to the means by which the organization wants to be identified by its clients, and the image represents the modality the organization's public perceives it by [1].

2. Marketing, Image and Identity: Conceptual Elements.

Basic component of the general strategy of the organization, the market strategy means to establish a few important elements: a good marketing segmentation, target selection, an appropriate marketing 'mixture', going from the Four "P" policies and so on, to achieve marketing goals [2].

From the marketing point of view, image has a strong relation with the concept of product. This concept is an assembly which involves the following elements: tangible elements (the material support of product), intangible elements (such as brand, price etc.), communications about the product and the image of the product [3].

For the academic field, the concept of product is more complex, because, in an approach of services marketing, it involves a global product and partial products. The global product is created going from basic, auxiliary, supplementary and potential products, and the partial products involve

tangible elements (physical ambience, equipment, personnel and clients). At the same time, communication and image are included in the global product [4].

Through the achievement of marketing goals are achieved the major global policy goals of organizations. On the other hand, marketing goals can be achieved by realizing an efficient communication system, which can allow achieving the communicational goals of any organization.

Marketers consider that, in the case of commercial communication, the most important goals aim to create and consolidate the products notoriety and image and to stimulate the consumers' behavior. When the communication is corporate, the corporate value of the organization can be increased through a great notoriety and a favorable image of the organization, and by stimulating the organization's public behavior [5].

In the same opinion, building and strengthening a favorable image for the target market is one of the most important goals of a communicational policy for organizations, and the image cannot exist without communication. Because it is necessary to satisfy the consumers' needs, image is more and more important.

The identity of the organization is created with the purpose of modeling the image of the public-consumers about themselves, image determined for each person by various factors [6].

The image and the identity can be defined only in a strong connection, and, in a global vision, those two concepts are the same reality perceived by two social, distinct entities: the organization and its public [7].

Experts consider that corporate identity is the management of all ways and means by which the organization is presented to its publics, through experience and perceptions and the image is what the public perceives from the identity that was created and projected [8].

3. The Components of the Image

In a marketing approach, there are various opinions regarding the image: product's image, brand's image, organization's image etc.

The product's image is defined as a synthesis of cognitive, affective, social and personal mentally representation of products for the consumers [9], or the way that an existent or potential product is perceived by the consumers [10].

Brand has an important position in the communicational strategy of enterprises. The brand's image can be defined as the assembly of consumers' opinions about a brand [11], or the mental representations associated with the evocation of a brand, result of a decoded operation realized by the consumer [12]. In the same last opinion, the brand's image has a subjective, stable and selective character. Subjective, because it can be differentiated from a person to other, stable because is founded on consumers' information and attitudes over a significant time period, and selective because is corresponding to a consumer's mental synthesis about the brands, in such a way as to simplify the brands perception.

The organization's image is a more complex notion, because it is the result of various combinations between partial images, corresponding to various targets and realities.

Specialists consider that the components of organization's image are the following [13], [14]:

- Social image, created going from the organization's employment supply;
- Financial image, determined by the financial value of the organization, the credibility and trust that its generated in financial environment etc.;
- Technological image, depended upon the technological performances of the organization;
- Commercial image, that refers to the way the organization's products and brands are perceived by the consumers;
- Public image depended upon the organization's preoccupation to be integrated in the community, to resolve various problems of the community.

For the academic field, the social image can be founded on the measure that the teachers' community and the other employees of the university adhere to the university's goals and objectives, the financial image can be related to its capacity to get financial resources (to invest and to pay the employees), technological image can be founded starting from the professional perspectives of the organization (new fields, new curricula, new methods etc.), the

commercial image can be built upon the trust of the university's clients (high-school, bachelor, and master degree graduates, economic organizations etc.), the university's performance and public image can be founded on the university's capacity to be integrated in the community.

Marketing communication is very important for the creation of the global image of the organization, but there are various factors that can influence the image. Specialists work to create the desired image, which corresponds to the global goals of the organization, is founded by the assembly of the organization's declared values, and is the object of the communicational strategy [15].

Through formal and significant messages, this image is delivered, and when the strategy is good and coherent these two images are dovetailed.

But, there are various internal (from the organization) or external (from its environment) factors which can create situations when the delivered image is far from the desired image. In this case it is about the real, formed image, which indicates the way that the organization's image is perceived by the public.

In the academic environment, it is difficult to create, identify and determine the image of universities, faculties, departments etc., because it can be influenced by various factors, bounded on the way through are perceived the global and partial products, concerning not only educational and research services (profiles, specialties, curricula, didactic and research activities, students support activities, physical ambience, equipment, teachers' prestige, students results etc.), but other services such as accommodation, student canteen, sport basis or entertainment, medical care etc. Also, for the university's image of a significant importance are the alumni, the stakeholders, the implication in the community life etc.

Specialists consider that, in the academic environment, the image has the following components:

- Notoriety, referring to the percentage of the public that heard about the university;
- Content, a qualitative component reflecting the connotations that exist in the persons' mind;
- Intensity, a quantitative component, that expresses the image through the concentration of its' attributes;
- Clarity, that means how distinctive is in relation to the competition;
- Historic, which means that the past of an image is a very important component of the actual image (being known that the image of prestigious universities of the world is built on tradition) [16].

The image is strongly related to the marketing mix elements: with product policy (being one of the product's components), with price policy (the level of taxes can create a piece of image), with distribution policy (the relationships of university with the business environment concerning the practical training and the distribution of students on labor market) and with communicational policy (the communication tools are the principal means to deliver the messages which express the university's image).

4. Delivering the Image

The organization's identity reflects the permanent and fundamental character of the organization, expressed by various features, such as: status, shareholders, nationality, activity etc.[17].

Creating the organization's image is a complex process and involves efforts and creativity.

The organization must transmit a message which can suggest the principal characteristic and the market position.

This message must be expressed through symbols, mass communication, atmosphere and events [18].

Brand meaning can be expressed through: verbal elements (naming, wording, description), visual elements (picturing, symbols, animation) [19].

Starting from those opinions, in the same general manner, in the academic field the image can be delivered through the following means:

- Symbols: people, animals, objects, or simple words combinations, all these symbols are very important elements that can create means for people and facilitate an easy recognition of the university or faculty. Colors, sounds and music can increase the recognition of images;
- Using mass media to communicate symbols and messages. Press, television,

radio can be used to deliver the desired information about universities or faculties. Through advertising universities can transmit various information, especially those which concern the university's offer, the admission terms and modalities;

- Printed materials are a very important tool used for delivering the image. Flyers, brochures, catalogues etc., can be successfully used to inform the public about the university's offer, about the basic and supplementary educational services, about the history etc.. These tools can be used in connection with other communication tools, such as direct marketing or marketing events;
- Design and atmosphere can contribute to create and deliver a favorable image. Buildings, amphitheaters, laboratories, lecture rooms, furniture, colors etc., can create a distinctive image for any university;
- Public relations and marketing events are one the most indicated means to create and deliver the university's image. Press conferences, press releases or interviews allow informing the press and the public about the activity, the major performances of students or teachers or the important events of universities. Events can transmit to the public important information about the university's offer, the way it is involved in communities. The Open Gates Day, the Olympic contests, the Workshops or seminaries etc., all of these instruments can create and deliver the image in an efficient way.

In time, by developing technology probably the ways to deliver messages as to express the image will diversify and will allow universities to be closer to all categories of their interested publics.

Conclusions

The identity and the image are two important concepts for the global policy of universities.

Through identity the universities are trying to show who they are and what they are doing.

The desired image is the way that the universities are perceived by their publics and corresponds to global goals and objectives of the universities.

Through marketing communication tools, universities deliver messages that express the image.

When the desired image and the real image are corresponding, it means that the communicational strategy was efficient.

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Special Features of the Human Resources in the Field of Commercial Companies

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Abstract

As a factor of production, commercial staff is defined by the number and its structure, work capacity and the work that it carries each worker in the exercise of his profession.

The number and structure of trade personnel define the people who are employed in the field of commercial companies, grouped by gender, age, education, work experience in the profession, as well as share in the total staff of employees in a firm.

In the commercial field has certain particularity, arising from the nature of the activity, i.e. the economic relationship. Among men whereby they shall transmit to each other (commodity money). The specific content of the work is given to employees in the field of commercial activity, which are a category of people specializing in relationships of Exchange and purchase of goods for resale, and performs operations that require attainment of goods on the market (bringing the sale, presentation)

Keywords: personal, commercial, special features, economical.
J.E.L. Classification.: M12

1. Introduction

Development of economy and technology, the rapid transformation of the social environment of organizations, social responsibility and increase of mobility of human resources, represent significant issues that highlight the importance of human resources for an organization.

The operators used for commercial activity a significant potential labor force called the human resources of the trade.

The concept should not be watched but simplistic, reducing work only at the stage of production – the identity factor. In reality, it is inseparable from the person who provided it, man, through intelligence, strength and will, the creator himself of material and spiritual goods. In the process of work it is, in the legal sense, the person having rights and obligations and operates within a social framework that enables it to manifest personality. Therefore, to refer to his place in the economy is better suited to the concept of commercial staff, without omitting the significance of his own work and as a factor of production.

In the field of trade, although the size of the units is different, work takes place in relatively small groups, a situation imposed by employment in the specialty units and managing the direct responsibility of the team of workers.

2. The characteristics of the process of work in the field of commercial companies

As a factor of production, commercial staff is defined by the number and its structure, work capacity and the work that it carries each worker in the exercise of his profession. In turn, they have a qualitative and quantitative assessment, expressed by the economic indicators at the level of each unit or trade as a whole.

The number and structure of trade personnel define the people who are employed in the field of commercial companies, grouped by gender, age, education, work experience in the profession, as well as share in the total staff of employees in a firm.

Regarded as carried out activity for a specific purpose and in a social setting, the work generally has a richer content than mere labor spending, a more broadly and specifically: physiological, psychological, economic and sociological. [1]

Physiological Meaning of labor is given to energy consumption and muscle breakdown of the worker in the exercise of his profession. Nature of the products and heterogeneous nature of the work requires different skills and efforts of the staff of the commercial sector. For example, while the sale of the goods shall be carried out with power exercise greater due to the quantities of goods traded; selling electronic goods is subject to the technical training of the worker, the ability of dialogue and the power of persuasion in the relationship with the customer on the characteristics of the products. The physiologically, commercial work is of medium intensity, with defective orthostatic and neuropsychological effort required by permanent contact with company with finished products. The intensity of labor is, however, due to the uneven flow variability of demand within a given period, which takes into account the size and organization of staff bands.

The economic meaning of labor is given a physical or spiritual creation resulting from physical and intellectual effort and its specific character of human labor. The results are different professions in society and form the basis of social division of labor.

The worker's work in the commercial field has its identity economically, being creative services through which the goods reach the consumer products (historically, the appearance was the merchants of third social division of labor). Towards production, where the work is a relationship between the labor force and labor, with the object of organizing relations and cooperation which he assumed, in the commercial field, this report is complete with a social relationship between seller and buyer. The buyer is a partner of the vendor in the exchange relationship. The working process of the seller is concluded to the extent that the buyer accepts the goods, the seller and received through recognition of such acceptance of its work; and it occurs to the extent that commercial worker proves his prowess to showcase their wares and to transform the purchase intention of customer in a firm decision to purchase.

Division of labor in the commercial field is narrower than in the production of material goods, the merchant with products supplied by a large number of producers, which obviously requires exacting knowledge for sellers of goods and suppliers, as well as the allocation of preferences. Inside the commercial units, professional Division of labor, however, is narrower than in other areas, the worker conducting commercial activities of heterogeneous, switching from one activity to influencing labor productivity.

Psychological Meaning of labor stems from human nature. Although the effort inherent rendering they result in fatigue, brings work or must bring satisfaction, it is also the result of spiritual manifestations (Endeavour, will, judgment, memory, innovation, etc.) that go with it and give the person the feeling of success. For that work to be accompanied by the pleasure of being performed, it must comply with certain motivations and to bring the joy of creation and the worker a certain position in society. Psychological skills for work in commercial field consist of desire and the pleasure of the worker to provide commercial services with honesty for contracting firms (of course, for an adequate income as a motivation to work) to see the ever-prosperous firm in which they work and a clientele attached thereto.

Sociological sense of labor is determined by the context in which it takes place. Although divided on the profession, the work falls within a system of cooperation is organized into teams, groups, collectives, taking birth, including ratios of interpersonal relationships, with special meanings over the labor efficiency. In the field of trade, although the size of the units is different, work takes place in relatively small groups, a situation imposed by employment in the specialty units and managing the direct responsibility of the team of workers.

3. Number and composition of staff in the commercial field

Busy commercial staff holds an important and growing proportion of the total working population in the countries with developed economies, due to the increase in mass of the goods brought onto the market, ways of serving our clients, continuous growth demands in the supply or use of the products and carrying out an intense marketing activities both in upstream and downstream markets.

The commercial activities of the company are on the rise due to the increase and diversify the range of products, the role of services in the economy and attracting towards this sector of the workforce in the branches of production of goods made available as promoting technical progress.

In terms of the complexity of the commercial activity, imposed by the nature of the goods and the service trade, it deepens the technical division of labor, leading to the presence of various commercial establishments in the professions. The largest of these refers to the actual trade activity (purchasing, storage and sale of goods) and is executed by specific trade staff. Another part relates to the specific activities of other economic sectors (transport, production, maintenance, etc.), with a low weight, but in trade, being carried out by non-trade staff.

Part of the commercial is staff met in the sphere of production, the distribution-related activities, if the producers themselves to participate in this process. He formed the firm's sales force and is composed of one or more persons occupied in contacts with customers and suppliers and prospective or actual studying the markets. Their responsibilities are defined by functions such as HR, marketing agent, promoter, marketing technical engineer, purchaser, workman, analyst, Planner, economist, market research analyzer, etc. They submit reviews of products, make the products demonstrations, negotiate transactions, provide service and, at the same time, collect information on suppliers, trading conditions in the market, the competition situation and the way of their own business needs.

Due to the importance of sales in the business, the sale is today more and more a job for the team, in the sales force of the enterprise leadership itself playing (for customer transactions director leading), engineers and technicians for information and professional assistance provided to clients, service pledges during the after-sales and others. The number of commercial production tends to increase as manufacturers direct relationships with merchants organized retailers or consumers.

Commercial staff is grouped according to the nature of the work done in two categories: technical and administrative task force. [1]

The operative staff is busy in activities of technical shops and warehouses: heads of units, storekeepers, sellers, cashiers, cooks, waiters, etc. These features have the greatest share in the total commercial staff. He restructures as modernization of trade, together with the increase in the number of large department stores, diversification of the forms of commercial distribution of products and changing forms of sale. Workers work enriches the contents of their operatives, thus enhancing its relations with the public, the technical advice given to customers, sales promotion and provision of commercial services.

Operative staff is organized into working groups whose size (number) depends on the system of division of labor within the department or district and the norm of the sale that each worker must meet.

Administrative and technical staff shall carry out the operations of the management, administration and maintenance company (services, offices, laboratories, etc.). It is made up of economists, engineers, lawyers, clerks, cooks, serving staff, whose number, powers and hierarchical dependencies are determined by each company's organizational structure. Constitute the organizational chart of a company including their management, functional structures (offices) and posts their components, all rendered in a design showing the hierarchical system of preparing, making and carrying out decisions. Under this latter aspect is highlighted two types of hierarchical relationships: linear type, in which the governing body (steering committee, bureau, director) keeps ties to each service or office and coordinating functional type, in which senior management (deputy director, commercial director, chief economist, chief accountant) take over the coordination of the bins. Modern pyramid structure leaving the organization charts of hierarchical leadership in organizing in favor of "Daisy" in which specialists are face to face around the body managing the decision-making process.

Summarizing the requirements of commercial staff, it should be borne in mind that-before-stressed that the work in this area has, along with its techno-economic component, and a social component, the exchange is, by its nature, and a relationship between persons who offer goods or services

in the counterpart, even if they take monetary form. That's why it is necessary for commercial workers both mastery of a profession, but also psychological and moral and cultural levels to enable them to adapt to the needs and temperament, behavior of the various categories of customers. These qualities relate equally to the operative staff and leadership.

Operational staff (including in this category and force the sale of undertakings) must, first and foremost, to be a good connoisseur of cargo, utility, storage conditions and the way of presenting them and have found them skill in dialogue with potential buyers. These qualities are the skill in technical execution, obtained through experience in the workplace. Secondly, the vendor is required to be a good market; the prospector must have the ability to generalize the demand made by the consumer universe those features (preferences, motivations and buying habits) which will enable stock management and the formulation of the corresponding supplier's orders with the application. Furthermore, he must master the art of influence, to shape the tastes of buyers and promote market new products offered by manufacturers. Finally, he has, through his mental and moral qualities to win customers. These requirements necessitate that the recruitment of personnel in the field of trade task force to be made on the basis of tests showing physical and intellectual skills of a person to work with the public or with firms.

So start to make wage differentiation in practice place the same category of employment depending on the capacity of workers and the interests of the company's problems. The differentiation is done according to a system of assessment and scoring through annual tests and dialogue with workers, held by specialized personnel of companies in such areas. [2] To this are added and new forms of motivation in enhancing the profits of enterprises, including their own priority employees to purchase shares.

For technical and administrative staff and, in particular, for commercial professionals firms (economists, analysts, technicians, cooks) problems of market research, negotiating deals with partners, promote products, scientific stock management, financial management, and, on a broader level of management, are areas in which talent and vocation for this industry is associated with mastering scientific methods of analysis and forecasting the preparation and decision-making, economic calculation and mathematical modeling, psychology and sociology. [3].

4. The characteristics of human resources in the field of commercial companies

In the context of the transition to a competitive economy, the ability of enterprises to initiate internal changes inherent to the external face is determined mainly by the characteristics of human resources available to him. American society for Training and development has identified nine key areas of human resources management [4]. Training and development; organization and development; the Organization/job projection; human resource planning; selection and provision of personnel; staff and research information systems; Rewards/advantages; advice on personal problems of employees; union/labor relations.

The importance and complexity of human resources management are analyzed and Michael Armstrong [5]. In one of his works.

The concept of Jean Marie Peretti, [6] in his work "Resources humanize", personnel function, at the level of any existing organizations, involves the following activities: management of human resources; personnel management; the formation; social development; management of personnel costs; information and communication; environment and working conditions; social relations; hierarchical management and counseling staff; external relations.

All these activities should be reflected at the level of companies which have as their object the production, processing and marketing of products. They may become "enterprise" modern, efficient, able to introduce new technologies, but if you manage to promote the particularities of human resources at their disposal, these peculiarities, by imposing a Romanian authentic management.

The current requirements as a commercial employee to be qualified, the tense situation of the labor market, the Labor Code provisions will cause it to be aware of his

value and to develop a more critical stance toward the organization. The new type of worker in the commercial field will require modern management methods in the field of personnel aimed at both the material incentives, as well as the intangible: the situation of employment in terms of detailer, the formation of high-performance work teams, etc.

Development programs designed by human resources officers, they will be able to present the actions and modalities that will be the basis for maintaining and promoting workers ' interests in the field of trade in terms of participation in the achievement of the strategic objectives. However, the successful application of a strategy in the field of personnel cannot be completed without the existence of an information system that would provide the possibility of checking the information, allow obtaining special information with confidentiality and accuracy of recorded data (employees need to see from time to time your personal data, to ensure that the information posted is accurate and up to date).

It is also useful to the acquisition and implementation of a human resources information system, corresponding to the needs of the Organization, in addition to aiming computerization of manual activities and concern for the strategic use of information related to human resources. The enterprise needs a quick and easy access to this information, access being totally bin management staff and managers. The system will have to be linked to the production system and to be updated. Estimated costs are related to both the technical side and the human: are needed investments in equipment (networked computers), software (developed by software experts employed) and specialized personnel.

5. Conclusions

In the field of human resources companies have specific features. The quality of human resources in the commercial field has an important contribution to achieving the objectives of the enterprise, primarily by increasing profits and reducing risk. Human resources management assists each management level, guiding and developing business plans, which will allow for the efficient use of human resources. Design and implementation of strategies and policies for the development of realistic enterprise require deep understanding of current constraints, as well as a new strategic vision of the use of resources, to overcome the current crisis.

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Managerial Style and Organizational Climate

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Abstract

The organizational climate, through its effects it produces in terms of individual or group, has an important role in obtaining the performance of an organization.

Today intercede through a complex connections, the life and work of the group. Optimizing any key of the climate will have a positive effect at the level of the group. Climate positive is based on the Manager's organizational ability to listen, to avoid and eliminate conflict situations, on the establishment of responsible, participatory climate, discussing and sharing of responsibilities.

The aim of this work is the presentation of the relevant dimensions of organizational activity, dimensions in connection with driving style and performance in job satisfaction, with impact on profits and organizational performance.

Keywords: management, organizational, climate, performance, satisfaction.
J.E.L. Classification.: M12

1. Introduction

Organizations cannot be imagined as operating somewhere in a vacuum, but in an environment whose features are both members of the Organization, as well as the structures, processes and practices.[1]

Organizations are creating organizational climate and only to the extent that changes in social, economic, and political causes that organizations trail review, the fundamental purpose of the possible integration of organizational networks. Organizational climate may be beneficial for staff development only to the extent that organizations are able to anticipate changes in the environment, to adapt and to cancel optimized.

E. Paun [2] defines the organizational climate "intellectual and moral atmosphere which reigns in the grouping, the collective perceptions and emotional conditions existing within the organization. The climate express conditions generated by the confrontation between the expectations of employees and conditions of work and life of the organization, is a collective psychology, a phenomenon, a collective state of contagion that reflect in what we might call the human internal environment of the organization. "We infer from this that in shaping a climate optimum organizational references are not just our depictions of what should be an organization's climate, but also the conditions that it puts at our disposal. In reality, the human factor is directly responsible for creating and optimizing the organizational climate and the organization itself.

It is useful and necessary for organizational managers to know the opinion of the staff employed on the orientation of the management of the institutions. Climate positive is caused and maintained by a management style, by motivating positive actions, combining individual with collective interests, the existence of feedback between the manager and the staff of the institution.

The team leader must take into account the individual needs of each Member. Knowing people contribute to improving relations through frank and open communication. Given a definition of leadership is therefore to understand how specific personnel to think and act in the process of leadership.[3]

There are several basic styles: autocratic democratic (McGregor, 1960), object-oriented style employed-oriented task style (Fiedler, 1967), participative, autocratic, consultative paternalist (Harbinson/Myers), transformational vs. transactional (Bass, 1989) [4]. but what is important is to adopt that style that fits the Organization's leader.

This study seeks to demonstrate that the

type of driving done (transactional/ transformational style) induces significant changes in the organizational climate.

2. Objectives

Starting from the premise that the management style influences the climate in institutions, this work aims to achieve three objectives to support this idea.

The overall objective is and the foundation of this work is that it is next, driving style influences the climate of the Manager of the institution he leads.

Specific objectives:

- highlight managerial style-climate interactions in institutions.
- highlight managerial styles typology in the organizational context.
- highlight the psychological characteristics of the organizational climate.

3. Specific working assumptions

Based on the objectives set out above, to find out whether the managerial style of the climate influence is due to chance or not, or other variables, we tried the following assumptions.

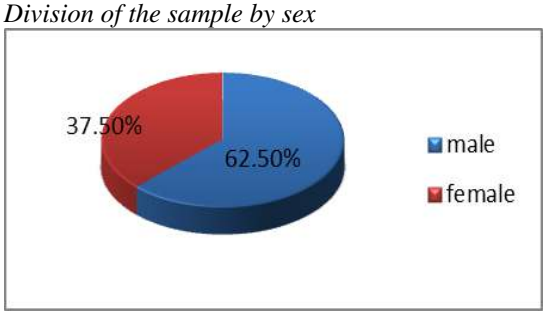
H1: managerial style is presumed to influence the positive climate of the institution.

H2: guessing that transformational leadership style to induce significant changes in the organizational climate.

4. The characteristics of human resources in the field of commercial companies

Participants in the study come from an organization with a majority state-owned, with the profile of activity – provision of services.

Figure No. 1. Diagram of the structure of the Division of the sample by sex



The research has been investigated a number of 80 participants, of which 50 men, representing percentage 62.5% of the sample and 30 women representing the remaining 37.5%.

From the structure diagram representing the scattering sample on "sex", it follows that the proportion of 62.5% of subjects are male and 37.5% are female

Participants interviewed were between ages 25 to 59 years. The most predominant age of research participants is 45 years old, representing a percentage of 10% of the total number of those asked.

Figure no. 2. – The distribution of subjects by age

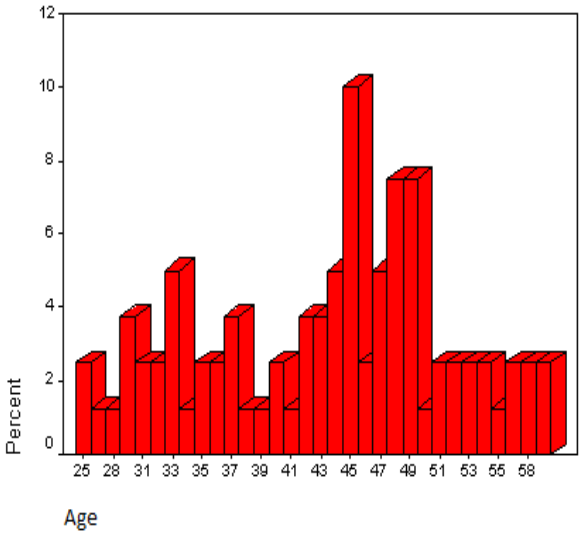
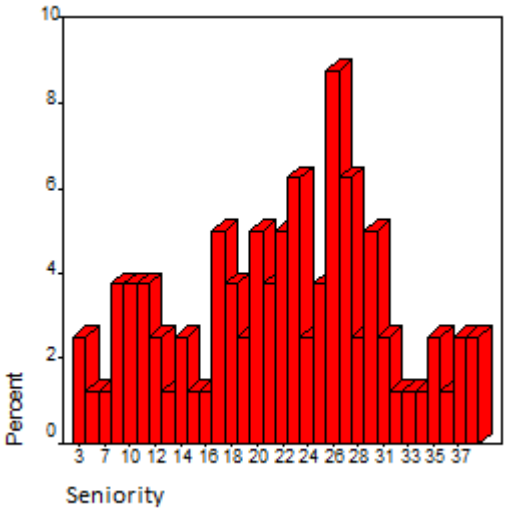


Figure No. 3. – The distribution of subjects depending on seniority



Seniority of the participants varies between 3-38 years old. The most predominant age of participants in research is 26 years old, representing a rate of 8.8% of the total number of those asked.

5. Working tools

OC IV questionnaire, used to measure the intensity of the organizational climate depending on the goals of your organization.

Questionnaire for psychosocial climate was used for measuring the intensity of the organizational climate depending on material and conditions of life.

The questionnaire for the identification of leadership for identification of the type of leadership (transactional/transformational style).

6. Analysis and interpretation of data

By applying questionnaires, we wanted to realize driving style adopted by the manager, as well as the traits of a climate in which employees operate.

In view of the results obtained as a result of processing the data in SPSS program one can say:

- how to define the tasks and objectives, both at the level of the entire organization and each employee is well established (clear goals).
- the structure as a way of organizing effective both at the level of the entire organization and each employee is well (organizing efficient).
- the quality of relationships between employees with reference to communication and collaboration on the professional line is very good, both at the level of the entire organization, and each employee in part, positive relationships.
- motivational climate in the organization is assured by: salary, promotion, development, jurisdiction, etc, is very good, with motivations encourage each employee in part.
- the organization provides resources and working conditions in order to achieve a task performance, and support for each individual employee.
- the organization has adopted a management style effectively, supporting individual and collective performance while ensuring the conditions for efficiency.
- the organization has a general positive attitude and constant over some changes, as reflected in the style he adopted: flexibility, adaptability, initiative, creativity, etc.
- there is a level of organization, from its leadership a major concern for the improvement of working conditions, the provision of material and technical equipment, material resources needed, as well as the general atmosphere, for the proper conduct of the work.
- there is a level of organization, management of a major concern to ensure the flow of information concerning the rules of procedure that are applied to all employees; They shall be communicated to employees information about certain decisions taken by senior management; information and decisions taken concerning the conduct of their work, as well as the major concern on the part of the management for the introduction of new working methods in order to improve the quality of the organization.
- organization-wide, there is on the part of its leadership a major concern for increased performance, giving them a motivating employees through material and moral incentives (praise, appreciation, promotion) and the human factor that is focused, the work done is proper training of employees in the organization.
- organization-wide, there are some concerns on the part of management for the employee's participation in the management of the organization concerned by the responsiveness of the suggestions and proposals from employees, and differences of opinion are settled through collective discussion.
- organization-wide, there are employees, to some extent, easily identifiable leaders of existing in the organization.

Hardworking staff appreciates the active and direct involvement of the transactional leader in the Organization's activities and feedback from it. Transactional leader is perceived by employees and for rewarding performance, anticipation of intervention

actions, errors, and setting standards of performance of employees.

The staff welcomes the identification of transformational leader worker with company goals and the role of the leader model. Transformational leader is perceived by the employees and for the promotion of a spirit of sportsmanship, the clarification of expectation, energizing, the proposal of new solutions to old problems and needs centering on the individuality of employees.

7. Conclusions

Following the collection and processing of data, it is confirmed that managerial style positively affects organizational climate of institutions (between the two fixing the correlation relationship) and that transformational leadership style to induce significant changes in the organizational climate in an institution. It is confirmed that indeed, a positive climate in an organization is established and maintained by a management style, which aims at motivating positive actions, combining individual with collective interests, the existence of feedback between the manager and the staff of the institution.

Therefore, we can say that the active intervention of the leader, rewarding performance, forecasting errors by the leader, corrective action through setting standards of performance, motivation of the leader and the foster team spirit, are just some of the psychological dimensions of managerial style that influences organizational climate in a positive way in the institutions, referring also to the technical and material conditions and lifestyles of employees, to ensure the flow of information and the quality of that motivating employees and centering on "human factors" and participation in the process by accepting the leadership of ideas and solutions proposed by employees.

As a result of the analyses carried out, we can affirm that the transformational leadership style induces significant changes at the level of the organizational climate and the role of the leader model, by powerful motivation provided by identifying himself with the objectives of the organization in question.

A transformational leader in your organization, promotes team spirit, stimulates creativity, make proposals for new solutions to old problems.

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An Analyze of Romanian Universities from the Organizational Values Perspective

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Abstract

The organizational culture of a university influences not only the relationships that exist between the members of the academic community but also the quality of the teaching process and students' development. Based on these, we developed a research in which we focused on analyzing the values system from the oldest Romanian universities. We aimed to find out if the professional status influences the evaluation of the most dominated organizational values.

In order to achieve our goal we used an ethical approach and applied our own methodology called "Organizational Values Inventory". Therefore, through a survey based on questionnaire we evaluated students' and academics' perception on 37 organizational values. The research sample was represented by 1165 persons.

The results have showed that both, academics and students, believe that the most important values that are promoted in the university culture are: quality, competence, tradition, responsible attitude, focus on results and competition.

Keywords: organizational values, university, quality, competence.
J.E.L. Classification: M12, M59.

1. Introduction

Unlike the business agents, universities have distinctive characteristics that are strongly correlated with its institutional culture [1]. Because of the nature of its activity, it is difficult not only to establish and to measure long time objectives but also to define a coherent and sustainable vision [1]. It is an organization that perceives a different type of market success (the profitability is not defined on a monetary scale), has to compete on a special market (the one of the educational programs), has to satisfy different types of needs (like, the one of personal development) and the effects of its actions cannot be seen in a short time (the effects of a good education can be observed after a couple of years).

In this case, identifying the organizational values is critical because each and every one of them influences the relationships between the members of the academic community, the quality of the teaching process and also its results.

Taking all these into account we decided to analyze the most important values that are promoted inside the oldest Romanian universities, from both academics' and students' perspective.

The methodology that we follow in order to achieve our goal is presented in the next section of this article while in the third part we made a resume of the most important results that we obtained. In the end, we

presented a couple of conclusions and also further research directions.

2. Research methodology

We aimed to determine if the professional status influences the evaluation of the most dominated organizational values from the oldest Romanian universities. In other words, we wanted:

- to identify the most important values of the university's culture from students' perspective;
- to identify the most important values of the university's culture from academics' perspective;
- to determine the differences between the currents and desired values from both students' and academics' perspective.

The research strategy that we used in order to achieve our objectives was represented by a case study. We focused on the oldest Romanian higher education institutions, namely:

- Alexandru Ioan Cuza University of Iasi,
- the Bucharest University of Economic Studies,
- the University of Bucharest,
- the Babeş – Bolyai University of Cluj – Napoca,
- the West University of Timişoara

From a methodological point of view, we used our own methodology, called "Organizational Values Inventory" [2], [3]. This focused on evaluating the intensity of 37 possible values which had been selected after analyzing the results of previous studies. The analyzed researches had been conducted in other universities and also in public and private institutions [2], [3], [4].

The first version of the "Organizational Values Inventory" had been developed in 2004 [5] and focused on ensuring its compatibility with one of the studies developed by the American Management Association (AMA 2002 Corporate Values Survey, AMA Research, April / May 2002, American Management Association, N.Y.). Based on the obtained results, a new version of the questionnaire had been developed. This had been validated after processing 1330 questionnaire that had been completed during January – February 2007 [3].

In the process of data analysis, there had been used medium coefficients that represent the intensity of promoting the values (presented as a percentage). In determining the coefficients, it had been applied a five points scale according to which the value situated on the first position received 5 points; the one from the second position, 4 points; the one from the third position, 3 points; the one for the fourth position, 2 points and the one from the fifth position, 1 point. The sum of the coefficients determined for all the 37 values was 100. These medium coefficients had been used for determining the intensity of promoting the values at the level of each category of respondents.

So, we used an ethical approach and applied a survey based on questionnaire. The survey was developed, from January until March 2012, on a sample of 1165 persons. According to Figure 1, 85.32% of the respondents were non-managers, 6.27% were first line managers (head of department, head of laboratory) and 8.41% were middle and top managers (rector, vice – chancellors, deans and vice-deans). On the other hand, the distribution regarding the professional status shows that 42.73% were academics, 36.20% of the respondents were first grade students, 9.89% administrative personnel, 5.67% master students, 4.90% were doctoral students and 1.29% researchers.

For processing the collected data, we used both SPSS Program and Microsoft Excel. We also applied techniques like systematization, tabling and graphs.

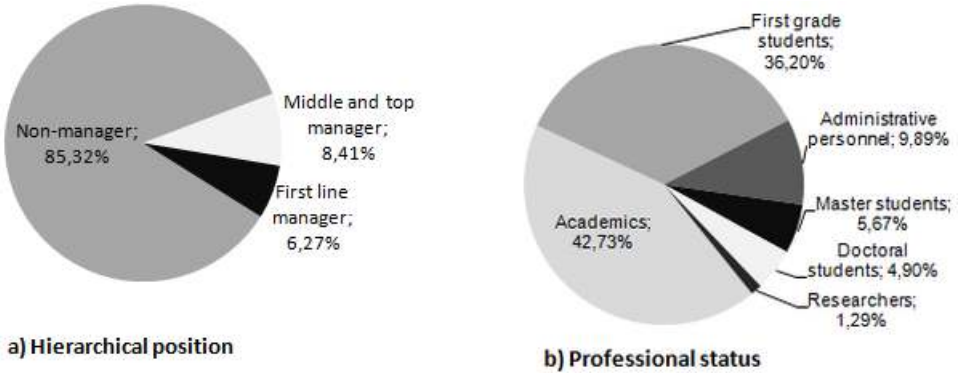


Figure 1. Respondents' distribution by hierarchical position (a) and the professional status (b)

3. The most important organizational values in the Romanian universities

Analyzing the most important ten values that students and academics had identified as being promoted at the university level (Figure 2), we observed that:

- quality is considered to be the most promoted value by both categories of respondents.
- both the students and the academics sustained that the organizational culture is dominated by: quality, competence, responsible attitude, competition, fellowship, focus on results and fairness, honesty, dignity, ethics and integrity.
- academics considered that the organizational culture is based on quality, competence and responsible attitude while students pointed out that the fundamental values of the university are quality, competence and competition.
- the intensity of competition is perceived more by the students than by academics. The students have placing it on the second position while the academics have included it on the eighth position. This result may be caused by the fact that the students have to compete with one another in order to obtain better results, a scholarship or a state – funded study place.

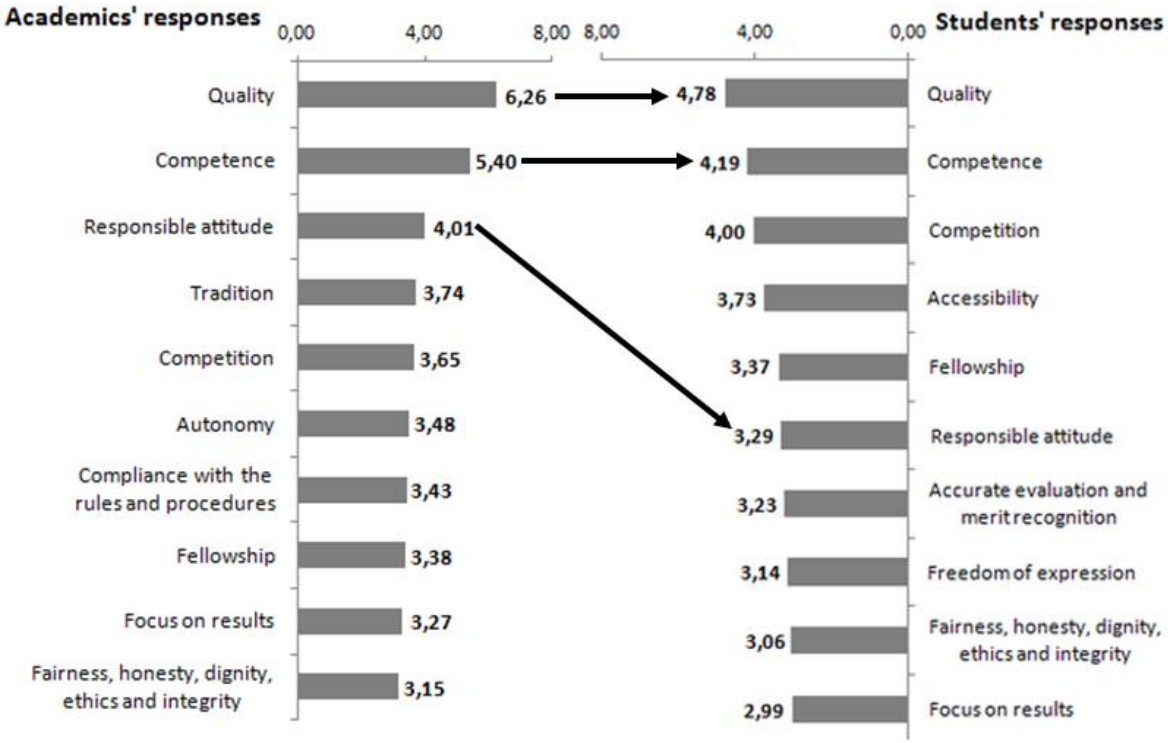


Figure 2. Comparative analysis between the ten most important organizational values that characterize Romanian universities, according to the academics' and students' points of view

On the other hand, if we take into account the ideal situation or the values that the students and academics will prefer to be promoted inside the university environment (Figure 3), we realize that both categories of respondents focus on a professional working environment that encourages communication, collaboration and cooperation. As a result, both the academics and students described the ideal cultural organization as being based on: quality; competence; fairness, honesty, dignity, ethics and integrity; accurate evaluation of individual's performance and merit recognition; fellowship; creativity, innovation and inventiveness; open communication between the members of the academic community; cooperation, collaboration and partnership.

We must remark that some values are occupying the same positions in the hierarchies of both categories of respondents. These are represented by quality (which had been situated on the first place), fairness, honesty, dignity, ethics and integrity (on the fourth place) and open communication between the members of the academic community (eighth place). This reflects that academics and students are offering the same importance to these values although they are not necessary evaluated them using the same criteria.

Besides, when it comes to describe the ideal organizational culture of Romanian universities, students and academics focus on quality, competence and fairness, honesty, dignity, ethics and integrity.

Another aspect that we should take into account is the importance that the accurate evaluation of individual's performance and merit recognition has it for academics. They placed this value on the fourth position while students situated it on sixth position.

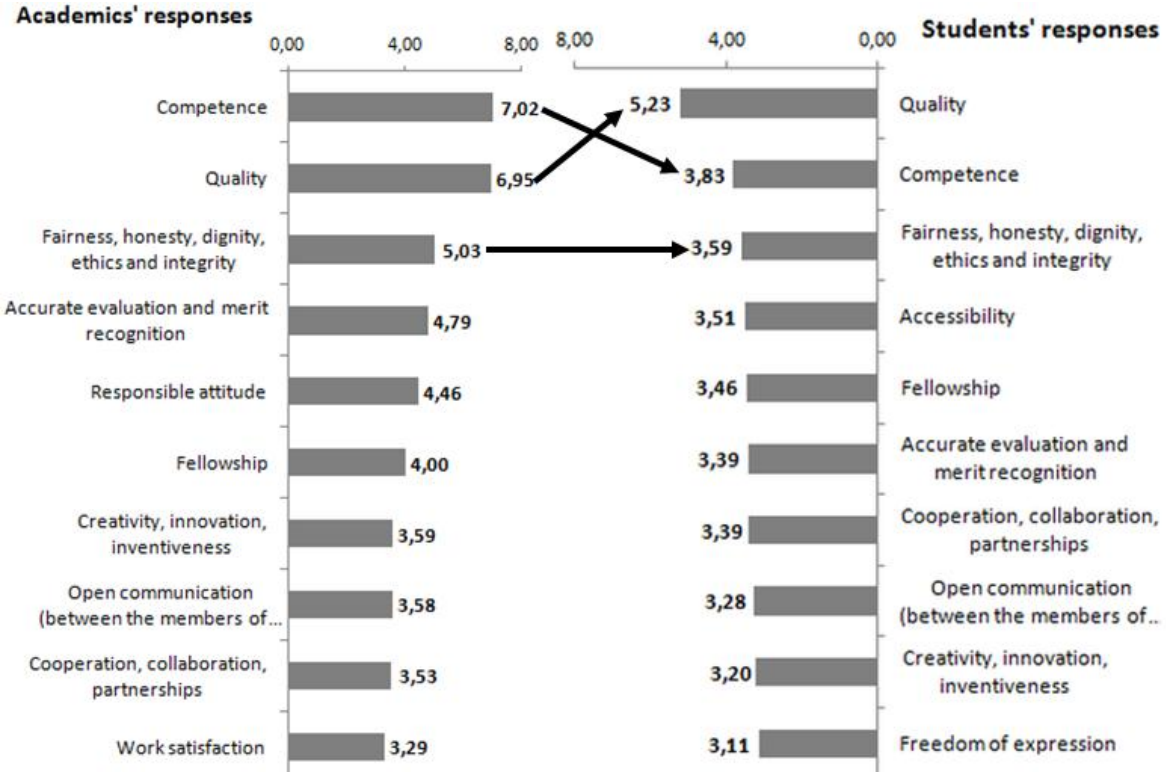


Figure 3. Comparative analysis between the ten most important organizational values that should characterize Romanian universities, according to the academics' and students' points of view

If we realize a comparative analysis between the existent and the desired ten most important values promoted in the Romanian universities, from students' perspective, we observe that:

- 7 values are situated in the top ten most promoted values in both real and desired situation. These are represented by quality, competence, accessibility, fellowship, accurate evaluation of individual's performance and merit recognition, freedom of expression and fairness, honesty, dignity, ethics and integrity.

- quality and competence remain the core values in both cases.
- the values that are characterizing a rigid environment – in the current situation – namely, focus on results, are substituted – in the desired situation – with others that are oriented towards flexibility like, open communication (between the members of the academic community) and creativity, innovation and inventiveness.
- fairness, honesty, dignity, ethics and integrity rises from the ninth position – in the current situation – to the third position – in the ideal situation.

The situation is almost similar if we realize a comparative analysis between the existent and the desired ten most important values, from academics' perspective. In this case, we must highlight that:

- 5 values are situated in the top ten most promoted values in both real and desired situation. These are represented by quality, competence, responsible attitude, fellowship and fairness, honesty, dignity, ethics and integrity.
- quality and competence remain the core values in both cases.
- the values that are characterizing a rigid environment – in the current situation – namely, tradition, compliance with the rules and procedures, focus on results, and competition are substituted – in the desired situation – with others that are oriented towards flexibility like, fellowship, cooperation, collaboration, partnership and open communication (between the members of the academic community).
- fairness, honesty, dignity, ethics and integrity rises from the tenth position – in the current situation – to the third position – in the ideal situation.

Taking all these into consideration, we sustain that the most important values that are promoted and should be promoted in Romanian universities are quality and competence. In other words, both, academics and students, believe that the organizational culture that is developed in the university is based – just like it should be – on proving and using high competences.

Therefore, the employees are highly qualified and know how to develop and to use the competences of their colleges / students. On the other hand, the quality of services that the academics are offering is valued by both providers (academics) and clients (students).

Besides, it seems that the professional status does not affect the way in which organizational values are evaluated. Both categories of respondents have described the organizational culture as being hierarchical, rigid and based on quality, competence, tradition, responsible attitude, focus on results and competition. The first two values are perceived positively and are included in the portrait of how the organizational culture should be. The other ones are substituted with fairness, honesty, dignity, ethics and integrity, fellowship, accurate evaluation of individual's performance and merit recognition, cooperation, collaboration and partnership and open communication between the members of the academic community. All these are reflecting the respondents' necessity of developing themselves in a flexible environment in which they have the possibility to use efficiently what they know, they may have an exchange of opinions with the other members / colleagues and they have the satisfaction of being appreciated for their performance.

4. Conclusions and further research

The organizational values influence directly people's behaviour and indirectly the relationships between the members of the academic community, the quality of the teaching process and also its results. Starting from this point, we wanted to determine if the professional status affects the evaluation of the organizational values. We aimed to know if the students and the academics will identify the same values as being the most promoted, respectively the most important, inside the oldest Romanian universities.

The results have showed that there are little differences between the organizational values perceived by the academics as being the most important and the ones identified by the students. In the first place, both of them described the organizational culture as being based on quality, competence, responsible attitude, focus on results and competition. The competition is perceived more powerful by the students than by academics. Students have placed it on the third position while the

academics have included it on the fifth position. This may be caused by the fact that students have to compete with one another in order to obtain better results, a scholarship or a state – funded study place.

In the second place, both academics and students would prefer an organizational culture in which quality, competence, fairness, honesty, dignity, ethics and integrity, fellowship, accurate evaluation of individual's performance and merit recognition, cooperation, collaboration and partnership and open communication between the members of the academic community would be better valuated.

Besides, we remarked that both categories of respondents have the necessity of developing themselves in a flexible environment in which they have the possibility to use efficiently what they know, they may have an exchange of opinions with the other members / colleagues and they have the satisfaction of being appreciated for their performance.

All these results will be used in a future research that will aim to identify how the organizational values could contribute to the development of a quality culture in universities.

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Development Trends of Internet Business Models

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Abstract

We live in times of rapid change and innovation. Things that seemed unimaginable just a few decades ago, are today an undeniable truth. Advances in science, in technology, in consumer behavior have changed the ways people live, work, communicate. The pace of development of new technologies and consumer behavior is increasing.

Key words: Internet business model, management, inovation, comunication.
J.E.L. clasification:
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1. Introduction

With the advent and explosion of the Internet, have emerged and business environment that have the internet existence. The process was imperceptible at first, but grows exponentially as it moves.

Communication is a growing necessity in contemporary society. In a society such as information, communication and transfer of information is done mostly through technical means. Primordial, information society consists of an interconnection of a large number of computers, thus enabling the creation of a network with virtually unlimited resources to send a huge amount of information

With virtually unlimited access to information posted on the Internet, consumers looking for products or services, find, compare, make decisions more easily than in traditional commerce. In this sense, one can say that in the new information society of the nature of time and space limitations have been greatly reduced, the information may be processed, stored and transmitted efficiently, and costs associated with the transfer of information is continuously decreasing.

2. General trends of Internet business

These trends, combined with how managers see and thus promoting business growth through the Internet, can be systematized with the determination from the perspective of customers, competition, complexity and virtualizing their business.

In Romania, the volume of Internet commerce sales reached annual total of approximately EUR 250 million, but estimates show rapid future growth, given that consumer behavior indicates orientation to trade increasingly on the Internet. For 2012 was estimated an average increase of 15-20% market profile.

Taking as benchmark U.S. online business, you can analyze a survey by Citibank among small firms, which reveals that very few make use of the advantages offered by the Internet business promotion. According to a study in the U.S., even if social networks are the new trend of online presence (stating that "if a company is not present on one of the social networks, then that company does not exist"), 81% of respondents said they never attempted to promote on these networks. Thus, 47% do not think that Facebook, LinkedIn or Twitter could provide added value to their business,

21% believe that they are for personal use only, and 18% do not know how to use these networks. On promoting online, 40% of companies surveyed do not have a website, 62% do not send promotional emails (so-called spam) and 84% have tried e-commerce solutions. However, 74% of those who own a website claim that it is useful for business.

As a study of IAB Romania and eResearch Corp, ran from June to July 2010, the impact of advertisements on the Internet to users in the form of further information on the product or service - 37% of cases, relaying messages about this - 30% of cases, this purchase - 15% of the cases. Acquisition rate after further information is 29%, close to the rate of purchase by making a click on the banner - 30%.

The same study shows that a significant, almost three quarters of users - 72% additional tracking information they have in traditional media, and more than a third - 37%, pursue acquisition performance following information in their possession of traditional media. Regarding the source of information in the online environment and the impact on the purchase decision, the study shows that 45% of users seeking information on blogs and 44% in the forums, and that, on social networks.

VIU study suggests that the impact of online advertising occurs both in the determination of the purchasing decision, on the one hand, and the purpose of amplifying the intention to purchase, on the other hand, whether exercised or not users click on banner. It should be noted, however, that Internet advertising can have a negative impact, the opposite of what was intended when the form intrusive, annoying to users.

In Romania, there is a need for future social media presence on the Internet, although currently only about 9% of businesses have presence on these social media (Facebook, Twitter, Youtube, etc..), But about 82% have a own web site.

Corroborating market potential with exponential growth trend of online business and the Romanian entrepreneurs desire to be present as much in the online environment that Romania can expect a steady increase in online business. Amid the financial crisis and preferences Romanian buyers to purchase low priced Romanian business will move at least partly their own businesses on the Internet. However, there are certain trends or reasons that make Romanian entrepreneurs have reservations about access their business online. Basically, they need to understand (without making condoning these social media) that the amount of appearances in the media like Facebook, Twitter, LinkedIn, make a positive impact on the image of their companies and not necessarily the direct quantification of the proceeds from this presence.

3. Development of business models on the Internet

An Internet business must start with choosing a model of many existing models, as previously analyzed. Whatever, type of business model that will be used for the development of electronic business depends largely on the nature and specificity of these, and foremost, if you are a new business or if you are considering building an online presence for an existing business.

In this sense, planning electronic business has some differences in the approach, imposing the formulation of responses to different sets of questions, as shown below summarizes represented.

Electronic Business Planning:

a. Starting a new business on the Internet:
- You can build a business on the Internet offer in satisfying consumer needs ?
- Who are the potential customers of new business on the Internet ?
- What will be the impact of promotional strategies, pricing and distribution of new business?
- The potential market will generate sales and profits sufficient to justify the risks of undertaking a new business on the Internet?

b. Building an online presence for an existing business:

- Building a web presence is a logical way to increase sales and profits for existing business?
- Potential customers online are different from traditional clients of the firm?
- The new electronic activities which will complement traditional activities of the firm?
- The business has the financial resources, information and time required to build an online presence?

Building an e-business (an integrated value chain) with the capability to use the

Internet, is the creation of a complex undertaking. The complex integration of business solutions, all highly performing at a high level of availability and scalability, requires an architectural model of e-business.

Integrated value chain consists of the traditional functions of management, plus special features such as integration management products and services, customer relationship management or performance management requirements that exceed the performance requirements of a traditional business. In an e-business success, all these areas are closely integrated to give the organization the ability to sell quickly and efficiently to produce optimally and deliver products or services.

Moreover, in an e-business success, this value chain is based on a basic foundation that balances the organization meets the requirements of reliability and operational flexibility, that of being 24/24 × 7/7 × 365 days / year, in a highly volatile electronic marketplace.

In the new competitive in the digital environment is easier for an organization to be comprehensive, but it is also more difficult to maintain consistent service level across the country, across the region and around the world. E-business companies must be ready at any time to adapt very quickly to changing e-business environment, depending on the speed with which competitors appear unpredictable market pressures. E-business is today, as business climate requires continuous optimization of business and IT strategies. This is because e-business model has a significant impact on any traditional business process, both types of businesses developing in parallel. The best example of this was Dell, the U.S., and in Romania, keeping the proportions, a great example would be Computer warehouse. From the beginning, Dell's strategy was closely linked to IT strategy (from order processing, passing to production to invoicing and collection of bills) for both customers and suppliers. Dell topped the IT industry just based on a business model that integrated both the traditional business and e-business, translating famous strategy of just-in-time delivery (just in time) into a component basic business success itself. Unlike traditional providers, e-business model Dell was founded on the premise and "zero inventory" zero inventory, ie trying to avoid as much as possible blockages stock.

4. Comparison of traditional business profitability and business on the Internet

Internet business profitability can be achieved either by increasing revenue or reducing expenses, which can be achieved through a variety of specific electronic business:

→ Increase sales revenue: sales can be made by electronic - on the Internet that has some undeniable advantages given the characteristics of the online environment as a platform for business models. Continuous availability offers the possibility of unlimited transactions is one of the most significant reasons for initiating electronic sales. Meanwhile, sales revenue transfer from the traditional to shape Internet business does not create real income, the main purpose of Internet business should be to identify new customers and generate new sales, so as to achieve total revenue growth. Other examples of ways to increase sales revenue through the use of specific e-business applications can be used for intelligent information systems - which stores information about each customer's purchases, and can assist in making future purchases or hosting forms of advertising online on their websites - that can bring additional income as a secondary source, which is the core business.

→ Reduce costs: can be done in a variety of ways, resulting in the online features, and one of the most illustrative examples of cost savings related to the interaction with the client, allowing customers information and actual acquisition with minimal involvement of the company.

Developing an Internet business requires a careful analysis of its profitability, which can be based on clear specification of the main sources of income and situation projected revenue, costs, respectively profits.

A specific business on the Internet is the possibility of obtaining income from multiple sources, which are not related to the principal activity of the company in question - which may be, for example, Internet sales of products or services.

Among these, it can mention:

- Advertising revenue - is widely practiced selling advertising space on their websites;
- Income from sponsorship - by requesting sponsorship for the content of their sites, as perceived and sponsorship fees to cover costs;
- Income from alliances - by attracting business partners to share development costs of a business model on the Internet, instead offering free advertising space on their websites;
- Income from registration fees or a membership and subscriptions - by charging subscription fees to use their own websites;
- Revenue from specialized data recovery - by trading their user profile data - which must be done with their consent - to other interested companies;
- Revenue from sale of goods and services - that is, the mark-up charged on goods and services in an e-commerce model;
- Income from commissions and trading fees – i.e, the commissions charged on transactions made through third parties such company;
- Revenue from information and market research - by charging fees for access to studies and information from its own sources;
- Income from fees forwarding - ie, fees charged to guide their clients to other firms.

These examples are not exhaustive, but illustrates many possibilities to achieve profitability in business on the Internet.

5. Conclusions

It is necessary to deal with the strategic vision of e-business as a continuous cycle involving both current business models and creating future e-business models, business modeling selective experiments. The purpose of these "projections" are as follows: refining the current rules of business, while creating new business rules for e-business. Challenge of managing e-commerce organization can be daunting, because e-commerce organizations (differs substantially from traditional business operations. In essence, management involves two fundamental decisions: operational decisions and financial decisions. Management of e-commerce is best seen as a compromise between these two decisions: how organizations differentiate and integrate the operational and financial aspects.

Connected with the management problem, the issue of resources, ie, how to assemble and use resources organizations in order to succeed in e-business. Four different approaches, but interrelated, are required to assemble and mobilize resources: placing "bets" strategy, i.e. The betting on a strategy to increase the power company, to learn how to manage alliances with business partners to outsource operations (accounting, personnel, etc..) and maintain optimal operational parity between inputs and outputs.

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Proposed Solutions from Government Level and Companies to Maintain Profitability in the Internet Business During the Economic Crisis in Romania

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Abstract

Ensuring profitability in Internet businesses during the economic crisis, involving a complex approach, both at the institutional and policy makers who directly and indirectly affect the environment more or less conducive to business development and field action for these companies and the companies who are called to deal with increased demands, even though online was less affected by difficult economic conditions.

Key words: Internet, economic crisis, online business, profitability.
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1. Introduction

The development of information and communication technology (IT&C), especially the Internet, is vital support for online businesses. Both current state as well as at international level over the business in Romania, decisively determine the evolution of internet business. Profitability, in particular, is directly influenced by many factors, of which developments should be carefully analyzed from increasing access to the Internet and awareness of the population about the possibilities offered by Internet trading, the measures taken to regulate transactions and online payments or to combat cybercrime.

2. Governmental measures to overcome the economic crisis by online business environment

A comprehensive scan of the problems caused or exacerbated by the economic crisis, targeting information and communication technology, either directly or indirectly, internet business is carried out in the Digital Agenda for Europe, a programmatic document in the Europe 2020 strategy to overcome the current crisis and prepare the EU economy for the challenges of the next decade. Emphasizes both at European level and in Romania, the following:

- Fragmented digital markets: in Europe it can speak about some inhomogeneous mixture of national online markets, and Romania just made the first steps in developing their own online marketplaces.

- Lack of interoperability: identify gaps in standardization or public procurement and the lack of coordination between public authorities at European level being considered as a major problem in Romania, in the sense that the regulatory framework in this area is still development.

- Development of cyber crime and reduce the level of trust in networks: With the emergence of new forms of so-called crime "cyber" - who know a variety of increasingly large, such as: data traffic, embezzlement, theft ID, etc.. - The European Union is required to establish mechanisms to prevent and combat such threats as effectively. Regarding diminishing confidence, Romania is in a critical situation, both in Europe and

internationally, although attempts by various legislative initiatives and projects to solve this problem in this respect is noted MCSI initiative introducing CERT-RO (National Center for cyber security incident response in Romania), and supporting initiatives specialized organizations such as BSA (Business Software Alliance).

- Low investment in network development: much greater efforts are needed to ensure the widespread incorporation of broadband communications systems, encourage private investment, which will be complemented by public investment for the development of electronic communications.

- The need for increased efforts on research and innovation: it can be appreciated that in the field of information and communication technology in Europe investments are made at a fairly high level, and current efforts are insufficient, particularly given the intellectual advantage of research fails to transform into innovations based on market requirements. In Romania, efforts are made punctual, private initiatives of research institutes under the aegis ANCS (National Authority for Scientific Research), national research institutes or certain universities.

- The low level of "digital literacy" and the deficit of qualified human resources: in Europe it can speak about a severe lack of human resources who possess the professional skills in the field of information and communication technology, and especially at a sufficiently digital literacy. In the field of information technology and communications, although the current trend of valuable human resources in this area is to migrate to international companies, Romania ranks the top internationally but ranks much lower than the rest of the European countries in the number of users with an acceptable level of digital literacy.

- Encountering some difficulties to solve various challenges arising from modern society: namely, more easily solve some of the current challenges in areas such as education, culture, health, environment, etc.

Providing a favorable environment for business on the Internet maintaining profitability in Europe and in Romania involves taking effective action to address these issues from the bodies with powers in these directions. If the Digital Agenda for Europe sets out well-established lines of action to each of the issues identified, assumed by Romania it can be said that the implementation is done, at least so far, quite hesitant at both European and Romanian . Although the proposed measures aimed particularly the crisis, in fact all crisis is a major factor that slows down implementation. 2011 and the first half of 2012 were marked in particular by extending the economic crisis, the problems in the eurozone and European leaders' attempts to overcome them, and Romania faced specifically, as in 2010, with consequences of the crisis reduce the effects of measures taken by the Government - the effectiveness of which can be regarded as questionable. This led to passage of the background of initiatives that have some direct and immediate effect on the main current problems of the European economy, including those regarding information technology and communications.

Moreover, a study of the opinion of the Romanians and Europeans at the end of 2012 shows the importance given to actions aimed at facilitating small business on the Internet, and, moreover, significant differences between the level of importance given from Romania to the European Union concerning measures and expanding access to the Internet or to increase consumer confidence in online commerce. Moreover, in the Internet, the degree of prioritization of actions for this area is for Romania, the lowest among all the seven action areas of Europe 2020.

The situation is worrying, especially in the case of Romania, whose economy has been significantly affected by the economic crisis, and in particular would need concrete measures to provide some viable framework for maintaining profitability of firms. The situation in Romania shows not only the need for greater involvement of bodies, but also the need to recognize the great potential offered by Internet businesses for economic recovery and crisis.

4. Measures taken by companies to overcome economic crisis

Beyond 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 of above average; profitability also involves:

• A design of e-business and technology architecture;

• Internet Marketing Strategies;

• Online brand management (management of own brand online);

• Strategies for positioning products or Internet market price;

• Online advertising, internet promotion tactics to increase web traffic;

• Solutions for customer relationship management and technical support;

• Market research and analysis efficiency of own website;

• Analysis of customer satisfaction and solutions for online communication;

• Services and strategies for choosing e-business partners;

• Online payment solutions and eCommerce strategies.

It should be emphasized in particular that, compared to traditional businesses in the Internet business, adapting to rapid change that is required from firms can be considered as superior, and often crucial in achieving profitability.

Profitability, the ultimate goal of a business involves a logical, integrated and structured approach, that if Internet businesses to focus or refocus the firm's activities, or to integrate within them. In this sense, it is necessary from strategic managers, thoroughly grounded in accordance with established principles and steps of strategic management.

An Internet solution to increase profitability is to develop and implement an e-commerce strategy, which involves the following steps:

1. Establish activities and offer products and services that will be subject to online transactions.
2. Define the list of products that will be subject to electronic commerce.
3. Definition of parts involved in e-commerce transactions: setting target consumers is important because underlying the transaction to identify the necessary components: establishing distribution channels, sales force training, allocation of financial resources.
4. Strategic analysis of competitors.
5. Including electronic distribution environment in the marketing of the company.
6. Business skills in the work allocation of e-commerce: e-commerce transactions require new knowledge and experience regarding business strategy, technology and creativity. For virtual companies strategic plan is designed for a period of one year due to rapid changes in this field.

Internet marketing involves the development of a set of activities, including establishing specific web marketing strategy, partnerships, creating affiliate programs, access to information and electronic journals letters, subscribing to search engines, etc. Choosing the optimum combination according to the specific company and the supply of goods or services, is a greater challenge in conditions of economic crisis, it is vital to maintain business profitability.

Based on Michael Porter's delineation of competitive advantage, invisible component of the strategy, can achieve an analysis of key options and possible combinations that you can approach companies doing business on the Internet, in order to maintain profitability in difficult economic conditions. Depending on the type of competitive advantage is chosen - at low cost (reflected in a reduced price) or the differentiation of the offer (the qualities of similar products offered by competitors) - reflected in a higher price can highlight two strategies appropriate Internet business, the economic crisis:

⇨ Low price strategy: it can be a way of maintaining the profitability of Internet business during the crisis, which finds a solid foundation in reducing purchasing power as a negative effect of the crisis, the impact on consumer behavior. Because low-cost access to information facilitated by online media, consumers are oriented generally easier to goods or services sought offered at the lowest price - including through websites that perform price comparisons, and enhances the economic crisis some such behavior. There are numerous studies that made comparisons between the prices on the Internet and that, in the traditional, and most of them show that Internet prices are lower - although there have been some studies that have shown the opposite. The same empirical studies show that price fluctuations are much smaller in

the online environment.

Although these prices for some given product or service varies depending on the vendor, despite the pressure imposed by the competition, which is largely due to differentiation strategies used by firms.

⇨ Differentiation strategy: can be a winning option for internet business through differentiation bidders can establish a preferential price in order to maintain or increase profitability. Empirical evidence shows that, in general, companies operating on the Internet apply differentiation strategies offer. For example, a study of the online retailers in Italy shows that only 5% of them did not have a well-founded strategy of differentiation, and the most important differentiating factor is for 41% of the companies credibility brand. Brand value can be built either through advertising - online or through any other media through sites that display your guest reviews or through social networking sites.

Other distinguishing features include the development of online product range (35% of Italian businesses) techniques customer loyalty (29%) and pricing strategies (27%).

Quality customer service is another significant element of differentiation of online business that can be reflected by the speed of response to customer requests, delivery speed, quality applications available to client - the possibility of contacting the company, offering suggestions for purchase etc.

It should be noted that the differentiation strategy can give better results in terms of efficiency, effectiveness and profitability to low price strategy, given that, as shown in studies of literature of consumer price sensitivity is lower in the online compared to the traditional, and more customer loyalty to a particular brand is higher in rural compared to the traditional online.

Given the importance of promotion in the Internet, as shown above, it can be argued that the objective of profitability imperative to choose a suitable advertising strategies, rigorously developed and implemented.

The optimal combination of online and traditional advertising is a topic debated in the literature, generally concluding that a combination of the two types of advertising is preferable to a strategy based entirely on online advertising. Since in the case of online advertising, the cost is usually directly correlated with the level of interaction with the customer (e.g., number of clicks or number of purchases), providing data such as advertising works and how - data not can be obtained with traditional advertising, the effectiveness of online advertising strategies commensurate is much easier than if traditional advertising. Furthermore, it is recognized that online advertising can speed build consumer confidence to a particular business. The high number of media websites, offer a very large advertising space, leading to a low price for online advertising.

Online advertising knows various forms, such as banners, text, images and multimedia advertisements in websites. This type of advertising is becoming increasingly sophisticated, for example, ads can be sent directly to the user, depending on its profile by web content analysis in the form of targeted advertising.

The highest costs are recorded for online advertising in the search engines, where the firm pays websites to send ads to users searching for specific terms. It can be said that, despite the abundance of information available on the Internet, the very nature of online search shows lack of full transparency of price advertising. Thus, when performing an Internet search, the links appear in descending order on the screen, depending on the number of hits, and there is a greater possibility that users see links that appear first, so that attempts a position to influence either through advertising or through sponsored links.

5. Conclusions

Internet business in Romania follows the global trend of evolution of the Internet but also has a lot of features. Overall, the course of their development is one ascendant both in terms of number of users and the turnover of entities that invest and make profits in this environment. Throughout the world Internet is an important lever for business, so it is the least hit by the economic crisis and among the first recovery.

Thus, despite the economic crisis, it can talk about enhancing internet business considering that more and more companies have built or widened to an extent increasingly larger Internet business models,

both at international level and in Romania. For Romania, this was possible on the basis of favorable evolution of Romanian online environment that can be played the most illustrative of the evolution of the number of users online - as compared to 2007 when there were about 3-4 million users, in 2011 their number increased to over 6 million. This is due to the increasing popularity of the Internet in mass population and expansion of providers who offer their services not only in cities but also in rural areas.

Business, both the traditional and the online needs combined measures taken at government level and in companies to overcome the negative effects of the financial crisis. By weighing the benefits that economic activity is online, it appears that every positive measure taken by the government positively affects online business in Romania. However, measures taken at government level must necessarily combined with measures taken at each company operating on the Internet.

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Knowledge Management - a Prerequisite for the Development and Management of Intellectual Capital

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Abstract

In the literature of corporate management, the concepts of knowledge management and intellectual capital have become an important area of concern. Knowledge management contributes to significant growth of intellectual capital through the management ability to solve problems in an efficient manner with the ultimate objective to generate competitive advantages. This article aims to show what intellectual capital is and how knowledge management is contributing to its development.

Keywords: knowledge management, knowledge, intellectual capital, development, factor of production
J.E.L. Classification: M 10

1. Introduction

When we talk about knowledge, a traditional point of view is to view it in a hierarchical structure: data, information and knowledge. Data represents the first form of information and have no significance. It may exist in any form and may be useful or not. Data could be converted into information using five main processes [1]:

- Condensation – items of data are summarized into a more concise form and unnecessary depth is eliminated;
- Contextualization – the purpose or reason for collecting the data in the first place is known or understood;
- Calculation – data is processed and aggregated in order to provide useful information;
- Categorization – a process for assigning a type or category to data;
- Correction – a process for removal of errors.

The information represents grouped data, sorted and classified which were given a meaning through relational connections. This significance may be useful or not. In organizations, it often becomes embedded not only in documents or repositories but also in organizational routines, processes, practices, and norms. Information becomes individual knowledge when it is accepted and detained as a closed compression to the truth and a valid interpretation of reality [2].

2. From knowledge management to intellectual capital

Based on the differences between data, information and knowledge and also the importance of the latter category, a new concept has emerged and evolved, subsequently becoming the practice for large companies, namely knowledge management. Knowledge management involves processes of *identification, creation, storage, transmission and use* of knowledge. This requires a system for generating, perpetuating stock of knowledge and facilitating knowledge sharing. Organizations that succeed in knowledge management consider knowledge as a resource and develop organizational norms and values that support knowledge generation and knowledge sharing.

Analyses conducted by many experts reveal that in the current economy knowledge satisfy four essential economic roles or functions [3].

As raw material, knowledge is greatly participating in obtaining modern products. It is obvious to everyone that the manufacture of a computer or a TV incorporates not only metal, plastic and other materials, but many acquaintances. Moreover, in the value of these products, knowledge has the largest share. For example, in the cost of a

sophisticated computer of thousands of dollars, the actual costs of metal and plastics etc. incorporated and of energy used for to obtain it are tens of dollars, representing only few percents of its total cost.

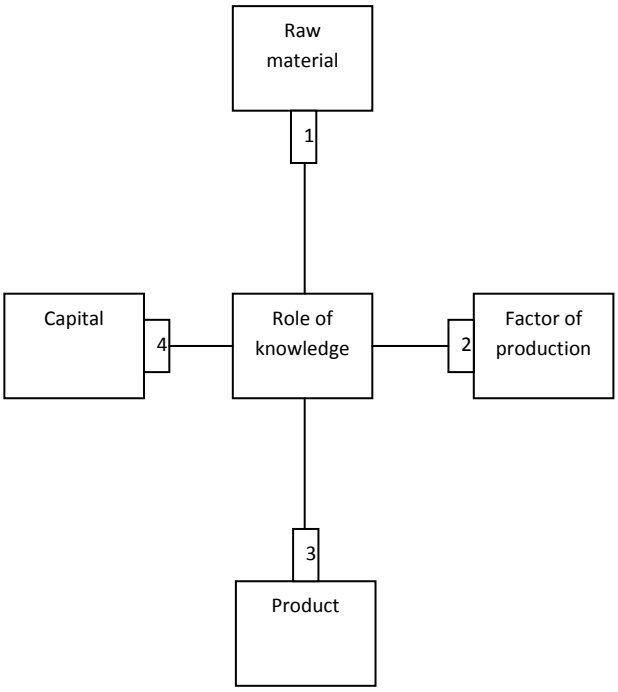


Figure 1: Roles of knowledge in economy
Source: Roşca, 2008, p. 61

Defining the concept of knowledge management also differ, as of approaches regarding knowledge by author, without a crystallized definition, it can be inventoried the following approaches on knowledge management, according to which knowledge management is a process of transformation of intellectual and informational capital into permanent value [4].

In the new economic context, knowledge management is a new discipline representing the key resource to become competitive. There is no clear consensus on how this discipline can be defined, but generally, it can be understood as responsible for designing and implementing a system that aims to identify, capture and share knowledge systematically within a company so as to be converted in value for it. In general, knowledge becomes a value for the company when it contributes positively to the objectives pursued by the company itself [5].

Although most methods for evaluating the application of knowledge management focused on its contribution to the development of intellectual capital, there is no consensus on the application and validity of a single method. Researchers find that it is difficult to prove a direct link between knowledge management and organizational performance applying this concept, efforts to assess this link materializes in the use of both quantitative tools, as well as the quality ones.

Intellectual capital [6] is defined as the result of continuous approach of the problem of knowledge management in an organization. Considering knowledge as part of human capital, knowledge management is a part of structural capital. Intellectual capital can be approached as reflecting knowledge in accounting.

The literature offers many definitions of intellectual capital as follows:

- Intellectual capital is the possession of the knowledge, applied experience, organizational technology, customer relationships and professional skills that provide a competitive edge in the market [7].
- Intellectual capital is quite simply the collection of intangible resources and their flows [8].
- Intellectual capital of the company is the sum of knowledge of its members and practical use of this knowledge [9].
- Intellectual capital is knowledge that can be converted into profit [10].
- Intellectual capital may properly be viewed as the holistic or meta-level capability of an enterprise to co-ordinate, orchestrate, and deploy its knowledge resources towards creating value in pursuit of its future vision [11].
- Intellectual capital is the group of knowledge assets that are attributed to an organization and most significantly contribute to an improved competitive position of this organisation by adding value to defined key stakeholders' Marr and Schiuma [12].
- Intellectual capital is a claim to future benefits that does not have a physical or financial (stock or bond) embodiment [13].
- Intellectual capital is the set of knowledge and information owned by a person or institution and actively put to the service of accomplishing economical objectives Xavier [14]

Intellectual capital consists of [15]:

- *Human capital:* Human capital refers to the body of knowledge, skills and training, skills and ingenuity, skill and attitude, learning ability and motivation of individuals who compose the organization. Company values, culture and philosophy are also included in the human capital.
- *Structural capital.* Capital structure may be described as the infrastructure that incorporate, support and qualify human capital and made possible the labor development in the company (programs, databases, organizational structure, patents, trademarks). It also makes reference to customers, the company-customer relationships, organizational processes, management, production and marketing

The engine that drives knowledge management is the premise that as the organization that produces goods will use and manage tangible assets an organization that produces information and knowledge should use and manage intellectual assets. Knowledge and management of its elements (processes, components, categories) become the basis for the management of intellectual capital of an organization. Subsequently, intellectual capital is transformed due to its value for the organization in intellectual property. Therefore, researchers seek to address *knowledge management as a methodology that leads to the development of intellectual capital and property*, the process itself becoming part of this methodology [16].

Knowledge management is more about tactical and operational issues. It is also more detailed and focuses on facilitating and managing those activities related to knowledge, such as its creation, capture, processing and utilization. Its function is planning, implementing, operating and monitoring all activities and all programs with the knowledge that requires effective management of intellectual capital.

3. Conclusion

It is concluded that knowledge management is the management of processes governing the identification, creation, storage, dissemination and use of knowledge by using technology, organizational structures and human resources to determine in the most effective way problem solving, decision-making and fulfilling organizational objectives. Assessing the effectiveness of the implementation is done just on the principle that effective implementation of knowledge management processes lead to the development of intellectual capital, which is why measuring value added by knowledge management actually means measuring its contribution to the development of intellectual capital.

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Evaluating the Potential Competition of the Enterprise

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Abstract

Entry of commercial enterprises play an important role by maintaining active competition for existing businesses and development of innovation and long-term growth. Rules and regulations often restrict the entry have only a negative effect on competition. Moreover there are numerous papers providing evidence that the ability of firms to enter the market and develop normally depends on the ability to attract external funding for new projects to be undertaken

Keywords: competition, potential, competitive market, limit-pricing
JEL Classification: D20, D22, D23

1. Introduction

The potential competition can be defined as being the competitive pressure on a market by one or more companies, which are not actively present on that market. The potential competition can determine an incumbent firm on one certain market to exploit its power on that market, having as a result the reduction of prices or improving the quality of products and servicies. The positive effects of the potential competiton can come about in two different ways, the first one being the discipline of the incumbent firm as the entry threats, resulting in a reduction of prices and improving the quality. As far as the second is concerned, the existence of the potential competition increases the probability that new companies enter the market, resulting in positive effects for the consumer. Michael Porter, one the the greatest business writers, defined the potential competition as being one of the 5 fundamental competitive forces which can determine the profitability of a company.

For example, an incumbent firm will try to create barrier strategies known as entry deterrence to stop the entry on the market for some possible companies, which might enter the market. These actions may be as price reductions, new investments in technology for increasing the production, introduction of new brands or maybe some new products. All these activities are for the benefit of consumers, but also in the same time might stop some great positive effects that would benefit from entry. If the incumbent firm sets the prices above the average costs, a company entering the market would have to set the prices below the competiton, but in the same time make the firm profitable, and to gain some control over the market. Probably, the incumbent firm will take the decision to reduce the prices, and again take the control on the market, but in the same time the second firm can leave the market without any costs. If the prices change rapidly, the incumbent firm would have to adopt a reduction in prices, as a response to the competition. In contrast, the price changes would characterize the movement as not being profitable, having as a consequence a high profit for the incumbent firm.

2. Theories which bring arguments against potential competition problem

There are theories which bring arguments against potential competition problem, while others bring arguments demonstrating it's an efficient theory. Consider a perfectly competitive market, a situation where the companies and consumers are small and numerous (sellers and buyers do not determine the change of prices). For simplicity, assume the fact that everyone are using the same technology and there are no fixed costs. The buyers have all the information about the price and quality, choosing to buy from those companies which sell at the lowest price. In consequence, the company which sets the price above their competitors will not be able to sell anything, while an enterprise which sets the price below the competitors will be able to capture all the market. [1] This means that the companies will have to set the prices equal to the marginal cost. In the case in which two or more companies produce identical products, they compete in terms of price. For simplicity, assume the fact that the firms have identical functional costs and there are no fixed costs. In this case, the buyers will choose to buy the products from the company which is able to sell at the lowest price. If there are no constrains in what capacity of production is concerned, the competition will force the companies to set the price equal to the marginal costs.

3. Another theory of the potential competition

Another theory of the potential competition is the theory of „limit-pricing". This theory sustains the fact that an incumbent firm may prevent the entry of other companies on the market or to slow down this process. According to the classical theory of „limit-pricing", the incumbent firm sets a quantity limit, so that the actual demand to be insufficient so that the potential company to avoid the entry on the market. In other words, the potential competitor notices the quantity of products and servicies that the incumbent firms offers, and in the moment in which decides to enter the market, it can be assumed that the incumbent firms will continue to offer the same quantity of products and servicies. This means that the potential competitor will be able to sell to the „remaning customers". If the quantiy that the incumbent firm chooses is too big so that the potential competitor choice to remain unprofitable (if what remains from the market after the firms sells all its quantity, it's too little), the potential competitor will restrain from entering the market. The logical weakness of this classical theory ist that once the potential competitor has entered the market, it may be profitable for the incumbent firm to raise the price.

The theory of limit-pricing is an example of anticoncurential strategy. An enterprise will always take actions top revent potential competiton from entering the market. Apparently, like in all models of anticoncurential strategies, the firm will always take agressive measures of protection, only if they have an effects on the potential competition. The firms should focus on maximizing the profit in the short term, as long as it is the only enterprise from a specific market.

For many centuries, it has been proved that there may be exessive penetrations of markets in the industries with fixed costs. The reason ist that the profit of the potential comes from two parts. Firstly, the potential competition will increase the rivalry, will reduce the prices and will increase demand. Secondly, there is the so called „business-stealing" which means that a big part from their profit, will return to their potential competitos. The potential competitor will enter the market if the sum of this two components is bigger than the cost of entry. Then, the estimation of probability of entering the market of a potential competitor and identification of the actual entry on the market are simple tasks than the identification of the unfilfilled efect of the potential competition, because it is much easier to identify the actual competition rather than potential competition.

4. Competitive advantage

Understanding the competitive advantage is another challenge for those who take the decision in a firm. The ability to develop a competitive advantage in our days is an extreme laborious thing, because an competitive advantage which has been achived, may be lost rapidly. The companies sustain a competitive advantage as long as the servicies which they offer, and the way

they distribute, correspond to some specification from the customers. The competitive advantage is the result of the difference between the products or servicies of an organization and those from the competitors from the buyers minds.

Generally, the firms must anticipate as fast as possible how the environment, structure, culture change so that there are just advantages. The competitive advantage has become a subject of movement and the ability to change location and position. The potential strengths and weaknesses must be seen as strategic resources, because together with the objectives of the company will help to develop the competitional spirit.

In what prices are concerned, comes the next question: Does the potential competion limit the price of a product? Or maybe the price of products remain high until the actual potential competitor appears? The potential competition can discipline the price. Under certain conditions the incumbent firm will have taken the decisions before the potential competitor will take the decision of entering the market, affecting the environment by reducing prices. For example the incumbent firm, fearing of the entrance of new firms on the market will take the technological inovation decision so that it could enlarge production. A potential competitor will know that the incumbent will have lower variable cost in the future, this low cost menaing that the incumbent will set lower prices if the potential competitor will enter the market, than if the incumbent hadn't invested in new technology. As a consequence of lower prices, and the extra capacity of production, the potential competitor will have to set some lower prices. In this way, the price of entry on the market will be lower than the cost, being insufficient to cover all costs, finally deciding not to enter the market.

Moreover, having an extra capacity of production, the incumbent will set the prices at a low level, even if there is not threat from another firm enetering the market. The potential competiton has disciplined the price. If there wasn't for the potential competition, the incumbent would have taken the decision to grow production by investing in new technology, having a higher price. The posibility of entering the market for firms, limits the price that the incumbent would have practised, the so call „limit-princing" strategy.

The potential competition limits the price sunder certain conditions. Firstly, the incumbent will have to determine the potential competitor that the entry if totally unprofitable. In the last example, the company has decided to invest in new technology, reducing in this way the price, but in the same time reducing the probability for a new entry on the market. Secondly, the limit-pricing strategy has to be viable, the benefit must overpass the costs. The incumbent firm profit will be lower because of the applied policy, caused by appying some lower prices, and not a price whic could assure a maximum profit.

The term of potential competition appears in other context, apart from the analysis of competition. Some authors make a distinction between the actual potential competition and the percevied potential competition. Potential competitor may have the capacity to enter on a market with certain conditions, for example in case of a merger between two companies, threatening to raise the price.

Is there a link between potential competition and firm's initiatives to inovate? The incumbent will have access to a new technology which will confer a monopolistic position on the market. Inovations can be achived after intense and costly studies of research and development. There are two paradigms to describe competition in innovation. According to the first theory, the company that spends the most money on research and development will certainly be the first to invest. This means that R & D competition is like a kind of auction, where the company that spends the most on innovation will win. According to the second paradigm, research and development expenses will increase the chances for a company to be innovative.

Fundamental to leading the company's ability to stop other companies entering the market, is the ability to take action before competitors. Some of these actions are aimed to benefit consumers. These barriers to entry can be classified into three categories: natural, alternative and administrative. Alternatively, natural and administrative barriers are classified as exogenous input. Natural barriers are due to supply and demand fundamentals. The trade barriers are,

for example administrative, legal monopoly or restriction of entry.

In general there should be a relationship between levels of entry barriers and leading the company's ability to set prices above competitive levels [5]. If barriers to entry are low, prices should be close to competitive levels, and if entry barriers are high, prices should be close to the monopoly, while intermediate entry barriers should be associated with prices located between the competitive and monopoly levels. For example, in the absence of entry barriers, prices will be located at competitive prices, unless there is only one company active in the market.

If the limiting pricing is used to stop the entry, then when entry barriers are high, although prices will be kept relatively low. Another indirect method to analyze the effect of potential competition is the analysis of profit levels. If high profits are in the concentrated markets, the competitive potential is low. Also, the difference between the profits of industry and firm level is a very important element for leading companies in measuring profit. Furthermore, it is well documented that most of the profit is then sent to other employees and suppliers.

Potential competition is in itself a threat to any firm in a market. However, for consumers, potential competition is important because in some cases can stop taking place between different understandings of market leaders that have concluded agreements on the practice of a single price. Potential competition may develop in principle, in order to adjust market prices, to increase the quality of products and services sold by market leaders, these things are achievable by adopting pro-competition policies, something that would benefit all consumers. Also by adopting these government policies, will enable market expansion, the range of products offered to consumers by eliminating barriers to entry, along with amending the legislation to stop the bureaucracy to protect certain companies from the market, and successful potential competition removal that would enter the market [3].

Also, any potential competitors who want to impose on the market, to conquer a better position, bring new production capacity and provide resources, should not be neglected. Following entry, can cause decreases in current prices, rises in competitors costs that are already on the market. Size is directly proportional to the importance of barriers to entry, with competitors already on the market reaction. Mass production may be a negative factor for potential company, because they are required to enter the market at a much larger scale, the investment effort is extremely high. Clumsy effort to retain is another feature of potential companies that will have to make considerable effort to retain current customers and potential for their products. The volume of capital required for market entry can be an obstacle, because to the initial costs, it can add other things related to customers, advertising, or even the initial losses.

Mainly, the potential competitive is the pressure on leading companies to the possibility of market entry of some other companies, generic called potential competitors [4]. They may be attracted by the profits achieved above average in some markets by leading companies, possibly due to low competition. When market entry barriers are high, decrease the threat of possible companies that wish to enter the market. In general, both theoretical and empirical analysis confirm that the current competition is more competitive than the potential applied only in certain limited areas. Theories also suggest that barriers to entry are potential determinants of competitive power.

Moreover, potential competition can be excessive or detrimental. In industries with fixed costs, there may be several companies who wish to enter the market. The threat of entry can be costly, unprofitable in terms of company leadership with effects as premature and excessive investments in production capacity. Some empirical studies suggested that the entry barriers are critic for the efficiency of competitive potential. Some studies also showed that the efficiency of competitive potential is different from one market to another. The competitive potential can be effective on those markets where long term contracts are concluded and where massive investments are not necessary.

The entry of commercial enterprises on market plays an important role by keeping an active competition for existing firms, by developing innovation but also by long term

economic growth. Rules and regulations which mostly restrict the market entry have a negative effect upon competition. Moreover, there are numerous papers that prove that the capacity of a firm to penetrate a market and to normally develop depends on the ability to attract external finances for new projects that are bound to happen.

Experience is a decisive factor for the potential competitor. Fail rates (leaving the market) are frequent, more than 60% of the new-entries not succeeding in business, leaving the industry in no more than 5 years. Intern strategy diagnose is realized by analysingthe potential of enterprise [2]. The analysis of the potential of enterprise must identify the strengths and weaknesses of the activities of enterprise. As referred before, the analysis must be made through comparison to other competitors from the same sector of activity, the real focus being on identifying the relative position of the enterprise in the sector. This analyse offers an answer to the following question: "What can the enterprise do better than its competitors?" and it evidences the competitive advantages and disadvantages of an enterprise as well as its distinctive competence. According to the authors of this model of strategic diagnosis, the analysis of the potential of an enterprise principally refers to three basic domains.

1.The positioning of an enterprise on its markets that includes the following essential aspects : the part of the market hold by each commercialised product, the penetration of products on different geographical areas, the sales volume, the number of clients, the fidelity level of clients, the profit margins, the reputation of enterprise on its markets, the level of technique and quality of products, the nature and volume of post-sale offered services and of commercial facilities, the contribution of each product in turnover and in profit, the sale prices and their fluctuation in time and zone, the promotion and publicity policies, the diversity of products, the characteristics of distribution network etc.

2.The positioning of an enterprise in relation to its factors of production that refers to the analysis of production equipment, human resources, energetic resources and raw materials resources which can be assured by the enterprise. Concerning the production equipment, the study aims: the volume, the structure, the technique level, the quantum of mechanization and automation, the specialised or universal character, the size of production capacity and the indicators of usage, the possibilities of static flexibility etc. The analysis of human resources is made in relation to the number and structure of existent personnel, to professional characteristics and qualification, to aptitudes, level of experience and specialization, social climate, relations with unions, to salary, to ways of motivation, level of work productivity, level of fluctuation etc. Raw and energetic materials resources are studied in the same context but from the point of view of existent suppliers, supply and storing policy, of the prior factor in supplier-enterprise relation, of level and fluctuation of procurement prices, of negotiations aptitudes.

3.The positioning of an enterprise in relation to its competitive factors of which the most important are: financial force, management system efficiency, research-development and innovation potential, flexibility level, the speed of reaction to the changes of competitive environment, the capacity of satisfying the individual requirements of clients, the existence of experience phenomena etc.

5. Conclusion

The conclusions dragged from the internal strategy diagnosis allow the enterprise to adopt measures for eliminating the weaknesses susceptible of compromising its evolution in the future and it enables the enterprise to establish the strategy based on valuing its strengths and competitive advantages. Intern strategy diagnose is realized by analysing the potential of enterprise. The potential analysis of an enterprise must identify the opportunities and threats found in the environment, the specific successful key factors found in the domain of activity in which the enterprise operates.

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Dynamics of Tourist Accommodation Possibilities in Romania Under the Impact of Economic Crisis

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Abstract

For the capitalization of the tourist potential of a country its detailed knowledge is required. This is possible through the analysis of its components. The material and technical basis is presented in the form of highly diversified structure through which customers' needs can be met.

Keywords: *material-technical basis, tourist accommodation structure, analysis, trends, destinations*
J.E.L. Classification: *M31*

1. Introduction

Tourism has experienced a continuous development due to people's desires to travel, but also because of ongoing curiosity to discover places and cultures. Over time motivations diversified generating the development of different forms of tourism such as spa tourism, mountain tourism, seaside tourism, cultural tourism, science tourism, etc.

This diversification of the motivations needs a diversification of resources and a variety of technical-material basis which is required to meet the tourist needs of customers.

Ensuring tourism products requires both material goods and basic tourist services such as accommodation, food, transport and leisure. Material goods are reflected in at least three categories of elements, namely the heritage of natural, cultural, artistic, historical, architectural, technological, structures of tourist accommodation, covering a wide range of accommodation preferences of domestic and foreign tourists. medical etc. resources, forming the physical setting and manifesting attractions for tourists, certain elements of infrastructure or equipment even though they do not generate motivation or demand but contribute to their satisfaction (hotels, restaurants, golf, gyms, theaters, conference, etc.) as well as some access facilities related to transportation chosen by tourists. [1] The specific material-technical basis includes [2] accommodation, catering facilities, transportation, installation possibilities of lifts which provide access to high altitudes, leisure facilities which provide fun and recreation and also provides enjoyable outdoor time, treatment facilities for particular forms of tourism ie the health spa, rural tourism in an uncrowded setting and holiday villages.

Secondary (desk) research on the analysis of the development of tourist reception reflecting functions of tourist accommodation and tourist accommodation capacity in Romania between 2005-2011.

2. Dynamics of tourist accommodation

Dynamics of tourism heritage in Romania under the impact of the economic crisis takes into account the analysis of the development of structures of reception for tourist accommodation, tourist accommodation, the development of tourist accommodation capacity, the development of tourist accommodation capacity on tourist destinations and the development of tourism accommodation capacities by type of ownership between 2005-2011. Currently in Romania there are plenty of reception

Table 1. Establishments of tourist reception with functions of tourist accommodation

number of units

	2005	2006	2007	2008	2009	2010	2011
Total	4226	4710	4694	4840	5095	5222	5003
Hotels and motels	1154	1220	1231	1264	1316	1397	1503
Hostels	58	75	79	81	97	114	145
Touristic inns	11	9	6	5	5	4	4
Touristic chalets	113	116	108	116	123	134	147
Campings and houselet-type units	124	121	111	109	101	100	71
Touristic villas and bungalows	1021	1040	974	982	1012	1035	753
School and pre-school camps	151	128	115	111	111	92	69
Urban touristic boarding houses	597	702	736	783	878	949	1050
Rural touristic boarding houses	956	1259	1292	1348	1412	1354	1210
Touristic halting places	29	31	30	31	30	32	41
Holiday villages	3	2	3	3	4	4	5
Ships accommodation spaces	9	7	9	7	6	7	5

Source - Romanian Statistical Yearbook 2011 pp. 611, Romanian Statistical Yearbook 2012 pp. 585

Analysis of tourist reception with functions of tourists' accommodation shows that the total analyzed period registered an increase by 23.56% of reception units in 2010 compared to 2005, respectively 18,38% in 2011 compared to 2005. It should be noted that after 2008 the total number of tourist accommodation establishments recorded a steady growth, although the growth rate was reduced. Thus growth was by 5.26% in 2009 compared to 2008 and 2.49% in 2010 compared to 2009.

We can state that increases were registered through the whole analyzed period, hotels and motels with an increase of 243 units in 2010 compared to 2005 representing an increase of 21.05%, respectively 7,58 % in 2011 compared to 2010, chalets with an increase of 21 units representing 18.58% in 2010 compared to 2005, of which 18 units were built after 2008 representing an increase of 15.51% in 2010 compared to 2008, urban touristic boarding houses as well as rural touristic boarding houses. Decreases were registered in tourist inns throughout the period under review, registering a decrease of 7 units representing a decrease of 63.63% in 2010 compared to 2005, in 2008 5 units of 11 existed, the number of camping and houselet-type units went down by 19.35% in 2010 compared to 2005, respectively 42,74% in 2011 compared to 2005. In 2010 compared to 2008 the number of camping and houselet-type units decreased by 9 units representing a decrease of 8.25%. Decreases were recorded throughout the period under review for school and pre-school camps as well.

The largest proportion from the total number of tourist receptions with functions of tourists' accommodation is made up by hotels and motels with more than 60% for the whole analyzed period, followed by camping and houselet-style units with 10.89% of the total in 2005, with a decrease that does not fall below 9% at the end of period and school and pre-school camps with a proportion of 10.23% of the total at the beginning of period, halved in the years 2010, 2011. The

lowest proportion consists of holiday villages, tourist inns and youth hostels, less than 1% of the total, throughout the period under review. Hostels, which present an insignificant proportion, still registered an increase from 0.87% in 2005 to 1.67% in 2010 and respectively 2,89.% in 2011 of the total. Increases in total accommodation structures during the analyzed period were recorded at the urban touristic boarding houses from 3, 86% in 2005 to 5.91% in 2010 and respectively 20,98 % in 2011, as well as at the rural touristic boarding houses by 3.94% in 2005 to 6.51% in 2010 and respectively 24,18 % in 2011.

Tourist halting places although proportionally decreased until 2008, they increased in the second half of the analyzed period. After 2008 there were decreases in total tourist inns and ship accommodations.

Table 2. Touristic accommodation capacity *existing units*

	2005	2006	2007	2008	2009	2010	2011
Total	282661	287158	283701	294210	303486	311698	278503
Hotels and motels	169755	173496	174471	181512	185315	191647	182368
Hostels	2474	3522	3522	3612	4396	5218	6140
Touristic inns	292	278	186	136	136	97	77
Touristic chalets	5961	5875	5574	5207	5887	5667	5928
Campings and houselet-type units	30795	31235	29126	31061	29420	29522	14533
Touristic villas and bungalows	20120	20703	19794	19945	20325	21387	15071
School and pre-school camps	28916	23227	20320	19426	18875	16874	10689
Urban touristic boarding houses	10910	12546	13429	14538	16653	18422	20499
Rural touristic boarding houses	11151	14551	15448	16906	19783	20208	20683
Touristic halting places	1485	1114	1152	1211	2025	2043	1813
Holiday villages	266	110	160	180	215	157	307
Ships accommodation spaces	536	501	519	476	456	456	395

Source - Romanian Statistical Yearbook 2011 pp. 611, Romanian Statistical Yearbook 2012 pp. 585

The analysis of tourist accommodation capacity shows that throughout the period under review the number of units continuously increased, the growth was 10.27% in 2010 compared to 2005. The growth was successive in the second half of the review period, ie after 2008.

At hotels and motels, tourist accommodation capacity increased throughout the period, the largest increase during this period being of 4.03% in 2008 compared to 2007. Since 2008 increases were constant by 3.41% in 2010 compared to 2009. Hostels registered an increase during this period the highest values recorded in 2006 compared to 2005, by 42.36% in 2009 compared to 2008 by 21.70%. Inns registered a decrease of - 66.78% in 2010 compared to 2005. The largest decreases were registered in 2007 compared to 2006 by -33.09% and -28.67% in 2010 compared to 2009. At chalets a steady decrease was present until 2008, followed by a significant increase of 13.05% in 2009 compared to 2008. Tourist villas and bungalows also presented a decrease in the number of available accomodation units until 2008, followed by increases of 1.90% in 2009 compared to 2008, 5.22% in 2010 compared to 2009 and decrease 29,53 % in 2011 compared to 2010.

Although school and preschool camps showed continuous decrease during the analyzed period the existing accomodations in urban and rural tourist boarding houses significantly rose. After 2008 the largest increases were recorded in 2009 compared to 2008 achieving an increase by 14.54% in urban boarding houses and by 17.01% in rural boarding houses. Tourist halting places showed an increase in existing accomodations during the second part of the analyzed period, while accommodation on ships steadily decreased since 2008. After 2008 the highest increases were registered in 2009 compared to 2008 achieving an increase of 14.54% in urban tourist boarding houses and 17.01% in rural tourist boarding houses. Tourist halting places stood out for the increase of the existing units in the second part of the period, while ship accommodation spaces experienced a continuous decline since 2008.

Table 3. Touristic accommodation capacity and activity, by touristic destination numbers

Years	Total	Seaside[1)]	Spas	Mountain	Danube Delta[2)]	County residence towns[3)]	Other localities
2005	4226	891	369	828	122	745	1271
2006	4710	919	377	973	144	818	1479
2007	4694	932	372	978	101	836	1475
2008	4840	934	382	1010	103	880	1531
2009	5095	946	377	1052	141	980	1599
2010	5222	1014	386	1038	127	1063	1594
2011	5003	625	413	1154	110	1183	1518

Source - Romanian Statistical Yearbook 2007 pp. 748-749, Romanian Statistical Yearbook 2009, pp. 958-959, Romanian Statistical Yearbook 2011 pp. 616-617, Romanian Statistical Yearbook 2012, pp. 591

1) *Excluding Constanţa town*

2) *Including Tulcea Municipality*

3) *Including Bucharest Municipality and excluding Tulcea Municipality*

The tourist accommodation capacity increased throughout the period, without any decrease after 2008. Thus seaside as a tourist destination increased tourism capacity by 13.80% in 2010 compared to 2005 and descrease by – 29,85 % in 2011 compared to 2005. Spa tourism benefited of capacity increase in tourist accommodation by 2.05% in 2010 compared to 2005, respectively 11,92% in 2011 compared to 2005, while in mountain tourism tourist accommodation capacity increased by 26.36% in 2010 compared to 2005, respectively 39,37% in 2011 compared to 2005. In mountain tourism the growth of tourist accommodation capacity was higher in 2010 compared to 2008 being an increase of 2.77%, than in spa tourism where growth was by 1.04%. Danube Delta stood out with an increase in tourist accommodation of 4.09% during the period under review, however, it can be pointed out that in 2008 the number of tourist accommodation units in the area showed a decrease by 19 units representing a decrease of 15.57% in 2008 compared to 2005, but from 2008 they registered a continuous

growth. It can be stated that the highest proportion characterizing the accommodation units is noticed in other cities approximately 31% during the analyzed period, the lowest being in the Danube Delta between 2% and 3% during this period. The proportion of seaside accommodation decreased of 21.08% in 2005 to 19.41% in 2010, respectively 12,49 % in 2011. In 2009 this proportion decreased to 18.56% of the total while in 2008 it registered a 19.28%. The mountain area remained stable with small changes of 19.59% in 2005 of the total, 19.87% in 2010, with an increase of 20.64% in 2009, in total

Table 4. Touristic accommodation capacity and activity, by touristic destination %

Years	Total	Seaside[1)]	Spas	Mountain	Danube Delta[2)]	County residence towns[3)]	Other localities
2005	100	21,08	8,73	19,59	2,88	17,62	30,07
2006	100	19,51	8,00	20,65	3,08	17,36	31,40
2007	100	19,85	7,92	20,83	2,17	17,81	31,42
2008	100	19,29	7,89	20,86	2,13	18,18	31,63
2009	100	18,56	7,40	20,64	2,79	19,23	31,38
2010	100	19,41	7,39	19,87	2,46	20,35	30,52
2011	100	12,49	8,25	23,06	2,16	23,64	30,34

1) *Excluding Constanţa town*
2) *Including Tulcea Municipality*
3) *Including Bucharest Municipality and excluding Tulcea Municipality*

Regarding the ownership private property represent a significant proportion by more than 80% of total accommodation capacity during the analyzed period. If in 2005 there were 3516 private tourist accommodation units registered representing 83.2%, in 2008 their number increased to 4222 units representing 87.23% of the total. After 2008 this percentage exceeded 90% of the total.

Table 5. Touristic accommodation capacity and activity, by type of ownership-number

Years	Total	State majority	% in total	Private majority	% in total
2005	4226	710	16,8	3516	83,20
2006	4710	638	13,54	4072	86,45
2007	4694	625	13,31	4069	86,68
2008	4840	618	12,76	4222	87,23
2009	5095	450	8,83	4645	91,16
2010	5222	449	8,59	4773	91,40
2011	5003	253	5,05	4750	94,95

1) By ownership type of legal and natural persons who effectively managed the establishments of accommodation during respective period.

Source [3] - Romanian Statistical Yearbook 2006, pp. 730, Romanian Statistical Yearbook 2007, pp. 748, Romanian Statistical Yearbook 2008, pp. 828, Romanian Statistical Yearbook 2009, pp.

958, Romanian Statistical Yearbook 2011, pp. 616-617, Romanian Statistical Yearbook 2012, pp. 591

3. Conclusions

Based on the analysis performed it can be concluded that after 2008 there were no dramatic decreases regarding the examined indicators. The analysis of tourist reception structures with tourist accommodation functions shows that the number of reception units increased throughout the analyzed period, the total number of tourist accommodation units presented a steady increase, even though the pace of growth was reduced. Increases can be observed at hotels and motels, chalets and urban and rural tourist boarding houses, and decreases were registered in tourist inns throughout the period under review, the camping and houselet-type units, school and pre-school camps.

In the total number of tourist reception units with tourists' accommodation functions the largest proportion is represented by hotels and motels with over 60%. The lowest proportion is presented by holiday villages, tourist inns and youth hostels, less than 1% of the total for the entire period. Tourist accommodation capacity by destination grew throughout the period without any decrease after 2008. By ownership, private ownership represents a significant weight, which increased after 2008.

For a better exploitation of tourism potential there must be an adequate promotion of tourism, but also a provision of quality services. Moreover, a better capitalization of the resources of the Danube Delta would be welcome, an area full of potentials but not properly used.

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Consumer Preferences for Products and Tourism Services in Romania Between 2008-2011

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Abstract

In a strong competitive market where consumers are becoming more demanding knowing consumer behavior in tourism services is essential for decision-makers. It is necessary to know their preferences to form a variety of offers able to meet their increasing diverse needs.

Keywords: *tourist preferences, average period, number of travelers, number of arrivals, number of nights*
Classification J.E.L.: *M31*

1. Introduction

Consumer preferences for products and travel services are influenced by a number of factors that determine their purchasing process. Purchasing products and services is a major goal for firms because it directly influences the financial results of companies. As Theodore Lewit stated if something is not sold, there something terrible happens, therefore nothing. To avoid this it is necessary for companies to know the market, especially the customers. Customers are influenced by a number of factors in purchasing goods and services. Currently there are several approaches to analyze these influencing factors. Jolibert Alain and Pierre - Louise Dubois, in the work Le Marketing. Fondements et pratique are addressing these factors as individual and environmental factors. As individual factors personality, cognitive style, lifestyle and perceived risk are presented, while as environmental factors the socio-demographic and economic factors are described. [1]

Lazar Dumitru in his work Bazele Marketingului, believes that the explanatory variables of consumer behavior are personal psychological variables, individual variables and social variables.[2] Among personal psychological variables the following are taken into consideration: perception, learning, motivation, personality and attitude, as individual variables: gender, age, life cycle, occupation and income are included and for the social variables: culture, reference groups, role and influence of the family, social class and lifestyle.

Other authors such as Philip Kotler, in his work Marketing Management states that influencing factors are cultural factors, social factors, such as reference groups, family, role and social status, personal factors such as age and life cycle stages, occupation, wealth, lifestyle, personality and self-opinion and psychological factors - motivation, perception, attitudes and beliefs. [3]

Culture is deeply rooted and cannot be changed. Therefore, companies need to adapt to customer demands. It would be inappropriate to market swimwear in Arab countries for the local inhabitants.

As social factors family and the main reference group will mainly influence consumers' decision regarding tourism products and services. A partner with higher income has also a greater impact on influence. Side groups have significant influence because friends whose experiences about the visited areas can be extremely attractive. They will also influence decisions on services, accommodation, etc. Influence will be deeper if the communication with the group is stronger.

Among personal factors age, life cycle stages, wealth, lifestyle will directly influence the purchasing decision regarding tourism products and services. Old-fashined tourist will hardly jump onto a ship to admire coral reefs of the Red Sea, they will be less open to extreme sports. Individualists will test the waters more easily, they will exlplore everything they meet.

Motivations will largely determine the choice of tourist destinations. A childhood dream to see Egypt will lead a strong desire to visit that destination. A honeymoon in Paris will create nostalgia, desiring for a return. The created attitude is determinative as a negative attitude requires high costs to attract customers. Perception can be everything when a client chooses a destination. Perception depends mostly on the received information, on education or previous experiences. Immateriality says the word. Therefore, credibility and information have a crucial role in the return of a client.

2. Consumer preferences in tourism

Choice of tourism products and services are not always based on rational factors, motivation is extremely diverse. Analysing consumer preferences for products and tourism services in Romania between 2008-2011 provides a view of tourists' preferences from the perspective of secondary research, of statistical data provided by the National Institute of Statistics of Romania.

Thus it presents tourists' preferences regarding tourist reception structures with tourist accommodation functions at tourist destinations, particularly regarding foreign travel as well as preferred means of transport.

Table 1. Tourists arrivals in the establishments of touristic reception with touristic accommodation functions

	2008	2009	2010	2011
Total	7125	6141	6073	7032
Hotels and motels	5523	4750	4798	5589
Hostels	125	108	104	127
Touristic chalets	107	87	74	80
Campings and houselet-type units	123	92	86	78
Touristic villas and bungalows	285	259	227	230
School and pre-school camps	98	85	66	66
Urban touristic boarding houses	478	412	407	480
Rural touristic boarding houses	358	326	290	361
Touristic halting places	12	10	9	11

Source - Romanian Statistical Yearbook 2011 pp. 614, Romanian Statistical Yearbook 2012 pp. 588

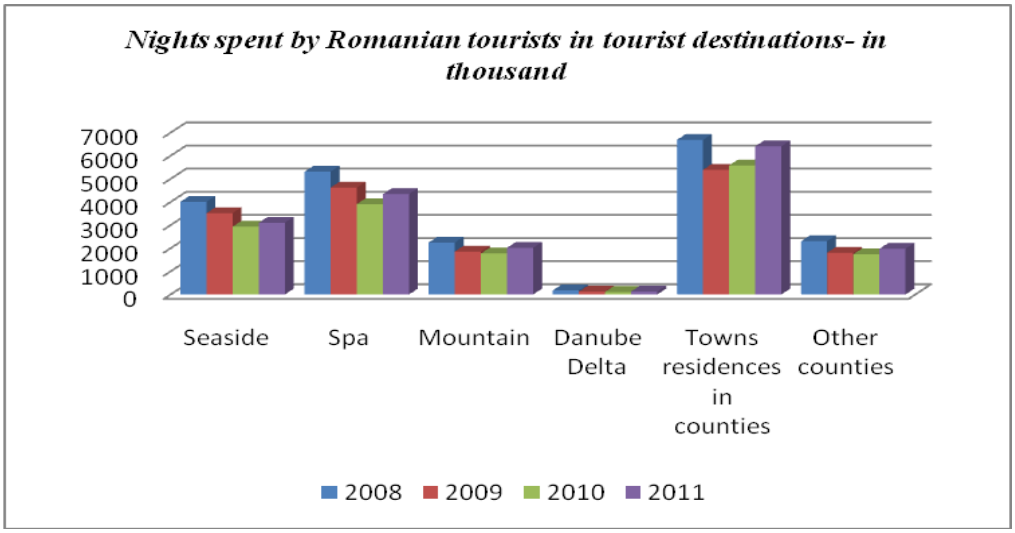
The analysis of tourists' preferences regarding tourist reception structures with tourist accommodation functions based on the number of arrivals shows that hotels and motels come first with a mean of 5165 tourists, followed by hostels with a mean of 444.25 tourists and agroturistic pensions with a mean of 333.75 tourists. The lowest average number of arriving tourists to tourist reception structures with tourists accommodation functions between 2008-2011 was recorded in tourist chalets with a mean of 10.500 tourists, followed by school and pre-school camps with a mean of 78.750 tourists.

Table 2. Romanian tourists arrivals in tourist destinations - thousand

	Seaside	Spa	Mountain	Danube Delta	Towns residences in county	Other counties	Total
2008	833	728	998	96	3363	1107	7125
2009	788	640	831	70	2884	928	6141
2010	703	568	815	68	3012	907	6073
2011	736	689	963	82	3541	1021	7032

Source- Romanian Statistical Yearbook 2009 pp. 959, Romanian Statistical Yearbook 2011 pp. 616-617, Romanian Statistical Yearbook 2012 pp. 591

Analysis of tourists' preferences regarding tourist destinations revealed that tourism in towns, residences in counties have the most significant proportion during the entire analyzed period, followed by tourism in other counties, mountain tourism and seaside tourism. It can be stated that although the country is full of mineral water, nature and actual treatment possibilities, spa tourism occupies the penultimate place before tourism in the Danube Delta, another extremely attractive area for tourists. Thus the number of tourist arrivals in towns, residences in counties represented a proportion of 47.2% in 2008 for total tourist arrivals in tourist destinations, reaching 50.35% in 2011 of the total. Furthermore, at other tourist destinations insignificant decreases were recorded, arrivals in mountain tourism recorded a slight decrease from 14% in 2008 to 13.69% in 2011. Likewise, arrivals to the seaside recorded a proportion of 11.69% in 2008 of total, while in 2011 this number reached 10.46%. The Danube Delta presented the lowest proportion, 1.35% in 2008 of total arrivals, while in 2011 this proportion was 1.20%.



Graphic 1.

Source- Romanian Statistical Yearbook 2009 pp. 959, Romanian Statistical Yearbook 2011 pp. 616-617, Romanian Statistical Yearbook 2012 pp. 591

The number of nights spent by the Romanian tourists at tourist destinations decreased between 2008 - 2010 considering all forms of tourist destinations, however this indicator showing an increase in 2011. The analysis of the total number of overnight stays at tourist destinations declined by -43.58% between 2008-2010, while it increased by 12.01% in 2011 compared to 2010. Although proportionally the Danube Delta recorded the lowest value in 2011 compared to 2010, it recorded the highest increase in the number of overnight stays namely by 19.26% and for the period

between 2008-2010 presented the largest decrease -37.35%. Between 2008-2010 this indicator presented significant decreases in seaside tourism by -26.77% and by -21.05% in mountain tourism, in other counties by -24.33%, while in 2011 compared to 2010 there were the following increases: 5.79% in seaside tourism, 11.04% in mountain tourism and 13.33% in other counties. We can state that regarding preferences for overnight stays in tourist destinations the most popular were county residences, followed by spa tourism and seaside-tourism.

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Table 3. Nights spent by Romanian tourist in tourist destinations – in %

	Seaside	Spa	Mountain	Danube Delta	Towns residences in counties	Other counties	Total
2008	19.33	25.62	10.83	0.83	32.25	11.10	100
2009	20.30	26.69	10.72	0.71	31.12	10.43	100
2010	18.27	24.35	11.04	0.72	34.78	10.84	100
2011	17.26	24.15	11.23	0.74	35.64	10.98	100

Given the average length of stay it can be stated that on the top of preferences is spa tourism which decreased from 7.3 days in 2008 to 6.3 days in 2011, followed by seaside tourism where a decline from 4.8 days in 2008 to 4.2 days in 2011 can be observed and mountain tourism with an average of 2.2 days in 2008 and 2.1 days in 2011.

It can be seen that although towns, residences in counties were the most popular among tourists regarding the number of arrivals and overnight stays, according to the average length of stay this tourist destination holds fifth place after spa tourism, seaside tourism, mountain tourism and other counties, the Danube Delta being the last on the list or preferences.

Table 4. Average length of stay – in days

	Seaside	Spa	Mountain	Danube Delta	Towns residences in counties	Other counties	Total
2008	4.8	7.3	2.2	1.8	2.0	2.1	2.9
2009	4.5	7.2	2.2	1.8	1.9	1.9	2.8
2010	4.2	6.9	2.2	1.6	1.9	1.9	2.6
2011	4.2	6.3	2.1	1.6	1.8	1.9	2.6

Source- Romanian Statistical Yearbook 2009 pp. 959, Romanian Statistical Yearbook 2011 pp. 616-617, Romanian Statistical Yearbook 2012, pp.591

The analysis of travels abroad shows that travels to America and Africa are declining. Between 2008-2010 the trips to Europe decreased by - 18.78% while there was an increase of 22.96% in 2011 compared to 2010.

Considering the preferences of tourists for travel in Europe can be stated that there were increases in Belgium, namely by 175.7% in 2009 compared to 2008, by 26.85% in 2010 compared to 2009 and by 4.44% in 2011 compared to 2010, in case of Bulgaria there was an increase of 26.41% in 2009 compared to 2008, 54.54% in 2010 compared to 2009 and 66.52% in 2011 compared to 2010. 2009 compared to 2008, by - 25.14% in 2010 compared to 2009 and a significant increase of 39.32% in 2011 compared to 2010, and for Sweden by - 33%% in 2009 compared to 2008, by - 43.90% in 2010 compared to 2009 and respectively by - 47.59% in 2011 compared to 2010. Greece there was a decrease by - 9.95% in 2009 compared to 2008, by - 33.17% in 2010 compared to 2009 and with a significant increase of 96.40% in 2011 compared to 2010.

Table 5. Travels abroad in Europa

	2008	2009	2010	2011
Total	890298	844038	723065	889132
EU	789309	725682	639596	825988
Austria	69644	76350	41542	46401
Belgium	2804	7732	9898	10338
Bulgaria	45939	58076	89751	149458
Czech Republic	6941	7266	2403	3206
Ciprus	10586		9059	3403
Denmark	2006	2574		
Filand	244		1908	
France	25095	26912	25475	24149
Germany	93142	60553	45324	63148
Greece	108806	97978	65476	128595
Ireland		461	395	
Italy	217398	148885	144996	193254
Malta			870	
The Netherlands	756	5394	5205	750
Poland		3500	426	
Portugal	3800		4844	470
Reg. Unit	8385	18073	8508	7364
Slovakia	1059	5185		
Slovenia		374		
Spain	69691	73843	77110	62192
Sweden	2339	1558	874	458
Hungary	120674	130299	105532	132032
Switzerland	1107	6812	5523	2517

Source [4]-Romanian Statistical Yearbook 2009 pp. 962, Romanian Statistical Yearbook 2011 pp. 622, Romanian Statistical Yearbook 2012 pp. 596

The analysis of the number of departures of Romanian visitors regarding type of transport shows that road travel is preferred by more than 70% of total departures, followed by a steady increase of air travel from 28% in 2008 to 25% in 2011of the total. Ship travel ranks last among the tourists' preferences presenting a low proportion of less than 1% of the total during the analyzed period.

Table 6. Travels abroad of Romanian tourists regarding means of transport – in thousand

	2008	2009	2010	2011
Total	13072	11723	10905	10936
Road travel	10381	9335	8261	7920
Railroad travel	259	214	195	216
Air travel	2404	2147	2416	2780
Ship travel	28	21	19	20

Source-Romanian Statistical Yearbook 2011 pp. 621, Romanian Statistical Yearbook 2012 pp. 595

3. Conclusions

The data analysis revealed that although between 2008 - 2010 there was a decrease according to the analysis indicators, in the last year of the period, in 2011, there were significant increases. Romanian consumers of tourism services show clear preferences for hotels and motels, hostels and pensions for agrotourism. Less preferred are tourist halting placing and chalets. Most overnights were recorded in towns, residences in counties, at the seaside and in the mountains. Based on the average length of stay of tourists' preferences were outlined for the spa, seaside and mountain area.

Regarding traveling abroad Europe is mostly preferred in a significant proportion. Within Europe the following countries: Italy, Hungary, Greece, Germany, Bulgaria, Austria obtained the highest proportion.The most preferred means of transport is road travel, followed by air travel.

This analysis provides an overview on consumer preferences regarding products and tourism services in Romania with more profound results. Being aware of the actual customer preferences it makes possible to approach clients even more, and to create offers to meet the needs of the customers. There is no efficient promotion in tourism without knowing the real and actual needs and desires of customers. For Romania the improvement of material and technical basis and the improvement of service quality is essential. Although there are different types of accommodation we can notice that preferences have a clear direction. It requires more pronounced segmentation of tourism and implementation of policies and strategies appropriate for each market segment. Romania is a country very rich in landscapes, natural potentials which allow the development of different forms of tourism. Tourism can provide substantial revenue, can create jobs throughout the year by permanently balancing supply and demand

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An Empirical Study of Consumer Behavior in the Cuban Mobile Phone Market

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Abstract

The adoption of mobile phones in most countries has been exceptionally rapid over the last three decades. In response to this new wave in technology, Cuban government under Raul Castro has made it clear that he will be reducing the size of Cuban state expenditure in favor of private participation in the economy, the genuine liberalization of Cuba's telecom sector is expected to be hampered quickly over the coming years. This exploratory study therefore attempts to examine consumer behavior in new mobile phone markets. The study surveyed 315 Cuban consumers to identify their motives for purchasing new mobile phones on one hand, and factors affecting operator choice on the other. The results indicate that price and properties were the most influential factors affecting the purchase of a new mobile phone whereas price, availability and friends' operator were regarded as the most important in the choice of the mobile phone operator.

Key words: consumer behavior, mobile phone, market.
Classification J.E.L.: G14, L17, M31

1. Introduction

The deregulation of the telecommunication industry in 2008 was a revolution in Cuba that created the need for new mobile services. This is because the monopoly hitherto enjoyed by the Cuban Telecommunication (ETECSA) did not pay off as consumers could not enjoy quality services. Current cell phone use in Cuba may be more promising but you should be very cautious about renting cell phones in Cuba. Also, recently the Cuban government bought out the ETECSA cellular service provider but it is a mystery as to why since the Cuban government can't even run sugar mills so we are not sure why they think they can run the mobile phone system in Cuba. Further challenging this situation is the global need for new mobile services (Bradner, 2002; Wag Staff, 2002).

Besides, the current state of affairs in the mobile phone industry indicates a shift from second-generation mobile phones to third generation. This means that a mobile phone is not only a device used for speaking but also a handset that allows consumers a variety of new services such as Internet access. This services in Cuba is controlled by the government, which decides who can plug in. Only about 450,000 Cubans, or 4% of the population, go online, according to official statistics. The cost also is prohibitive for most Cubans - $6 for 30 minutes of Internet access in a country where the average person makes about $20 a month. However, the number of cell phone users passed more than a million last year and is growing fast. Like Internet access, the cost of sending mobile messages remains high - about $1 for text messages sent internationally and $2.30 for short videos or pictures. Several foreign companies have partnered with Cubacel, Cuba's state-owned mobile phone monopoly, to allow minutes to be added from abroad to Cuban cell phone accounts.

The Cuban perspective is that handsets are merely used as connectors to the internet, and the actual surfing is done via laptop or other PC, thereby allowing users to use sharper screens. In other words, the best

feature of the new mobile phones is the ability to connect to the net free from time and place constraints; thereby permitting consumers to have easy and relatively cheap access to the net via computers. The question then is can't this situation be avoided or controlled? The answer is fairly simple but economically important. Consumption is a fundamental part of every economic and social system and changes in consumer behavior have varying implications for the whole society. Also, consumption is in part culturally determined and thus can be held up as a mirror of society. It is therefore imperative that consumers be analyzed to be able to serve them better.

In trying to understand consumer behavior, motive which is one of the basic determinants of consumer behavior, becomes imperative. The motives that affect consumer behavior and give direction to the purchase and use of mobile phone services, including the perceived value-added services are grossly under researched especially in Cuba where the need to collect general information about the users of mobile phone services has become particularly urgent in order to guide industry operations and policy makers.

In the light of the above, this study attempts to first describe the trends in the information and telecommunication (ICT) sector to illuminate the issues underlying consumer behavior. This, of course, is predicated on theoretical framework that articulates recent studies concerning factors that seem to affect the choice of a mobile phone and operator by consumers, as well as intention to adopt new mobile phone features and services like Multimedia Message Service (MMS) and sending e-mails. Finally, the paper reports the survey finding along with their managerial and theoretical implications.

2. Literature review

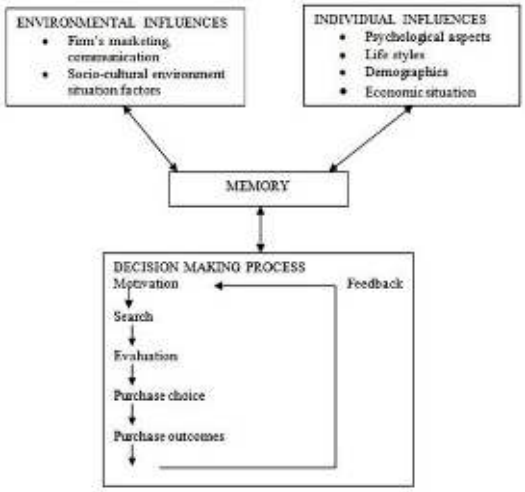
Many theories, models and concepts have been borrowed from other fields as well as developed by marketing researchers in attempt to understand consumer behavior. In many cases, these ideas overlap and even compete with each other as useful description of consumers. To date, no one approach is fully accepted, nor is it likely that a single grand theory of consumer behavior can be devised, that all researchers would agree on.

However, Chisnall (1995 cited by Lancaster and Massingham 2001) states that buyer behavior models have two basic functions:

- Firstly, they describe in simplified form, the parameters or characteristics affecting the purchase of certain types of goods and services.
- Secondly, they allow predictions to be made of the likely outcomes of specific marketing strategies.

Consumer behavior is complex. In order to investigate it in detail it is advantageous to break down the purchase process into a model. The Figure 1 below shows a simplified model of consumer buying behavior.

Figure 1. Simplified model of consumer buying behaviour



Source: Lancaster. G. and Massingham L. (2001) Marketing Management

The model above is explained as follows:

Marketing communications from companies are always around us. Some of these are retained in memory and we have an image of companies and the goods and services they provide. This may lead to a motivation to purchase the service or to be aware of it for future use.

Culture: Culture is the broadest environmental factors and is defined by Assael (1996) as "Norms, beliefs and customs that are learned from society and lead to common patterns of behavior".

Social class: This is the grouping together of individuals or families who have certain common social or economic characteristics. Members of the same social class are often felt to exhibit similar patterns of behavior and hence similar views and interest.

Situational factors: These also determine a purchase and may be a major aspect in purchase behavior. The consumption situation will directly influence consumer brand perceptions and purchase behavior i.e. where precisely service is going to be consumed.

A further aspect of consumer decision making is the process involved in purchase and this is divided into five stages.

The first stage is when an individual feels a need that a service will satisfy and is motivated to evaluate the services on offer. People have many varying needs, if a need is intense, then they become motivated to purchase the service that will satisfy it.

This search for alternatives constitutes the second stage of the decision making process and it may be external or internal. External search involves physically looking for alternatives while internal search involves searching the memory for what a person knows about a product/service and suppliers or providers. When consumers have enough information they will evaluate the alternatives in the market place. This is the third stage of the decision making process. The criteria on which products/ services are evaluated vary depending on how many brands are available.

When products or brands have been evaluated, one product/service is then selected for purchase. This is the fourth stage of the decision making process. However, purchase intention can be affected by unforeseen factors like price, influences of other people etc. these may lead to no purchase at all.

Finally, purchase outcomes will either be satisfaction or dissatisfaction with the purchase choice.

In another recent study by Liu (2002) on the factor affecting the brand decision in the mobile phone industry in Asia; it was revealed that the choice of a cellular phone is characterized by two distinct attitudes to brands: attitude towards the mobile phone brand on one hand and attitude toward the network on the other. While price and regularity of service were found to dominate choices between network providers, choices between mobile phone brands were affected by new technology features such as memory capacity and SMS-options, more than size. The trend will actually be not towards small phones but towards phone with better capability and larger screens.

In a recently research and markets study (2011) reveals that Cuba still has the lowest mobile phone penetration in Latin America, one of the lowest levels of Internet penetration, and is among the five lowest in terms of fixed-line teledensity. Cuba's fixed-line services remain a monopoly in the hands of government-controlled Empresa de Telecomunicaciones de Cuba SA (ETECSA), while mobile services are provided exclusively by Cubacel, a subsidiary of Etecsa.

There remains substantial state control over the right to own and use certain communications services, including the right to access the Internet. In the same time, in case of Cuba, most analysts of marketing would agree that the consumer decision-making process is an extremely complex phenomenon. Even for the purchase of a single commodity, a multitude of differently weighted factors affect each decision. This complexity is increased as individual purchase decisions are aggregated because the factors and their relative weights vary among persons faced with the same purchase decision. Given this abundance of relevant variables, it would be useful if a method could be developed that would identify in advance which variable or group of variables would be most useful in a given situation.

One way of grouping these important factors into relevant categories is to conceive of the decision process as affected by four kinds of factors or variables: (1) personal system variables (e.g. conscious and unconscious needs), (2) social system variables (e.g. membership and reference groups), (3) exogenous variables (e.g. relative price and purchase convenience), and (4) risk reducing variables (e.g. trusted stores and brands). Categorizing the multiplicity of possible variables into four groups makes them more manageable in analyzing their role in a given situation.

Studying the consumer-decision process in further simplified if the relative influence

of each variable system is regarded as a function of the person's perception of the choice situation. Three perceptions particularly may act as filters to determine the group of variables with the greatest weight: (a) the perceived performance risk of the decision-to what extent does the person think different brands perform differently in ways that are important, (b) specific self-confidence – how certain is the person that the chosen brand will perform as he expects, the person think that other people judge him by his brand decision.

Limiting the perceptual filters to three is, of course, an oversimplification. For example, reaction to high perceived risk probably depends on the risk perceived.

With the development of modern telecommunication system, three distinct views of business communications have emerged.

A second view emphasizes the use of telecommunications to enhance normal business processes. Connecting with customers and suppliers and coordinating activities at remote sites were forerunners of today's full range of today's telecommunications to argument normal business processes.

Finally, telecommunication is fully integrated into society and may be seen as an essential service or utility. Telecommunications systems are vital national resources subject to regulations intended to protect the public interest. The nature and effect of regulation are subjects of ongoing debates, an open question include the nature of the public interests protected, the need for regulation, the desirability of different forms of regulations, and the effect of regulations on the development of new services.

3. Research methods

The data for the study were collected by means of questionnaire within selected group included the persons in the North-West region of Cuba. Their age varied between 20 and 30 years. The data consisted of 315 copies of questionnaire, of which 128 were from Female and 187 from Male. Almost all (about 99.3%) of the respondents had at least one mobile phone in use at the time of the survey, which reflects the actual situation among the population in the North-West region of Cuba.

Questions inquiring the acquisition of a mobile phone and choice of operator were implemented with statements, which respondents had to rate in their order of importance on five-point Likert Scale. The development of the scales was based on two sources: First was the existing statement found in the literature. The second base was our knowledge obtained as the outcome of two focus group interviews conducted among 21 youths. In the first focus group the theme was mobile phone acquisition, and in the second group the theme was operator choice. Youth consumer purchasing motives concerning the choice of a mobile phone as well as operator are not well known in theory, i.e. no commonly accepted knowledge of the factor influencing youth consumers' decision making exists. Thus, the results obtained have some limited applications since they are considered interim.

4. Discussion of results

The trend that mobile phones are purchased earlier was verified with the data. A confirmatory factor analysis (table 1) of the statements suggests that three factors (see e.g. Sharma, 1996; Hair et al, 1995, for more detailed presentation of factor analysis method) were chosen in terms of Eigen value of larger than 1.0. The Bartlett's test of sphericity was highly significant indicating high correlation between the variables. The second factor analysis presented in this paper satisfied the above mentioned tests also. The identified factors represent 54 percent of the variance of the variables. The first factor can be called manufacturer as the highest loadings relate to three variables pertaining to properties, image, and new services. The second factor exhibits largely loading for four variables relating to market conditions. Price and availability had the highest loadings for the second factor. The third factor is defined by two items relating to other people's influence. Thus, it can be called influential persons. Influence of the manufacturer explained most of the total variance (23%).

Table 1. Confirmatory factor analysis on mobile phone choice

Motive	Manufacturer	Telemarket conditions	Influential persons
Image	•83		
Services	•81		
Properties	•80		
Price		•74	
Audibility		•67	
Type		•69	
Free calls		•57	
Salesman			•76
Family			•65
Employer			•59
Friends			•49

Source: own calculation

Motive	Features & brand	Quality	Component in pricing	Influential persons
Image	•82			
Services	•78			
Properties	•73			
Friends	•54			
Price		•85		
Audibility		•83		
Type		•54		
Family			•83	
Free calls			•62	
Employer				•84
Salesman				•72

Source: own calculation

Regarding of the factor affecting the choice of an operator, the choice of the operator was affected primarily by price and audibility: around 85 percent felt that the price the operator charges had affected their choice at least relatively much. In addition, audibility was the second most important motive: 86 percent felt that audibility had affected their decision at least relatively much. Other motives of significance were properties, friends' choice of the operator, contract type and free calls. Salesman and employer were the least important affecting the choice of one's operator.

A confirmatory factor analysis (table 2) of the eleven statements was carried out. Four factors explaining 64 percent of the variance of the variable were identified. The factors can be labelled as:

1. Features and brand
2. Quality of the operator
3. Component in pricing
4. Influential persons

The first factor has the highest loadings for four variables pertaining to operator's features and brand. The second factor (quality) has the highest loading for three variables relating to price, audibility and type (supply of different contract types). The factor three can be called components in pricing, because two of the highest loadings for this factor refer to free calls and family's operator type. The final factor refers to employers or salesman's influence and can thus be labelled as influential persons. The influence of the first factor (feature and brand) is the highest explaining 25 percent of the variability.

Table 1. Confirmatory factor analysis on operator choice factors

Respondents were asked to mention the services they are presently using and to indicate if they intended to use the services in the future. Most popular services used nowadays are logos and ringing tones. Over 72 percent of the respondents had order logos and tones for their mobile devices. These two were followed by phone bill inquiry (63% had ordered) and call forwarding (56% had used). Only five percent of all respondents had never used any of these fours. According to the data, the use of mobile phone services seems to remain at the same level during the next 12 months.

Additionally, approximately two thirds of each group considered that poor usability had had only a little effect on their use of the services. Other factors affecting the adoption of mobile services such as small screen size, slow data transfer and poor functionality had relatively low impact on the possible adoption.

Conclusions

This study was conducted to analyze consumer decision-making process in particular, and to increase our current understanding of the mobile phone market in general. In addition, the study was an attempt to cast more light on the much-unexamined area of mobile phone purchase, operator choice, and use of mobile phone services. The main result of the study indicates the following:

First of all, the age of purchasing a mobile phone among young Cubans has lowered in just a few years 18-19 to 14-15.

Secondly, the factors underlying the purchase of a mobile phone were found to be manufacturer, market conditions and influential persons. For the choice of operator, the factors were found to be

features and brand components of pricing, quality, and influential persons.

Thirdly, only about 17 percent of the respondents felt that their use of mobile services would increase in the next 12 months. Two critical challenges are urgent here:

First, service marketers can (and must) distinguish conceptually between the production and distribution of services. The problem of making services more efficiently and widely available must not be ignored in favour of other elements of the marketing mix that are easier to deal with. The problem of overdependence on one or two elements of the marketing mix is one that service marketers cannot afford. The sum total of the marketing mix elements represents the total impact of the firm's marketing strategy.

Fourthly, this discussion points out the critical role of product development in the distribution of services. It indicates that making services available is often a product development as well as a distribution problem. However, the findings contribute to the existing albeit scarce literature on consumer behaviour in mobile phone markets.

At present, the operator market in Cuba is one of the most aggressively competed markets, and the competition is driven by price discounts. Although price was found as an important variable affecting youth consumer choice, audibility was practically calling for equal attention.

We hope that, while technology in the 21st century is playing a key role in modernizing economies everywhere, Cuba's short-term gains no remain woefully insignificant.

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Managerial Strategies for Enhancing Universities-Business Environment Partnership

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Abstract

The issue concerning the collaboration between the academic environment and the business environment presents a larger interest at European level. The approach of the superior education institutions to representatives of labour market, becomes a solution for the superior education institutions, as they function in the society and knowledge economy – opened to a great number of students waiting to be offered the opportunity of a harmonious integration on the labour market after graduation – to accomplish goals related to students' professional training, to the accommodation and knowledge implementation in real economy, to the accomplishment of an economic-financial performance that could provide them their survival in the competitive economy. This work, starting from the interests of both parties regarding partnerships, identifies and materializes a series of management activity courses in this field, fact that allows the scientific approach of the collaboration university – labour market representatives.

Keywords: higher education, business environment, partnership.
J.E.L. Classification: I 23

1. Introduction

„Universities represent the source of energy of the generation based on knowledge…… They have to adapt to the requirements of the global economy, based on knowledge, as well as in other areas of the society and economy" said Janez Potočnik – European official. Thus, in the context in which it is well known the fact that the dimension and the quality of human resources constitute the main motives for both acknowledgement and their dissemination, long-term success of the new society depends crushingly on the university education system. However, to play this role in the current economic-social context, the superior education institutions must adapt to various challenges, among which we enumerate the ones of interest regarding the current study:

- The necessity of educational services to adapt to the dynamics and fluctuations on the labour market determining variations, sometimes surprising, in the structure of competences searched by employers, in which concerns types of qualifications, in the nature of necessary knowledge;
- The capacity to answer to changing needs on the labour market through the training of people who return or come to the university to update and upgrade their knowledge or to learn new notions that allow them to keep their jobs or to find a new job;
- Acceptance as a fundamental objective belonging to the activity of superior education institutions the training of graduates easily employable and useful on the labour market.
- Superior education institutions are mainly responsible for offering viable research products and in accordance with the

competitiveness level reached by the labour market;

- Organizational and judicial restructure so that this permits universities to sign and deploy multiple partnership types with entities from outside the academic environment;
- Increase need of cooperation between universities but also among them and external representatives of the academic environment (employers, different types of NGO, representatives of the local, regional, national community, etc.)

Therefore, society and academic environment, as they exist at present time, need a better collaboration and a mutual flux of ideas to provide the context in which the individual companies to perform and nationally competitiveness could be talked about. [1]; [2]. Now it cannot be accepted that universities, withdrawn in an ivory tower and acting outside some forms of collaboration with the business environment, analyze from distance different social contexts towards which they have direct responsibilities. But, trying to make such a partnership work, is not easy, prove to be the various controversy and attempts, sometimes failed, that appear internationally. At the same time, there are also examples of good, successful practices along partnerships, from which, in this study, we will present a part, in order to formulate the most relevant propositions for the Romanian academic space.

2. Examples of good practices regarding operational partnerships between academic environment and business environment

Synthesizing the data offered by specialty literature, we present a series of examples of successful partnerships between academic environment and business environment.

Partnership: Siemens – University of Lincoln
Collaboration forms: Partnership in C&D area
Business environment advantages: The growth of the turnover by six times of the Siemens Company toward the one mentioned in the initial business plan.
University – Advantages: Involvement in organizing the internships, in the performance of consultancy projects, in employing graduates, of the Siemens Company; The requirements regarding the technological abilities necessary to a future employer at Siemens are integrated in the study programs in the engineering area; Establishment of a master in partnership.

Partnership: BAE Systems –University of Bristol
Collaboration forms: Partnership for educational and research activities
Business environment advantages: Carrying on fundamental research and application activities by all university researchers for the purpose of BAE Systems**;** Attraction of employees that know and are adapted to expectations of BAE Systems Company.
University – Advantages: Experience exchange between the staffs of the two organizations; Organization of internships; Employment of university graduates.

KPMG – ICAEW/ICAS - University of Birmingham, Exter şi Durham
Collaboration forms: Partnership in the improvement of labour force abilities
Business environment advantages: Identification and drawing the top future specialists.
University – Advantages: Graduates obtain an university qualification diploma ICAEW/ICAS in the accountancy area and relevant work experience at KPMG
Study fees and accommodation are supported by KPMG and also graduates are hired with a 20,000 £annually.

Concerning Romania, discussions held with representatives of the academic environment and with representatives of the business environment, as well as data made public, allow us to appreciate that the partnership university – labor market is not relevantly represented. More, if from companies there is a certain opening, sound propositions, strategic fundaments from universities do not establish. Also, within Romanian superior education institutions, there are no departments with precise tasks in promoting and consolidation of partnerships, tasks in this direction being unclearly assigned, not being paid in addition or

strategically integrated. A cause that determines this situation is the unprofessional approach from the management perspective, of the issue related to the collaboration between academic environment – business environment, approach that would allow the identification of steps and substantive actions to intensify collaboration.

Within present work, part of a complex study regarding collaboration between university and labor market, we present an analysis matrix of interests of universities/ business environment as well correspondences between them, matrix that can be used to establish directions of action for successful partnerships.

3.Management approach of academic environment – business environment partnerships

To elaborate a behavioral pattern and a management strategy of partnership process, on the one hand, obstacles must be known and on the other hand, factors that provide the success of a partnership. Specialty literature identifies factors that can support academic environment – business environment partnerships progression.

- **Equality**
- **Trust between partners**
- **Mutual interests**.

We appreciate that the first step in initiating a successful partnership is *identification of common interest* or *of congruous interests* and, on this basis the result, according to the specificity and resources of the university. An analysis of interests of the two categories of organizations that expresses the object of this study would be appropriate.

Interests motivating superior education institutions in creating the partnership (UI)

UI1. Graduates on the verge of employment

Present society creates a labour force market constantly expanding and changing and universities are requested to deliver competent specialists. A study carried on in 2007 on 377 students from state and private universities from Constanta and Bucharest [3] reveals the next results referring to the problem of integration on the labour market, after graduation: Students choose to pursue a faculty, according to their possible chances as future graduates, on the labour market; The majority of future graduates wish to work in the private environment, either owning their business (30%), or having a job in a private institution (29%). This attracts once again the attention on the importance that universities should pay, not only to professional training but also to students' mentality making so that these easily integrate according to conditions imposed by competitive economy; There isn't too much students' confidence regarding their chances to find a job according to their university training in the first year after faculty graduation;

UI2. Activity of relevant research

The research activity is the way to a good image on the market, to attract, on this basis, students, and, at the same time, the only way to attract financial resources from the private environment, that superior education institutions have.

UI3. Diversification of financing sources

In conditions of manifested competitiveness on the tertiary educational services market and, with reduction of budgetary financing of universities or even the lack of it, **the problem of identifying new funds sources for universities,** other than those coming from basic activity (study taxes, research activities etc.) is vital.

Interests that motivates the business environment in partnership founding

BI1. Human resources that participate in the increase of organization performance

It is widely accepted the fact that human resources well trained are essential in explaining companies performance, people being those having the capacity to strengthen to a certain extent the effect of using the other resources. There are numerous studies in the field that support the significance of human resources as a strategic element in modern management and the fact that, more and more, the competitiveness does not focus

anymore on products but on human resources. These convictions are sustained by the founder president of Microsoft Company, Bill Gate's declaration in 1992: "*If 20 of the best people I work with leave me, in couple of months you will not hear any more about Microsoft".*

BI2. Enhancing efficiency through innovative activities

Studies conducted until today confirms the fact that the innovation is an important source of competitive advantage, technological change and economic growth and the private environment feels directly this aspect, in the competitive fight. This is supported also by the fact that in Romania, although investment in the research activity is at a very low level (according to Eurostat statistics in 2010 -2.33% from the investment total sum at the European Union level), the greatest share, namely 38% is represented by the investment made in the business environment.

BI3. Diversification of financial resources

The management of each organization working in the market economy is interested in finding new fund sources and the collaboration with the academic environment may be a solution. Thus, establishing the involvement of the business environment in the collaboration with the academic environment can also be made through financial motivation of companies.

Viewing, both academic environment interests and also business environment interests, more types of correspondences can be represented at the level of these interests, which are the bases of the foundation of academic environment – business environment partnerships.

4. Compatibility between the Interests of the Academic Environment and the Interests of the Business Environment

University environment Interests (UI):
UI1. Graduates to be employed

- **Business environment Interests**

(BI1): Human resources to participate in organization performance
Activities in partnership: Organization of jointly internships, of any type of activity that suppose combining theoretical and practical activities; Employers' involvement in graduates recruitment; Employers' involvement in counseling and professional orientation activities; Employers' involvement in the process of conceiving and carrying on study programs.
(BI2). Activity efficiency through innovative activities
Activities in partnership: Students involvement in research activities whose products are destined to companies' activity efficiency;
(BI3). Diversification of finance sources
Activities in partnership: Employers' involvement in all activities that suppose the raise of employment degree, including in counseling and application organs of the university and their payment.

UI2.Relevant research activity

- **Business environment Interests**

(BI1): Human resources to participate in organization performance
Activities in partnership: Involvement of human resources within the company in the research project addressed to companies, fact that contributes both to their awareness and to the intensification of the access to the newest knowledge in the field.
(BI2). Activity efficiency through innovative activities
Activities in partnership: Carrying on research and counseling activities for the benefit of partner companies by the representatives of the academic environment, aiming companies' activity efficiency.
(BI3). Diversification of finance sources
Activities in partnership: Involvement of business environment representatives, in collaboration with the academic environment in the progress of some research activities with results addressed to third parties or in activities of fundamental research and payment of this involvement.

UI3.Diversification of financing sources

- **Business environment Interests**

(BI1): Human resources to participate in organization performance

Activities in partnership: Organization of improvement/specialty classes for the human resources within partner companies and/or for existent human resources on the labour market; Organization of counseling and professional orientation activities addressed to human resources within partner companies and/or to existent human resources on the labour market.

BI2). Activity efficiency through innovative activities

Activities in partnership: Offer counseling services for the business environment; Elaboration of a portfolio of research products that the university can provide to the business environment against payment;

(BI3). Diversification of finance sources

Activities in partnership: Carrying on shared research, counseling and professional orientation activities, classes organization addressed to a third party willing to support them financially; Sponsoring activities from business environment for the university environment, for which the benefits of the business environment can be measured in monetary units (promotion, tax and fees exemptions). [4]

As it is emphasized, collaboration forms between academic environment and business environment are numerous, some of them could be defined as passive (those where the business environment "buys" products/services offered by the university), others going beyond a commercial relationship, based on a mutual collaboration and involvement of each of the partners for the optimal satisfaction of everyone's interest. This last type of collaboration represents, in fact, the real business environment – academic environment partnership, the one that is interesting for ensuring a sustainable social-economic development. Starting from the collaboration forms mentioned above, we appreciate that these can be grouped in the following categories:

Forms of academic environment – business environment collaboration:

1.Collaboration for integrating the students/the graduates into real work activities;

2.Collaboration for mutual development of study programs;

3.Collaboration for developing counseling and professional orientation activities

4. Collaboration for developing research programs;

5.Involvement of business environment representatives into managerial, consultative bodies at the level of higher education institutions;

7.Collaboration for offering improvement/specialization classes for the employees;

8.Collaboration between university and professional associations.

Conclusions

The labour market in Romania is characterized by the lack of human resources competiveness, by the existence of graduation diplomas of higher education which, beyond the formal certification do not offer the confidence that their possessors own a set of knowledge and specific skills, by the students' lack of confidence that the study system is capable of preparing them for what is asked on the labour market, by the lack of some systems of promoting the human and professional values.

In order to overcome these inconveniences, the universities have to "reinvent" themselves, to define their role in the new society and, at institutional level, to conceive and to function within some organizational models that allows them to rise on the tertiary education services market, to clearly formulate their mission and their strategic objectives and to act accordingly in order to achieve them.

It is obvious that a perfect model of university for the society of knowledge does not exist, but the necessity of flexible organizational approaches that encourages the interdisciplinary, the partnerships, the

collaborations and rationality specific to market economy, for the universities' functioning is outlined. It is highlighted, in this context, an obvious challenge to which the universities have to answer, namely *the improvement of university management system* for the purpose of improving teaching and research performance.

In the present paper, this problem was approached from the perspective of assuring the favorable framework that sustains the collaboration and the academic environment – business environment partnership for a suitability of educational services to students' current requirements and to work market expectations.

As resulted from specialty literature study, but also from the implementation of project activities, the business environment requires a series of difficulties in assuring a convenient functioning of the collaboration with the university, and at their turn the representatives of academic environment encounter a series of problems in trying to initiate collaborations with the business environment.

In front of these records, we considered useful to identify the motivator factors, both for the business environment, and for the academic environment, fact that could determine the action for the purpose of overcoming the described difficulties. In other words, we raised the issue of interests that each of the concerned parts would have in order to get involved in a partnership relationship. As a result, at the level of academic environment the following have been identified: the growth of graduates' employability level; relevant research activity development; financing sources diversification. In what concerns the business environment, the identified interests are: human resources hiring that participate to the growth of the organisation's performance; activity's efficiency through innovative activities; financing sources diversification.

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The Role of Support Systems in Intelligent Decision Making

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Abstract

In the context of a changing business environment, an organization must adopte appropriate and timely decisions based on the information available in order to obtain or enhance competitive advantage. The necessity of optimal decision making by overcoming limitations of data collection, analysis and interpretation of information led to widespread proliferation of decision support systems (DSS) in the practice of organization management. This paper aims to highlight the need and role of support systems used for the "intelligent" decisions making (decision support systems, expert systems or fuzzy rule-based systems) as a solution to an efficient decision-making process.

Key words: decision support system, expert system, fuzzy rule-based systems, intelligent decision making
J.E.L. classification: C60, D70, D80, M15

1. Introduction

The necessity of optimal decision-making by overcoming limitations of data collection, analysis and interpretation of information led to widespread proliferation of decision support systems (DSS) in the practice of organization management.

Widespread introduction of computing systems in the industrial, commercial, banking or other type units, the development of information and communication technologies, the increasing complexity of technical processes and economic uncertainty that dominates these processes, required new approaches in decision making. Management information systems and traditional methods of scientific management, whether in decision theory, operations research, statistics, simulation, cybernetics, systems theory are ineffective in decision making especially in those systems characterized by unstructured or semi-structured problems. The limitations imposed by the disadvantages of using classical methods and by the fact that, at the level of the organizational environment, decision-making should have increased flexibility, have led to the necessity of the use of information technologies in order to eliminate errors due to human factor and to automate decision-making for programmable decisions or to assist decision makers for the both. The development of such software applications involves the collection and processing in real time of a large volume of data and information, the use of economic-mathematical models for complex analysis and interpretation, as well as establishing correlations between the variables analysed in decisional situation in order to sustain decision-maker for pertinent analysis.

This paper aims to highlight the need and role of support systems used for the "intelligent" decision making (decision support systems, expert systems or fuzzy rule-based systems) as a solution to an efficient decision-making process.

2. Theoretical framework

Although in the literature there are many approaches to the decision support system (DSS) concept, most of them reveal the main role of using DSS: increasing understanding degree and preparation of the decision by the involvement of decision- maker factors in all phases of the decision problems, from formulation to solve and interpretation of them.

According [1] DSS is „a model based on a set of procedures for processing data and for assisting the manager in decision making process. A DSS should be simple, robust, easy to maintain and monitor, adaptable to certain situations, complete, with a friendly interface".

DSS is defined as "an extensible system capable of supporting immediate analysis and decision modeling, oriented towards future planning and used at unplanned and irregular intervals"[2] or as a system that has the following properties: active interaction with the user, acts on a present and future time horizon, ensures greater efficiency in decision making, provide flexibility in defining objectives, addresses decision factors from different hierarchical levels of the system [3]. DSS is "a system of three interacting components: User Interface (Dialog Management), data management , management component models [4]. DSS is "an interactive system that helps the decision maker to use data and models to solve unstructured problems" [5] and presents five specific characteristics [6]: contains a knowledge base that describes the environmental aspects of the decision maker (eg how to do various activities of decision-making), has the ability to acquire and manage descriptive knowledge and other type of knowledge (procedures, rules), to produce immediate knowledge as periodic reports, to select a subset of knowledge to be viewed or to derive to other knowledge needed to the decision making process and also can interact directly with decision makers enabling the flexibility to choose solutions.

Other authors [7] define DSS as "a cybernetic system, adaptive and interactive able to assist decision makers from different levels of the system in solving complex problems, improve the quality of decision making process by modeling data to respond in time to the requirements addressed by decision makers. DSS uses the latest techniques of data management, diversified models of their processing, relying on modern computing and communication tools".

In some cases, management issues are too complex for a rigorous mathematical modeling or would be too costly solving them using only the optimization and simulation techniques. To overcome these difficulties there are used alternative solutions based on artificial intelligence which are reflected in the elaboration and use of knowledge-based systems that imitate the reasoning process of the human intellect.

Expert system is "an intelligent computer program that uses knowledge and inference procedures to solve problems sufficiently difficult as to require human expertise to be solved"[8].

"Although expert systems have proved success in solving problems that can not be resolved with conventional numerical methods, their role remains limited to support functions and the believe that verification by human factor of the solutions generated by artificial intelligence would become unnecessary is a very dangerous mistake"[9]. Despite the differences between these concepts, explained in terms of different visions, the border between the two concepts still remains vague.

3. Categories of support systems for intelligent decision making

3.1. Structure and functionality of decision support systems (DSS)

Based on specialized literature approaches, it can be considered that an DSS is composed of the following subsystems:

1. Data Subsystem includes databases containing information specific to the situation and are managed by database management system .
2. Models Subsystem is a software package that includes financial, statistical and other quantitative models. A key feature of this system is that it contains language that allows the construction of new models being called MBMS (Model Base Management System).
3. Knowledge base subsystem can support any of the other subsystems or can operate independently.
4. User Interface Subsystem in which the user communicates with DSS.
5. Communication Subsystem with other computer systems including Internet, Intranet.

User is considered as a part of the system and DSS enables a strong interaction between it and the computer. Data Subsystem of a DSS includes the database management system

and the query system.
DSS database is a collection of interrelated data organized to perform the organization's requirements to access and multiple uses and timely.

Data Subsystem includes external data about market surveys, government regulations, tax systems, data on the national economy. These data may come from the government, trade associations, market research firms, but also from the economic system's own efforts to collect data. Internal and external data can be stored in the DSS database or can be introduced when they are needed. External data are often obtained through the Internet. Confidential data may include directives used by the decision making factors.
External data are organized in standard, relational, objectual, multidimensional database, depending on the complexity of its applications. Databases can be general or specific application oriented.
Database management system creates and maintains database and allows access to data, linking tables and generates reports. The database integration with the models is the essence of DSS.
Models subsystem consists of: the models database, database model management system, modeling language, director of models, tools for execution, integration and processing of order models.
The models database contains statistical, financial, management and forecasting tools as well as various quantitative models used for analysis. Models from the database can be divided into four categories:
a) strategic models are used to support top management decisions. It can be used to develop objectives that must be achieved by the organization, planning major acquisitions, the choice of the location of the enterprise, environmental impact analysis, development of special budgets.
b) tactical models are mainly used for intermediate levels of management to streamline the organization's resources (recruitment patterns, sales promotion, current development budgets) and extend over a time horizon of 1-2 years.
c) operational models are used to support the daily activities of the organization (production scheduling, inventory, quality control, maintenance of equipment) and stretch a very short time period (days, months) and mainly use internal data.
d) analytical models are used to analyze data (statistical models, scientific models, management models).
Because DSS work with semi-structured and unstructured problems is often necessary to adapt the models. This can be achieved by high level programming languages or by specific modeling languages.
Database management system model generates subroutines functions and reports, creates new models, up-gradation and modification of existing models, data handling models, allow interaction between the models through a database.
Director of models is a catalog of models characteristics and other programs included in the models database. It contains the definition of the models and its main function is to provide answers to questions about capacity models.
Knowledge base subsystem is used in solving of unstructured and semi-structured problems requiring expert systems or other intelligent systems. Advanced DSS contain a component of the knowledge database that provides the information needed to solve certain aspects of the problem and can improve the operation of other components. Knowledge database is composed of one or more intelligent systems. A DSS which also includes a knowledge base is called intelligent DSS, expert system or knowledge-based DSS.

3.2. The role of expert systems to support decisions based on artificial intelligence

Knowledge-based systems offer solutions to complex decision problems, creates advanced organizational learning situations for decision makers, contribute to increasing professionalization of management.

Within these categories of knowledge-based systems, a central place is occupied by expert systems (fig. 1).

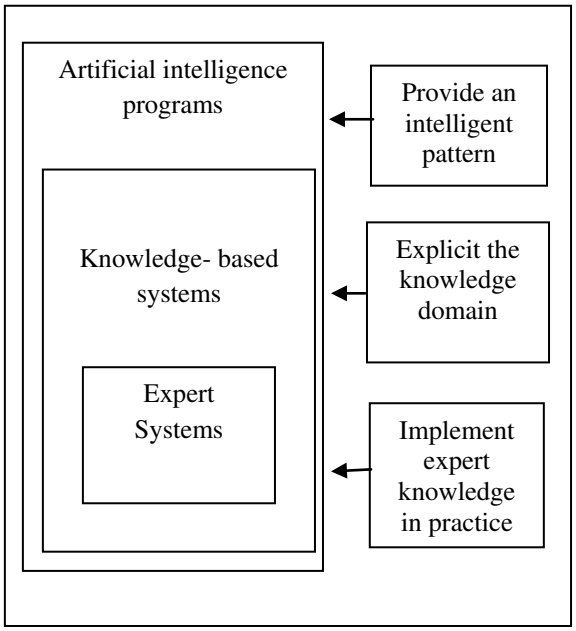


Fig. 1 The place and role of expert systems within knowledge based systems
Source: [10]

Expert systems (Fig. 2) allow decision makers guidance in choosing the appropriate model of the system situation which is imprecisely defined, offer solutions and build new models based on existing ones adapted to the situation described.

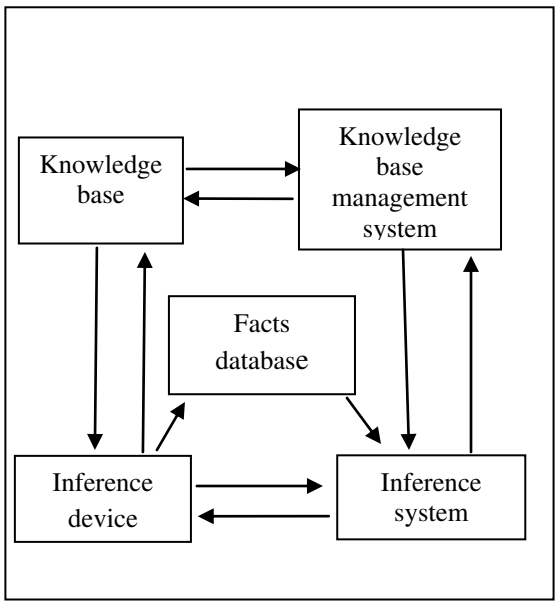


Fig. 2 Structure of an expert system
Source: [7]

Knowledge base of expert system contains rules and data that use information as a basis for decision-making process. Inference device includes an interpreter to decide how to apply the rules and a plan setting out the order in which these rules are applied. How the system uses knowledge is particularly important because the expert system must have a lot of knowledge about the the respective domain.
To solve an intelligent program it is necessary to provide it specific high-quality information in conjunction with the field. The use of artificial expertise increases the possibilities offered by human reasoning through its permanent character. Human expertise can quickly depreciate, whether it is a physical or mental activity. Human expert must constantly practice and refine continuously to maintain top positions in any field and any significant period of non-use of knowledge can seriously affect expert's knowledge. In case of artificial expertise, once the information is acquired is always available to the user, excluding accidental damage of information.
As a result of the influence of factors such as emotional one, a human expert can adopt different decisions in identical situations, while an expert system is objective. Expert systems compared to human experts are expensive, especially during the use stage. Their relatively high cost of the development stage is offset by reduced operating phase cost.
Another advantage of artificial expertise is related to the ease of transferring or reproducing it. If transfer of knowledge from one person to another is laborious, requiring extra time and long experience, artificial expertise transfer is a simple process of copying. Documentation for artificial expertise is much easier, allows to obtain consistent and reliable results, while in the case of human expertise it is extremely difficult, time consuming and it should be verified.
It is estimated that expert systems approach is suitable for solving those problems that meet one or more attributes: cover a limited area of activity, are poorly structured, are too complex to be addressed by other method and information it describes may be incomplete, imprecise or uncertain.
Expert systems are found among several categories of software: applied expert systems or knowledge-based systems that contain specific knowledge of the application

domain, framework expert systems which are prefabricated systems, suitable for one or more types of problems, basic systems such as specialized programming languages or object-oriented programming languages.
Similarities between expert systems and decision support systems:
1. DSS classifcation (specific systems, generators and basic systems) is similar to the expert systems classification (applied systems, framework system and basic systems);
2. both types of systems can be used to solve many types of problems such as prediction, simulation, planning and control;
3. some specialists believe that expert systems are tools for incorporation into decision support systems;
4. promoters of artificial intelligence consider that decision support systems are a syntagma that designates expert systems applications.

Differences between expert systems and decision support systems:
1. expert systems are focused strictly on a specific problem while DSS applications have a variable, unpredictable and vaguely defined domain of application;
2. in terms of processing technologies, expert systems use symbolic computation while DSS use numerical models and databases;
3. in case of expert systems, user attitudes towards the system is limited to acceptance or rejection of general solutions, while for DSS the user attitude is free and creative.

3.3. Fuzzy rule-based systems'role for intelligent decision aking

Because in most cases, decision makers facing of decision-making problems under fuzziness conditions based on incomplete information, researches in the field have revealed the necessity of integration DSS with algorithms derived from fuzzy sets theory proposed by [11, 12].

According to Bloom's revised taxonomy [13], knowledge can have four dimensions: factual, conceptual, procedural, and metacognitive. Factual knowledge are isolated fragments of information, such as the words' definitions and knowledge about specific details. Conceptual knowledge appear in the form of information systems, such as classifications and categories. Procedural knowledge includes algorithms, heuristic or discovery learning techniques and methods, and knowledge about the situations in which these methods and processes are used. Metacognitive knowledge is knowledge about the thought processes and information related to thinking and how these processes can be used effectively. Based on cognitive dimensions mentioned above fuzzy systems supposes factual knowledge stored as data in computer memory in the form of databases, and also procedural knowledge stored in the form of rules (called procedural language programs)[14].

Fuzzy rules-based systems require a modeling decision making through the use of descriptive language based on fuzzy logic and attributes [15]. These systems allow automatic generation of fuzzy models that incorporate the knowledge of human experts and integrates the symbolic and numerical processing in a common scheme. A substantial part of these systems is the genetic fuzzy systems in which genetic algorithms are used to study components of fuzzy systems based on rules. Genetic fuzzy systems represents fuzzy systems improved with learning processes based on a genetic algorithm. Genetic fuzzy systems was widely extended due to their inherent flexibility and capabilities of the different criteria to reunite the optimization and realization of "the trade-offs between interpretability (human understanding) and accuracy". Another special category of fuzzy rules-based systems widely explored in the literature is the fuzzy rules-based systems Mamdani for control, modeling and classification. This type of system have two major components: (1) fuzzy system inference, through which the inputs in the system are subjected to a process of fuzzy reasoning in order to obtain the outputs system and (2) fuzzy knowledge base, which includes the set of knowledge about the problem needed to be solved.

Because the fuzzy inference process rules use rules in the form of IF-THEN, fuzzy rules-based system is capable to perform the qualitative aspects of human knowledge modeling and reasoning without a precise quantitative analysis. However, the system requires a rigorous design and model execution and also a proper selection of parameters.

The main advantages of the use of fuzzy rules are reflected in the elimination of unnecessary rules and in the selection of effective input elements that can contribute to performance improving, to reduce the cost of computing and to obtain a precise analysis rules. A major disadvantage of fuzzy systems is the difficulty of building a rules database, which is generally times consuming. Once carried out the rules database, it requires continuous adaptation by adding new rules consistent.

4. Conclusions

Intelligent decisions requires a superior scientific decision making process based on information technologies support in order to eliminate errors of human factor and to automate decision-making for programmable decisions or to assist decision makers for the both.

In order to achieve this aim, DSS have an important role. In the current business environment, characterized by global competition, the decision makers must have access to a complex set of decision support tools in order to adopt quick decisions with a high degree of accuracy.

In such context we conclude that the decisions support systems used for intelligent decision making is necessary on the basis of several considerations.

Firstly, these support systems contribute to mitigating the limits and restrictions (cognitive, communication, time) effects of facing human decision makers during their activities in order to deal with those issues which are characterized by their importance and complexity.

Secondly, the implementation of these systems aims to provide feasible information in real time needed to support managerial decisions making process in order to shape an organization more profitable, more agile and more flexible, able to faster respond to external challenges.

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Quality Assurance VS. Quality Culture into the Higher Education Services Sector. Points of Convergence to Performance

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Abstract

Our paper focus to approch an analitical analysis between the quality assurance process and the organizational quality culture. The main but was to demonstrate that, the both process are providing together to Romanian universities performance.

Keywords: quality assurance, quality culture, higher education services, university performance.
Classification J.E.L.: I29; R38; M14.

1. Introduction

Quality evolution in higher education has added different hues to the definitions of the concept and status of quality [1].

Quality - Definition

Exceptional - A traditional concept linked to the idea of "excellence", usually, operationalised as exceptionally high standards of academic achievement. Quality is achieved if the standards are surpassed.

Perfection or consistency - Focuses on process and sets specifications that it aims to meet. Quality in this sense is summed up by the interrelated ideas of zero defects and getting things right first time.

"Fitness for purpose" - Judges quality by the extent to which a product or service meets its stated purpose. The purpose may be customer-defined to meet requirements or (in education) institution-defined to reflect institutional mission (or course objectives).

"Fitness of purpose" - Fitness of purpose evaluates whether the quality-related intentions of an organization are adequate. It provides a check on fitness for purpose. As such, it is not a definition of quality *per se*.

Value for money - Return on investment or expenditure is used to assess quality. At the heart of the value-for-money approach in education is the notion of accountability. Public services, including education, are expected to be accountable to the funders. Increasingly, students are also considering their own investment in higher education in value-for-money terms.

Transformation - Sees quality as a process of change, which in higher education adds value to students through their learning experience. Education is not a service for a customer but an ongoing process of transformation of the participant. This leads to two notions of transformative quality in education: enhancing and empowering the student or researcher.

Standards - Definition

Academic standards - The demonstrated ability to meet a specified level of academic attainment. For pedagogy, the ability of students to be able to do those things designated as appropriate at a given level of education. Usually, the measured competence of an individual in attaining specified (or implied) course aims and objectives, operationalised via performance on assessed pieces of work. For research, the ability to undertake effective scholarship or produce new knowledge, which is assessed via peer recognition.

Competence Standards - Demonstration that

a specified level of ability on a range of competencies has been achieved. Competencies may include general transferable skills required by employers; academic ('higher level') skills implicit or explicit in the attainment of degree status or in a post-graduation academic apprenticeship; particular abilities congruent with induction into a profession.

Service standards - These are measures devised to assess identified elements of the service provided against specified benchmarks. Elements assessed include activities of service providers and facilities within which the service takes place. Benchmarks specified in 'contracts' such as student charters tend to be quantified and restricted to measurable items. Post hoc measurements of customer opinions (satisfaction) are used as indicators of service provision. Thus, service standards in higher education parallel consumer standards.

Organisational standards - Attainment of formal recognition of systems to ensure effective management of organizational processes and clear dissemination of organizational practices.

2. Quality assurance in higher education academic services – a continual evaluation process

Harvey highlights several definitions for the quality concept, according to which it is synonymous of [2]:

- exceptional, when it circumscribes exclusiveness, excellence and attaining norms;
- perfection or coherence, when it is defined through the absence of any flaw and the capacity to succeed from the first try;
- aptitude for function, when it evaluates the capacity to accomplish a mission or a predetermined mission or if this mission or this function is adequate (in the second case, one talks about the aptitude of *functioning*);
- profitability, when it evaluates the effectiveness of the expenses engaged are (similar to measuring efficiency);
- transformation, when it evaluates the added value of the educational experience in point of students' improvement and increased autonomy.

Martin & Stella emphasize two main orientations in quality assurance:

- respect for norms, when certain higher education aspects can be defined and measured and the same norms can be applied to all the courses and all the institutions. These norms can be minimal (leading, for instance, to the closure of certain institutions or programs unable to attain their level) or related to excellence (setting an ideal that institutions or programs need to tend to);
- adaptation to the goal pursued, because the institutions' missions and objectives are different and evaluation does not rely on common and quantifiable criteria, but depends on the analysis of the specific context. Quality is attaining the goals pursued (it becomes self obvious that the acceptability of these goals has been firstly demonstrated) [3].

In the study realized for the Organization to Economic Cooperation and Development (OECD), Tremblay and Kis, without proposing a strict definition of quality assurance, prefer to highlight the complexity of this process [4].

Tremblay and Kis state that quality assurance is a "process assuring the participants' trust in the service creation and delivery process (inputs, process and results), corresponding to expectations and to minimal demands threshold" from the consumer's / client's perspective. At the same time, the quoted authors admit that quality assurance can be defined as a "systemic, structured and continual attention to quality in terms of maintaining and improving quality".

Fave-Bonnet (table1), based on certain official texts concerning the Bologna process and the European Higher Education Area (EHEA), observed that "quality assurance" can be translated by: quality assessment; quality assurance or guarantee; quality management [5].

Table 1: Three directions associated with quality assurance

Term	Central question	Objective	Action
Quality assessment	How to measure quality?	Measure the quality	Implement an evaluation
Quality Assurance	How to ensure quality?	Show that the quality is there	Check the quality
Quality management	How to get quality?	Manage Quality	Implement procedures and a culture of quality

Source: adapted Fave - Bonnet 2007

The ambiguity that can surround the concept of quality assurance is that each of these three meanings refers to a process of quality improvement. Fave-Bonnet notes that, because it gives rise to several interpretations, this concept allows for a "soft consensus" particularly useful in the context of construction of the EHEA.

In a global approach, the perspective of quality assurance in the academic educational services orients the goals of this process to:

- "proving that public funds are efficiently spent", "defending social interest";
- "promoting future performance rather than judging past realizations", „means of improving efficiency in the provision of academic education" [4].

In a debate on the compatibility of the two main goals, some authors state that they are incompatible, "as the essential openness to improvement will be missing if the goal is responsibility (bearing the consequences)", while others state that they are inseparable "as responsibility can always be reformulated to be centred on improvement" (6). For Tremblay and Kis, it is essential for the quality assurance systems to tend to find a balance between different interests related to improvement and imputability. "From the perspective of responsibility (imputability), it is important for the quality assurance systems to provide information to the different participants, yet quality assurance must also be / become a mechanism able to improve quality rather than oblige to respect bureaucratic demands" [4].

3. Quality assurance practices in Higher Education Services

The practices associated to quality assurance are varied, although in the specialized literature the accent falls on the external assessment practices for the quality management systems in academic institutions: accreditation**,** certification and homologation.

One of the authors uses the term "accreditation" [3;4], others, the term of "certification" [2] to designate the process leading to a judgement, to a certification or an official recognition concerning the compliance of a program or a institution with the specific and predefined quality norms, be they minimal or excellence norms. When accreditation or consent relate to an authorization to exercise a function, then one talks about homologation [3].

An assessment refers to the very process of "external assessment […] of the quality of higher education institutions and programs" [7]. Harvey mentions that assessment can refer to inputs (such as allotted resources), processes (i.e. way of functioning) or results (for instance, design and granting of diplomas and academics' number of publications) [2].

Generally, these three mechanisms differ through the objects they evaluate and the nature of their consequences (*Table 2*).

Table 2: Typology of quality assurance mechanisms

Finality	Mechanism	Question	Accent	Results
Accountability ↕ Improvement	**Accreditation**	Is it good enough to be approved?	Adaptation (mission, resources, processes)	Favorable or unfavorable decision
	Evaluation	How far the results are good?	Results	Level (including favorable decision or unfavorable)
	Audit	Objectives are met? Process is effective?	Process	Qualitative description

Source: adapted byTremblay and Kis, 2008, p. 266.

4. Quality culture

The concept of quality culture completes the structural dimension of quality assurance (quality assurance guidebooks, definitions of the process, instruments) with the dimension of an organization's values, regarding the members' engagement, the values it relies on, skills and attitudes [8]. An important step in the evolution of the key principles of this concept was taken in the context of the European University Association (EUA) to assist the universities in their effort to develop and implement an internal quality culture and to encourage the dissemination of the current best practices in the quality assurance domain. From this perspective, EUA has identified a set of principles, promoting a quality culture:

- building an academic community and identifying the personnel with the institution;
- developing the students' participation to the academic community;
- internalizing the quality culture through internal communication, discussions and responsibility developed by understanding the resistance to change and the development of strategies needed to go over it;
- agreeing on a general framework for quality processes and analysis standards;
- defining the main institutional data – historical, comparative, national and international – gathering and analyzing them systematically;
- including the adequate internal and external parties concerned;
- highlighting the self-assessment stage as a collective exercise for the entity under analysis, to assure the implementation of the adequate stage (it includes academic personnel, administrative personnel and students);
- assuring a subsequent check up for the internal analyses: for example, implementing the adequate recommendations and the feedback circuits in the strategic management [9].

The concept of higher education quality culture largely takes the form of a normative ideal. Starting with the EUA recommendations (2006, 2005), taking over the concept of orientation towards practice, the idea that became prevalent was that there are "good" quality cultures, for which it is worth fighting and "bad" quality cultures, which should be avoided.

"An organizational culture supporting the development of an approach for an efficient and effective quality management allows the educational institution to meet its objectives and to consolidate the quality of the education and of the services provided" [10]. From this perspective, quality culture refers to development and respect of the internal quality assurance processes [11]. However, such a functionalist understanding has a few main flaws, first of all the question what can be considered a "good" culture, a question to which it is just as difficult to answer as it is to answer to the questions on the nature of quality as such.

Quality culture can be understood as a social phenomenon, with a historical development, differentiated, most probably, into several subcultures [12]. The concept of quality culture does not provide a common goal for all the institutions, but a common departure point. If we perceive quality

culture rather as a matter of context than as a set of procedures, then the concept can be used as an analytical instrument – as a way of analyzing the current strategies, practices and principles, thus creating the basis for a future consolidation [13]. In this sense, a quality culture analysis could very well start with "[...] the question about the way in which a higher education organization meets the challenge of consolidating quality in a certain domain, for instance the domain of teaching and learning or the research domain" [8].

The first two stages of the project "Examining Quality Culture in Higher Education" (EQC) have demonstrated that, although most higher education institutions have a strategic document, either on an institutional or on a faculty level, not all the strategies have the same success: the most efficient strategies are those assuring clear objectives and responsibilities [14].

Legitimacy can be found by joining strategy and institutional identity and it is important to accept that each institution does not have to establish the same quality-related objectives, although in many national contexts there is a tendency to align external and internal quality assurance processes. However, the issue of priorities remains unsolved and it is even necessary to realize partial synergies between different types of reasoning, for instance using the external feedback as a lever for the internal reforms. Adhering to the external standards (for example, in the context of accreditations or of the national frameworks) requires different strategies and means compared to the approach of the internal challenges and the principle of functional differentiation (for instance keeping different entities for different goals) can provide solutions on an operational level, yet it will not solve the potential strategic conflicts.

All the three stages of the EQC project have proved the importance of the temporal dimension. In the context of institutional quality assurance, "unplanned" changed is usually described as a problem. Paradoxically, the processes targeting a continual improvement have a particular tendency rather towards stability than to dynamism, which usually results in the kind of bureaucracy that has affected the quality assurance perception.

Most of the studies carried out in this sense support the idea that efficient strategies must not just be aware of the complexity of the institutional and environmental changes; they also need to embrace them, considering that efficient strategies need to be *significant* helping one understand what is going on, through the integration of the meanings and values already constituting a specific and client-oriented culture and a marketing environment for the institution.

The consolidation of a strategic dimension of the institutional quality culture is supported by values such as:

• institutional identity and values are defined in strategic documents, or in the strategic document, delineating to a certain extent an institutional ideal;

• Strategic goals admit the difference between the improvement of the internal structures, processes and results and the indicators' improvement;

• Institutional strategies in the quality domain, implementing change on an organizational level, to meet the external quality assurance demands.

5. Conclusions

"A quality culture development requires time, effort and is closely related to values, beliefs and a cultural determinant that cannot be changed rapidly"[15]. This cultural element has a strong political dimension, quality assurance referring to power and ideology, reason for which it is important to focus not just on strategies of educational services quality and adequate quality assurance instruments [14].

After a number of years of functioning of the homologation and accreditation system, it is legitimate to ask whether the results obtained by the higher education institutions mark a relative process in point of institutional quality, namely a more complete satisfaction for its beneficiaries-clients (students, parents, society) and for the institution's personnel, a more pertinent integration in the collective life and operational results at levels comparable to the international references. For this reason, it would be necessary for universities to accept that the educational process, once designed and set into operation after homologation or accreditation , must be permanently submitted to continual self-evaluation and improvement.

The 2010 version of the European excellence model EFQM, highlights in particular the need for the organization to assume its responsibility for a sustainable future, which involves the integration in the organizational culture of a set of ethical principles, clear values and the highest organizational behaviour standards concerning the quality management system.

The new version of the EFQM model keeps the basic structure, changing the weight corresponding to each criterion, according to the RADAR (Results, Approach, Deployment, Assessment, Refinement) method. This method represents an extended approach of the Deming cycle: PEVA (Plan - Do - Check - Act -PDCA) [16].

The implementation and certification of a quality management system in agreement with the standard ISO 9001 determines a positive impact on the social performance of the academic organizations, and implicitly on their capacity to meet the requests of the EFQM excellence model. Consequently, we can confirm the hypothesis that the quality management system assurance and certification in higher education institutions orient the organization's actions in the sense of shaping a quality culture, and both processes support the performance of the excellence-oriented universities.

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Human Resource Management: Key Issues

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Abstract

Currently, human problems occupy leading positions in business analysis, although personnel function has been almost absent from the economic literature. Quality workforce is essential to the success of any organization, in peak areas and in areas less technologically advanced. Not only are organizations interested in human resources but also society as a whole. Effectiveness of human resources affect national wealth, the success of a country in international competition, special programs are supported by communities. Essential motivation for choosing this theme stems from my conviction of the need to recognize the leading role of human resource in the processes of social change and economic performance in the context of obtaining new type of development. My main goal is to remove a little of the mystery of economic and social life in which we live.

Key words: human resource, motivation, performance, promotion
J.E.L. classification: J21, J24, J81

1. Introduction

The "Human Resources" field has received much attention in recent years. At the macro level, endogenous growth theory suggests that human capital accumulation is the main driver of macroeconomic growth. At the micro level, "resource-based theory" nominates human capital as a major source to support the firm's competitive advantage. The growing importance of human capital, is largely determined by the development of information and communication technologies, especially the shift to "knowledge economy"[2].

Human resource is the only resource that may be able to increase their value over time, unlike all the other resources that are worn if not physically, then moral[10]. Human resource is often called the "most valuable asset", although does not appear in the accounts. But the success of an organization depends on how its members implement its objectives, this is why the capacity and quality of human resources are crucial for the performance of the organization[1].

2. General presentation of Apulum

Apulum company was founded in 1970 in the city of Alba Iulia and is the largest producer of porcelain in Romania, with a diversified production: household china, hotel restaurant catering, decorative objects, figurines.

Hallmark "Apulum" is solid guarantee of quality porcelain, backed by over 35 years of existence, a brand whose credibility is resulting from the company's key strengths: quality materials, modern technology, equipment, personnel structure, value for money as perfectly adapted to customer requirements, modern management, dynamic, responsive to changes in internal and external business environment[11].

The factory was organized into two sections: porcelain and vitrus. Vitrus products lead to loss and therefore the management decided to drop the production of vitrus and all work was transferred to the department of porcelain. By grouping all activities in one production hall, the maintenance costs and the costs of utilities

department were reduced, without affecting the quality of production or working conditions of employees. Currently (2012), the factory produces 7200-7500 tons porcelain / year.

Regarding the evolution of the number of employees, the study shows that their number decreased from 2010 until 2012 with 402 employees (38.32%) reaching 647. Staff has been reduced by restricting activities and due to retrofitting with high productivity and good quality machines. Regarding personnel structure by gender, in 2010, the total number of employees (647) consists of 233 men and 414 women.

Related to economic and financial analysis, in 2010 the solvency ratio value is 2.01 – an optimal level that provides warranty coverage current liabilities from current assets. For the next few years, although there is a decrease in current liquidity indicator due to the increase of current liabilities, the indicator remains at a satisfactory level.

The level of immediate liquidity indicator is included, in the analized period, between 0.60 and 0.63 - a satisfactory level - which means that the company can cover its current liabilities from disposable available.

Net profit margin knows modest values between 6,73% and 11,17%. An improvement in net profitability margin is expected from higher turnover associated with internal and external controls.

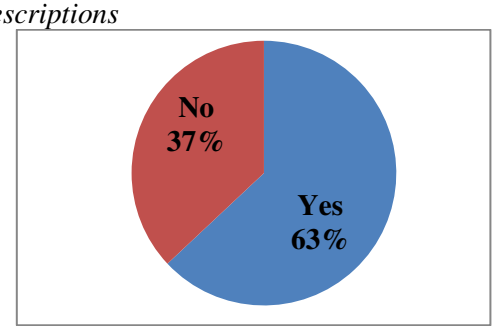
3. Specific human resource management practices within Apulum Company

Best way of research is the investigation based on the questionnaire, which appears to be one of the most commonly used techniques in social and human sciences. Survey conducted within Apulum company tries to emphasize these aspects, being complemented by a number of 100 persons, of which 41 are men and 59 are women. Following data interpretation, were able to see different opinions and views of the participants, on how are conducted activities within the company where they work. Purpose of the activities is examined to ensure safety of employees, focusing on how it recruits and selects staff, ensuring its training, evaluation and reward each employee so that there is always motivation to work with maximum efficiency[3].

When asked *"In your company there is a human resources department?"* all the 100 employees who participated at the study answered "Yes", representing a good thing for business.

When asked *"In your company, job descriptions are basic for conducting business?"* , of the 100 employees who were subject to research, only 37% responded negatively, while 63% of them said yes.

Graph 1. - Results regarding job descriptions



Source : own processing

The question "*Do you consider that, at present, in Romania, the major share in the decision to employ a candidate has*" emphasizes the importance of experience and studies in human modeling and helps build experience.

Analyzing the responses of 100 employees surveyed by gender, we get the following results, which are presented in the table below:

Table 1 – The responses regarding decision criterion of employment by gender

Response options		No. Of replies	%
Studies	Men	11	26,83%
	Women	24	40,68%
Experience	Men	30	73,17%
	Women	35	59,32%

Source: own processing

Employment decision is based, on a complex process, especially since the climb on hierarchical levels in a company, should therefore sought and selected those who possess appropriate knowledge, skills and personal characteristics corresponding to business requirements. According to this table, it appears that women attach greater importance to the education and experience than men.

When asked "*Give a mark from 1-5 (1 - most important, 5 - least important) for each of the following criteria according to which you think recruitment and selection is based on*" we made a table where are presented, along with scores obtained , each of these criteria in the form of means and variances.

The table below sets out the criteria for recruitment and selection of employees, in descending order by importance:

Table 2. - The results concerning the selection criteria

Selection criteria	Average	Variance
Experience in the field	2,23	1,68
Studies	2,27	1,60
Professional knowlegde	2,29	1,71
Qualities, skills	2,45	1,31
Recommendations	3,12	2,13
Age	3,16	2,05
Relationship or acquaintances	3,43	2,33
Appearance	3,73	1,60
Sex	4,4	1,12
Nationality	4,74	0,43
Zodiac	4,94	0,08

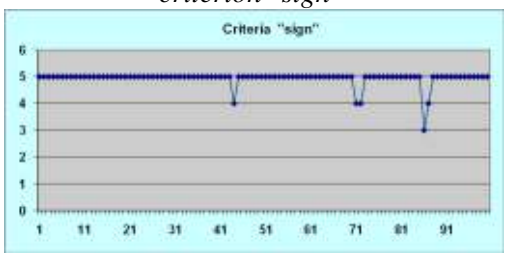
Source: own processing

It can be seen that the respondents opted for education, experience, professional knowledge and skills, qualities, individual skills as the most important criteria, averaging about 2. It is natural that skills, knowledge, or habits to be crucial elements in terms of recruitment, because in fact, these elements contribute to decisively fulfill effectiveness objectives at all levels of the company. Employees considered as unimportant criteria nationality, gender and zodiac, their average being about 5.

Regarding dispersion, if it has a low value, that mean employees are focused on the same answer, however, if the dispersion has a high value, each employee has a different value criterion[4].

The chart below illustrates that almost all employees have opted for the same answer (sign), in this case the majority view that this criterion is least important.

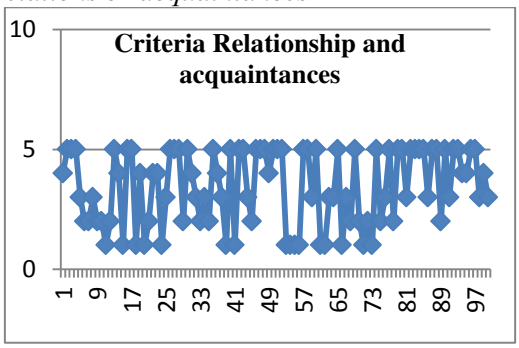
Graph 2. - Responses concerning criterion "sign"



Source: own processing

To emphasize the difference between a dispersion with a low value and one with high value I made the chart below:

Graph 2. - Answers concerning criterion "relations or acquaintances"



Source: own processing

To highlight the differences between men and women in the table below are the selection criteria, along with the average and variance for each criterion:

Table 3. - Answers regarding selection criteria

Selection criteria	Sex	A	V
Studies	M	2,24	1,11
	F	2,19	1,78
Nationality	M	4,80	0,30
	F	4,69	0,52
Appearance	M	4,00	1,32
	F	3,54	1,71
Experience in the field	M	1,95	1,07
	F	2,42	2,01
Professional knowledge	M	2,27	1,46
	F	2,31	1,87
Qualities, skills	M	2,44	1,32
	F	2,46	1,30
Age	M	3,20	1,47
	F	3,17	2,51
Relationship or	M	3,22	2,17

acquaintances	F	3,59	2,34
Recommendations	M	2,85	1,78
	F	3,31	2,28
Sex	M	4,46	1,08
	F	4,36	1,14
Zodiac	M	5,00	0,00
	F	4,83	0,38

Source: own processing

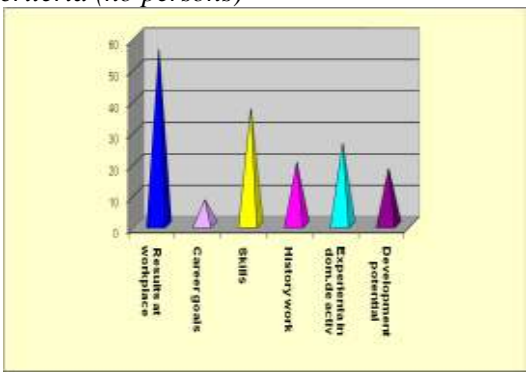
According to averages calculated from data in the table, the difference between men and women is based on the following criteria:
1.appearance - women put more emphasis on physical appearance, compared to men who do not consider appearance as a relevant selection criterion (average = 4);
2.experience in the field - is more important for men (average = 1.95) than women (average = 2.42);
3.the recommendations - this criterion is relevant for men but not for women who believe that the choice should not be made based on recommendations.

Regarding the dispersions calculated, this shows that the most obvious differences are recorded in the criteria field experience, age and recommendations[5].

When asked *"Which of the following forms of training is mainly used in your company?"* most of the employees, 79% responded that the company uses the training at the job, 16% consider the it is used the training outside the workplace, provided by the company, 14% voted for other types of training, 13% voted for trainings offered by specialized companies at work and 7% believe that the company is using trainings offered by specialized companies outside the workplace.

When asked *"criteria according to which employees are promoted",* respondents were asked to choose from the 6 choice, that tendency which manifests within the organization. The most important criteria are the results obtained at the workplace and skills, study highlighting that no preference is given to experience (26%) and work history (20%), development potential (18%) and career goals (8%).

Graph 3. - Results regarding promoting criteria (no persons)



Source: own processing

Women considers the results, skills and experience in the business are the criteria that should guide the promotion, while men consider relevant criteria career goals, seniority in the company and potential development posed by the individual.

When asked *"Indicate on a scale of 1-5 (1 most important, 5-least important) that you think are the main factors of motivation"* I made a table presents the motivation factors, together with average and variance for each.

Table 4. - The main motivating factors

Motivating factors	A	V
salary	1,85	1,76
job security	1,91	1,98
working conditions	2,46	1,42
job atribution	2,99	1,48
team	3	1,58
promotion possibilities	3,13	2,09
economic and financial facilities	3,14	2,02
organization culture	3,83	1,24

Source: own processing

It is noted that the main motivating factor for employees is the salary. Wage is seen as a measure of importance for an employee in an organization, especially for the employees at lower hierarchical levels (workers) the main source of motivation is the prospect of higher wages[6].

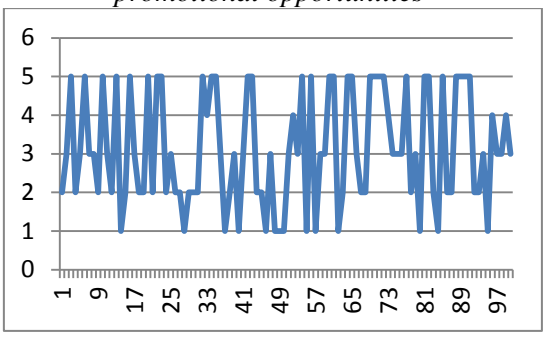
The main concern for the company is job security, which is highlighted by this study, as this criterion is 1.91 average.

In terms of motivating factors, we see that the dispersions are between 1.24 -2.09, indicating that for employees, criteria have approximately equal importance.

Organizational culture is the motivating factor, which recorded the lowest dispersion, which means that employees give the same lack of attention to this criterion.

In contrast, lies promotion criteria with the highest value of the dispersion of all the factors listed, which indicates that employees appreciate differently the importance of this criterion, giving different grades, as shown by the chart below:

Graph 4. - Answers regarding criteria "promotional opportunities"



Source: own processing

For women, motivating factors are job security, working conditions, the team they belong and job atribution, and men are motivated by salary and organizational culture of the company.

Motivation is one of the most important responsibilities of managers, forcing them to find the best ways to make their subordinates to achieve performance at work[7].

When asked *"What do you like at the current job?",* 58% responded that they like the work they do, 22% think that it is not tiring, 20% of employees are excited about the performance, 18% felt that their colleagues are the best, 14% think that the workplace is clean and 10% responded that they had good leaders.

Analyzing the responses of 100 employees who participated in the study, by gender, the results are as follows

Table 5. - Answers on current job

Selection criteria	S	A	V
Is clean	M	7	17,07%
	F	7	11,86%
Not tiring	M	4	9,75%
	F	18	30,50%
The work	M	28	68,29%
	F	30	50,84%
Good colleagues	M	10	24,39%
	F	8	13,55%
Good leaders	M	8	19,51%
	F	2	3,38%
Good performance	M	7	17,07%
	F	13	22,03%

Source: own processing

As shown in the table, for women count the performance at work, performance and that the actual work is not tiring, while for the men count colleagues and the good leaders. Both women and men, is important that workplace is clean, so that they can work in decent conditions.

There is an intrinsic motivation of employees to work they perform and also a lack of appreciation for the firm's managers, with negative effects on work climate[8].

4. Conclusions

Implementing effective human resource management requires consistency from more specific activities of this domain. Using the full potential of human resources can only be achieved through good management based on strategic principles that stimulate their continuous development.

The analysis of essential human resource management practices within company Apulum resulted a series of positive and negative aspects[9].

One positive aspect is that the company has a human resources department and develop human resources strategy. Women put more emphasis on discipline at work, and men on health and safety, these activities having the function of maintenance. Another positive thing is that the company, to maintain and motivate employees, use different procedures.

As general conclusions on the concepts and practices of human resource management within company Apulum we can emphasize:

- human resource management is characterized by a high degree of formalization of HR strategies but, however, the objectives are not made known to

employees;

- is given a relatively low job descriptions as a tool for development business employees;
- main tool for planning human resources is the spontaneous human resource needs;
- main criteria used in recruitment and selection are: experience, education, professional knowledge, skills, individual skills;
- workplace training is exclusive form of training in relation to outside company;
- individual and organizational career planning are deficient in business activities
- lack of participatory management.

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Methods and Techniques to Motivate Human Resources in NFA ROMSILVA

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Abstract

In the context of continuous development of society, of a trend of globalization of markets and economy, it is increasingly felt the need to integrate in the work of Romanian institutions the Department of Human Resource Management.

Romanian institutions must be brought up to the international bodies' standards, environmental requirements, given the strong competition and emphasized dynamism.

The importance of human resources management in the work of institutions is increasing, the success of the latter depending on the effectiveness of programs conducted by management professionals the organization disposes of.

Keywords: motivation, human resources, organization, globalization.
J.E.L. Classification: M12

1. Introduction

The concept of motivation of human resources is essential in the management of organizations as a result of awareness by management that what determines human resources to be performing is their retention in fulfilling the targets assumed at the organizational level.

Naturally, all organizations are concerned with the identification of solutions to achieve sustained performance levels of employees. This means increased attention on the part of the organization's management, human resources management and departmental management on how employees can better be motivated through various ways such as incentives, premiums, leadership, other kinds of benefits, but also the context in which the work is carried out. From this perspective, the aim is to develop a process of motivation and a work environment that allows employees to give the results proposed by the management.

In the current social context, motivation is the most important responsibility of managers of any kind to get the expected performances. Successful management, however, depends also on the usage and compliance with the basic requirements: the priority of the quality, motivation and participation of the stakeholders involved and the rational use of resources.

2. Motivation factors

The manager has to identify the motivation factors specific for every organization and use them in managing human resources. From this point of view, the literature [1],[2],[3] identifies a number of motivating factors (appreciation, personal material interest, involvement in work, emulation, the pride of belonging to an institution, ideology, career) that must be considered by the level of management:

Appreciation. As a factor of motivation, appreciation can be considered as a state of mind and a behaviour. It requires an attention directed towards the collaborator, to his person, his work:

- politeness - to say "hello", "goodbye", to be concerned about the health of the person concerned, to establish a relationship before you dive into folders;
- listening - to create opportunities to listen to collaborators, either individually or collectively;
- small gestures - to give thanks when a person strives to help you, to make gifts (anniversary, celebration, marriage), to be willing without going into people's private life;

- attention given to work - to give feedback on work, to say what was done, why and to what end, to avoid to ask always finishing a job in a very short time, thus cancelling other works, as the effort would not matter;
- congratulations and criticism - it is needed to highlight the person and tell what is wrong as problems arise;
- information - new events, team results, changes in procedure or people.

Personal material interest. Each person is sensitive to his personal interest, particularly financially. People in management say too easy that even this factor is determinant, it always gets overlooked.

Involvement in work. The responsibility of every manager is to create involving work conditions by empowering collaborators and by the motivating content of labor.

Emulation. A well-founded emulation is an important motivation factor, people being very careful about their image. It is difficult to find a good balance between emulation and cooperation.

The pride of belonging to an institution. The pride of belonging to an institution or service is powerful motivation leverage. This may result in a factor or combination of factors such as:

- the prestige of employer with whom he works, his reputation, his competence, his qualities as manager;
- the team, the service or direction of belonging, its image, its recent successes.

Ideology. It can be understood in this context as "ideology" the external reasons beyond the service or institution motivating employees' increased efforts. Herzberg showed that beyond motivation factors, there are factors whose absence causes de-motivation, which means it is not enough to meet the needs of individuals to bear motivation at work.

Career. Implementing a career model was linked to tradition, to the existence of a certain political system, way of thinking.

Other authors [4] identify several factors that combine both internal motivational elements of employee and social, economic context of the organization:

Mobilization and empowerment. Empowerment reflects the idea that a person, group, organization acquires the power of control over one activity. An employee whose feeling of empowerment is high perceives as significant his activity in the workplace, perceives himself as competent and will be able to make choices that will impact his activity. The conditions that favor the feeling of empowerment are reflected in the critical understanding of its environment and the person's ability to act on this environment. To increase the autonomy and decision-making, the person must acquire technical and social skills.

Involvement and collective effort model. Organizations need to recognize the importance of understanding the dynamics of individual motivation in working groups. Jeanson, Duvillier, Genard and Piraux identify the collective effort model as a framework that can help us easily understand the phenomenon. The concept of "social disgust" (reduction of individual effort in order to achieve collective efforts) shows that the workgroup can be a motivator.

The collective effort model shows the influence of three psychological states on the motivational force: the expectation, the instrumentality/means and valence.

- expectation is the degree of effort expected to be effective;
- instrumentality is the level of performance perceived as a tool/means to achieve a result;
- valence is the degree to which the result is seen as desirable or undesirable.

Motivation by values, insurance/stability and incentives. Values play a key role in order to make sense of work and thus to build the identity and professional relationships. They often insist on the terminal values such as fairness, respect. It would be better though to consider the instrumental values such as conduct, skills, socialization, which are more compatible with various incentives.

Organizational behaviour (organizational citizenship). The altruism and dedication in the workplace contribute to organizational efficiency through the promotion of informal aid or cooperative behaviour. To develop these values are needed factors such as satisfaction, psychological empowerment, charismatic leader.

In modern leaders business predicting their collaborators behaviour is essential and even though it is extremely difficult to predict the specific behaviour of each one and all together, experts must identify not

only who/what is responsible for a particular behaviour, but also how it can be influenced. Identifying the causes is a sterile action, without echo in the leading process if one cannot act based on them. Robert Heller [5] believes that taking orders is much less motivating than to take part in planning and decision making.

3. Commitment to work

Commitment to work is topic of interest for literature. Wright and Pandey [6] suggest that even the most distinct and well-defined concepts on commitment are not necessarily mutually exclusive and are based on many antecedents and consequences are. These theoretical approaches could be differentiated on groups starting from the object and purpose of the commitment.

Unlike the commitment to work, the commitment based on values has a greater degree of stability, considered as an attribute of the individual which does not change with the change in working conditions. Individuals with high levels of motivation are expected to perform better and to be more satisfied in organizations because of the convergence between their aims and values and those of the organization of which they are part, allowing them to serve the organization and to fulfill their own needs at the same time.

4. Organizational specificity and motivation

Analyzing the organizational dynamics, there have been identified several essential aspects in motivating employees [4]:

The morale and well-being of employees. In the last twenty years, the British public sector has undergone a radical change, which led to new work practices, such as flexibility and performance. This has led to an increase in anxiety and stress among employees. The example of police service and prison, generating voltage sectors, demonstrated the importance of considering the well-being of employees, in particular regarding the management of emotional and mental health. Ignoring these issues can have destructive consequences for the motivation to work in the public service.

Motivation and management by objectives. The Spanish national police implemented a system of management by objectives. This type of management aims to increase the efficiency and quality of service, its result translating into reduced rates of crime. This also included financial incentives (paid) and non-financial incentives, with the objective of managing growing means of motivation. Indeed, the decentralization of the decision-making process, leadership, institutional coordination, cooperation between factors that influence motivation.

Effects of fairness feelings and low wages on the intrinsic motivation. The link between motivation and reward is not clear and linear. It is necessary to develop a clear and fair procedure, on the basis of legitimacy and fairness in terms of allocation of these rewards. The cost of unjust allocation perceived by employees in the context of low levels of pay is significant.

Information and communication technology (ICT): a tool for motivating staff. Motivation to work depends on various factors, both personal and organizational. Information and communication technology is an important component of the current work organization, and thus can be a motivating factor in the work of the officials. This determined the Administration to accept re-discuss the procedures and methods of operation.

Human resource policy and working life feeling. The introduction of the notion of professional life allowed a better understanding of the various factors of motivation and commitment to work of employees. This feeling is also apparent from the desire of self accomplishment.

5. Conclusion

People are the main resource of National Forest Administration ROMSILVA. They know what, when, where and how to act in order to achieve strategic goals. The institution exists and is growing because people have the physical and mental ability to organize, implement and develop.

Human resources of National Forest Administration ROMSILVA are the safest investment that guarantees the survival and development of the institution.

In human resources, management decisions are the most difficult because it involves people with specific needs,

personality, with their own goals and personal problems. In an institution, the adoption of managerial decisions can affect employees' health, career, professional future or even their lives. Management decisions in human resources must be adapted to the personality and professional training of employees.

Human resource management decisions must consider that the National Forest Administration ROMSILVA staff is a heterogeneous group; it must be considered as a set of distinct personalities with goals, hopes and individual goals that could be concerted. Human potential is not the same for each individual; the genetic inheritance, biological factors, social, cultural, educational, conjectural, familial influences etc. are different.

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Strategies to Improve Human Resources Management in the NFA ROMSILVA

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Abstract

In the modern economy, both managers and employees must continually face complex and challenging pressures generating opportunities.

They need to ensure that all available resources and those that can be attracted by companies can create ways to guarantee the prosperity and long-term efficiency of firms in which they work. Efficiency refers to the ability to identify what is necessary to be achieved in the future in order to be achieved an optimum adaptation to continuous changes in the socio-economic, political, environmental context. Particularities of human resources and their complexity pose particular problems to managers at all organizational levels; so that their management is an important aspect of business management.

Keywords: resources management, human resources, strategies
J.E.L. Classification: M12

1. Introduction

The behaviour of the NFA ROMSILVA employees can be influenced by human resources manager by two main types of strategies: direct influence which refers to strategies that are the direct interaction between manager and those wishing to influence them and situational adjustments, those strategies designed to change the nature of the situation in which an employee works, starting from the idea that changed circumstances will affect internal motivations.

The best understood and practiced is the method which involves improving employee performance which will lead to grant rewards such as wage, bonuses, promotions increase etc. And if this will not take place, will be applied punishments such as redundancies, transfers and refusal of salary increases or promotions.

This method is actually an exchange: improving employee behaviour in exchange for rewards offered by NFA ROMSILVA. To engage in such an exchange, it is essential that the employee to have better performances and the manager to be able to offer rewards or to apply punishments announced.

While almost all influencing strategies are associated with a particular type of rewards, the difference between providing a set of rewards or external punishments, and appealing to foreign relations between NFA ROMSILVA employees is significant. The respect for a person with authority within the NFA ROMSILVA or a due to that person may be motivations strong enough to cause someone to act on request.

It is possible to combine interpersonal influence with rewards or punishments. If the relationship with the manager is important enough, the employee will react to the threat of losing his friendship or respect, acting as requested. Sometimes employees are influenced to change their performances due to the fact that the request is consistent with their values and interests, which leads to behaviour change [1].

2. Strategies to improve human resources management

To be able to use this strategy, NFA ROMSILVA manager must hold data and information on which he can explain the need for behavioural change. To change their behaviour, employees must understand the reasons for this change. It can be hard for a head with authority, which required people to change because he said so, to adapt to a

strategy to ensure that they understand and accept the request.

During the employee activity development, a kind of value progression can occur in the sense that, when they are young, insecure and try to triumph, employees may value things that represent the needs of the first level in Maslow's hierarchy, but once they get to control these needs, they are becoming more concerned about meeting the needs of upper-levels and this is the reason why managers of change, not risking to address the needs already satisfied and that no longer concerns employees, must be aware of these needs.

NFA ROMSILVA managers can influence employee behaviour not just by using direct interaction, but also by changing the nature of the working environment, based on the assumption that the factors of the situation changed will get in touch with the motivational forces of employees, determining the performance increase.

One way to improve the work environment is increasing participation in planning, setting goals and making decisions processes. Such system is the management by objectives.

Another way to improve a monotone working environment, devoid of challenges and unmotivating is the job enlargement program that has divided the factors of work in satisfaction factors and motivators [2]. People can be satisfied or unsatisfied by factors such as salary, benefits or working conditions, but these cannot motivate the employees of NFA ROMSILVA. Motivation appeals to deeper feelings of growth and development.

Giving greater attention to factors of satisfaction in a situation (pay, working conditions, human relations) can determine people to be more satisfied (or less satisfied), but will not increase performances only if there is job enrichment. The job, by its structure, should provide more challenges, the opportunity for personal and professional development, greater recognition and a stronger sense of contribution.

If job enrichment option is chosen, the manager of NFA ROMSILVA must decide to allow employees to review their work and see if they can create their own working environment. Employees are allowed to work in teams, usually led by a team leader who was made special training before. The team gathers to discuss about the institution, department, job or specific issues in order to investigate the factors that cause low results and to make recommendations to management.

A strategy commonly used in NFA ROMSILVA involves placing employees on positions of competition. It starts from the idea that people will be motivated to increase their performance where they will have the opportunity to win.

Another way to change the current situation is the transition from one situation of deprivation of information to a situation of information enrichment. The provision of information can form the basis of a kind of informal competition between NFA ROMSILVA, or may form the basis of rewards for those involved who can feel the satisfaction of noticing an increase in the level of performance.

Most programs to modify the behaviour of employees are using the provision of information as an important element in getting higher performance. As they reach the goals for improved performances, the manager of the NFA ROMSILVA seeks changing in terms of results, presents the results to the employee and shall encourage, praise and support him. By this combination of praise and recognition with the provision of information in the NFA ROMSILVA it is obtained a style change for many managers, who spend more time interacting with their subordinates. This is a sufficient explanation for the success of the behavioural modification programs in the NFA ROMSILVA.

Another way to improve the human resources management within the NFA ROMSILVA relates to improving communication. Communication is one of the most challenging issues of the work of a manager. The source of most problems of communication within the NFA ROMSILVA is represented by the difference between the content of the message or the impact that the manager intends to convey and how other members of the organization receive the message.

One of the best ways a manager can become more efficient is to find out what impact his actions and words have on those around him [3]. The key to getting to know

the impact of the message over the others lies in the challenge of a reaction from their side, the feedback, which implies a risk. In personal relationships, people are becoming more open to others as they gain more confidence in each other. In the organizational context, things change due to, on the one hand, the fact that the manager holds the power, and on the other hand, the fact that information is distorted from their passage through informal channels of communication.

There are methods of development of an effective communication strategy that facilitates managers the insurance of fair perception of their messages, as well as methods of obtaining the feedback needed.

Also, we consider that there should be feedback not only between manager and subordinates, but also between the manager and the other managers. When discussing with their hierarchical superiors, managers of NFA ROMSILVA are facing many of the problems faced by their subordinates when given the opportunity for feedback, when discussing with their subordinates, managers must be aware of the standards that subordinates must achieve, the degree to which an employee must improve its performance and the consequences of a possible failure. Communication having as subject the manager's expectations regarding performances should start before engaging the subordinate.

In the current institutional life, employees have learned to disguise and hide their feelings, especially to those occupying high positions in the hierarchy. Therefore, it is often difficult to know what the real impact of the message on others was. The result can only be a polite smile, a verbal agreement or an apparent consensus, the transmitter assuming, wrongly, that these signs of external feedback from the receiver represent the truth. A person who has good interpersonal communication skills can determine and check the real impact that his words have had, and may determine whether the eventual problem derives from a inability of communication or from the filtration system of others.

In the process of improving performances related to communication, probably no skill is more important than to receive fair and accurate feedback regarding the impact of the own message on others. This requires sensitivity, due to the fact that most people are afraid facing a direct confrontation with anyone asking about their performances. It is not easy for a person on a inferior hierarchical position in an institution to deal with a person with a higher status, to give an unsolicited and perhaps unwanted feedback. The risks involved, from the perspective of the person on the lower level, are so great that, if the situation remains intolerable, the safest strategy is to rebuke and to hope that the passage of time will improve existing conditions [4].

Another way to improve the human resources management within the NFA ROMSILVA is the training and improvement of employees aiming to identify, assess and by planned instruction to facilitate skills development that allow individuals to reach performance targets relating to present or future posts.

After an employee has been assigned to a post, he should use several types of training to be allowed to update his skills. For some, the focus should fall on technical training (the person is helped to improve his skills in using the equipment or technical programs). For others, the training should involve interpersonal skills (the ability to work with others) or cognitive (the ability to think clearly, to plan or to solve problems). Other programs are sometimes called training programs, although they are in fact educational programs, whose purpose is to extend a person's vision or understanding of the issues and problems that are often essential for human development in the field of management or in certain positions within the company [5].

3. Training and improving goals of employees

Within the NFA ROMSILVA, the training and improving goals of employees should be:

- helping them to achieve a peak performance in achieving their work;
- preparing them for the future development of job.

Training and improvement of employees can be carried out both in the workplace and outside the company, using a variety of methods and techniques such as:

- Solving problems.
- Case studies.
- Presentations.
- Demonstration.
- Movies and video equipment.
- Discussion in the group.
- Exercise working with documents.
- Interpretation of roles.
- Games.
- Critical incidents.
- Simulations.
- Outdoor experiential learning.

For training programs of NFA ROMSILVA to be effective is useful to be integrated into the general policy of the institution and be preceded by an evaluation of posts and persons occupying them in terms of compatibility of knowledge, skills and attitudes required and held.

One form of training is job rotation, in which a person spending time in a series of posts to gain specific experience first-hand, usually under the guidance of a qualified person. Recently, more and more training programs began to dress modelling format. The usual practice is that of the video recording of the actual performance or staging of role play to demonstrate undesirable behaviours. Those trained are practicing by roles the observed behaviour [6].

Career management aims to ensure long-term correspondence between career development needs of employees and positions and career paths available within the institution. The assumption underlying this approach is that people want to advance within the institution.

Institutional development aims to provide intra and inter-group healthy relationships and helping the groups to anticipate, initiate and lead change. Institutional development involves the existence of a regulatory, re-educational strategy, which is likely to affect the systems of values, attitudes, involving the formal reorganization of the institution, in order to cope with the accelerated pace of change.

4. Conclusion

Human resource management decisions must consider that the National Forest Administration ROMSILVA staff is a heterogeneous group; it must be considered as a set of distinct personalities with goals, hopes and individual goals that could be concerted. Human potential is not the same for each individual; the genetic inheritance, biological factors, social, cultural, educational, conjectural, familial influences etc. are different.

In the spirit of conservation, people have a very high resistance to the changing trend; on the other hand, people show an unexpected adaptability to actual change. People need help to cope with change and encouraged in their efforts to participate creatively in the process.

Economic and social values are perceived differently by different individuals. National Forest Administration ROMSILVA must have the ability to drive positive individuals, to focus their eigenvalues.

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Strategic Approaches In The Formation Of Human Potential In Terms Of The Competitiveness Of Enterprises Of Consumer Cooperatives In Ukraine

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Abstract

My own approach to strategic trends of human potential development in the context of enterprise competitiveness of Consumer Cooperatives in Ukraine has been posted.

Key words: Human potential, members of consumer cooperatives (shareholders), the system of consumer cooperatives, strategic approaches, competitiveness.
J.E.L. classification: J1,J10

1. Introduction

Competition as an integral part of the market economy certainly appears in the structure of organizations of consumer cooperatives. Taking into account the degree of differentiation of organizations of consumer cooperatives and their integration with the subjects of agricultural production the competitive environment can not be put aside. Besides we must keep in mind that during the transformation of the economic system processes of development of subject of consumer cooperatives are activated which are able to act rationally and engage in competitive relationships. Possibility of competitiveness of organizations of consumer cooperatives is manifested in the competition with other similar entities. The presence of related objectives and resource limitations of mobile processes lead to the intensification of competitive processes, during which the possibility of competitiveness organizations of consumer cooperatives is realized.

The steady conceptual apparatus has not been formed in the theory of competitive organizations of consumer cooperatives yet. Competitiveness is determined by complex factors of the external and internal environment of life. There must be distinguished three moments in the concept of "factors of competitiveness organizations of consumer cooperatives". Firstly competition in the system of consumer cooperatives is a form of competition in general. Competitive activity in the system of consumer cooperatives can be defined as a contest in which competing parties are interested in achieving the same goals. Competition is performed for achieving benefits and advantages.

2. Contents

Further to the researches, the active study of the problem of formation and development of human potential in the domestic scientific literature is highlighted in the works of such Ukrainian scientists as D. Bogynia, N. Dudina, N. Ilchenko, T. Kostyshyna, G. Kulikov, L. Lisogor, V. Nyzhnik, M. Semykina, E. Libanova, V. Shamota, G. Dmytrenko, M. Dolishniy, A. Chuhno, O. Grishnova, A. Kolot, A. Korovskyi, V. Petiuh etc.

Peculiarities of human development in the system of consumer cooperation were researched by O. Velychko, L. Voynash, Y. Gavrylenko, L. Drobysh, S. Semiv, L. Stepanov, L. Shymanovska-Dianych etc.

On the social-economic development organizations of consumer cooperatives currently affect three main factors: market, increased competition in life quality and innovation and production factor. These factors require additional investments, increase of employment and solving of other strategic objectives.

Studies show that the result of the formation of human potential in the context of the competitiveness of enterprises of

consumer cooperation will depend on the fact of implementing strategic approaches. Solving of this problem requires the consolidation of efforts of government institutions, the system of consumer cooperatives, civil society and the business community for supporting the rural population and the activation of involvement to the institute's membership of consumer associations and unions.

From our point of view the policy of governmental institutions should include:

- measures for accelerating economic and political reforms aimed at comprehensive improvement of socio-economic situation in rural areas, providing public access to basic social services, economic resources, etc.;
- providing equal access to qualitative health services regardless of place of residence, property status and other characteristics which require implement the reorganization of the health system and the restructuring of inefficient rural district hospitals in centers provide primary health care;
- modernization of social support and address principle of its providing.

As analysis of key financial and economic indicators of the economic system of consumer cooperatives shows the system is gradually emerging from the crisis (change activities in some areas) and improving the efficiency of its operation. The argument of this fact is the increase in activity, increase of the size of existing assets, and increase of the size of working capital, net profit growth of others. Therefore for stabilization of the cooperative system in the future the management of all types of resources must be improved and the scope of activities by finding new shareholders must be expanded.

Today as for the long-term development of consumer cooperatives in Ukraine the motto "System is for members" is actual which according to the Strategy primarily involves "the subordination of economic and social business ideas and objectives of consumer cooperatives; non-profit nature of consumer societies and organizations ... increasing of the role of consumer cooperatives in social transformation in the country "[1, p. 8].

Besides the main directions of improvement of the shareholders of consumer societies in Ukraine for increasing their role in cooperative activities are identified in the "Strategy of Consumer Cooperatives in Ukraine for 2004-2015 years" approved by XIX Congress of Consumer Cooperatives in Ukraine in 2004:

- strengthening the promotion of cooperative ideas for the revitalization of cooperatives;
- implementation of the program of the Institute of members of consumer associations and unions, their active participation in the management structure of cooperative control system;
- providing of organic combination of personal, collective and public interests by acquiring member of Consumer Societies of corporate rights, the establishment of cooperative enterprises, a large share of economic activity, financial resources, a cooperative benefits;
- provision on preferential basis to members of consumer associations and unions multilevel cooperative education, professional development opportunities and training cooperative assets, access to new information technologies;
- creation of centers of spiritual life in the cooperatives, amateur competitions, sports events for developing harmoniously developed and spiritually wealthy individuals on the basis of recovery of national culture, spirituality, respect for ethical, legal, family norms, values, personal life;
- development of strategies and approaches of cooperatives, participation in elected bodies, management and control [1, p.18].

This approach specifies that the role of the Institute's membership should be occurred in three main areas: economic participation, management and control of social services (figure 1).

In accordance with the social features of consumer cooperation should be coordinated with the economic system by the use of the new feature and formed market mechanisms that contribute to the successful implementation of economic-financial, industrial and technological, managerial, commercial activities and the achievement of financial stability at the level of individual entities. For the realization of its social purposes of cooperatives the financial stability must be achieved, the interconnection and cohesion of social

mission and commercial activities of their organizations and enterprises must be provided; the social welfare of members of the cooperative movement must be formed through specific mechanisms that provide the implementation of the economic-financial and managerial activities.



Figure 1. Increasing of the role of members of consume associations and unions [1]

According to the results of our survey, we have identified the main problems that hinder the inhabitants of rural areas, regions and cities to enter into the consumer societies.

Based on selected issues the specific measures to improve the incentives of potential shareholders were offered (table 1).

Table 1

Measures for enhancing incentives for shareholders of organizations and enterprises of the system of consumer cooperation in Ukraine
[compiled by the author]

The problem of engagement with shareholders	*The approaches of engagement with shareholders*
Loss of credibility of consumer cooperation	Saving of the shareholders'trust and interest to participate in the work of the societies
The problem of accounting of cooperative payments	Compliance with the provisions of the cooperative paid members, associate members, consumer companies and their unions, enhancing the responsibility of individuals for issuing funds to shareholders
The imperfection of the program completion and distribution of property	The implementation of the third stage of the programme, assigning to shareholders 75% of the property system
Age of employees	Engagement the youth with the work of societies by giving it the soft loans through the Bank "Ukoopspilka", admission to experience a period of training in higher educational institutions, cooperative, if a person stays to work in the system

Weak attention to work in a low branch of consumer cooperation	Decentralization of management functions from the CST, the intensification of the work of district committees
The lack of economic interest of shareholders	Provision of workers' societies thst are shareholers' systems, the systems of privileges with purchasing goods in retail, discount tuition for their children in universities of cooperative institutes
The low level of labour conditions	Increase of labour protection requirements, measures to engage capital to the modernization of existing enterprises
The high level of taxation	Reducing overtime expenses, stocks of goods in warehouses, rationalization of amortization policy
Problems of organization of work of the commissions of the cooperative control, and local x of the general meeting of shareholders	Review of functional tasks of management and control

Generalized approaches of work with shareholders that concretize methods and mechanisms of solving shareholders' problems filed in figure 2.

Engagement with potential shareholders
Advocacy of cooperative ideas among residents of rural area
Engagement with youth to participate in the system of cooperative management
Completion of the program of division and securing property
Enhancing the economic interest of shareholders by focusing on a family membership in cooperatives
The increase in the number of orders for the target children's learning of shareholders in cooperative universities
Raising the level of wages, bonuses and cooperative payments (dividends) for members of the consumer societies, the use of discount cards
Providing of broad participation of shareholders in the work of administrating authorities, auditing commissions, boards of cooperative control system of organizations and enterprises, participation in the activities of joint ventures
Optimization of engagement of the system employees
Increase the size of the additional contribution of the unit by the supreme bodies of management of societies

Figure 2. The main directions of work with shareholders which can be taken at the level of organizations and enterprises of the system of consumer cooperation in Ukraine [compiled by the author]

Effective implementation of these areas should be based on the concept of social responsibility (a model) that will allow enterprises and organizations of consumer cooperation to get a competitive advantage relative to private entrepreneurs who operate in rural areas. Thus trust attitude to the entire system can be formed as a whole, i.e. it will

influence the formation of potential member of consumer cooperation.

3. Conclusions

As the main measures of increasing social responsibility of consumer cooperation system, you need to set pay rates below a living wage; the formation of new working positions; implementation of services by shops; delivery of goods for invalids, pensioners, disadvantaged population; providing of school food; the implementation of free services; granting privileges; the organization of complex field teams; charity; production of quality products, due payment of taxes. Further to the core activities of cultural and educational area, there must be the organization of leisure of rural population; the organization and arranging of rural holidays; increasing of qualification of employees; participation of employees in the management; arranging contests between the organizations and enterprises of consumer cooperation; giving lectures on issues that are interesting to rural population.

The social responsibility before employees is shown in improving working conditions at the workplace; participation of the staff in making decisions, care for development of the staff in the professional and psychological direction, care for its family members.

Increase of the number of shareholders of societies is the main source to rebuild its working capital and the renewal of consumer cooperation in Ukraine, in particular in the context of its competitiveness.

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Perceived Leadership Style Influence on Job Satisfaction for Staff to Aviation Companies

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Abstract

This paper deals with the influence of perceived leadership style on job satisfaction of employees. One caveat is necessary at the outset to say that there is no pure driving style, but it is just depending on how it is perceived by employees, the impact it has on their behavior and on organizational performance. Of particular interest in this research is that certain leaders of behavior dimensions have repercussions on job satisfaction more precisely, on which aspects of it. Thus, some of the dimensions studied behavioral targeting:consideration, structuring, tolerating uncertainty, etc. One of the assumptions of this paper is that job satisfaction depends on the manner of self to subordinates, when employees are satisfied with certain aspects of their work tend to manifest those behaviors that maintain or enhance satisfaction on those dimensions.

Key words: satisfaction, leadership, employees, work, behaviour
J.E.L.Clasification: A1, A14, D2

1.Introduction

Failure research on specific personality characteristics style leader moved out of the state leader [1]. New approach to management theory known as situational or contingency theory, put forward the idea that there is a leadership style according to each situation but rather it depends on a number of factors: driver characteristics, nature of the task, the characteristics of subordinates, organizational level, external environment, etc.

But the most obvious finding is that personalization management provided to the confluence of individual characteristics, behavioral dimensions and the specific situation facing the leader.

Collection attitudes that employees have to work is determined primarily by the behavior of the leader determined situational factors. But also depends on job satisfaction, and the ability of the leader to identify the needs of employees, and meet them. Maslow's pyramid of needs proposes that comprises five aspects: physiological needs, safety, social, esteem, self-actualization. The first three categories can be grouped under hygienic factors nomenclature as it relates to physical working conditions, company policy, control, and so on, and the last two are motivating factors and consider issues such as updating, recognition for the work itself, responsibility , promotion, etc.

Also, job satisfaction can be influenced by the manner of self-employees, expressed in response to work situations. Called impression management, the self is defined as the process by which individuals control the impressions others are forming on them having a special role in interpersonal and organizational behavior. Two components are considered to be the basis of this process: impression motivation (the degree to which people are motivated to control the opinions of others about them), and impression construction (referring to the fact that once motivated to create a certain impression, individuals can diversify their behavior so as to influence the impressions of others towards them).

2.Research on leadership behavior

Mihuleac(1994) defines leadership behavior as "action, movement,

organization, integration, or coordinated movements adapted to the environment".

Among the best known theories of leadership styles include those developed by several groups of researchers from Ohio State University, and the University of Michigan. The purpose of this research was to determine effective leadership dimensions by observing or recording driver behavior effectively [2].

Studies at Ohio [1] started immediately after the Second World War and were based on the design and implementation of so-called "behavior description questionnaire driving." Two researchers [3] have designed a descriptive list of 150 items and then asking members of several groups to assess their own leadership. Analyzing the results, the researchers concluded that there are two factors that explain the behavior of effective leaders: consideration and initiating structure.

Consideration is the type of central management feature people concerned about establishing harmonious working relations based on trust, respect and also to stimulate the participation of subordinates in the organization and perform their work.

Initiating structure behavior management is focused on the task, the organization and efficient structuring of business. Research has suggested that these two dimensions are independent and that the leaders characterized by high values on account size produced the highest job satisfaction[4].

Studies from Michigan originated in a research conductected [5] on the behavior of leaders working groups differentiated by the level of productivity achieved. The research results led to the conclusion that leaders with high productivity tended to be centered people that pay more attention to human relations within the group. In contrast, leaders of groups with low productivity tend to be centered on the requirements of work tasks, the less interested people needs. The conclusion was that the two research approaches to leadership are actually two alternative orientations along a single continuum. Thus, a leader is being focused on people or on task. It was also found that job satisfaction was higher among group members led people-centered leadership.

In further research Floyd Mann [6], proposed a new approach to behavior management, adding dimensions on human relationships and the achievement of administrative tasks. In Mann's conception of leadership behavior involves the development of three functions which in turn requires the presence of three skills: the human relations, technical skills, administrative skills.

Somehow the review and analysis of results of several research [7] concluded that there is a common framework for all. On this basis they developed the theory of the four factors, which in their opinion summarizes the basic structure of what can be called leadership. The four factors are: support to facilitate interaction, emphasizing purpose, facilitation work. The authors of this model have concluded that effective leadership behavior is determined not only by focusing on human and psychological support given to them but also from the combination of all four factors.

Another approach is the approach to leadership traits [1]. Starting from the idea that traits are characteristics of the individual including physical features, intellectual ability and personality, research has shown that many features are associated with the fact that people become leaders, or with effectiveness as a leader. But all research shows that there are some traits associated with leadership: intelligence, empathy, self-confidence, domineering spirit, motivation to lead, emotional stability, honesty and integrity, need for achievement. Thus, leaders or the most able of them tend to be above average in terms of these dimensions, although not very strong connection.

The limits of this approach are given that, even if some features seem to be related to leadership, there are several reasons why this approach is not the best way of understanding and improving leadership.

3.Job satisfaction

Job satisfaction refers to a collection of their employees attitudes towards their work[8]. Can distinguish at least two aspects of satisfaction. The first of these

can be called facet satisfaction and is defined as an employee's tendency to be more or less satisfied with various aspects of his work. In this respect, the most relevant attitudes towards work are contained in a relatively small group of facets: work itself, pay, promotion, recognition, benefits, working conditions, supervision, coworkers, and organizational policy.

The second is the general satisfaction, and is actually a general indicator, amounted to a person's satisfaction with her work that crosses different facets [5]. Overall satisfaction is in some sense an average or overall attitudes that have individuals from different aspects of their work, so that two people can express the same level of overall job satisfaction, for different reasons. More specifically, they might be compensated attitudes towards different facets of their work.

Organizations measure job satisfaction primarily because it is assumed that this would be directly related to the immediate goals (short term) of the organization for the purpose of reducing costs and increasing performance, reducing absenteeism and errors. Long-term orientation, aiming to bring employees to the organizational environment and improving scientific understanding of the organization[8]. But when managers discovered that there is no correlation between job satisfaction and performance level, their interest in this direction decreases. Also, measuring job satisfaction in different working groups gives managers the ability to detect groups express dissatisfaction and by the development of plans to remedy the situation.

Job satisfaction is a positive emotional response, determined by labor requirements, may be the result of a feeling of satisfaction that the individual derives from work performed what he expects from work, achievement expectations about the job. Also this dimension can be seen as an overall approach can be applied to different facets of employee work. Considering this aspect managers may omit other hidden dimensions because they assess overall employee satisfaction.

Warr (1987), makes a distinction between extrinsic and intrinsic job satisfaction. The first issue relates to aspects of work itself: the freedom to choose how to fulfill their duties, level of responsibility required by workstation, applications and variety of tasks. Extrinsic satisfaction refers to those aspects of work which are background task itself: salary, working conditions, working hours, procedures, industrial relations, occupational safety [9].

Job satisfaction is legally psycho "outcome gap between what individual get that reward work and what he expected I should get, when rewards are equal between the two results in a state of complete satisfaction."[10] State further states that when that employee is below the expected gain is deploying a state of dissatisfaction which is all the greater as the difference between aspirations and what they get is higher.

4.Methodology of study

4.1Research Objectives

The objectives of this research are to determine to what extent perceived leadership style affects job satisfaction. More specifically, what is important is which of job satisfaction dimensions are influenced by how employees perceive the leader's behavior. A second objective is finding how the self influences job satisfaction and are impacting on its size.

4.2.Research hypotheses

HS1. Perceived leader behavior influences job satisfaction;

HS2.Autoprezentarea (employees tend to appear in a favorable light) influence job satisfaction.

4.3.Reasearch instruments

For this study we used three assessment tools: LBDQ (Leader Behavior Description Questionaire, Stogdill, 1963), Scale Management impression, managers and employees (Singh & Vinicombe, 2001) and JSS Global (Job Satisfaction Survey-Global, Lamond & Spector, 1999).

4.4. Participants of study

For this study we used 94 subjects from an airline, which were applied three assessment tools with a mean age of 42.4 years, 76.7% women and 23.3% men.

5. Analysis and interpretation of results

As you can see the scales scores self-promotion and networking success are below average which means that employees do not have the desire to actively interact with his direct supervisor to communicate what they have achieved and not involved in other activities than those initiated by the company to be noticed by influential people who could support career.

Table 1. Correlations between scores obtained at JSS-World and Scale MI

scale	Perf	Apra	Preg	Inte
Sal	.155	.085	.081	-.008
Abb	-.012	.052	.043	-.080
Bcol	.333*	.039	-.079	-.030
Sup	.187	.053	-.010	-.023
Rec	.195	.130	.047	.014
Nat	.322**	-.007	-.151	-.043
Vol	.184	.111	-.008	-.034
Col	.295**	.129	.082	.182
Res	.445**	.310**	.1137	.150
Instr	.322**	.205*	-008	.242*
Dezv	.108	.030	-009	.098
Prom	.117	.076	.043	.092
Sig	.314*	.146	-.029	.159
Cond	..371**	.237*	.039	.237*
Reg	.308*	.140	-.030	.167
Munc	..240*	-.049	.021	.117
Org	.101	-.086	-.009	.100

According to the table above it can be said that employees have a reduced tendency to fight to achieve goals which they have set on their careers, contributing innovative ideas and exceeding expectations superiors even if they are satisfied with collateral benefits offered company (holidays, paid sick leave, flexitime, etc.) relationships with colleagues, the nature of work (type of tasks performed), the resources that the organization makes available (tools, equipment, financial resources) training programs that are offered, work safety, rules and procedures that must comply in order to fulfill their tasks, the physical environment in which they carry out their work, and they are satisfied with the work that render.

It also shows that employees are less interested in their possible promotion seeking challenging tasks that can be distinguished and agrees to give them to solve complex tasks (even in situations where they believe they can accomplish only half of the work requested) when resources are satisfied that the company provides, the nature of the physical environment in which they work and training programs.

Since employees are satisfied with the training programs and the physical conditions of work are not interested in collaboration with senior people holding them and not participating in corporate uninitiated to search for key people who could support career.

According calculated correlations can say that employees who perceive their leader as concerned about the overall condition and their position are satisfied in terms of salary, of how they work is appreciated, promotional conditions and the amount of work performed.

On the other hand, when the leader is perceived as clearly defining its goals, and bringing to the attention of subordinates what is expected of them, employees will appreciate the salary of the prizes it offers, the control showed leadership received recognition, workload, training requirements, job security, working conditions and the rules you must follow to fulfill its duties.

Also, when the leader is perceived as acting as a representative of the group, employees will be satisfied in terms of wages, the rules which govern their work, general work and organization in general.

Employees will be satisfied in terms of salary and in situations where they perceive the leader to be able to support uncertainty and postponement without becoming anxious or nervous, as effectively using persuasion and discussion expressing strong convictions as giving subordinates the opportunity to take initiatives , make decisions and act and not least it is perceived as demonstrating foresight, the ability to provide accurate results.

Subordinates are satisfied with other benefits such as awards, when they perceive

as having persuasive leader when it pressures to ensure production and maintain the unity of the group when he runs resolving conflicts arising between members. However, when employees perceive their leader as proving foresight, the ability to provide accurate results are satisfied in terms of supervision, recognition, workload, in terms of training, the possibility of further training, promotion, are satisfied physical conditions of work rules, work in general.

When the leader is perceived as exerting pressure on the group to ensure production employees are satisfied with collateral benefits, and rules.

When subordinates perceive their leader as maintaining group unity as he runs and maintaining good relations with superiors with their influence, they will appreciate the other benefits provided (eg awards.) Co-benefits, recognition, workload respectively of rules that must be complied with.

6.Conclusion

Hypothesis postulates consisting in that: perceived leader behavior influences job satisfaction, and the manner of self depends on job satisfaction of employees were confirmed. The results show that, firstly, employees tend to display certain behaviors within the organization when satisfied or certain aspects of their work. For example it was found that there is a tendency to make more effort to achieve goals related to career, contributing innovative ideas and exceeding the expectations of superiors, they are satisfied with the benefits provided by the firm side, relations with colleagues, the nature labor resources that the company provides for them to fulfill their tasks.

Correlational study conducted between LBDQ and JSS scales revealed that there is a close link between perceived leader behavior and job satisfaction, employees are satisfied with certain dimensions of their work when they perceive their leader as exhibiting certain behaviors (for e.g.employeers are satisfied in terms salary when the leader is perceived as consideration structural, representative group when tolerate uncertainty, is persuasive and tolerate freedom.

7.Utility of study

Utility of the study is that leaders, knowing the behaviors they adopt when employees are satisfied with certain aspects of their work, may, by identifying their necessities to help amplify those behaviors considered would benefit the organization (and the subordinate) at a time and manifest themselves according to these sets situational behavior of professional employees will appreciate. This is very important as it reduces staff turnover scale, thereby reducing costs involved in such a phenomenon.

8.Limits of study

A limitation of the study could be considered that the study was applied in a single organization, the results can not be generalized. It may be that the records reflect only a feature of the organization and to extrapolate the results need to be studied more specific organizations as varied.

9.Research directions

As new research directions, you can study within the same organizations that participated in the present research, where to aim, how much dimensions considered above (perceived leader behavior, job satisfaction, and self-presentation) are relevant to the performance of employees and how they have an effect on occupational stress.

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Marketing Policies, Promotion and Communication on Pharmaceutical Market in Romania and European Union

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Abstract

The research – based pharmaceutical industry can play a critical role in restoring Europe to growth. In 2011 it invested an estimated 27,500 million in R&D in Europe. It directly employs 660,000 people and generates three to four times more employment indirectly – upstream and downstream – than it does directly. However, the sector faces real challenges. Besides the additional regulatory hurdles and escalating R&D costs, the sector has been severely hit by the impact of the tax austerity measures introduced by governments across much of Europe in 2010 and in 2011.

Key words: marketing, pharmaceutical industry, public healthcare system, profitability, generic products.
J.E.L. classification: M31

1. Introduction

Though the pharmaceutical area is special in economy by the regulations, restrictions and message, marketing activities retain their importance and sequence although often there are differences of substance. Channelling the interests of the pharmaceutical market, it can be said that the principles of marketing a pharmaceutical product provides recipe for success in the market, despite the fact that it is sold in a highly regulated market, whether we are referring to the Romanian market, the European single market or any other economic market.

More than that, n the context of global drug sales reached a value of 600 billion dollars and it is expected that the next decade will reach 1.300 billion worth, growth largely due to modern drug penetration in third world countries. Romania, as an emerging economy, respects these predictions. Otherwise, whether pharmaceutical sales in 2004 amounted to USD 900 million (data provided by Cegedim.com), and in 2006 had reached approximately $ 1.4 billion, is expected in the near future will reach over $ 3 billion, following an annual growth of 20 percent. In the area of market research is important to identify therapeutic needs of the population, dates from the statistics at regional, national or even global. It seems unethical, but economic reality calls any pharmaceutical company to produce just what will be required, so those products that would ensure satisfactory sales. The largest corporate expenses occur through research conducted to develop new molecules, research that can sometimes take years and there is also the risk of not lead to the expected result. Once obtained the final formula, useful therapeutic, clinical studies will last for years and it means exorbitant cost for pharmaceutical companies. The current law require pharmaceutical companies to those expenses that are purpose to protect patients from possible unexpected effects of the drug.

2. Application of the principles of marketing in the pharmaceutical area

Knowing how to sell is an art, but to know exactly where you positioned as a brand or as a company, now and in the medium and long term, to know whom to sell and to know what the patient's expects from you, all this combined means marketing. The companies that have a good marketing strategy are enjoying its power, materialized in increasing sales, profits, reputation and market success. Currently, the business world is focused on the marketing strategy, and the reason is easy to understand because 51 of the largest economies in the world are not

countries but corporations and brands and companies are born and die with a high rate. Neither the pharmaceutical industry has not remained immune to this global trend, especially since the pharmaceutical companies are collaborates with energy companies and banks.

Competition is fierce between companies, technologies are the same so, quality standards are respected everywhere, rarely happens even an original medicine does not have a competitor with similar therapeutic effect. In this context, focus has shifted to the company's ability to differentiate by competition, to create a favorable image in the eyes of specialized medical staff and the general public, of which potential patients that may occur. Often the patients reported better results after taking a drug of a company what has a good image on the market, in spite of bioequivalent drug competing with it. [1]

A proper marketing strategy is based both on information and data relating to competition and own brand as well as strategic marketing ability to correctly interpret these data and reaches the conclusion. Usually right marketing strategy is based on a very simple idea and very easy to understand and competitors precisely for these reasons it rejects the idea. Further, proper marketing strategy is to answer the question: what would be preferred my product and not the product of competition?

The continuing evolution of marketing combined with existing development environments and new ones, resulted with the birth of practice marketing methods, completely unknown a decade ago. Pharmaceutical companies also take part in these trends, and when the law does not allow them to promote their products, choose the option to promote their own image. [3]

Digital marketing is by definition well targeted. Ability to communicate "one to one", personalized and receive a response from the target audience allows measurement of the effectiveness of the product and its promotional campaign, and, why not, adjusts the campaign.

This kind of marketing is at the beginning; although many large companies have interactive websites which except of public information it also have an interactive aspect witch approaching the public by the company. The importance of this channel comes from the fact that 20% of their free time, people spends on the Internet and the promotion budgets for this channel is 5%. Often, is stated that a website is like a business card for a company and also a type of promotion that requires lower costs. All pharmaceutical companies have their own website where they often are publishing information about medicines, including those whose promotional media is prohibited. There are also sites created for a single pharmaceutical product, such as the Novartis www.exelon.com. [5].

It is noted that while promoting the drug is banned in the country, and because the site is external, does not violate the Romanian low. Is useful for patients, doctors and company, thus indirectly promote their product.

Blog marketing. The blog is a tool of the Internet, a tool that allows a dialogue, a debate between a transmitter and several receivers. Its advantages are speed communication and response that is directed not to a single point but to all, thus the information can be used by all interlocutors. The blog is a communication tool, a marketing technique, a listening device and a way to interact directly with customers. Experts are saying that the company management can learn a lot by reading blogs. So, the company can learn what are saying the patients, the specialized staff and even the general public about the company's product or about the company.

Shopper marketing. It is a marketing technique applies only for the OTC drugs. The concept is defined as the new methodology which helps to understand the customer behaviour on the market and help to develop communication strategies at point of sale, or in pharmacies. The mechanism of this type of marketing plans to see the pharmacy and the drug from patient's perspective, the customer who is buying a product from the pharmacy. Thus identifying what patient's real needs, what are the barriers between him and targeted drug, how it feels, what enjoys and triggers the whole process and what its influence purchasing decisions, why he is buying a product or not, how he perceives a similar product to the competition. Another shopper marketing

technique is the technique that uses visual devices that record customer focus.

Through this mechanism we can find out exactly where the customer first looked at the shelf, at what focuses its eyes on a product, what he wanted to read or what element of the product box was attracted more. Through these surveys we can identify factors that may cause the patient to choose to purchase an OTC medication to the detriment of competition. That is why medicine shelf visibility is an advantage for manufacturing companies are willing to pay.

Viral marketing. It is a modern technique by which a company makes its customers to talk about it, about its products to recommend those products. The company must show a certain understanding of potential customers and try to get into the social psychology of the environment in which they live, in order to provide value through information that they provide to them. If more and more people send further marketing message, increasing the number of receptors is exponential. Strategy is extensively used by pharmaceutical companies because the lawmaking in the area of pharmaceutical advertising, they find as a way to promote their image and brands. It is certain that large companies are having reputation and positive image that is transmitted from person to person, so no costs.

Incentive marketing. It is a strategy by which a company manages to strengthen the relationship with partners and customers through gifts. It can be efficiently in terms of cost because there is offering a unique experience and create a lasting impression when it is performed in a surprising way. This method is used by pharmaceutical companies in their relationships with doctors and pharmacists and contributes to building benefit collaboration. The collaboration will be materialized by choosing drugs produced by the company o the detriment of competition.

Fusion marketing. It is a strategy in which two companies choose to support each other, thus giving more visibility to both companies at low costs. Many times, the pharmaceutical companies choose to produce a medicine in collaboration and its promotion is done also in partnership. In this way, both companies are reducing their costs, as a way of saving intensely used in the business world.

3. Communication policy in the pharmaceutical marketing

The whole effort of a company and especially its results should be made known to those targeted as customers, especially factors of influence in the domain (doctors, pharmacists). Communication is a process that includes at least four elements: source (the issuer), the message, the communication channel, the recipient (receiver) of the market.

The issuer in this case is the pharmaceutical company who transmit its message through specific media (advertising, PR, sales promotion). Receiver can be the target audience or if the law not allows, specialized staff that can prescribe or supply the product. The message can be a text message written or read, an image, a gesture, a radio broadcast, television or the internet. Channels (media) are the ways in which the message it is sent to the receiver.

The media and the advertising

The television is characterized by a wide audience, high visibility, and credibility, combination of image, colour and text. It also has great importance the specific of television, the audience that is addressed to, existing televisions that have general audiences and niche televisions addressed only a segment of the population. The disadvantages of television are first of all related to the price paid for the advertising spot because the cost depends on the audience and on the audience.

Newspapers readers have a basic constant between tens of thousands and hundreds of thousands at the most popular in Romania, frequent appearance and the emergence of a national coverage and the cost is much lower than of television commercials. The disadvantages of this channel are short – lived, limited reproductive capacity and quality, the need to incorporate the messages several times and the passive nature of newspapers.

Opposed to newspapers, magazines aimed specific socioeconomic groups, provides a high quality reproduction have longer life span (a few weeks). The shortcomings of this channel are: higher price for advertising,

reduced flexibility, longer response time from the readers, and reduced frequency of appearance.

On the radio, benefits are similar to those of the television, but the audience is often lower and can be provided only audio messages that have a weaker impact on the audience. As a consequence, the price of radio advertising is lower than the price of TV advertising.

Outdoor advertising. is made by panels, neon signs, advertising on public transportation, it is characterized by a good ratio cost / results, allows repetition of exposure, attracts attention by showing the product in crowded places, on large areas, with visibility, brings big support to promote through other media. The disadvantages: the small selectivity, the message should be short. This channel is often used by pharmaceutical companies to promote their own name.

The Internet is the newest and most modern way of communicating an advertising message. The advantages of the internet are multiple: the communication is easy, provides a large amount of information, it is interactive, information can be updated constantly, can generate direct response, offers the possibility of direct communication with the receiver.

The interpersonal communication through medical representatives has the advantage that it provides a direct contact, offer the possibility of immediate transmission of the message, has the ability to improve information during the discussion, the understanding of the message is easier, cost of this channel is low and can have as effect the purchase decision.

The ability to select the most appropriate channels for transmitting the message to a given set of objectives is one of the most delicate tasks of marketing.

Most of the times in an advertising campaign the promotion is made in several ways, so the messages are more easily reach the subjects. When promoting drugs, for the specialist staff the chosen variants are magazines, advertising and mailing address and addressing doctors and pharmacists through medical representatives. For medicinal products that can be promoted for the population approached ways are many, because the law allows under certain restrictions radio or TV commercials, promoting through newspapers, internet or advertising panels.

4. Communication objectives of the advertising message

The first objective is to win favorable attitude toward customers demand. The favorable attitude creates if the messages allow customers to easily identify the products of the company and to differentiate from other products on the market. For this purpose, the messages must include information about the product, its qualities so that a doctor or pharmacist to be convinced of the high quality of the product and favorable price and in this way contribute to selling the drug by prescription and recommendation. Once satisfied the first objective its aims to convince the qualified persons to contribute disinterested, based on confidence in the product, for selling the medicine. Another objective is to increase sales and market share and then as the last objective of improving the company's image and its products among current and potential customers in the market. [2]

5. Conclusions

Pharmaceutical companies have invested in 2012, with about 130 million euro to promote their products in the average portfolio. The net value is around EUR 20 million, according to estimates of Media Hub. This amount does not include special promoting where they spent other significant sums and that would make the total pass 200 million euro. But, most likely these amounts will not be anything in the coming years it is expected that the amount invested in advertising will increase by over 15 percent annually, according to pharmaceutical market growth through market development and advertising.

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Organizing Strategies in Ecotourism Management

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Abstract

Ecotourism is coordinated nationally by a central body, whose duties imply mainly to manage the ecotourism activity on national level, to develop the ecotourism strategy, and to promote ecotourism domestically and internationally. Its activity is supported by regional organizations that conduct and coordinate the strategy for ecological tourism locally, collaborate and form national networks. Located at pyramid basis, the sectorial organizations in the ecotourism destinations (parks, reserves, ecosystems) are the basic cells of the ecotourism system.

Key words: sustainable tourism, ecotourism, ecotourism management, organizational strategies.
J.E.L. classification: L83, M31.

1. Introduction

Ecotourism is not a fashion, but a necessity of the third millennium, with benefits for ecotourists, local community, or organizations involved in sustainable use of natural protected areas. Ecotourism has become a tourist market segment with growing potential for its environmental responsible, sustainable, righteous qualities. The ecotourism market is the economic and geographic space where demand and offer for ecotourism services interfere with the society and influences directly their state and evolution over time.

The International Ecotourism Society considers that the ecotourism market is a market niche of nature tourism, defined as those trips in undisturbed areas, offering relaxation in nature based on tourists' moderate activities in thge environment and the welfare of local communities [3].

Ecotourism is also defined by its objectives of nature conservation and support for local people. Therefore is more difficult to quantify how many tourists in natural areas are motivated by the principles of ecotourism.

Estimates show that ecotourism holds between 20% and 40% of the global flow of tourists and recorded 10% of total international tourism. Some studies on tourist motivation revealed an increase in those who practice nature tourism and especially those who want to know the wild environment, although the ecotourism groups should be designed from 6 to maximum 30 visitors.

Ecotourism involves practicing tourism activities and related economic activities, in a natural, unpolluted environment, with beautiful and refreshing sceneries. Lately, ecotourism has been associated with national parks and nature reserves, having the function to protect and conserve, invest in and support the traditional rural economy, and maintain social, cultural and historical traditions of local communities [4].

2. Ecoturism, a component of sustainable tourism – a short literature review

The concept of ecotourism has emerged in the 1980s, as an alternative to mass tourism of intensive development. Although it was not established as such, ecotourism has direct links to declaring the first national park in the world (Yellowstone, USA), in 1872. The ecotourism activities developed within wild nature, in remote and fragile areas of the world. Ecotourism is also an alternative to traditional tourism of industrial type, from tourist resorts or overcrowded urban centers [2].

The concept of "ecotourism" was defined in 1991, at an international seminar on ecotourism of the Expert Council for Environment Canada (CEAC). In 1991, the International Ecotourism Society (TIES) defined ecotourism as "the responsible travels to natural areas that preserve environment and support the welfare of local people" [6].

The World Union for Nature Conservation (IUCN) stated that ecotourism "is an eco-responsible travel in undisturbed natural areas, in order to relax and appreciate nature and past or present cultural features, promoting conservation, having low negative impact, and providing benefits for the communities involved "[3].

Ecotourism is a component of sustainable development and is often named "green" or "soft" tourism. The definition accepted by UNWTO is relevant in this regard: "Ecotourism is a form of tourism in which the main motivation is the observation and appreciation of nature and local traditions" [4].

To summarize, ecotourism is a form of tourism in wild natural areas and traditional cultural areas slightly modified by man, that should be sanctuaries for the protection of nature and ancestral forms of civilization, and support the economic development of local communities [5].

In the narrower sense, ecotourism is based on the observation of nature, offering distinct tourism products, specific to cultural, scientific, and research tourism, practiced in countries with remarkable biodiversity, with nature reserves, national parks and local communities with unaltered customs and traditions.

Ecotourism helps protect vulnerable natural habitats and historical and cultural values threatened by degradation and destruction by intensive tourism, mass tourism or hunting. Ecotourism is thus a way to sustainable use of the environment and a tourism product with therapeutic (mentally or physically) properties [3].

3. Ecotourism management

Ecotourism management is the management, anticipation, organization, coordination, and control of all ecotourism resources to achieve maximum efficiency, providing tourists' relaxing without prejudicing the environment.

In practice, the managerial process should consider permanently that ecotourism activities (research, study, recreation, education) must be made very carefully so as not to distort the environment, landscape, authentic and especially wildlife or local people. The recreational activities that may be practiced within the protected areas (some characteristic to mountain, adventure, or sport tourism) are the following:

- studying and admiring the landscape, flora and fauna (including the creation of panoramic view points);
- photographing, filming and painting landscapes;
- hiking in nature;
- ballooning;
- educational visits (courses, workshops, projects, activities and ecological restoration of habitats)
- educational visits (courses, workshops, projects, activities and ecological restoration of habitats);
- climbing, skiing, caving;
- gliding and paragliding;
- water travelers (kayak, canoe or rafting);
- visits to cultural, historical, and ethnographic tourist spots;
- knowledge and learning the local traditions (craft, dance, cuisine).

To conduct an effective ecotourism management, the following requirements must be considered [5]:

- the main motivation in practicing ecotourism is the observation and appreciation of nature, cultural traditions in natural areas;
- ecotourism should include educational features (afforestation, agriculture, rehabilitation of endangered species);
- inventory of resources including the protected natural and cultural areas;
- tours are conducted on small groups (up to 25 persons), usually by local tour agencies;
- ecotourism supports the protection of natural areas by generating revenue to host communities, providing business opportunities, jobs and increasing environmental concerns and the need for conservation of natural and cultural areas (UN);

▪ the ecologically sustainable development determines the level of ecotourism activities;

▪ setting the support threshold, in compliance with the consumption per tourist and standards to classify ecotourism facilities;

▪ providing professional training in ecotourism (staff accommodation facilities, guides, local communities involved), increase service quality (as important as the ecotourism attractiveness of the area);

▪ supporting material recycling, alternative energy resources, low-impact substances (biodegradable detergents, unleaded fuels).

UNEP suggests the existence of an integrated management and a development plan that takes into account national and local development strategies, based on impact studies and clear measures (monitoring tourists, tour operators, application of environmental standards) and in compliance with the legislation in effect (laws regarding environment, tourism, labor).

A condition for success is the involvement of local communities in ecotourism projects through partnerships, in order to increase their responsibility and ensure that some benefits are theirs. These partnerships are based on transparent networking collaboration, made current with system information necessary to certify as intra- and intergenerational equity. Ecotourism principles and best management practices allow institutional capacity building at local, regional and international levels.

4. Organizing strategies of ecological tourism

The tour operators on the tourism market noticed an increased interest in ecotourism and started promoting "eco" products, as [5]:

- ecotour or ecotravel;
- ecotravel or ecologic trip;
- ecovacation or eco-holiday;
- ecoadventure or ecologic adventure;
- ecosafari;
- ecocruise;
- ecoexpedition.

The need to respond in every respect to consumer demand for ecotourism has led to the diversification of organizational and functional systems, involving operators with different qualities, namely:

- **sectorial organizations**, specialized in supply chain links of ecotourism products, some used in traditional tourism (camping, retreat, cottage, guest house, camp motel, hotel, cruise ship), some specific (ecolodge, ecomotel) built on ecological principles, recyclable materials that use alternative energy and have indigenous design;

- **organizations by destinations**, as parks, reserves, ecosystems, etc. They encourage cooperation and coordination between different sectorial organizations and coordinate activities in a particular area, jointing actions to promote ecotourism;

- **ecotourism organizations,** viewed as a whole, nationally or globally, with responsibilities in studying and predicting ecotourism phenomena, or in developing strategies and policies for sustainable development.

There are cooperative and subordination relations between them, while their activities overlap often. In such circumstances, we may state that there is a system of organizing ecotourism activities, structured on three levels similar to that in Figure 1:

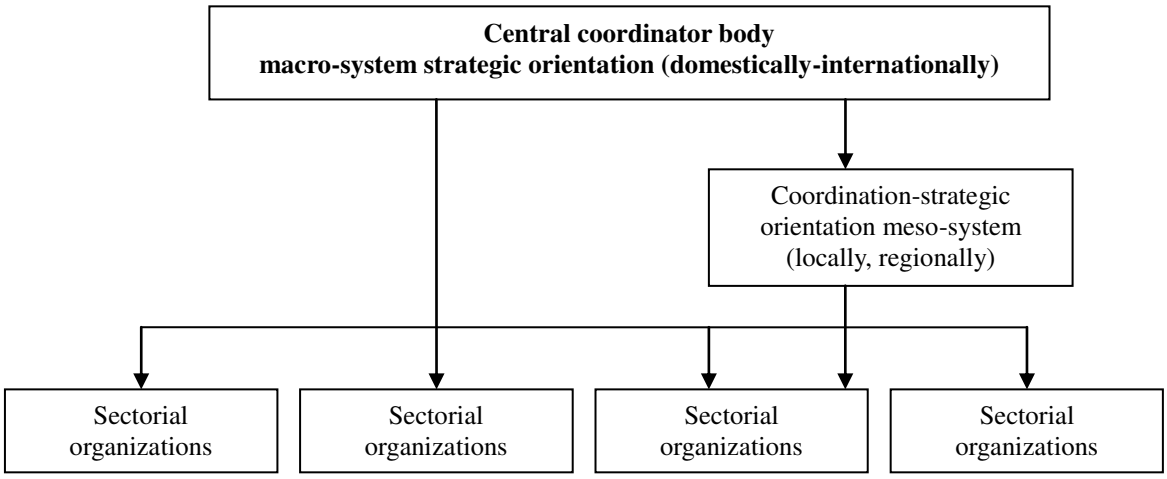
• central (coordinator) body;
• regional (local) bodies;
• sectorial organizations.

a) In most countries, ecotourism activity is coordinated nationally by a **central body** whose functions depend on the development and importance of ecotourism in that economy. The central body may be synonymous with national administration and often correlates with international bodies and their structure. Its primary functions are to coordinate ecotourism activities nationally, to develop the ecotourism strategy, to promote ecotourism domestically and internationally, to initiate and promote specific laws and regulations, to be representative within international bodies.

b) The **regional organizations** develop and coordinate the ecotourism strategy locally in collaboration with municipalities, conduct ecotourism marketing activities, providing and receiving information and a variety of promotional activities. These are known as "organizations by ecotourism destinations" [2], representing the main categories of eligible natural ecotourism resources [3], namely:

- national and natural parks;
- valuable terrestrial ecosystems (games reserves or birdwatching, ichtyofauna, deciduous or coniferous forests);
- ecosisteme marine (formaţiuni coraligene) sau ecosisteme umede (mangrove, estuare, delte, lacuri, mlaştini);
- marine ecosystems (corals) or wetland ecosystems (mangroves, estuaries, deltas, lakes, swamps);
- nature monuments and preserves;
- botanical, faunal, caving research centers;
- exceptional phenomena (polar auroras, meteors, eclipses, Fata Morgana).

Figure 1. General scheme of the organization system in ecotourism, for strategies and interests of major involvement on vertical and horizontal



(*Source:* made by authors [1])

The regional organizations generally have functional autonomy and their own budgets, such as NGOs, associations and foundations. They may collaborate and form networks nationwide.

The tourism planning of protected areas vary from country to country, as tourism facilities differ in each park; these are are largely determined by their natural specific objectives, tourists' motivations, valuation possibilities. The existing equipment fits quantitatively and qualitatively the limits imposed by these ecosystems, but disrupt their balance when exceeded.

Tourism valuation of protected areas involves the regional organizations as follows [2]:

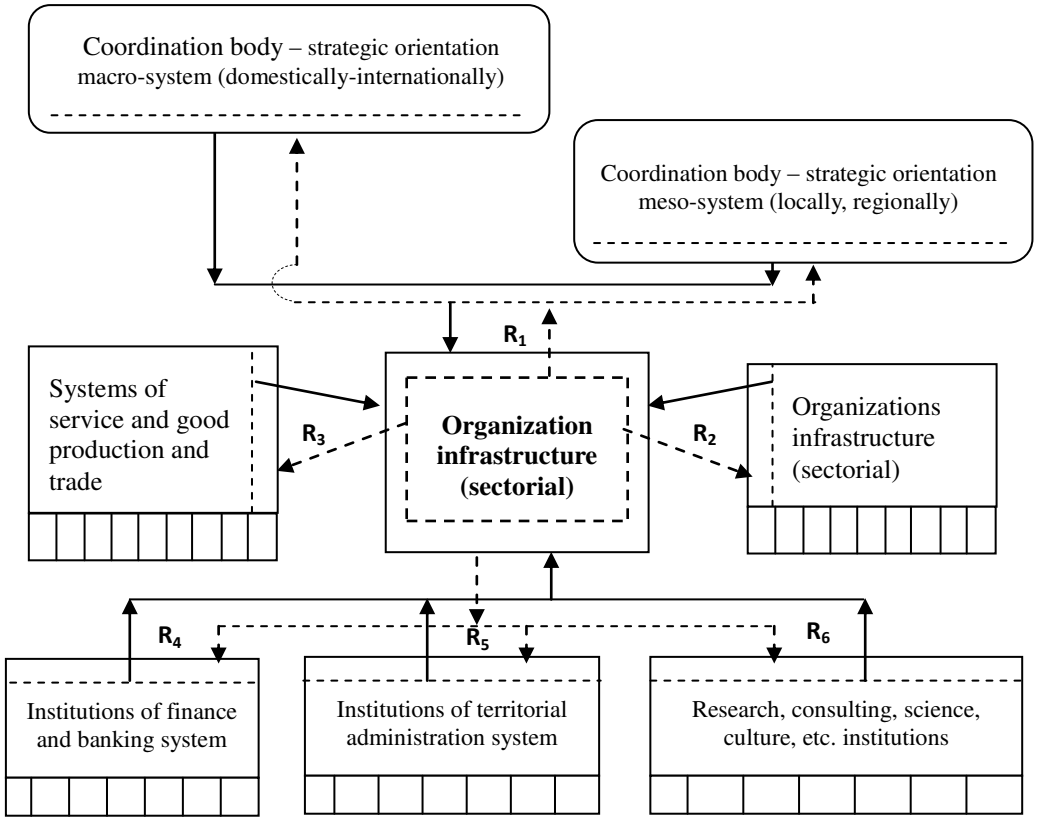
- setting of entry and exit points, as well as itineraries;
- organizing a tourist information centre;
- building the general infrastructure (road network, pedestrian network, parking space, water and electricity facilities, etc.);
- managing tourist flow: their sizes, tie hourly visiting groups, their frequency, duration of visit, etc.;
- arranging accommodation, food, sports and entertainment facilities acoording to specific conditions, resources, principles of tourism planning and development standards (technical regulations);
- arranging sightseeings;
- restoring degraded landscapes and sightseeings, signaling sightseeings, equipment and utilities.

c) The **sectorial organizations** are the basic cells of the ecotourism system, being specialized in supply chain links in ecotourism product, such as:

- very diverse *accommodation structures*, some used in traditional tourism (from camping, retreat, cottage, guest house, camp motel, hotel, cruise ship), some specific (ecolodge, ecomotel) built on ecological principles, of recyclable materials, using alternative energy and indigenous design;
- *meal structures* with specific local food, organic food, often developed by local people that have the opportunity to build small businesses;
- *complementary structures* - transport services, guides, sports equipment rental,

leisure and sport (various sports facilities, natural ski slopes, swimming pools, horse riding etc.), handicraft products specific to each place, depending on the existing tourist resources. These structures also provide residents the opportunity to enter the ecotourism business.

Figure 2. The system of infrastructure (sectorial) organizational relations, integrated into ecotourism interests



(*Source:* made by authors)

The scheme presented in Figure 1 allows to be adapted to the specific conditions of each country. It refers to the presence of one or more systems, to structure activities on two or three levels of organizational and strategic coordination, and the duties and powers belonging to each link. This model also allows for recognition as such, based on accurate documentation of the relations and obligations between them. Figure 2 provides an example.

Depending on the interests that require the need for collaboration between policy system – Figure 2, the actual content of relations R1 R6 ÷ detailing the convenience in an official document, usually in bilateral profile, taking into account their particular relationship with each of the components of the relational system.

5. Assessing performance of ecotourism management

The most important criterion for evaluating the performance of ecotourism management is respecting the carrying capacity of the environment, which translates into hospitality tourist reception capacity consisting in: capacity building or physical (degree of amenities tourism structures), social ability - perceptual (relationship of tolerance and communication among residents and visitors), ecological capacity (the use of resources and degradation), economic capacity (degree of participation of other sectors to support tourism), psychological capacity (tolerable level of congestion in tourist season). These types of capacity control tries to determine the level of development of tourism services, because

above a certain threshold it may lead to degradation, making a major tourist region or locality in time and space lose the function of active tourist destination.

The requirements formulated by the "Programme of Action 21" Code of Ethics in Tourism (UN, 2001), the "Johannesburg Declaration 2002" was done by developing a practical guide for the use of indicators for sustainable tourism features. Table 1 presents these indicators for assessing the sustainability of tourism [4]:

Table 1. Performance indicators in ecotourism management, as part of sustainable tourism

Indicator	Quantification means
Site protection	Delineation of sites according to IUCN categories - International Union for Nature Conservation, based on knowledge of protection criteria.
Tourist pressure	Quantifying the number of tourists per year and month, with the maximum and minimum flow setting.
Intensity of use	Assessing usability maximum ratio between the number of persons per hectare with tourist facilities.
Social impact	Calculating the ratio between the number of registered tourists per year / month and total resident population.
Developing conditions	Applying balance studies and environmental impact of all tourism activities, specifying the use of resources.
Waste management	Establishing wastewater treatment capacity, collection, processing waste to determine capacities of development of tourism.
Making plans	A general development plan with sectorial components (tourism, transport, urban facilities, etc.) and well defined objectives of socio-economic importance.
Quantifying and presenting fragile ecosystems	Analysis and strict records of species of flora and fauna endangered, estimated the number of individuals per species.
Customers' satisfaction	Regular assessing the consumer satisfaction by applying specific questionnaires (at least every 2 years).
Satisfaction of the local population	Establishing periodic set residents' satisfaction by applying specific questionnaires (at least every 2 years).

(*Source:* made by authors [4])

After a careful analysis of the sustainable tourism indicators we observed that the first category of indicators is easier to apply, while the last three are made up of variables consistent with their quantitative and qualitative features of the site. Therefore, identifying and assessing indicators of sustainable tourism in protected areas should be the contribution of tourism experts with sufficient knowledge on the quality of environmental components.

6. Conclusions

Ecotourism management is the management, anticipation, organization, coordination, and control of all ecotourism resources to achieve maximum efficiency, providing tourists' relaxing without prejudicing the environment.

The ecotourism management should meet the following directions of action:

- detailed knowledge of customer preferences and motivations;
- quality management is based on the quality of ecotourism resources, raw materials, ecotourism and training facilities;
- quality refers to all services provided by a firm;
- the human factor with cultural and information on environmental issues carries quality in ecotourism;
- to promote the performance achieved by some travel companies that have been known to influence service quality management application accordingly;
- eco-business leads to eco-efficient results, namely the market of environmental goods and services.

To achieve these objectives, the ecotourism activity is structured in organizational terms on three hierarchical levels - the central (coordinator) body, the regional (local) organizations, the sectorial organizations - each with their own strategic objectives and having a functional system designed so to facilitate their achievement.

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Integrating Internal Branding in Marketing Strategy

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Abstract

Brand is a major asset of the company. Building brand equity requires a lot of efforts in brand positioning and development. In the recent years more attention is given not only to the outward branding activities but to the role of employees in the branding process. Internal branding is an essential part of the marketing strategy and branding decisions as part of the company marketing mix. It ties outward brand promise with creating employees' brand loyalty. External and internal brand correspondence strengthens the brand and increases customer satisfaction because employees are the most important brand ambassadors. The paper discusses the process of internal branding and its congruence with the brand equity development.

Key words: *internal branding, behavioral branding, brand understanding, brand loyalty*
JEL Classification: M310

What is internal or behavioral branding?

Internal or behavioral branding is an integral part of the company marketing strategy. It contributes to the strong consumer-brand connection by building consistent employee-brand relationship. "Live the brand" becomes a necessity for successful business strategy. According to Patrick Harris internal brand management "…should be the creed by which the whole organisation elects to live and breathe" (Harris, 2007). Internal branding creates competitive advantage for the organization by involving employees in the branding process. It allows the employees to understand their role in delivering the brand promise outward and motivates them by being proud to work for the company and to convey brand values. Both customers and employees have to see and feel that their values are reflected in the brand. They have to feel it as their own brand.

The attention of researchers and companies management to internal branding is determined by different reasons. A major one is the dissemination and the domination today of the culture of sharing. Customers become co-creators of the brand. They are better informed on the companies' products and services, and the inconsistencies that can exist between the externally disseminated values and the internal reality are easily identified. Customers have more pre-purchase information and share their consumer experience in social media with numerous potential buyers. Customers can build and ruin a brand very fast. However, involving customers in the consumer-created brand marketing cannot be done by isolating company own employees. They have also to be integrated into the process.

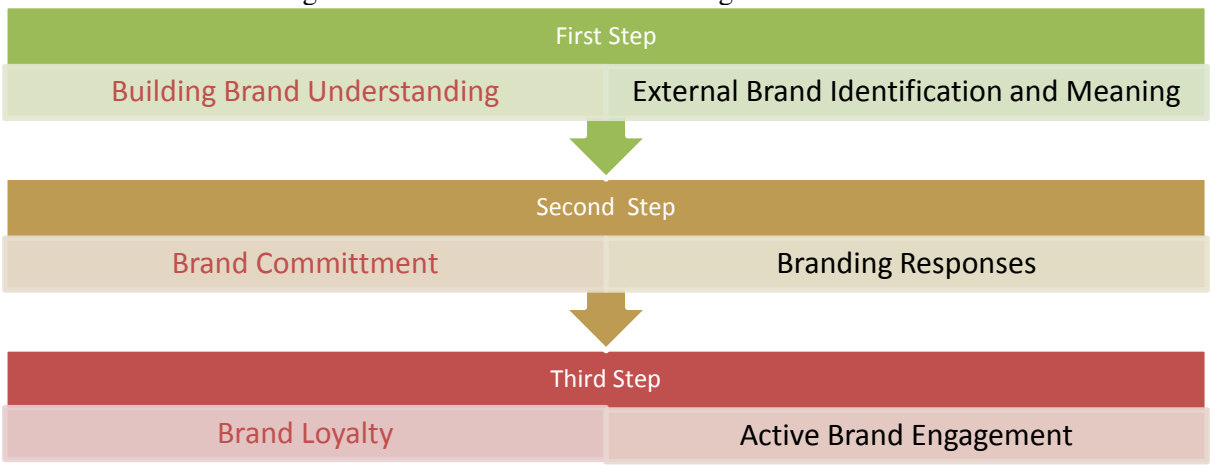
The growing share of services is another reason for the growing importance of internal branding. People are a major element in the services marketing mix decisions since they have a direct contact with customers. The brand promise has to be delivered in all the contact points with customers because their satisfaction depends on the brand experience and service.

Integrating internal branding

The internal branding should match the external brandingefforts. The employees should be considered as part of the company target market. Since external branding is currently the more developed process, the internal branding can follow its logic. One of the most popular brand building models is Keller's Customer-based Brand Equity Model (Keller, 2001) which comprises of

brand identity, brand meaning, brand responses and brand relationships. Based on this model the corresponding internal branding stages could be brand understanding by the employees, commitment to the brand and evolving loyalty. The alignment process is shown on fig.1

Fig.1 Internal and External Brand Alignment Process



Based on Customer-based Brand Equity Model (Keller, 2001)

Building Brand Understanding is the first step in the internal branding process. It builds employees' brand awareness. The first stage includes a variety of activities that help the employees to develop better understanding of the brand values and how their performance is interrelated with them. The marketing research tools as surveys, focus groups, and in-depth interviews can be used to identify to what extent the brand promise is understood by the employees. For example. if the company claims that it puts more efforts in delivering the brand promise than the competitors the company management has to clarify and explain to employees what this means for the concrete interactions with buyers.

The external managerial task at the first stage is to make brand "stand out in ways that are relevant to consumers' needs… familiarity must lead to a strong, positive consumer-brand connection."(Kotler, Armstrong, 2012)

A good example of the first stage is Lufthansa brand academy Seeheim. Its goal is to create a basic understanding of the importance and impact of brands in general and provide vision and future strategies for Lufthasa brand. The participants experience the Lufthansa brand with all their senses and become brand ambassadors. The main target groups for the Brand Academy are managers and service staff on board and ground.The academy has also new training devices and learning levels for employees and managers from all the regions in which the company operates.

In the case of rebranding employees'involvement is also necessary. They have to understand the business reasons for the rebranding in order to accept the new image and support the marketing department in consistently conveying the company's rebranded message. The brand ambassadors in this case could be influential employees from different departments, geographic regions and job levels. Their main task is to communicate the new business strategy and signpost it to their peers.

Brand commitments is the second stage in the internal branding process. The major task at this stage is employees' motivation. It is achieved by the development of individual and collective motivational initiatives. In order to keep the employees and attract new talented people the companies must have a clear internal message what they stand for and how it is translated into everyday obligations and responsibilities of the employees. Brand commitment is achieved when the employees identify themselves with the brand and are ready to apply additional effort to achieve brand goals.

Employee participation in the brand strategy development increases their brand understanding and develops brand commitment. For example Wrigley

developed the "platform of change" that focused on promoting the transfer of knowledge between employees, developing a lasting culture of positive accomplishment and motivation, and rewarding the staff for their efforts.

Many companies are trying to involve employees in the new product launches in order to improve their understanding of the product benefits, increase commitment and encourage them to become brand ambassadors. For example Nestle South Africa were launching a unique range baby cereals Nestum & Cerelac, nutritious meals in single serve sachets and designed an internal competition to make a 1 minute advert promoting product convenience. More than 500 employees took part in the competition. (Nestle, 2010).

Another tool for motivating employees is story-telling. The overall goal of story-telling is to develop the business, its profits and reputation by building trust and inspiration. Stories prove that the brand is authenthic – realistic and tangible because the brand promise is delivered by real people. For example the corporate brand platform of Chevron "Human Energy" motivates the company personnel by showing the challenges that the company faced through the years. "The Chevron way" is the company vision on the key values that company holds in working with people inside and outside the company. Story-telling in FedEx inspires personnel by connecting personal life changes of the employees with the socio-economic and technological changes taking place in different regions of the world. Story-telling workshops at Philips internalize business goals and improve the communication among technical and other company departments. (Forman, 2013)

Brand commitment corresponds to the external step of branding responses. Its goal is to form customers' positive attitude towards the brand and gradually to develop brand internalization that will lead to more sales and profit.

Brand loyalty is the third step in the internal branding. It can be achieved by human resource policy changes, new employees' evaluation systems, compensation schemes, etc. The most successful companies have developed internal branding programmes with the joint efforts of Marketing and Human Resource departments. Their cooperation is a major factor for employee-brand-consumers relationship. Brand loyalty cannot be achieved without the personal example and involvement of the company management and leadership.

Better work environment is another factor for employees' brand loyalty. The employees in Shell Bulgaria appreciate highly the working conditions in the company. Many researchers consider the opportunity for work-life balance as an important reason for pursuing a career in a company and building brand loyalty. (Pujaisri, Wilson and Evannschitzky, 2008). Flexible hours, telecommuting options, compressed workweeks and family friendly work environments are part of the tools with which the companies can recognize outside company life of the employees and the congruence between external promoted brand values and attitudes towards employees.

Where should company start the internal branding process?

Building a brand-based culture in the company will keep employees motivated and with clear idea about his or her role in delivering the brand promise. The first step in creating such culture can be an internal brand audit that will identify the employees brand understanding, commitment and loyalty. The audit should target the employees and the management of the company. It will provide guidelines for the development and the implementation of integrated internal and external brand strategy. Some of the issues that can be included in the brand audit are the following (Brand Insight Assessment, 2012):

- What is the employees understanding of the brand?
- Is the employees' brand understand relevant to the external brand promise?
- Is the organization consistent in communicating brand identity inside the company?
- What are the major channels for informing the employees?
- What are the main motivational tools for delivering the brand promise by the employees?

- What is the level of employee satisfaction with motivation?
- What are the major contact points between customers and employees throughout the brand value delivery?
- What support and training employees need in the contact points?
- Do new and existing employees receive training?
- Are the employees interested in developing a career in the company?
- Does the management understand the need of internal branding?
- Does the senior management develop internal and external branding strategies?
- How is the Human Resource Department integrated in the marketing strategy development and implementation?
- How are the results of the internal branding programmes measured?

The audit can be based on employees' confidential surveys and focus groups to identify specific issues in employee-customer contact points. The combined efforts of internal management and outside consultants will contribute to the objectivity of the internal brand audit.

Conclusion

Internal or behavioral branding is a needed component in the marketing strategy of the company. It requires joint efforts of the company management, marketing and human resource departments. Strong internal branding enhances company brand equity and results in higher customer satisfaction and profits.

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Teamwork – a Solution for Romanian Organizations

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Abstract

Creating an environment that is built on teamwork and establishing an effective team is a real challenge for any company and it is the responsibility of the organization, the manager or the team leader and of each team member. Thus, Romanian managers are required to have in-depth knowledge of their team hence they can make use of their full potential. The purpose of this paper is to analyze teamwork in the Romanian companies. Based on the analysis of 90 completed questionnaires, we are presenting the conclusion: being innovative and capitalizing creativity and quality more than quantity both for the individual and organization level, Romanian's managers know that an inspired solution for crisis is based on the concept of high performance team.

Key words: work group, team, teamwork, team leader
J.E.L. classification: M 59

1. Introduction

To succeed the organizations must rely on the knowledge, skills, experience and perspectives of a wide range of people to solve complex problems, to take good decisions and to provide effective solutions. The fundamental unit of labor in the modern organizations is the team and not the individual. According to these forecasts, when management seeks faster and better ways to best match resources with the customer expectations, the opportunities and the competitive challenges then the organizational structure is critical at the team level and not at the individual level. This does not necessarily mean that individual performance and accountability are not important. The challenge for the team management is rather to balance the roles of the individuals and the role of the teams and to transfer or promote one or another.

2. What is a team?

One definition we have used to help reflect on this question was Bailey and Cohen (1997) definition of team. "A team is a collection of individuals who are interdependent in their tasks, who share responsibility for outcomes, who see themselves and are seen by other as an intact social entity, embedded in one or more larger social systems and who manage their relationships across organizational boundaries."[1]

Jon R. Katzenbach and Douglas K. Smith in their 1993 book, *The Wisdom of Teams,* provide practical distinctions among the kinds of groups currently operating in organizations.

- Working group - the members of this group interact primarily to share information, best practices, or perspectives, and to make decisions to help each individual perform within his or her area of responsibility. There is really is no reason for either a team approach or common/mutual accountability. To members of this group, team building activities are pointless and take time that could better be spent "doing real work."
- Pseudo-team - this is a group trying to be a team. There often is no common, shared goal, or the goal is not seen as a valuable contribution for the organization. Pseudo-teams are the weakest of all groups in terms of performance impact. They almost always contribute less than working groups because their interactions detract from each member's individual performance without delivering any joint benefits. For a pseudo-team to become a potential

team, the group must define goals so it has something concrete to do as a team that is a valuable contribution to the company.

- Potential team - may share a common, significant performance goal and may be trying to address teaming obstacles. They requires more clarity about purpose, goals, or work products, and more discipline in hammering out a common working approach. It often has not yet established collective accountability. Or perhaps team members have not been relieved of other responsibilities, forcing them to prioritize their time and effort.
- Real team - a small number of people with complementary skills who are equally committed to a common purpose, goals, and working approach for which they hold themselves mutually accountable. The possible performance impact for the real team is significantly higher than the working group in that the contribution of the whole is greater than the possible sum contribution of individuals on the team.
- High-performance team - a group that meets all the conditions of real teams and has members who are also deeply committed to one another's personal growth and success. The high performance team significantly outperforms all other like teams, and outperforms all reasonable expectations given its membership. Members of high performance team pools their diverse talents, experiences, and perspectives to produce solutions that are greater than what they would have produced as individuals merely coordinating their individual activities.

In conclusion, we can say that teams are complex, unique entities that have been characterized as: two or more individuals who interact socially, adaptively, have a shared or common goals, hold meaningful task interdependencies, are hierarchically structured, have a limited life span, whose expertise and roles are distributed and are embedded within an organizational and environmental context that influences their process and outcomes.

2. The role of teams in achieving the high performing organization

Teams and performance are an unbeatable combination. Several phenomena explain why teams work well.

Firstly they bring together complementary skills and experiences that by definition exceed those of a single person on the team. This broad mix of skills and experience allows teams to respond to complex challenges such as innovation, quality and customer service.

Secondly, the joint development of clear objectives and establishment of team relationships that help resolve problems in real time. Teams are flexible and responsive to changing events and demands. As a result teams can adjust their approach to new information and new challenges with greater speed and higher accuracy than those working in large organizations.

Thirdly the team offers a unique social dimension that enhances the economic and administrative aspects of work. Real teams do not develop until the people do hard work to overcome barriers that stand in their way to achieving collective performance. Overcoming such obstacles together helps people who make up the teams to built confidence in each other. They also increase their mutual purpose to perform for their team regardless of individual needs.

Teams do function better in an organizational culture that encourages high performance by promoting the following five principles:

1. Teamwork is characterized by a set of flexible and adaptive behaviors, cognitions and attitudes. Teamwork is defined as a mechanism by which members are able to adapt and adjust in a timely manner and to action in order to meet the demands of the team members thereby resulting in coordinated, synchronized collective action.
2. Team members must have the willingness, capability and preparedness to assume the duties of their fellow teammates. Teams that successfully engage in backup behavior will achieve a level of performance greater than the sum of its individual members.
3. Teamwork requires the coordination of the collective interdependent team

member behavior. Team coordination can be defined as the process by which team resources, activities and responses are organized to ensure that tasks are integrated, synchronized and completed within established timeline constraints. The coordination makes possible the team performance and its effectiveness.

4. Teamwork requires team members to actively manage conflict with the aim of creating and maintaining harmonious interpersonal and inter-team relationships. Every team member must make a concerted effort to contribute to the collective social system within which the team members operate. Team members must consciously manage interpersonal relationships because good relations can prompt the voicing of concerns, the giving of feedback and the implementation of change.
5. Teamwork requires leadership skills that enable directing, planning and coordinating the activities. The leader is not only responsible for the outcome of a project but also for building a strong and effective team. Each team members needs effective support so as to fulfill his or her role in a project.

Despite its many advantages working in teams is increasingly hard work in today's rapidly evolving business world. Today's teams are facing with complex, high–stakes issues that require clever innovation, resourcefulness and disciplined action[3].

Success or failure of the teams depends on organizational commitment to training. All employees depend on new technical skills, new interpersonal skills and new administrative/supervisory skills. Team members should not only learn one another's jobs but they will also acquire new skills in areas such as problem solving, goal setting, team dynamics, business operations and interpersonal relations.

3. Teamwork in Romanian organizations

This paper is analyzing teamwork in Romanian organizations. The premise of this research is that full the team's potential is not exploited and it's being blocked by the leader's inability to understand that a group will work only if the entire organization appreciates and relies on teamwork.

Research on work teams in Romanian organizations was based on using the following attributes to define team performance:

- Clear goals – goals should be specific enough to give the team direction. Associated with providing clear goals is the development of meaningful and acceptable performance measures so that the team members can feel confident in their own achievements.
- Resources – for teams to operate effectively they must have access to resources. These resources include money, equipment, technology, people and information.
- Organizational support – teams cannot operate without the support and commitment of middle and upper management.
- Decision making authority – teams require decision making authority and therefore a certain level of empowerment in order to carry out their work efficiently.
- Effective leadership – team leaders do not direct or control work but instead work as coaches and mentors.

Our research is based on the assumption that creating an environment based on teamwork in Romanian organizations involves building an organizational culture that is based on the concept of teamwork.

We have used an explorative research and have administered questionnaires and field research including interviewing employees and managers. We have selected a number of 90 organizations from Eastern region. The companies questioned were sampled from different fields of activity such as:

- services 70%
- production 17%
- construction 9%
- others 4%.

The questionnaire has two sections. The first section contains information about firm, field of activity, number of employees, respondent's age. The second part of the questionnaire includes a set of 110 items. This set of items was divided into five sections corresponding to the five essential attributes of a team performance: direction, structure, work processes, relationships within the team, relationships with other teams. Each item was structured on a Likert scale in 10 steps and respondents had to

encircle the note that best indicated their attitude towards these claims.

Research of theoretical, methodological and practical advantages of teamwork in organizations has enabled us to synthesize the following results:

- ✓ For Romania the developments taking place internationally are opportunities in the integration process of transition from an industrial society to a knowledge society. The main resources of the knowledge society are not financial or material resources but knowledge, illustrated by social and human capital. Power is not given by money, providing control and distribution of resources but it is given by knowledge. Teams bring together complementary skills and experiences that exceed those of a single person on the team. This broad mix of skills and experience enable teams to respond to complex challenges such as innovation, quality and customer service.
- ✓ Perhaps the most important characteristic of an effective work team are the assigned objectives. It is important that the team is allocated realistic tasks and access to appropriate resources to implement. In Romanian organization the teams don't have a written statement about their mission.
- ✓ Group decision – a mature team that works well take a number of decisions after a debate in which all views were analyzed. In Romanian companies, employees often find different solution to problem but they are afraid to make suggestions and avoid assuming responsibility for their decisions. Consequently most decisions are passed from one to another until a decision is inevitable. Groups are generally slower to arrive at decisions that individuals, so sometimes it is difficult to utilize them in situation where decisions must be made very quickly. Also, if a powerful leader dominates the group, other group members may quickly conform to the dominant view.
- ✓ Reward systems – it is necessary to be designed to encourage cooperation, critical thinking and problem solving. In the Romanian organizations the pay system must be focused on performance within the team, it must provide incentives to perform better and learn more skills and to stabilize team members' performance. Companies that use teams must try to strike a balance between rewarding the group and rewarding the individual.

4. Conclusions

Employees, team leaders and managers of Romanian companies should be educated and motivated to build and sustain teamwork and team effectiveness. One problem is to transform the traditional work collective in high performance teams traditional team of employers represent a group of individual who believe and act as individuals, each with it work program.

Romanian organizations must recognize the competitive advantages from playing as a team. The benefits for the organizations are: improved quality of work life, lower absenteeism and turnover, increased innovation, better organizational adaptation and flexibility. Teams represent one of the best ways to support the broad – based changes necessary for the high - performing organization. And executive who really believe that behaviorally based characteristics like quality, innovation, cost effectiveness and customer service will help build sustainable competitive advantage will give up top priority to the development of team performance.

The premise is that team potential is not being exploited and it is actually blocked by the inability of the Romanian leaders to understand that a group will perform only if the entire organization appreciates and relies on teamwork.

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The Importance of Commercial Services in the Trade Activity

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Abstract

Although commercial services always accompanied the trade activities, the impact and power of these business were really felt about 3 decades ago. This paper aims to present the concept of commercial services from different points of view and to analyze various commercial business operations that implied the need to group trade services in several categories for easier administration, but also for solving economic and social problems such as vertical or horizontal competition. Due to the complexity and characteristics of commercial services, organization of commercial activities should provide flexibility depending on the time of the request, the moment of performance and the consumer behavior.Therefore,yhe knowledge of the characteristics of business services and their consequences for consumers and traders can influence the efforts to achieve results and to assume commercial risks.A briefly presentation of the commercial services development and their effects in the activity of a successful furniture trader is provided in order to demonstrate the importance of this type of services.

Key words:commerce,services,development.
J.E.L Classification.:L81,L84,M10,M31

1. Introduction

Modern trade grow from one period to another, becoming more and more an integrated system in terms of relations with producers, as well its relations with consumers.

The new forms of distribution, acting in terms of increased competition, tend to favor prices and perform a transfer of tasks between partners, especially the move to producers or consumers. Such a trend is also felt in the area of commercial services developoment.[1]

The wide variety of commercial services, the continuous multiplication of possibilities to achieve them, and mutations that interfere with requests and demands purchases generate an increased complexity of those service integration systems offered by every type of commercial unit.[2]

Thus, modern trade represent, from one period to another an increasingly integrated system both in terms of relationships with producers, and in terms of its relationship with consumers.Such a situation has implications for achieving location field services and duties of the partners, and the difficulties of perception or establish trade margins relative to the operations performed by each partner.[2]

2. General considerations on commercial services

Retailers of our days,the last door to the consumers,organize the so called logistic-supports, known like commercial services, in order to:

- facilitate the selection and choice of merchandise(i.e.-information,consulting);

- improving confort and easier purchase(i.e.-extended time-table);
- ensure best conditions to the use of products purchased(i.e.-post sale services).

Establishing of commercial services, and as well the sizing of supply capacity policy are components generated on the one hand by the stiffness and perishable supply, and on the other hand, on the demand variability.[3,4]

Regarding the definition of commercial services system, there are many challenges, including some belonging to prestigious schools or professional associations. Thus, "American Marketing Association" defines commercial service as "an activity offered at the act of sale, which provides benefits and customer satisfaction without exercise physical exchange as a good".[5]

Considering that the above definitions play an incomplete role in the case of specific commercial services, the specialist A. Tordjman, in "Strategies of competition in commerce – the services for customer", use the ideas contained and complete and adapt them to the new developments in business, offering a more complete and a strong pragmatic point of view. By A. Tordjman, commercial services can be defined as "the sum of satisfactions or utilities a shop offers to its customers shop."[2]

In terms of commercial services, their approach must be done from the global evolution of service activities worldwide point of view ; instead, it is necessary to take into consideration that any predictive approach of these issues can not ignore the requirements outlined by the world economy, the more since the general trading and retailing one in particular,tends to a sharp internationalization. In addition, experts estimated that, worldwide, economic developments began to take place under the influence of several factors acting intensity becoming stronger in the direction of expansion and amplification role in the economic life services.[6]

The enterprises`offensive in various markets is focused on a package of „services"that integrates –more than ever before-the observance of terms and vivid contacts between enterprises and customers;we could say that services rendered to customers represents a window between the market and the enterprise`s value creation.[7]

Summarizing these points of view we can say that commercial services represent in the meantime:

- a complex system of utilities, benefits, advantages and even consumers rewarding and not asimply selling of products;
- an integrated sector, which groups all activities related to the sale of goods (eg cleaners, security services);
- an element of the marketing policy of any company which offers buyers additional benefits.

3.Characteristics and typology

Due to the complexity and characteristics of commercial services, organization of commercial activities should provide flexibility depending on the time of the request, the moment of performance and the consumer behavior.

Thus it is clear that knowledge of the characteristics of commercial services is essential for the organization of the business units and for grounding corresponding sale strategies.The well understanding of the specific features of commercial services is nedded to deal with the distribution`s requierements,accordingly with the package of services rendered to the client.

Considering the consequences for businesses and consumers can be distinguished three types of features:[8]

- Preparation and consumption are simultaneous;
- User participation in the delivery of services;
- The price of services is a demand price.

Commercial services have some specific features that are important for understanding the constraints associated to the policies by the joint effort of the distribution channel`s members.[7]

In this respect,Ph.Détrie,A.Maurial and A.Tordjman consider the following specific features of the services that could be provided by the distribution sector:[7,9]

✓ **Intangibility**-the service is partly intangible and difficult to be measured,seldom specified and often included in a complex product;

✓ **Simultaneity-production/consumption**-the service cannot be stored,is based on a

personal relationship and may be placed in a relational and/or emotional context;

✓ **Heterogenity**-the service cannot be reeennnewed until being identical,is evaluated by both outcome and mode of provision and requires sometimes the customer`s involvement.

The area of services associated to the product trading is complex and consequently not easy to be defined and identified.

The category of commercial services involve a wide range of operations, and prospects for different content, so it is necessary to use groupings and classifications to consider the range of available services and how to integrate them in the economic activity.

The most popular commercial services systematization identified five main groups:[8]

1. **As the nature of services**, depending on which could be scalable the competitive ability of different types of trade companies, there are:rental services (cars, clothing); repair services (household appliances ,cars service); services related to the sale (parking.home delivery);
2. **After the sale service site criterion**, useful classification for the outlets trade policy by targeting specialized forms of marketing to their customers,we can evidence the following services: services single-sold (insurance, travel agencies, banking); services sold with the product (home delivery, credit, schedule).
3. **Following the origin of services**: classification important in ensuring the balance between producers and traders in the distribution of specific costs and risks it can be identified: services related to production (integrated into product,like the instant food products) and services generated by new sales methods (conditioning, presentation, labeling information).
4. **After the service functions criteron,** classification offering the choice and an operative integration on each type of service organization and the contnous completion of the product range, there are the following types: psychological (parking,proximity); technical (transport,service);financial (consumer credit,card payment);extra commercial (restaurants area).
5. **Concerning the services integration system**: classification which provides the necessary implementation of various business strategies and solves the problem of describing the organization of sales.

Another typology of commercial services grounded by A Maurial, highlights services by 4 chronologically stages of buying products:

- Services of access to the product,like proximity,parking or advertising;
- Services of information concerning the products:quality labelling,consulting or possibility to test the product at home;
- Services concerning the purchase of products:delivery,transport,return of old goods;
- Services of the use of products:post sale service,guarantees,assembly instructions.

The more a trading system available to a company is developed, including a large variety of services, the more increases their potential and can cover a larger range of consumers.

4.The commercial services-mix

Commercial services can be considered as an element of the marketing business - manufacturing and commercial - concerned to provide additional utilities product to shoppers or points of sale.[8]

Development of commercial services concomitantly with new information technologies and product-service interference led to a series of transformations and institutional changes. [9]

In this approach, services are a source of diversification and strong individuality of the offer of each commercial enterprises. This phenomenon is more striking as some companies that add to their core business several additional services, which, at first glance, are furthest from the profile of products sold. For example, some shopping malls or large areas stores have been selling tourist trips or organized classic restaurants or fast forms ,organized cleaners or repair the clothes activities, rental cars, DIY material, video cassettes, etc.. We have also bear in mind that such services can be provided either directly undertakings specialized staff who organized units or branches in the store, or acting on behalf of and for commercial firms concerned. In both cases, these services contribute to exercise a powerful attractions to shops on potential clients by harnessing

marginal utility it offers to consumers.[2]

Based on the concept of marketing-mix, which examines the implication of the various resources of organizations to achieve certain results and economic effects has been developed the strategic model of service-mix, ensuring the proper functioning of any combination of services to achieve a certain level of growth, and reasonable costs in relation to these combination effects.

In the structure of the commercial service model proposed mix D.Patriche can found the following components:[9]

✓ Conditions and supporting activities:
- technological developments;
- promoted policies about facilities created;
- development and promotion;
- ways of managing labor force;
- psychosocial climate of the company;
- typology of activities performed.

✓ Primary activities
- good-service integration;
- preparing product for use;
- consumer information and
- maintain bought products in perfect order.

Elements such as merchandise, commercial network, commercial technologies and consumer services have led a number of common trends and influences on business services,as follows: [2,9]

o changing in management processes and strategic shift to commercial services and new management systems;

o growth and diversification ofcommercial services through individualitzation of each business unit type or form of sale;

o modernization of commercial services, continuous dialogue with the customer, the service provision and business activities improvement;

o contradictory tendencies in the development of services in a general sense, but also influencing the commercial services (i.e. natural consumption of services, , considered the preserve of specialized business units).

5. A successful experience

IKEA can be given as an example of a company that has revolutionized the furniture retail through distinct strategic positioning, which beside marketing represents the specific set of activities of the company.

IKEA company was founded in 1943 by Ingvar Kamprad. At first, this young Swedish sold postal stationery. Then he had the idea to sell furniture in 1947, and opened its first branch.IKEA then rapidly diversified products sold quickly launched a range of accessories and decorations, then fresh light districts of northern origin. His creative genius was that he imagined objects made of parts, kits that can be assembled at home by anyone, while ensuring reliability and sturdiness. These features were those who conquered audiences worldwide. [10]

The strategy that the company use to develop its commercial services is to increase and diversify,the variety of services offered to consumers being a basic feature of the IKEA concept.

It can be said that IKEA commercial services offer covers all their typology.Thus,concerning *services by their nature*, the company offers customers the possibility to return products if they are not fully satisfied, have furniture rental services for professional photo shoots and filming commercials and cinematography, repair services are available for textile products. Speaking about *the location of services in the sale*, IKEA has sold with product services such as home delivery. Considering their origin, the services offered by IKEA are both linked to production and sales generated by new methods (presentation, informative labeling of products), the company paying attention to both. Regarding *service functions*, the company covers the whole range, focusing mainly on technical functions like the possibility to obtain quality products and on psychological ones,like the attention paid to all categories of quality customer, service in shops, or reward for their loyalty through financial services and gift cards. Upon the *system integration criterion* IKEA services are both exogenous (financial, that consumers have various payment methods) and endogenous (delivery, installation and finishing touches).[11]

The range of services offered by Swedish giant is very diverse and differs depending on the region or country where they are provided, company adapting its offer to the specific needs. For example, in the UK, the company offers customers the possibility to get a considerable discount to purchase products if they give back old furniture in the premises and In the U.S., offers free advice

regarding redecorating homes or offices. IKEA covers also all the elements that make up the concept of service - commercial mix as it was previously described, as follows:

Concerning *conditions and supporting activities*

- for technological developments,the IT Department provides the software solutions Microsoft Dynamics NAV and Landsteiner Retail, which provides support for all processes within the company (retail, logistics, financial accounting, and so on).
- regarding the policies promoted by the firm on the availability achieved and development and promotion policy, now all IKEA stores are franchises, this being the main strategy of internationalization of the company.The main part of franchises belong to IKEA group, just few franchisees being entrusted to outside group.
- Refering on how to manage the human resources,in each IKEA store there is one team of each of the departments. Trained workforce is specialized and trained to explain the benefits and to inspire people to discover IKEA products, the main task being the brand building and motivating people to visit stores.
- Taking into consideration the psychosocial climate of the company,employees appreciate it like innovative.
- That type of activity is a manufacturer and distributor of furniture known worldwide for its unique and modern pieces.

Concerning *Primary activities*

-IKEA provides both good-service integration and preparing product for use, the low-cost business strategy being based on selling furniture as individual pieces assembled together with a special kit assembly, they will be transported and assembled at the residence of the purchaser.
- the consumer information is ensured by a series of catalogs and websites through which to choose the desired product before visiting the store. Before buying the product, the commerciant provides the information required about the desired product.
- the maintainance of bought products in perfect order is also ensured through a wide range of after sale services.

The variety of services offered to consumers is a basic feature of IKEA, the company adapting its models sold in trends of each season. It also tries to cover a very broad range of potential consumer preferences, taking into account their economic and social status.

The Swedish company has placed great emphasis on customizing its business units in order to create their own identity by which to differentiate itself from other furniture manufacturers in the market. Thus outlets IKEA products are distinguished by products placement in a way quite handy for customers, signaling districts and friendliness of the staff. Thus, the company is trying to make most attractive stores with a warm, welcoming climate,in order to increase the shopper satisfaction.[11]

IKEA concept is based on partnering with customers and maximize the use of raw materials to meet the needs and preferences of people by providing them quality products at affordable prices.

6.Conclusions

The more a trading system available to society is developed, including a large variety of services,the more it increases their potential and can cover a range of more consumers.

The wide variety of commercial services, the continuous multiplication of possibilities to achieve them, and mutations that occur in buyers demands generate an increasing complexity of such services integration systems in the offer of every type of business unit, as well as difficulties in terms of cost support and delimitation. Therefore, solving these problems is based on the reasoning to take into account both the location of each partner in the flow of products from producer to consumer and, in particular, the role of trade in consumer satisfaction system as well as the possibility of tracking these costs, the concept of a commercial character and, lately,of some emerging trends in product-service system utilities.

As we can see from the example of IKEA, commercial services provided by a company contribute rather than significantly to its development, playing an important role in its success.

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Defining Performance Management in the Public Sector

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Abstract

Improving the performance of public sector is an important goal for the policy agenda in almost all industrialized countries. Public sector organisations are facing with the most demanding performance challenges in living memory. The recent comprehensive spending review reflected the poor state of the public finances and therefore imposed an era of financial cuts and constraints onto public sector organisations. Against a backdrop of everincreasing service demands this means that public sector leaders have to find ways of delivering more with less.

Key words: performance, performance management, public sector.
J.E.L. Classification: H4, J3

1. Introduction

Improving public sector performances is major for the political agenda of all industrialized countries. The performance of the public sector is generally closely linked to overall economic performance of different countries.

The quality of the products and services in the public sector became in time one of the fundamental goals within all the public and administrative authorities of the developed countries. The reformes in the public sector have focused on increasing the quality of public services, reducing budget allocations for public services, getting closer to the citizens, increase efficiency and effectiveness of the sector. Quality as a competitive strategy has been applied in an original way to the industrial processes and, more recently, on services.

The private sector performance measurement tools and techniques are increasingly being used in public organisations. It has been argued that the use of these techniques could help public organisations minimise waste, eliminate fraud and abuse of public resources and subsequently be more efficient and effective in providing services to citizens. Although some researches have reported the success of the private sector performance measurement models, in transferring these private sector concepts and tools to the public sector have appeared some problems that need to be examined. As such, in this paper, a conceptual analysis of the contemporary performance measurement frameworks is undertaken to determine their appropriate adaptability and implementation in the public sector.

2. What is Performance Management?

The concept of performance meets in literature with different meanings, like with the word successful, the result of an activity, or of an action. In the economical domain, the concept of performance covers different understandings, such as growth, profitability, productivity, efficiency. The concept of performance has been accepted recently in the public sector.

Performance management is what organisations do to become more successful and stay ahead of their competitors. In fact, managing performance is the most critical task of any manager. If organisations succeed to implement the right concepts, their performance management processes allow them to define and communicate their strategies, measure, report and monitor

progress in order to manage and improve business performance. [3]

Performance management can basically be defined as a set of management processes, often supported by information technology, that help to improve the strategic decisions people make every day. In the end it is the quality of those decisions that will separate successful companies from the rest. Performance management is therefore a modern umbrella term for a set of management approaches that enable organisations to define and execute their strategy, and to measure and monitor performance in order to inform strategic decision making and learning. [3]

The basic performance management model integrates processes for defining strategic objectives, measuring performance, analysing performance and reporting and reviewing performance and aligning people and culture. All of these are focused on performance improvement which is the central premise of performance management (see Figure below).

Figure 1: Enterprise performance Management



Source: What is Performance Management, Advanced Performance Institute, www.ap-institute.com, accesta la data de 22.04.2013

Strategic Performance management is about defining, assessing, implementing and continuously refining an organisation's overall 'business' strategy.

This goes far beyond the narrow definition of performance management, which is often used simply to describe the act of performance measurement and reporting. Strategic Performance management is about identifying what matters, measuring this and then managing to improve the effectiveness, efficiency and overall performance of an organisation.

Measuring performance is relevant to what organisation is trying to achieve on a broader scale, and it also referes to the feedback into every employee's daily working life, enabling transformational change to produce real results.

Modern performance management approaches bring together these key aspects of management to form an integrated approach. In the past, performance management was sometimes narrowly associated with either people or performance.

Using the basic strategic performance management model, organisations start with defining their strategy, then move on to measuring performance, and use these indicators to analyse performance in order to

extract insights and make better informed decisions which lead to actions and performance improvements.

Strategic Planning – This step involves creating a business model and strategy (either corporately or for a business unit). We can include here Balanced Scorecard Strategy Maps and value-driver mapping. Informed by strategic analyses, organisations identify what are the strategic objectives they plan to accomplish. [2]

Performance Measurement and Monitoring – Organisations design key performance indicators (KPIs) to measure and monitor how well they are delivering on their strategic objectives. Most important is to ensure the metrics are relevant and meaningful. Many fall into the trap of measuring what is easy to measure instead of what will provide the best insights.

Business Intelligence (BI), Analytics and Modelling – In this step organisations use their performance data and metrics to analyse performance. This step is all about creating a solid evidence-base to inform decision making. *Business Intelligence* and modelling approaches include marketing and sales analytics, customer analysis or click stream analysis.

Reporting & Reviewing Performance – In this step organisations translate the insights gained from their performance information into management reports and dashboard and put the review processes in place to act on the data. It is all about evidence-based decision making facilitated by the performance review processes. [2]

Aligning People and Culture – In this final step organisations ensure the people, culture and leadership approaches are focused on performance improvement. It is about creating the soft elements of a high performance organisation to ensure the performance management processes.

More advanced performance management approaches integrate with other key management processes. Here we briefly look at some of those processes in turn and explore the need for alignment.

Financial Planning, Consolidation & Budgeting – By integrating budgeting and financial planning with corporate objectives and priorities organizations ensure that the financial resources are spent on the things that actually matter the most. Some of the leading organisations are now able to update their budgets and forecasts on the fly, based on a continuous inflow of both financial and non-financial data.

Project and Programme Management – The delivery of projects and programmes needs to be aligned with the corporate objectives and priorities in order to ensure that efforts are focused on what matters the most. The activities (projects and programmes) need to be prioritised based on strategic needs and therefore have to be aligned with the strategic performance framework of an organisation.

People Performance, Rewards and Recognition – For most organisations their people are their most valuable and most expensive assets. In the end it is people who deliver the projects and implement the strategic plans. By aligning budgets and projects with the strategic performance framework organizations have made major steps towards alignment. However, by further aligning reward and recognition systems as well as personal performance management processes to the performance framework organizations can create a tight integration between what matters the most and what people perceive as important. [2]

Risk Management – The management of risk is too often narrowly focused on just financial risks. While these are important, they are not enough. The performance framework has identified the key drivers of future performance and it is therefore important to assess and monitor any risks in relation to all your performance drivers in order to achieve alignment between your risk management and what matters the most for future performance.

Performance Reporting, Dashboards and Scorecards – Relevant performance information is not only crucial for better decision making and performance improvement, it is also a requirement for most organisations to demonstrate to external stakeholders and regulators that they have delivered desired levels of performance and that they have complied with rules and regulations. Integrated strategis performance management solutions allow organisations to use any of their data to produce and deliver reports, dashboards and scorecards for their stakeholders – internally or externally.

Business Intelligence and full analytical integration – By aligning and integrating the above processes with the performance framework organisations create an invaluable set of data which they can use, in an integrated way, to inform decision making. For example, the information on value driver analysis, customer relationship management, financial forecasting, and risk logs can be used to challenge, test and revise corporate strategies.

Figure 2: Enterprise Performance Management Model



Source: What is Performance Management, Advanced Performance Institute, www.ap-institute.com, accesta la data de 22.04.2013

3. Performance Management – an imperative for public sector organizations

In connection with the public sector is often arises the question about organization's structure and its role in the economy and in society, if they actually serve the public and if they are effective.

In a traditional model, the public sector so as Lane[1] specify serves the public through a set of sensitive hierarchical structures.

On the other hand , ew can also refer to organizations that pursue the public interest because they depend of public choice and administrative services (bureaucracy) and are the ones who must ensure effectively the goals to be achieved.

In the Marxist model, the public sector is made entirely in the service of the dominant and represents an unproductive sector.

This conception, in fact, rejects the democratic structure and processes type.

According to the liberal model, public sector is put in relationship with the private competition. Borders between the two sectors, and are not well defined, are constantly moving, but these are decided by society and, as a result of victory in the election of different political currents. Is self-understood that increasing public sector involves increasing the amount of public spending and thereby a increasing state involvement in economic and social life.

Definition of the public sector must preceded by selecting a criterion for distinction between the public and private sectors.

Performance management has never been more critical in the public sector than it is today. Governments around the world now take this extremely seriously and many have introduced legislations and frameworks for this specific purpose in the organisations that report to them.

Many public sector organisations approach Performance management very mechanistically, with an emphasis on collecting and reporting data, often simply to keep regulators happy. Many appear to have lost sight of the value of the exercise and the benefits that they, as budget-managing, public-serving enterprises, could glean from the results.

The process of measuring performance in public sector is one particularly difficult for several reasons: [4]

1. The multitude and diversity of stake-holder of a public organization: current and potential customers, the voting citizens, elected representatives, nonprofit organizations, professional groups, unions, public managers.
2. Differences in values and perceptions about performance of some various stakeholders;
3. The absence of a competitive environment in which some services are offered precisely because the monopoly position for certain services that have some public or administrative authorities;
4. The nature of public services;
5. The complexity of political environment that generates a number of risks, with direct influence on achieving performance;
6. The influence of political values.

4.Conclusions

Public sector performances are generally closely linked to overall economic performance of different countries. Improving public sector performance is a goal that has important role in the political agenda of all industrialized countries.

Approached properly, Strategic Performance management can have a big impact on improving organisational performance. This finding are important in a climate where governments around the world take Performance management very seriously.

Yet, while the practice exists it is the way performance management is handled and directed that makes the biggest difference between top-performing and failing organisations.

Many organisations have difficulty in designing and implementing a comprehensive performance management regime that supports and drives improvement. Without it, organisations are depriving themselves of vital information they need to manage their business and to demonstrate improvement to their stakeholders. The key is a strong culture of improvement where performance is recognised and built on, and where poor performance is put to challenge.

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Main Directions of Labor Potential Development of Trade in Ukraine

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Abstract

The article reviews the main provisions of national programs for maintenance and development of labor potential of Ukraine and gives some additional proposals for the development of the labor potential of the trade industry.

Key words: labor potential, labor recourses, socio-economic development.
J.E.L. codes: J3, J5, O15, O24

In terms of socialization of the Ukrainian economy issues of labor potential become more urgent. Against this background, a solution of problems of efficiency of its use is very important as it creates the foundation for the effective functioning of businesses and industry in general.

The deterioration of the country's workforce, the annual increase of intensity of the external migration of working-age population in the country and abroad, the low rate of reproduction, the growth of population aging, increasing the total number of pensioners, the annual deterioration in health as junior, middle and senior age groups, low life expectancy, especially women, in all regions of the country - typical phenomenon of the labor potential of Ukraine.

The problems of labor potential development studied by Ukrainian and foreign scientists: D. Bogynja, E. Bozhko, K. Brewster, M. Volgin, B. Genkin, O. Grishnova, M. Doronina, E. Kachan, A. Kolot, L. Kostin, T. Kostyshyna, I. Kravchenko, O. Krushelnitska, G. Kulikov, S. Lebedeva, E. Libanova, L. Lisogor, V. Novikov, Y. Odegov, I. Petrova, V. Savchenko, M. Semikina, L. Shaulska, R. Yakovlev and others.

Despite the relevance of the above-mentioned research scientists, the problem of the labor potential development of commercial enterprises remains unresolved, which is determined by the specifics of the industry.

The purpose of this article is to determine the main directions of the national program of development of labor potential and to supplement them by taking into account the specifics of the trade industry.

The results.

The purpose of national targeted social program "Maintenance and development of the labor potential of Ukraine for 2008-2017" is to create the legal, economic, social and institutional framework for the maintenance, reproduction and development of the workforce.

National social program "Preservation and development of labor potential of Ukraine for 2008-2017 years" [1] is aimed at:

- sustainable socio-economic development, increase wages, improve welfare of the population, especially the working one;
- creating appropriate conditions and safety in all areas of production and services for proper reproduction of labor potential intellectual and professional development;
- opportunities for productive use of labor potential through appropriate economic grounds;
- balanced regional development, improvement of the quality and competitiveness;
- development and implementation of a modern system of motivation;
- practical implementation of social protection either employed or unemployed;
- implementation of measures preventing diseases, especially professional ones;

- strengthening health, significant development of medical science;
- widespread adoption of healthy lifestyle programs, measures to promote a safe and friendly working environment, reducing the risk of loss of life and health of workers at work.

Maintenance and development of labor potential in the national program are solved with the implementation of the following tasks:

- improving of the quality of life by increasing real incomes;
- increasing the real state assistance in health, education, pension and insurance system;
- increasing the role of the family in the country and on this basis to increase the number of marriages and reduce the divorce rate;
- conducting a nationwide effective migration policy that would most consistent national interests of Ukraine, its socio-economic, political, cultural and ethnic development, facilitate resolution of geo-strategic and geo-economic problems;
- introducing modern resource-saving and environmentally friendly technologies;
- increasing at least 3-4 times the level of innovation in manufacturing;
- creating conditions for the public, timely and quality health care for all populations, establish a system of compulsory state social health insurance;
- enhancing the ability of public recreation and improvement of the population; improving conditions for women, freeing them from the production of heavy and hazardous conditions, to provide opportunities to work on a flexible labor regime;
- ensuring the development of the housing market, functioning families at all stages of its life by creating a developed social infrastructure, public and private social welfare services;
- providing affordable, high-quality and free secondary education, integration of vocational, higher and postgraduate education in Ukraine in international education system;
- creating the necessary conditions for the implementation of lifelong learning;
- creating quality jobs on the basis of extensive development of small and medium-sized businesses, self-employment on the basis of investment and innovation mechanism;
- promoting employment for certain socio-demographic groups (youth, women, the disabled, soldiers discharged from military service, etc.);
- reducing the level and duration of unemployment by implementing measures of active labor market policies;
- protecting the rights and guarantees of citizens through the development of social dialogue between the government, unions and employers at all levels;
- strengthening supervision and control over the observance of labor legislation;
- improving the legal regulation of social and labor relations in alternative sectors;
- ensuring further harmonization of legislation on industrial relations with international and European standards;
- creating conditions for the promotion of productive labor, entrepreneurial and business activity;
- ensuring the further development of market mechanisms to regulate wages and increase the role of collective agreements at all levels of social partnership;
- providing prevention and reduce occupational injuries and illnesses, reduce harmful factors of working on the body and reduce the number of jobs in hazardous and arduous;
- decommissioning buildings and structures that are in poor condition, reduce the number of jobs with dangerous, hazardous and adverse conditions;
- stimulating investment in clean technologies and create safe working conditions;
- increasing the effectiveness of safety management at all levels to create a system of education on occupational safety for employees of enterprises, institutions and organizations of all forms of ownership.

The expected effect of the program of preservation and development of the labor potential of Ukraine is:

1. Providing social dialogue based on decent work, higher wages and incomes of the economically active population to a level

that will ensure the processes of reproduction, well-being and quality of life.

2. Quality increase of the labor potential of Ukraine.

3. Achievement of the decent level of social security.

4. Ensuring the appropriate level and quality of life of workers under the EU social standards.

5. Eradicating poverty among the employed population.

6. Providing public access to quality continuing education, training of personnel and lifelong learning.

7. Mobility of labor potential through access to the housing market.

8. Providing healthcare reform workers according to The World Health Organization (WHO) standards, disseminating standards of a healthy lifestyle by providing essential health services, recreation and leisure for families.

9. Promotion gender equality and elimination of the worst forms of child labor and any discrimination in the workplace.

10. Prevention loss of highly skilled labor potential of external labor migration, brain drain termination and intellectual property products from Ukraine.

11. A significant increase in the middle class as the main segment of the population that will provide stabilization in society.

12. Providing conditions to belong to the middle class doctors, teachers, scientists, engineers and technicians, and others.

Conceptual foundations of efficient utilization of labor potential is defined as a complex system of measures and actions at the macro, mezo and microlevel (Figure 1).

Among the offered directions that will promote professional competence, qualifications and employment potential of commercial establishments are:

- inventory of existing professions and skills, comparison their compliance with the qualification requirements of jobs in each business unit;
- special courses and seminars on evaluation of personnel commercial establishments consumer cooperatives for determining the suitability of the employee to the specific area. We have developed the appropriate estimation procedure professional and personal qualities trade workers in accordance with the activities in this field;

expanding the qualified professionals use and teachers in the learning process in-service training for employees. We offer themed seminars for workers, professionals and managers of commercial establishments, including "The effective sale", "Evaluation staff - not just certification", "Staff development companies: Stages and Results";



Figure 1. Implementation of the conceptual effectiveness foundations of using employment potential at the macro, mezo and micro levels

- facilitate internships workers on advanced trading enterprises, training of personnel in the field of education, Ukraine;
- sectoral workshops with leading companies in the region, countries to exchange experience on a commercial basis;

- development of personnel policies for commercial establishments aimed at developing professional skills of workers and the effectiveness of economic activity;
- application of modern motivational and incentive mechanisms for effective work, including determining wages through an assessment of the contribution of personal and professional qualities of the employee;
- individualization of wages in the organization, increasing its dependence on the level of labor efficiency, professionalism, skill, complexity, working conditions and employee accountability for the results of work that will improve labor activity, increase the incentives for efficient work.

Conclusions.

Conceptual approaches to efficient use and development of labor potential trading enterprise are real guidelines for the implementation of the company, because, firstly, they are based on the needs of the modern retail industry in the development of labor potential identified in the sociological surveys, analysis of statistical information; Secondly, they included advanced foreign and domestic property to ensure the efficient use of labor potential.

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Issues of Marketing Strategies in the Banking Industry

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Abstract

This paper intends to analyze and to characterize activities specific to financial – banking marketing. Banking marketing is the most important marketing tool, that allows the development of bank activity, improve the performance and achieve its strategic objectives. Increasing the importance of marketing in banking activity is determined by the development of banking industry, increasing the complex environment in which acts banks and increasing competition on the banking market.

Banking promotion is the method which banks use to spread the world about their products and services to customers. Many banks use a mix of advertising, to promote their banking product and services. Banks have a unique challenge when it comes to marketing, because they do not offer tangible products for consumers. Promoting a bank requires to convincing consumers to trust a bank with their money and make customers feel like they are getting the most value for their money.

Key–words: financial – banking marketing, banking products and services, financial – banking marketing mix, marketing strategies.
J.E.L. Codes: G21, M31

Introduction

The concept of marketing, from its birth until today, touches several key areas, including services, especially banking. The banking marketing is expected to develop a distinctive brand that is considered best reputation of the financial institution and it will integrate also, the new information technologies in the marketing strategy of the bank.

The bank is a financial institution. Its primary activities include borrowing and lending money. Many other financial activities they were allowed over time. Marketing as it is known today is a way of managing a business so, that each strategy is applied with foreknowledge of the impact of such a decision on the customer. Banks have broadly three dimensions, i.e. deposits, borrowings and other related services.

The Relevance of Banking Industry

The relevance of banks in any economy is measured by their contributions in economic development and growth. [1] Banks are profit seeking as well as profit making institution. As a result of the bank's ability to retain deposits from the customers and give loans to users, they are involved in capital creation which yields profit to banks, and revenue to the nation in the long run. Banks have two major portfolios: loan and investment portfolios. [2] While investment involve business buying lands building factories and offices, machines, raw materials and finance purchase of goods, loans from negotiation between the bank and its customers and results in a written agreement design to meet the specific credit needs of the customers and the requirements of the banks for adequate security and income. [3] In other, to generate the funds the banks must receive deposits from customers who keep their money with them. Thus, to encourage deposits, they engage in sales promotional activities that will stimulate and increase customers to deposit their funds with them.

The concept of mix marketing encompasses:

- Identifying the most profitable markets now and in the future;
- Assessing the present and future needs of customers;
- Setting business development goals and making plans to meet them;
- Managing the various services and promoting them to achieve the plans.

Banking products and services are the result of the activity of commercial banks. In banking institution, product and service concepts have become interdependent and interchangeable, being used to describe what is the offer for the consumer. Choosing a supplier of financial – banking products and services is the result of bank's success in explaining the actions, attitudes, values and decisions of well–defined categories of consumers, whether individuals or legal persons.

In market economy, a banking product or service is offered to customers at the same time by several credit institutions, which are in direct competition with each other. Although, generally, the banking product or service is basically the same, in practice appear some differences from one bank to another.

Services are elements that accompany the products generated by banking services for the clients' accounts. Although in the specialized literature exists a clear distinction between financial - banking products and services, on the Romanian banking market banking products and banking services are rigorously separated, because it is supposed that any banking service is accompanied by at least one banking product and vice versa, any banking product implies the existence of one or more banking services. Banking services are the effect of the banking operations that are made on the account of its customers.

Characteristics of Services

The features generally recognized for all types of services are the basis of distinctions between the different consumer goods and services categories. These are:

1. Intangibility – means that services are intangible and cannot have a real, physical presence as does a product
2. Inseparability – means that services are inseparable from the point where they are consumed and from the provider of the services.
3. Variability - means that banking services quality and consistency are subject to variability, because they are delivered by people, and human behavior is difficult to control. Personal performance and quality can vary by time of the day (people get tired), time of month or year, workload, experience, attitude, knowledge and other factors. Maintaining client trust during lapses (which will happen) is critical. Researches show that employee satisfaction is the most important factor in providing high quality service.[4]
4. Perishable – means that services cannot be stored for future use.

Banking Marketing Strategy

When setting its marketing strategy, a bank must analyze in detail the overall activity, the goal which is targeted and the market share target. The bank overall strategy should be defined by several elements:

- Setting–profit activities and those that generate loss for the bank and identify activities which will be kept, developed, restricted or eliminated in bank future offer.
- The expected profit of the bank, according to the rate of market expansion and the bank market share.
- Setting the long-term objective of the bank.

Setting the long-term strategy of the bank must collect a large volume of information from all areas of bank activity. Marketing plays an important role in processing and analyzing the information and bank's marketing department provide a large amount of information – necessary to define the overall strategy. Marketing strategy also involves the share market analysis and bank activities, both now and in the future. Since planning is a continuous process, banks' managers must take into account the changing of banking general operations.

To the basis of implementation of the overall marketing strategy is the marketing plan, which will take into account all available information.

Marketing plan is a written document that describes the programs developed for an organization (a bank), a banking product or service or a brand. Marketing plans can take several forms but generally include five basics elements:

1. A detailed situation analysis that consists of an internal marketing audit and review and an external analysis of the market competition and environmental factors.

2. Specific marketing objectives that provide direction, a time frame for marketing activities, and a mechanism for measuring performance.
3. A marketing strategy and program that include selection of target markets and decisions and plans for the seven elements of the market mix.
4. A program for implementing the marketing strategy, including determining specific tasks to be performed and responsibilities.
5. A process for monitoring and evaluating performance and providing feedback so that proper control can be maintained and any necessary changes can be made in the overall marketing strategy or tactics.

Banking market strategy takes into account the elements of the marketing mix (Product, Price, Place, Promotion, People, Physical evidence, Profit), of the marketing expenses and amount of financial resources required for the marketing plan can be implemented.

Fig. 1 Banking marketing mix elements



Marketing strategy will focus on bank's activities related to the markets served and will be established according to the new markets targeted. Thus, the marketing strategy will try to help the bank to launch the offers that meet customer's specific needs, better than the competitor's offers. The importance of customer satisfaction is reflected in the bank's achieved performance and therefore, permanent adjustment of supply to the market demand should be the main goal for the overall strategy of the bank. The bank will continuously monitor the changes in the level of banking products and services demand so as changes in customers' behavior will not affect banks activity and performance.

Banks have a high level of competition and effective marketing can have a large impact on consumers who are choosing new services. When consumers are set out to choose a bank or a banking service it is easy to become overwhelmed by the amount of choices that are available. To make a bank more approachable, the marketing efforts must be focused on the easy of comparison between products. The bank might use marketing materials that talk about the different types of accounts, makes recommendations based on where customers are in their lives, or target special – needs customers like frequent international travelers or new parents. In doing so, bank can let his customers know that it can help them to choose an account that is right for their needs. [5]

New product development in the retail banking industry has changed traditional banking practices. Banks now act as retail operations, with branch staff responsible for meeting sales targets as well as providing customer service. Banks have opened new channels to market, delivering a range of services by telephone or by Internet.

In parallel with developing new products, banks opened new channels to deliver new products while increasing customer convenience. Services such as online banking or online applications for loans or mortgages also reduced the banks' costs of doing business with customers. Some established banks set up alternative online banks that offered a full range of banking and related services, but without branch facilities. [6]

Romanian commercial banks have speculated the interest of their customers for social networking and try to attract new customers by virtual agencies. BRD – GSG was one of the first credit institutions which launched a virtual agency, followed by Unicredit Tiriac Bank. Virtual agencies are used only to provide customers' information on bank services, but in situations in which

confidential information is required for making banking transactions, the discussions between customers and bank employees are repeated on the telephone.

Other banking communities from the Romanian banking market, promoted by Facebook are Raiffeisen Communities, ING Bank Romania and Transilvania Bank. Banks' interest in Facebook is not new. In Western Europe and the U.S., banks have turned to Facebook since the early years of the launch of the networking platform. Thus, in 2010, an Italian consulting company drew up a top ten banking communities on Facebook. At that time was registered a range of tens of thousand fans - ING Bank has registered 14,000 fans for U.S. Facebook page, Citigroup managed to collect 10,000 fans on the Facebook page in Argentina, while BNP Paribas raised at that time over 120,000 fans. (according to www.conso.ro)

Another aspect that marketing department should analyze it to define banking marketing strategy is the behavior of competitors. A bank must collect information about competitors' marketing strategies, their objectives, their strengths and weaknesses and their possible reactions to its policies The competitors' objectives are determined by the characteristics of the banks and their activities, namely: bank size, its history, business management and economic data.

Competitors' strengths and weaknesses shall be identified through analysis of data relating to competitors' transactions on the banking market, their market activities, the number of customers and their accounts, market expansion plans.

Understanding how a competitor reaction can influence the bank's marketing strategy and plan and can lead it to launch new banking services, to expand its activity on the banking market and develop promotional activity using offensive and defensive marketing activities.

Competitive marketing strategies

Marketing strategy is determined by the size of the bank, its objectives, its place in the market – when it was launched the strategy and target market place, as an effect of applying marketing plan. There is no strategy to be effective for all banks, but depends on each bank.

Marketing strategies may differ depending on the unique situation of the individual business. However there are a number of ways of categorizing some generic strategies. Strategies based on market dominance classify banks based on their market share. Typically, there are five types of market dominance strategies:

- leader
- challenger
- follower
- specialized bank
- nicher

Market leader objectives include expanding the overall market, protecting the current market and increasing market share. Protecting the current market share involves launching new products and services to attract new customers and increasing service quality and, consequently, the market competitiveness. As the competition in the banking market has greatly increased, banks may adopt a market-leading range of defensive strategies for maintaining market share.

To expand market share, the lieder must search new customers, identify their needs and launch new offers. Consequently, the strategies which will be adopted focus expansion on new markets and geographic expansion. Applying these strategies and achieving bank's marketing plans depend largely on promotional activities and bank's ability to make itself known on the market.

Banks need effective strategies to retain their existing customers and attract new customers.

Sales promotion is a promotional marketing technique designed to create sales for a product or service over a defined period of time. Sales promotion activities are measurable in terms of products or services move, number of contest entries, or other quantifiable count. Sales promotion help financial institutions achieve their overall mission to keep customers put and bank vaults full. In some cases, offering new or better services, free merchandise and attractive interest rates might even work to drive a customer from a bank on one side of the street to a competing bank right across the street. Some banks even use sales promotion tactics that include paying customers to open a checking or saving account. In 2010, Citibank ran a promotion

offering customers up to 100 USD if they opened a checking account with al little as 100 USD deposit and then kept account open for a minimum of six months.

But promotion activities include also, personal activities, public relations, direct marketing, trade fairs and exhibitions, advertising and sponsorship. Promotion needs to be precisely coordinated and integrated into the business global communications message, and this is called Integrated Marketing Communications. The promotion mix (the marketing communications mix) is the specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships. (Kotler, 2010)

The issues of promotions are becoming more and more complicated as internationalization of financial services continues to increase. The most important promotion tools for financial services are personal selling and advertising, in order to create awareness of the brand and establish personal relationships. The external factors influencing the choice of promotion strategy are technology orientation of the industry, cultural aspects, competitiveness of the market and economic factors. Adaptation of the promoting strategy is performed to a great extent, due to customer's different performances and expectations, as well as local conditions of the host county. However, banks attempt to standardize their promotion as much as possible in order to reduce costs and reach economies of scale. [7]

Conclusions

Marketing activity is an integral part of our social and economic systems. In our complex society, companies ranging from large multinational corporations to small retailers increasingly rely on advertising and promotion to help them market products and services. In developing a promotional strategy, a bank could combines the promotional mix elements, balancing the strengths and weaknesses of each, to produce an effective promotional campaign. Banks consider many factors in developing their marketing strategy, including the type of services, the target market, the buyer's decision process and the channels of distribution.

The marketing strategy of a bank is generally developed with a specific purpose in mind and is the end the banking product or service of a detailed marketing and promotional planning process.

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The Budgets' Role in the Audit of Economic Entities

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Abstract

The audit of economic entities is a necessity, giving assurances regarding the integrity and efficiency of management, efficiency and effectiveness of control measures, and fairness of financial statements. Budgets are useful tools in business management and decision making, which allow management to achieve superior results through effective resource management and proper planning of activities. The purpose of this research is to highlight the budgets' importance and role in the audit of economic entities, through the information that they can provide.

Keywords: budgets, audit, internal control
J.E.L Classification: M41, M42

Introduction

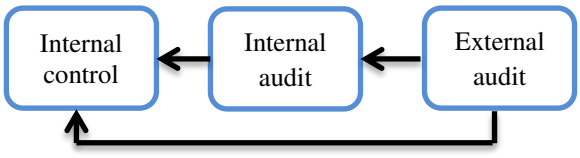
The audit represents the insurance that the financial statements give a true and fair view of reality, are free of errors, in accordance with accounting principles and regulations in force and that the control measures adopted by the entity are effective. In performing the audit activity, we should analyze not only economic transactions and other financial aspects, but also elements of detail relating to business continuity, competence and integrity of the management, mode of operation, goal setting, activity planning, etc. Budgets as managerial tools have a key role in activity performance and decision adoption. Although we are aware that economic entities budgets are tools for internal use, we believe that budgets should be analyzed and taken into account in the audits of economic entities. They can provide useful information on the general knowledge of the entity, setting the framework for the activities and providing information to assist auditors in reviewing the business, those involved in running the business, and so on. The purpose of this research is to highlight the link between budgets and audit, and how budgets can provide useful information for the audit activity.

1. The audit and budgets of economic entities

To highlight and discuss the need and role of budgets in performing the audit process, we must understand the significance of audit. In the financial accounting and economic field it means to control, to check and aims to assess the quality of internal control, the true and fair view of the accounts and to protect against fraud [10] . Financial audit is an examination conducted by an independent professional that offers an opinion on the validity, accuracy and effectiveness of internal control, an opinion regarding the true and fair view of financial statements, which increases the level of confidence of the internal and external users in the information provided by the entity [10] .

The internal control of an economic entity is subject to both internal and external audit review. Internal control is verified by the internal audit and the analysis of external audit starts from the internal audit report on the effectiveness of internal control [11] . Following this relationship, shown in figure no. 1, we consider it necessary to understand both the mission of internal audit and the internal control role.

Figure no. 1 The link between external audit, internal audit and internal control



Source: own source

Internal audit is an insurance process [12] whose role is to assess internal control and management system [11] , checking whether the economic entity complies with its own rules, identifying waste and mismanagement, while assessing the economy, efficiency and effectiveness for all categories of resources used [7] .

Internal control aims to ensure the efficiency and effectiveness of operations, reliability of financial and reporting statements and compliance with laws and regulations [9] . The internal control system is a set of policies and procedures adopted by an entity in order to achieve management objectives, to ensure the implementation of management and forecasting policy, to ensure activity efficiency, accuracy and completeness of records, allowing detection of fraud and error and the drafting of financial statements as required by law [17].

The role of audit is to provide assurance related to the activity of the economic entity, to the control measures implemented and its financial statements. Therefore, in conducting the audit we think it is important to consider not only economic and legal substance of the transaction, but also other elements to guide the auditor in performing his work. For starters, the auditor should fix some coordinates regarding their general knowledge of the entity, of the field of activity, of the management, the people, and of the way in which they operate, etc.

Budgeting is an internal process. Information regarding budgets is for internal use and is accessible only to internal users. The information contained in these decision-making tools are, in our view, sensitive data because they translate into values future action plans of management and include information such as: future prices, costs of production, the expected sales, expected results, advertising costs, and so on. And these plans can ensure the success of the entity.

Considering these factors, we can say that generally, budgets are not elements for audit. And yet we wanted to take this research to the next level and see how budget analysis could provide auditors essential information, strictly related to their objectives. We believe that any activity performed by the entity has an impact, more or less evident on the business. Or the analysis of the state of health of the business is the very mission of audit. Thus, budgets can provide useful information for the audit.

2. The link between economic entities budgets and audit

Before starting an audit, the auditor should know the general characteristics of the entity, which allows him to better assess specific risks associated, plan audit engagement, identifying elements that will have a significant impact on information. The knowledge of the audited entity allows the auditor to identify practices that could significantly affect the financial situation [17]. General knowledge can come from both external and internal sources such as: previous audit reports, reports of the Board of Directors, budgets [10] or strategic plans [8] . This involves gathering information and records relating to plans and work programs, budgets and budgetary exercised of prior years [12] . Information about budgets and results are considered useful in obtaining basic knowledge about the activity of the audited entity [6].

For internal audit, all areas of the company are object of the audit activity [11] and the financial audit covers all information systems. Thus, forecasted or internal information can be audited as well [10] . Based on these considerations, we can state that the audit can be extended to the budgets if they provide essential information to the auditor in performing his activity.

Internal audit identifies waste and mismanagement, assess economy, efficiency and effectiveness of all resources use [7] . Or entity budgets aimed precisely efficient management of resources, activities, ensuring efficiency, effectiveness and economy of the business. What better way to analyze all these elements than studying budgets? Internal audit can also verify the control process of budget execution [11] .

As to internal control, it allows the accomplishment of management objectives, management policy and forecasting activities [17]. The internal control system involves determining general attitudes, perceptions and actions taken by the management concerning the entity's internal control system, its emphasis, philosophy and operating style of management [12] ,

integrity, ethical values of management [3] etc. Thus, the analysis of internal control may involve a budget check. Budgets set management objectives and help achieve them by forecasting the activity. Also, budgets correctness and execution provide information on the involvement of management in the effective planning of the activity, on the importance attached to the efficient management of the business, about general management philosophy, how managers conduct the business, their values, their capacity and performance, and so on. The control procedures also include comparing and analyzing financial results with predicted values [12] . In other words, verify budget execution is useful in evaluating the internal control system, one of the internal controls procedures being, the comparison of the results with the approved budget [8] .

Financial audit is also designed to test the entity's internal control (including risk assessment), efficiency, effectiveness and economy of activity [10] . Or internal control verification as an essential part of achieving the audit engagement involves, as we have shown previously, checking budgets.

We tried to emphasize the link between audit and budgets by using the transitivity mathematical model. According to this principle, if A determine X and X determine B, then A determine B (Figure 2).

Figure 2 Transitivity model



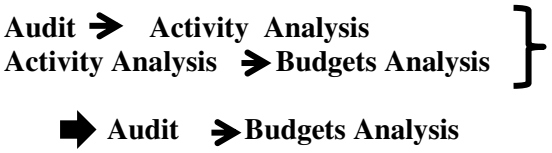
Source: own source

In our view, X from the transitivity principle is the element that links audit and budgets, representing our unknown. "A" represents Audit and "B" Budgets. Thus, based on this formula, we consider that the link between budgets and audits can be done through analyzing the quality of activity performed and its characteristics.

We know that the audit aims to ensure stakeholder that the financial statements are true and fair, in accordance with the laws and regulations in force, without significant errors, analyzing the effectiveness of internal control. In other words, it verifies the activity of the entity. In performing the audit, we also use information obtained from analyzing budgets and budget execution. Budgeting provides additional security that the business is managed in an efficient manner, that the use of limited resources is controlled, that effective corrective action is taken in time, and so on. Budget preparation starts from the desire of the management entity to manage the business effectively and to plan the work so that they can achieve the goals set, being able to control the activity and take timely corrective action. Thus, budgets help activity development in optimal conditions.

In other words, budgets are useful for the activity of the economic entity and the activity is reviewed by the audit (figure 3).

Figure 3 The link between budgets and audit



Source: own source

The audit analyzes the activity and the activity involves implementation and monitoring activities planned through budgets. So, we consider that budgets are important in performing the audit activity. The auditor's mission should take into account budget study as an important part in determining stability, efficiency and characteristics of the business.

3. Information provided by budgets and their role in the audit

The audit has the role to certify the accuracy of the information provided to the external users. We agreed that budgets are management tools for internal use, are confidential and are not subject to audit such as financial statements are. However, as noted earlier, for a high quality audit, we must take into account the information provided by the economic entities' budgets. As Arens et al. (2003) [2] said, sometimes perhaps the most important audit elements are not found in the accounts. Budgets can provide essential information in planning the audit. They can help the auditor in determining the items to be audited, to analyze the quality of management,

leadership characteristics, business continuity, etc. Essential information that budgets can provide to auditors with the aim of helping to achieve their mission, are shown schematically in Table 1.

Table no. 1 Information provided by budgets for the audit mission

Information provided by budgets to auditors
Budgets are evidence that prove the continuity of activity.
Allow analysis of management involvement.
Allow verification of employee involvement and satisfaction experienced by these.
Provide information regarding the concern for efficiency, effectiveness and economy.
Allow verification of effective resource management.
Allow analysis of level of accountability of the employees.
Allow verification of business organization and assignment of responsibilities.
Provide information on existing communication and coordination within the entity.
Enable the analysis of the level of stress associated with the preparation and execution of budgets.
Determine the possible existence of handling or management games.
Allow analyzing the causes of budget deviations.
The audit can focus on elements that have significant deviations from the budgeted values.
Offer the possibility of analyzing the process of adopting corrective measures.
Allow obtaining information about management features.
Provide information regarding management capacity and qualifications.
Budget execution is an internal control procedure and that is why is subject to audit.
Demonstrate the concern of the leadership for achieving management objectives.
Budgets and budget execution gives auditors information about the effectiveness of internal control.
Provide data on general knowledge of the entity and activity.
Help determine acceptance or denial of the audit engagement.
Help establish audit objectives and audit risk.

Source: own source

One of the objectives of the audit process is to analyze if the principle of business continuity is respected. This step is particularly important because it affects the values of the elements presented in the financial statements. Thus, auditors need evidence to assert business continuity, something more concrete than just a simple insurance from the management. Planning activities to be undertaken in the next period through budgets show auditors the concern of management for the future activity of the entity, indicating its intention to continue the work.

The preparation of budgets also provides auditors with information regarding the degree of management involvement in the activity. The concern of management for ensuring effective activity may offer auditors valuable information on the commitment and dedication of management. Also, it is more unlikely to find irregularities or errors when there is close supervision by management.

Employee involvement and satisfaction experienced by them is another useful information provided by budgets in order to achieve a quality audit. If employees are committed to achieving the objectives set trough budgets, their performance and the entity performance will increases, and their concern for carrying out they task reduces the risk of significant errors.

The mere existence of budgets means a major concern for achieving a good work, organized and controlled; concern which can reduce the risk of errors. Also, budgets provide clues to the auditor on management's concern for efficiency, effectiveness, efficient resource management and for the achievement of objectives set. This careful activity planning trough budgets and budgeting features, which allows them to provide better organization of activity and to make people involved accountable for their work, ensure the quality of the business. Individuals receiving such responsibility are more attentive, more involved, more

dedicated, more responsible in their activities. An efficient organization and a thorough communication between departments ensure an adequate and efficient activity, so no chaos or errors arising from lack of coordination and communication. Also segregation of duties and responsibilities is important for auditor regarding internal control system analysis.

The auditor should not lose sight of one very important aspect of budgets. We mentioned that budgets involve management and employees in achieving the entity objectives through accountability. Their desire to achieve the budgeted values and avoid significant deviations along with the stress associated with achieving these objectives can lead to handling budgets or actual values. Also, if managers are conditioned to the achieving of budgeted values they can resort to different game or schemes for amending the results. Or this is of particular interest for auditors in conducting the audit, indicating the possibility of irregularities.

We believe that the auditor should also be interested in analyzing the causes of deviations from budgeted values. This can occur either when handling values, recording of human error, or due to failure of management to adopt and implement decisions to meet the objectives. Thus, the auditor should focus on analyzing those elements representing significant deviations, either positive or negative. Significant negative deviations may suggest lack of effective internal control, problems of organization and employee motivation, and so on. Also, for the auditor is important to analyze the existence of a process for adopting corrective measures and for their implementation. These elements determine the competence and involvement of the management and can reduce the risks of error if deficiencies and problems are identified and corrected. This verifies the entity's internal control efficiency.

Budgets also help the auditor in analyzing leadership characteristics based on the goals and objectives set and estimated values (too optimistic, pessimistic, realistic, involved, responsible, negligent, careless, manipulative, etc.). Budget execution and the decisions implemented by the management allow the assessment of the ability and quality of management.

Budgets and budget execution gives auditors information about the effectiveness of internal control because they are useful tools in setting goals, helps achieving them, allowing efficiency and effectiveness business development, with careful management of available resources, providing information about the involvement and commitment of management in business planning, and about the philosophy and values of the leadership.

The auditor aims, before the audit engagement, to obtain general knowledge of the entity and the work performed by it to better assess risks. This can be achieved by analyzing budgets and information provided by them. General knowledge of the entity determines the acceptance or refusal of the engagement. All the information provided by the budget can assist the auditor in determining its mission objectives, audit risk and areas of interest.

Conclusions

We believe that the utility of budgets should not stop just at the roles that studies already assigned them. Budgets informational potential is much larger. Although they are tools for internal use, budgets can provide useful information to auditors in carrying out their mission. This information helps the auditor to analyze and understand the situation in the entity, to determine areas where problems may exist and must submit to a detailed analysis, to determine audit risk, to fix mission objectives, also allowing the auditor to analyze the quality of internal control.

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Modern Approaches in Romanian Management in the Context of Knowledge Economy

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Abstract

The increasing globalization of business, leaner organizations, products and service convergence and vast development of technology implied that the issues of more efficient and effective operation of an organization's knowledge assets have become more important than ever before. Years ago Peter Drucker warned us that those who will wait until this challenge becomes a "hot" issue are likely to fall behind and perhaps never to recover. As Drucker has predicted, knowledge has become the key economic resource and the dominant source of competitive advantage today [1].

The main objective of this paper is to present the status of the knowledge management implementation in Romania, after the introductory part of the paper in which the concept of knowledge management is presented. Conclusions are presented at the end of the paper.

Key words: knowledge, knowledge management, knowledge economy
Clasificare J.E.L.: D8

1. Introduction

Society has recognized the value of knowledge for centuries. For hundreds of years, family members have passed off their commercial wisdom to their children, master craftsmen have painstakingly taught their trades to apprentices and workers have exchanged ideas and know-how on the job. However, the terminology of knowledge management was not widely used until the middle of the nineties.

2. Defining knowledge management

Based on the review of the literature presented by many academics and practitioners, it can be concluded that there is not yet a common consensus on the definition and concept of knowledge management despite a great deal of interest on the subject. Defining knowledge management is especially difficult, as different perspectives or schools of knowledge management can yield different dimensions and meanings. For example, management information systems researchers and practitioners tend to define knowledge management as an object that can be recognized and controlled in computer-based information systems. Management researchers, on the other hand, address knowledge as processed based on individual and organizational competencies such as skills and know-how [2]. Thus, different perspectives on the concepts of knowledge can lead to different definitions of knowledge management.

However, in the simplest term, knowledge management means exactly that: management of knowledge. It can be extended to management of organizational knowledge for creating business value and generating a competitive advantage. It consists of the processes required to effectively manage knowledge. It is a systematic, explicit and deliberate building, renewal and application of knowledge to maximize a firm's knowledge-related effectiveness and returns from its knowledge assets [3]. Knowledge management is essential for enterprises to determine where they are going and for organizational survival in the long run. It is a key requirement to future successful enterprises and is rapidly

being recognized by firms to be of major strategic importance.

Salleh and Goh's [4] definition of knowledge management where it is a process of leveraging knowledge as means of achieving innovation in process and products/services, effective decision-making, and organizational adaptation to the market for creating business value and generating a competitive advantage to organizations.

Uit Beijerse [5] considers that "the knowledge management can be defined as a strategic orientated way of motivation and facilitation of the company's members engagement in the development and utilization of their cognitive capacities through the valorization of its information sources, experience and capabilities of its members".

However, in the simplest term, knowledge management means exactly that: management of knowledge. It can be extended to management of organizational knowledge for creating business value and generating a competitive advantage. It consists of the processes required to effectively manage knowledge. It is a systematic, explicit and deliberate building, renewal and application of knowledge to maximize a firm's knowledge-related effectiveness and returns from its knowledge assets [3]. Knowledge management is essential for enterprises to determine where they are going and for organizational survival in the long run. It is a key requirement to future successful enterprises and is rapidly being recognized by firms to be of major strategic importance.

The essence of knowledge management is built on intellectual capital, which includes Human Capital, Social Capital and Corporate Capital. All three are essential components of Enterprise Knowledge. Human Capital it is made up of an individual's past, present and future. Each of us brings a unique set of characteristics and values from the past. These include expertise education and experience. Built on these characteristics and values from the past, they represent a set of capabilities and ways of seeing and living in the world (such as creativity and adaptability). Just as important as things from the past and skills of the present, we each have a future capacity and a particular potential for learning. Social Capital includes human and virtual networks, relationships and the interactions across these networks built on those relationships. Corporate Capital includes intellectual property, both formal and informal (e.g., patents, ideas, etc.), and corporate functional and organizational processes. It also includes all the data and information captured in corporate databases, all that has been made explicit.

Knowledge management can be viewed as a process for optimizing the effective application of intellectual capital to achieve organizational objectives. The knowledge management challenge is to discover and capture our tacit intellectual capital, share this capital through the Social Capital and leverage Corporate Capital (that which is visible or explicit). From another point of view, knowledge management can be defined as a collection of disciplines, technologies and practices embedded in an information infrastructure that supports creation, sharing and leverage of intellectual assets – tangible and intangible – in an organization to achieve business goals. Or, knowledge management can be defined as simply the encouragement of people to share knowledge and ideas to create value-adding products and services.

3. Research methodology

Utilization and superior capitalization of the company's workers knowledge it is seen as an important factor in achieving competitive advantage by organizations. Organizations which have analyzed the way in which they use knowledge discovered that they to possess more knowledge than they realize.

Are already well known the great advantages resulting from an organization's ability to identify capture and use knowledge in order to gain maximum added value. This leads to new challenges for management. Knowledge management is considered by academics and practitioners a useful tool to better manage intellectual capital of an organization.

However, till present there were not so many studies regarding the application of knowledge management in Romania, and those that exist focus mainly on large companies and do not provide a basis for comparative analysis to correlate data across

borders and no other studies national or international.

In 2002 the OECD launched a comparative research in the member countries in order to find out more about the existence, dynamics and efficiency of knowledge management practices in the private sector and for measuring the degree to which these practices are used [6]. To do this, a group was formed from the representatives of the respective ministries and research organizations, which aimed to formulate a basic questionnaire that was used in each of the participating countries.

In order to identify the extent to which knowledge management practices are used in Romania in the fall of 2011 we conducted a survey based on a questionnaire developed by OECD experts.

In this paper I will present and analyze the research results, research which is intended to be a basis for further research. In the following pages is a presentation of the operational details of the research, followed by a presentation of results of basic questions, presentation by mainly descriptive statistics. Since the number of respondents is rather small, we conclude that there are further opportunities to develop statistical analyzes. However, some conclusions are possible based on the analyzes presented.

The research covered various sectors of the national economy, but the im portant ones were:

- Commerce;
- Agriculture;
- Financial services;
- Accounting and advisory services;
- Education;
- Other.

For each sector 300 companies were randomly selected, and in early November questionnaires were sent to companies to be completed. A reminder was sent by mail in mid November. In total, 89 companies responded in a way that enables analysis, 10 have indicated that the questionnaire was not relevant to them because they are too small. Some respondents indicated lack of time to respond. The sample of companies that responded to the questionnaire was distributed unevenly between sectors, but their distribution that allowed clear differentiation in terms of company size. The overall response rate was 33.7%, which is not entirely satisfactory, but compared to other surveys (eg, Community Innovation Survey), the response rate is much better. Complementary data analysis process questionnaire, telephone interviews were conducted six (ex-post) of companies responding to the questionnair

The questionnaire comprised 11 questions, and its starting point-Question 1 - consisted of a list of management practices that can be used in knowledge management programs. These practices have been grouped under the headings:

- Policies and strategies;
- Leadership;
- Incentives;
- Capture and knowledge acquisition;
- Training and mentoring;
- Communication.

Respondents who indicated that use one or more of these practices were asked to continue with the questionnaire, while those who indicated that they do not use any of these practices were asked to move to Question 10, which refers to reasons that may encourage respondents to implement such practices (this is referred to as skip-model).

Questions 2-9 are about the reasons and results of the implementation of knowledge management practices. Also in this section respondents were asked who is responsible for the implementation of these practices, if exist budgets to implement these practices and if their impact and effectiveness is measured. Finally, they were asked to specify if their organization was met any resistance to the introduction of these initiatives.

Question 10 refers to the reasons that would determine the organization to adopt and implement knowledge management practices. Finally, question 11 is purely administrative and is related to the number of employees in the organization

The questionnaire was accompanied by a cover letter, whose main purpose was to motivate respondents to complete the questionnaire. As structure the cover letter contained a introduction of the study, the reasons for which organizations should participate in research, the benefits of the participation and contact details.

In addition to the survey conducted by e-mail, there was an attempt to gain some qualitative assessments by phone. After the questionnaires were returned, some of the

companies were asked if they are willing to discuss the questionnaire by telephone. 9 companies agreed and finally in early January were conducted six interviews.

Distribution of respondent companies according to size (employees) are characterized by a higher response rate for large companies (21%), an average response rate of 12% for very small and a lower response rate to enterprises (as 10%).

4. Results- Utilization of knowledge management practices in Romania

Question 1 - Using knowledge management practices. Regarding the use of knowledge management practices it was observed that more concrete, operational practices (capture and acquisition, training and mentoring, communications) are more used than formalized strategic practices. Although knowledge management practices are widely used at the operational level, the incentives to promote the use of knowledge management practices are still very common. 2% of companies have a written policy strategy and knowledge management, about a quarter of respondents have a value system to promote knowledge culture, approximately 40% have policies or programs to improve employee retention and almost half have completed or strategic partnerships or alliances used to acquire knowledge. 20% of respondents will formulate written strategies and policies for the knowledge acquisition and sharing of in the next 24 months and about 15% of respondents will use in future policies and programs directed at retaining employees and create a culture that promotes knowledge sharing. A very high proportion of respondents 69.5% said they did not know if they use written policy or strategy for knowledge management.

Leadership. Most respondents indicated that knowledge management practices are the responsibility of managers (67%), but also a high percentage it is occupied by employees not involved in management activities (13%). Perhaps most surprising is that almost 15% of respondents gave the answer "do not know / not applicable" to the question whether the activities of knowledge management practices are the responsibility of managers. 2% said that their organization has a knowledge officer (Officer of knowledge), while 72% said "not applicable" in this regard. 5% of knowledge management practices are used as explicit criteria for assessing the performance of workers. More than half (67%) responded "do not know / not applicable" to this question, while 21% intend to use in the next 24 months.

Incentives. A small number of organizations- 10% reward the positive effects of sharing knowledge with monetary incentives, while 18% of organizations reward the positive effects of sharing knowledge with non-monetary incentives.

A very large number of organizations do not intend to use these incentives in the next 24 months, and 3% for monetary incentives and 8% for non-monetary.

A large nuber of respondents -82% believe that monetary incentives and 64% of the non-cash as a form of reward, not used.

Knowledge capture and acquisition. Most widely used form of capture and knowledge acquisition is the capture and use of knowledge obtained from other sources (82%). This is followed by the allocation of time to obtain and disclose information capture and the use of knowledge obtained from research institutions (respectively 51 and 62%) and encouraging employees to participate in project teams with external experts (49%).

28% believe that it is justifiable to devote time to obtain and communicate knowledge and meanwhile, 13% of respondents plan to devote time to obtain and communicate knowledge and use knowledge obtained from public research institutions.

21% do not encourage employees to participate in project teams with external experts and uses knowledge obtained from public research institutions.

Training and mentoring. Generally organizations give more support for informal than the formal training. Practices most widely used are: encouraging employees to transfer knowledge from more experienced workers to new or less experienced (79%), encouraging employees to continue training (85%) and providing training outside the organization in order to maintain current skills (82%).

Formal and informal education and training in terms of knowledge management practices are considered not applicable in 84% and 77% of organizations. However,

13% and 10% of respondents plan to introduce forms of formal and informal training in the following 24 months.

Communication. Most common practice in communication is the prepearing of written documentation such as lessons learned, training manuals, work practices, articles, etc.. (59%), followed by updating databases with the best and new working practices (46%) and by facilitating collaborative work between physically separated teams (28%).

Many respondents indicated that generally the practices listed in this section do not apply in their organizations. Thus, 44% indicated that in their organization does not apply the use of virtual teams to facilitate collaborative work between physically separate teams, 21% gave this response to the updating databases with best practices and 13% the practice relating to the use of written documentation to record lessons learned.

Question 2 - Knowledge management practices not included in the questionnaire. Only 8 companies have indicated that use practices / knowledge management tools which were not included in the questionnaire: international Project Teams;innovation Management;standardization;the quality management system certificate; internal training on specific products; forum intranet.

Question 3 - Reasons for introducing knowledge management practices. This question respondents were asked to state the reasons which led to the implementation of knowledge management practices.

Only one reason stood out, namely improving competitiveness, which is the purpose of all practices and management activities. This was followed by: to increase efficiency by using knowledge to improve the production process, to facilitate the integration of knowledge within the firm or organization and to protect company / organization knowledge losses due to departure of employees .

It is interesting to note that at the end of the list of reasons, is why "To jointly promote knowledge transfer", which has a low value, although the reason is the highest level of use to question 1, policies and strategies. Also improve collaboration with external experts has the lowest value of all the reasons, although it is a widely used practice (question 1).

Question 4 - Effects of Knowledge Management. One variable, improve employee skills is the most important, followed by increasing adaptability of products or services to customers. The lowest values are assigned to: prevent obtaining duplicate in research and development to increase capacity to acquire knowledge from external sources and increase market position.

Question 5 - Responsibility for implementing Knowledge Management. In little more than half of the company's top management is responsible for the implementation of knowledge management, followed by the HR department. However, the more a company is smaller, the likelihood that top management is responsible is higher.

Question 6 - Efficiency measuring. Only 15% of companies measure the effectiveness of knowledge management. Instruments used for measurement are: the analysis of economic indicators, quality control and intermediate indicators, audit, measurement of specific achievements (eg, time to deliver technical documentation), control of the database, number of inputs and access intranet.

As an observation related to efficiency measurement it can be noted that in most of the organizations knowledge management complement traditional management activities. Therefore to distinguish knowledge management and to measure its success is almost impossible for many companies.

Question 7 - Factors that contributed to the introduction of knowledge management. By far the most important source for introducing knowledge management is the management organization (83%). A second important source is customers (47%), which means that knowledge management in many cases is a reaction to the need to optimize customer relationships.

It is interesting that 20% of companies indicated that supplier relationships are a source for introducing knowledge management. Also, about a third of all companies mentioned as a source the competitors, indicating that knowledge management is considered as an important tool for the competitiveness of the

organization. Consultants or academics do not play a significant role.

Question 8 - The budget for knowledge management. 15% of all companies have indicated that they have a budget for knowledge management, the remaining 85% stating that they do not have such a budget.

From the group of companies indicated that they have a budget, 38% indicated that within 24 months of the budget relating to knowledge management practices will increase and the remaining 62% will be reduced.

From the companies which indicated having no budget, only 16.5% plan to introduce a budget, the remainder indicating that no or do not know (64.5%). .

Question 9 – Resistance. Resistance to the introduction of knowledge management practices is generally very low. Only 9% of companies indicated that they encountered resistance to the introduction of knowledge management practices. In most cases resistance came from non-management employees.

Motivation to continue or implement knowledge management is consistent with what is expected theoretically. Knowledge management is introduced where tacit knowledge workforce out of control and can not be adequately used by society. Second and related to the first motivation, knowledge management is increasingly seen more as a reaction against the loss of skills resulting in employees leaving.

5. Conclusions

In Romania at present, we cannot discuss about the existence of strategic activities in terms of knowledge management. Within the Romanian companies knowledge management practices are related more with functioning of the organization and there are not part of a set of strategic activities, resulting in the development of strategies, plans, programs, incentives to achieve goals etc. In general, large companies have a wide range of activities based on knowledge management and knowledge management strategies more explicit.

Although written knowledge management strategies are not frequently in Romanian companies, 20% of respondents plan to formulate written policies or strategies for knowledge management. Even if the Romanian companies do not have written policies or management strategies based on knowledge, some of them have policies and programs directed at acquiring knowledge retention and key employees for their organization of partnerships or strategic alliances with other organizations concluded.

Resistance to the introduction of knowledge management is generally low, employees being mentioned most often.

Regarding the possibility of expanding or introducing knowledge management in Romanian companies, the main motivation behind it would be the need to control and maintain the tacit knowledge of employees in the company. Second, and related to the first motivation, knowledge management is seen as a reaction against the loss of Knowledges determined by the leaving of employees.

As a conclusion to the above, we can say that although in many organizations in Romania knowledge management it is its infancy in application, the beginning was made by applying it to a number of companies.

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The Relationship between Motivation and Efficiency of Human Resources

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Abstract

Most experts in human resource management give motivation a fundamental role in achieving efficiency in work. Performance is the result of individual characteristics of a person, of the efforts in his work and the support it receives from the organization. The concept of motivation is a key element in studying work performance. In this article we intend to see the relationship between motivation of human resources and work efficiency obtained by them. To this end we present two theories concerning this relationship.

Keywords: motivation, efficiency, human resources.
J.E.L. Code: J01, M12

1. Introduction

The concern for measuring and improving the efficiency of human resources has been and remains an important subject in work psychology. Work efficiency can be defined, as an operational form, as a variable dependent on two factors, individual abilities and motivation, in addition to the work environment. Practice has shown us that some people have characteristics that enable them to achieve high efficiency but are not making efforts in this direction; in other words, are not motivated. Others, however, are highly motivated, hard working, with aplomb, but the results are not matching their efforts.

2. Human resource efficiency

The true competitive difference between the organizations is based – now more than ever – on the efficiency of human resources involved in such organizations. And this efficiency can be triggered by a single element: motivation. [1]

Thus, the motivation of human resources is a key element of individual and organizational success because motivation is the internal driving force that creates employees' will to work. [2]

In these circumstances, motivated employees want success, will give maximum performance regardless of task they have to perform. [3]

Going by this reasoning, we can say that where motivation is, there is also productivity and performance, and the binomial "motivation–performance" is and will be the main factor for individual and organizational success. [1]

According to Schermerhorn et. al. [4], obtaining a high efficiency is conditioned by the presence of the following three factors:

Efficiency = individual characteristics + work efforts + organizational support

Maximizing each factor allows any employee of a unit of work to achieve desired efficiency levels. Individual efficiency equation shows that this situation occurs in the gap between individual characteristics and task requirements or the case of an insufficient organizational support or because of both reasons. It follows, therefore, that managers must find means of motivating their subordinates as they are the ones who decide to intensify efforts. Hence the conclusion is that managers should motivate each of these subordinates.

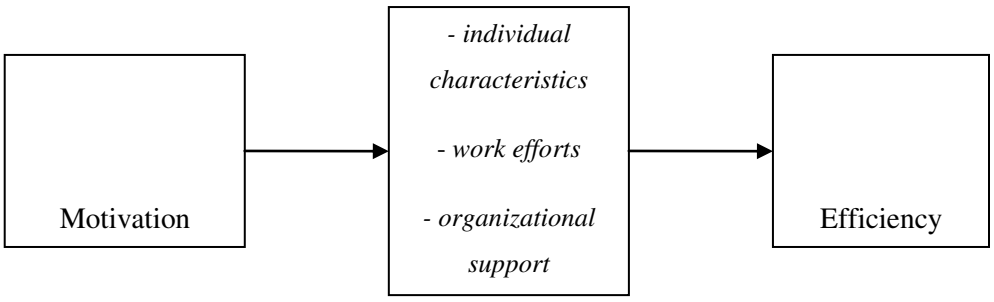
Table1. Relations between the variables of work efficiency equation, key factors and implications on management

Variables	Key factors	Implications on management
Individual characteristics	Demographical, psychological, behavioral characteristics	Improving the ability to achieve a high efficiency due to the efficiency of recruitment, selection, hiring and training process of employees
Work efforts	Work motivation	Improving the will to achieve high efficiency by creating a stimulating environment and implementing an effective system of using the rewards
Organizational support	Resources machinery, equipment, organizational structure and size of the company, techniques, culture, work tasks design, interpersonal and group processes	Improving the ability to achieve a high efficiency due to effective planning, organization, motivation and control processes.

Source: Vagu, P.; Stegaroiu, I., *Work motivation: from theory to practice*, Bibliotheca Publishing House, Targoviste, 2007, p. 102

Employee being the sole master of the effort, the manager tends to influence this effort using the concept of motivation. This sends us to the following relation:

Figure 1. The role of motivation in human resource efficiency



Source: adaptation after Vagu, Paraschiv; Stegaroiu, Ion, *Work motivation: from theory to practice,* Bibliotheca Publishing House, Targoviste, 2007, p. 102

3. Optimal motivation law

Optimal motivation law [5] is the most classical approach, which establishes the relationships between psychological variables and performance. This law maintains that the level of performance increases directly proportional with the increase of motivation level, but this is true only up to a point. When the person becomes overstimulated or is excessively motivated, after achieving a certain level, its ability to achieve performance decreases. This process can be graphically illustrated by a Gaussian curve which increases and then decreases as the motivation intensifies.

According to the optimal motivation theory, the relationship between the intensity of motivation and the level of performance is dependent on the business complexity (task)

that the person has to fulfill. Thus, we can deal with the following situations [6]:

- In case of simple tasks (repetitive, routine, automated components with few options to resolve) as the intensity of motivation increases, increase performance level. "The relation of strength of stimulus to rapidity of habit-formation."
- In case of complex tasks (creative, rich in content and solution options), the increasing motivation intensity is associated to some extent with increased performance, after which the latter decreases.

Due to the importance of the task difficulty in the relation between motivation and performance was formulated the hypothesis according to which Yerkes-Dodson Law can be divided in two factors [7]:

- The ascendant part of the curve can be considered as the energizing, beneficial factor of motivation.
- The descendant part of the curve can be interpreted as being the negative factor, the clutter effects of excessive motivation. A very high motivation can have negative consequences on performance because the pressure of solving the task is too high, stress installs and appear difficulties in focusing attention in the memory process and problem solving ability.

How the person perceives the task is also important in determining the optimal level of motivation. Thus there will be three situations [7]:

- When the subject properly appreciate the difficulty of the task. In this situation the optimal motivation considers the relationship of correspondence between the degree of motivation and performance level.
- When the subject appreciate improperly the difficulty of the task, underappreciating it. Appreciating the task as being easier than it actually is will lead to under-motivation and, hence, to the insufficient mobilization of energies and resources, the result can be a failure. In this case, the law says that it is beneficial a slightly over-motivation of the person. Thus, if the task is medium but perceived as easy is better that the subject to have a high level of motivation so as to be able to complete it.
- When the subject appreciate incorrectly the difficulty of the task, overappreciating it. Appreciating the task as being more difficult than it actually is will lead to over motivation which will have clutter effects and will lead to failure. Also in this case is recommendable a gap between motivation intensity and difficulty of the task. If the medium task is perceived as more difficult than it really is, it is recommended that the subject to be easily under-motivated to accomplish the task to the expected standard of performance.

According to this theory we can say the following:

- It is important to motivate people who are in a very low state of motivation;
- Motivating people with low level of motivation will help improving work efficiency;
- There is an optimal point of motivation that should not be exceeded;
- The optimal point of motivation is not represented by the most powerful motivation condition;
- Motivation beyond the optimum point can reduce work performance, rather to improve it.

4. Conclusion

Motivation is represented by all those biological, psychological, social and cultural factors likely to cause, maintain and direct human behavior towards a well defined goal. At the same time, it is a key tool used by leaders insistently to achieve higher performance. According to optimum motivational theory, the relationship between the intensity of motivation and level of performance is dependent on the complexity of activity (task) that a person has to fulfill. According to Schermerhorn's approach work performance is the result of individual characteristics of a person, work efforts and support that it receives from the organization. Work motivation contributes fundamentally to improve the will to achieve high performance by creating a stimulating

environment and by implementing an effective system of using the rewards.

Correlations existing both in the theory of optimal motivation of Yerkes and Dodson, but also in Schermerhorn's approach strengthens the hypothesis that there is a direct connection between motivation and work performance, but the cause of these correlations could not yet be determined.

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Conflict and Authority in the Educational System

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Abstract

The paper is a brief analysis focused on the challenges that confront the manager of the educational organisation in the process of conflict management from the perspective of social influence generated by the status of power in this field and by the gaps in the specific regulation that lead to pressure from the local authorities.

Key-words: authority, education, conflict, manager, power
J.E.L.Classification: J 52, J 53

1.Introduction

In the 21st century, the process of "social influence"[1] seems to be more and more overwhelming, the fields of education and educational management being particularly sensitive in this respect. Therefore, conflict management in the environment concerning the education-providing organisations by excellence reveals the presence of the "psychosocial phenomenon of prosocial compliance"[2], of the concern of the beneficial change agents for the modification of attitudes and behaviours of the educated, as well as of the educators responsible for the communities involved in the education process.

In the educational conflict management, the formation and development of a proactive attitude against conflict on the direction of peaceful coexistence, as well as the prevention, amelioration or elimination of deviance from different sources: normative, social, psychological, ethical, require special techniques of social influence based on communication as: "increasing power status, stimulation of self esteem, persuasion, manipulation, logical argumentation".[3]

2. Social influence and conflict management in educational organisations

2.1. The conflicts in the educational environment can be generated by the difference between the power positions, in which one party possesses some form of formal or informal authority, either hierarchical or spontaneous, which may lead to the manifestation of other "effects of social influence phenomenon as: obedience, conformity, compliance and manipulation"[4].

Obedience is a behavioural pattern imposed by the social roles, the individual being subject against their will, to orders or suggestions from people with social, intellectual or age authority. A real situation of jealousy recently seen in the TV news is exemplary, in which two high-school female students are in a sort of master-slave relation, with the use of insults, threats and blows in the schoolyard by one of the parties.

As media are an extremely powerful engine of social influence, the video filmed by one of their classmates after the school classes, abruptly led not only to a wide range of commentaries related to violence and institutional authority, but also to the involvement of the highest formal authority in education.

Firstly, information as a main resource and a source of power must be questioned, as the managerial team had not been aware of this interpersonal conflict ignition, development and escalation. This fact highlights the importance of other types of power as association – the establishment of solid relationships between the educational partners, students, their parents and their class teacher, as well as the aggressor's personal power marked by fascinating elements, according to her young colleagues'

perception: force, courage, determination, physical appearance.

Secondly, one should focus on the public's expectations whose pressure, although not thoroughly debated upon in the educational management literature, appears as another manifestation of authority that influence the decision makers in the field. They are naturally directed mainly towards "the coercion method" [5] with police intervention and the bully's removal from the educational group into another class in order to stop verbal and physical violence. The normative method of using power and parental authority are necessary in this conflict resolution, the parties being both under age and at a stage of compulsory education that excludes expelling from school.

Last, but not least, the "expert's power" [6] is to be taken into consideration and references are made to psychological and pedagogical counseling when applying the utilitarian method to the conflict parties, the aggressor, the victim and the neutral participants. The idea is that power should not be regarded as a fixed, pre-determined, limited quantity in a relationship that should be detrimentally wasted if not used against the other party. Moreover, the appropriate conduct and attitude towards reaching the relational target should not be based on the force – submission approach, but on the increase of the level of communication and self esteem.

2.2. Conformity reveals the modification of behaviour and attitude towards mechanical and uncritical acceptance and formal, docile, unprincipled submission to customs, ideas, decisions; a student unwillingly leaves the classroom under the pressure of the group of colleagues firmly inclined to unauthorised absence (truancy).

The group dynamics manifests on the direction of diminishing the formal authority of the school institution, of crossing the attitudinal and behavioural borders established by the normative framework. The pressure towards uniformity acts in a negative way as a form of majority's power onto one of the member of the school organisation, who cannot be ignored as he could become a potential factor of weakening the group's decision and action.

In the other party's perspective, authority is generated by the perception of the group's power, by the fear of conflict due to the low degree of assertiveness, as well as by the "power of reference" [7] shaped in the feeling of belonging to the group, in the identification with the group's offer of behavioural pattern.

As a representative of formal authority, the educational manager, in the position of class tutor or school principal must appeal to the parental authority of each member of the group of truant students. Such a manager must apply the "procedural power" [8], also called the "normative power" [9], by strictly observing the steps of the school internal regulation and the specific laws in the field of education that leads to sanctions against the behavioural deviance and to the long-term monitoring of the organisational group's disciplinary status.

For the student involved in this apparently masked conflict between the model imposed on by the group and his own will of accepting the organisational norm, there are needed certain techniques for stimulating the level of assertiveness, many of them based on organisational and interpersonal communication. Self-assertion, dilution and elimination of external commandments which are contradictory to his personal options and also motivation for optimism and confidence in his personal abilities are worth mentioning, as well as the "Pygmalion effect" [10] that consists of the belief that personal expectations and actions can determine the succession of favourable events.

2.3. Compliance is focused on the adoption of the majority's opinion in order to be accepted and approved or to avoid rejection, by agreement with the group through adaptation to a collective situation, by observance of law and orders. A lower secondary school student, who initially rejected the idea of wearing the coat that has the embroidered school logo (according to School Internal Rules), eventually puts it on in order to spare her classmates from constant observations of the tutor – teacher.

Social influence is performed here by the educational manager due to the investment of formal authority – a form of the structural power. Nevertheless, the basic element is the

moral power directed towards modeling and moderating the educated group's activities for strengthening team spirit, internal cohesion and forms of communication meant to positively stimulate motivation of the micro-organisational attitudes and conduct through empathy, logical argumentation and examples of good practice.

Raising the status of power in this particular situation is also revealed by the use of the irritating, nagging technique of the "power of the flea on the dog" type [11], conducive to the generation of the educational partner's embarrassment.

Under these circumstances of limited or inefficient parental authority, the phenomenon of cohesion inside the educational group becomes in itself a source of power, of authority through the internal unity of the interactions oriented towards the preservation of all the members by "the spirit of group enclosure" [12].

The divergent position of one of the group members in contrast to the majority's attitude is subject to the pressure towards uniformity in a gradual process. It initially includes the deviation encouragement by the manifestation of interest in the argumentation base and continues with the neutral phase in which the conflict topic appears as commonplace, part of the daily life. Next, the non-standard motivation becomes inacceptable in the stage of rejection of the deviant attitudinal model and finally, confronted to the threat of exclusion, the estranged group member is brought back into the educational group system.

2.4. Manipulation involves means of influencing by persuasive methods, a person, a group, a community in their actions, either spontaneous or by direct solicitation, whose purpose belongs to a will unrelated to their interests; submission of the will of the others can be made by creating the illusion of freedom, autonomy and free consent. Dissatisfaction for poor marks determines a student's parent to become a conflict party and to turn the school principal against the teacher by distorting real facts.

The manager is to use a remarkable source of power, the "definitional power" [13], i.e. the ability of giving the problem clear contour and content and of analysing the potential impact of the conflict on both the individuals and the school organisation. Once the conflict framework is well defined, the necessary steps to the conflict solution can be made by using the power of resources (either tangible or not) characteristic to the educational environment as information, staff, students, competences, reputation and stress resistance. Besides, the correct managerial perspective comes from the formal authority in correlation to the personal power involving intelligence, logical connections, critical thinking and communicative competences, particularly in a manipulative attempt.

The general strategies of conflict management in the educational organisation focused on prevention, avoidance, minimisation, solving this process of systemic non-identification – as we have defined the notion of conflict - as well on the reduction and elimination of the negative consequences of the conflict, are structured around two basic concepts: *collaboration*, from which the actions for conflict prevention and resolution logically result, and *risk*, in the situations in which there exists the perception of the imminent occurrence or escalation of tensions within the organisational subassemblies.

In the conflict arena, power mainly concerns the effectiveness of the actions that can achieve the targets by "influence, opportunity and coercion in order to obtain the desirable results" [14], in linear relationship to the educational performer's capacity, derived from their sphere of power, both structural or personal, the latter being marked by determination, knowledge, intelligence, decision-making ability and communication skills. The structural power envisages the resources and the objective options involved in the conflict, the legal and political realities of the conflict environment and the level of authority held by the conflict parties and the conflict manager.

3. Didactic persuasion in conflict management

The complexity of the concept of persuasion as social influence is given by the multitude of relational structures built through exposure to and understanding of messages, followed by acceptance of ideas and sequencing of attitudinal, behavioural

and action modifications. The fundamental mechanisms that ensure its functionality in the educational environment refer to the nature of evidence, to the arguments to and the expressiveness of didactic communication, as well as to the nature, extent and impact of the ideas communicated.

The nature of evidence points to the arguments on which the interlocutor accepts and assumes an idea in the dialogic communication; according to Aristotelian rhetoric, influence is generated on three levels: the status of the speaker (ethos), logical reasoning (logos) and appeal to emotion (pathos) manifested with great visibility in educational conflict management.

Authority is a viable argument, easily recognisable in everyday life as social recognition of the hierarchical position of the transmitter easily entails the interlocutor's assuming of the ideas beyond their level of consistency and rigour.

"My teacher says so!" is an assertion similar to the Latin "Magister dixit", often heard by parents who supervise their children's homework, proving the argument of didactic prestige and credibility. Sometimes, parents who are highly trained in a particular field can provide counter-arguments on a particular element of the homework at home, at the class parents' meeting or at another educational activity, thus generating conflicts with their children.

On the other hand, a teacher considered the competent authority by the student can perform a behavioural change of the latter exclusively by social investment, yet the purpose of didactic communication does not consist of the automatic generation of behavioural patterns, but of the development of essential cognitive structures for filter, analysis and interpretation of the appropriate systemic information.

In didactic practice, persuasion can also exert by the argument of force; unfortunately, the use of physical force that should be an obsolete instrument is still a phenomenon present in Romanian pedagogy sometimes and often within the classroom limits with the teams of students, producing strong educational conflicts followed by monitoring activity, reprimands, warnings and sanctions.

An exaggerated level of authority may appear in more subtle forms that induce feelings of fear as the threat of punishment ("I'll ask the council for a lower grade for your discipline") or blackmail ("You know you will get a low grade if you do not participate in the contest." or "Keep on being insolent and you will flank this school subject").

The expressiveness of didactic communication in conflict management, considered an important requirement of productive communication, determines an impressed receiver, through the message content but mainly through the form of the discursive construction, that includes elements as emphasis, pauses, rhythm, figures of style. There is a proportional link between the sizes of both the content and the form of a message, so that a common minor incident will not be treated with increased linguistic expressiveness for avoiding a certain degree of irony, ridicule, or even awkwardness and, in reverse, a major conflict issue needs a certain rhetoric amplitude to achieve desirable efficiency.

Voice inflections, convincing intonation, word emphasis, posture, gestures, mimics forcefully intervene in transmitting and receiving messages to generate emotions and feelings of the conflicting parties and to increase motivation for the attitudinal change desired by the manager of the educational conflict. To obtain this effect, which is a favourable condition for the process of solution identification in an educational conflict, the conflict manager must build an elegant communication style, suitable to the demands of the educational environment. By gradual, *in crescendo* distribution of expressive discourse elements, the speaker can determine not only a certain type of authority, but also the targeted behavioural transformation.

Similarly important in educational conflict management for achieving discursive efficiency are the elements related to the nature, extent and impact of the ideas communicated, namely logical reasoning, expressiveness extension through par verbal and non-verbal elements, as well as the argument novelty, the originality of the idea in an expected type of speech or in the whole experiential practice of the conflict party.

The relevance of the conceptual content, the techniques of adding artifice, surprises and linguistic challenges of linguistic, the emotional and spiritual capacities can restore a flat pattern of communication into a discourse effectively targeted to a positive finality in managing conflict in education.

4. The educational system and formal authority

The formal authority is conferred on the teaching staff by the Ministry of National Education, the Districtual School Inspectorate, the Teaching Staff's Council and the Administration Board functioning at the level of educational institutions for the organisational positions of school inspectors, directors of educational institutions, school principals, chairmen of methodical committee, class tutors.

A conflict focused on formal communication and on the level of authority is generated by the fact that there have not been organised vacancy contests for the appointment of school inspectors since April 2008 and of school principals and deputy principals since December 2008, such managerial positions in the school organisation school being occupied by the formula of "appointment by detachment for educational interest."

The legal powers in this context are established by the disputed National Education Law (1/2011) that also includes The Teaching Staff Status, Regulation for Organising and Functioning of Pre-academic School Education (ROFUIP, 2005), School Internal Rules, employment law, methodologies for the competitions for managerial positions on different levels of specific responsibilities as methodist, mentor, etc. and for the contests for obtaining membership in the Body of Experts on Education, the title of Teacher Emeritus and the gradation of merit in education.

A noteworthy point in this respect is represented by a legal vacuum on some important aspects of the management of the school organization. An example of such a conflict generator is the lack of the specific methodology for organising and running the competition for the positions of principal and deputy of schools, that should have entered into force (but has not) by the Minister's Order on a date close to the time of National Education Law official publication (2011).

Consequently, the mayors of various cities, towns and villages, with the desire to offer support to their favourite teachers in taking over these managerial responsibilities, claim in their petitions art. 258, paragraph 7 of National Education Law which stipulates that "under the conditions of the vacant position of the school principal, till the organisation of a new contest, the interim management is taken, according to the School Administration Board's decision, by the deputy head teacher or by a member of the Board who automatically becomes credit coordinator".

Nevertheless, it must be noted that Article 258 is to produce its effects after the organisation of the first session of contests for the position of school principal and deputy and, as this action has not been implemented yet, the necessary step is the appointment procedure "by detachment for educational interest". This hub in the specific legislative field becomes a generous source of petitions and complaints and thus, it is a potential source of conflict at different levels of the educational system.

5. Conclusions

The 21st century manager of the educational organisation is confronted to a wider range of conflicts, not only within the strict school environment, but also outside it and the required equipment in order to face them is not as easy to get as one can possibly imagine. Besides the personal profile appropriate to the commitment to education and the professional and managerial expertise having as fundamental lines the acquisition of information necessary in the educational field, by both education stakeholders and the educated, the school manager should have complete legal support and be fully aware of the connections between the educational key-actors: teachers, students and their parents and local community, which are interdependent.

Moreover, the relational structure developed by the school organisations with other education related partners such as NGOs, charities, financial institutions and economic agents is far from being insignificant; on the other hand, one should

add to these positive aspects those elements targeting influence, coercion and political pressure. In this respect, references may be made to the behaviour and attitude of some of the local authority members - mayors, vice-mayors, local councilors – who, seeking to impose on the educational decision makers their own selection of personnel for the managerial team or even for the teaching staff in some educational institutions, can create a situation of tension, sometimes with huge conflictual potential.

Social influence works both ways and this principle marks not only the conflict management in the educational process, but also the perspective of global development of humanity in these tormented decades of the 21st century.

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Eco-innovation in SMEs – a Draft Tool for Improvement

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Abstract

The paper covers elements from a work in progress regarding a eco-innovation assessment tool, that can be implemented within a company, in particular in companies that are small or medium, but it can also be used in large firms, with a defined supply chain and a life cycle assessment tool implemented. The tool increases the topics covered by the Sustainability Assessment tool that can be found in literature, with elements related to innovation and eco-innovation (it increases the number of questions per category) in order to ensure a comparability throughout industries and in relation to the sustainability assessment. This work was supported by CNCSIS-UEFISCSU, project number PN II-RU TE_328/2010.

Key words: Eco-innovation, sustainability assessment models, SMEs
J.E.L.: D22

1. A brief glance at fundamental concepts

From an organizational point of view, innovation can be defined as the adoption of new ideas to foster organization '[14]. Modern literature on the study but innovation starts with [1], developing further by contributing authors of such [3], [5] and [9], [16], [8] and [12]. Innovation is defined as a combination of invention and marketing company that forms the foundation of competitiveness [7], [13], namely "the adoption of ideas that are new to the organization that they adopt" [14]. You can find several types of innovations: technical, administrative, product or process innovations [6], [18]. It is extremely important to not only identify themselves as innovative technological transformation products, but also new ways to provide services, by the incorporation of information, processes and procedures in the conduct of usual activities.

It is important however to distinguish between SMEs and large companies in terms of innovation capacity [15].

Several authors argue that traditional indicators of innovation such as R & D expenditure, employment, number of patents are not applicable to SMEs ([2],[11],[15]). Most of these studies on the ability of innovation for SMEs concluded that small firms can keep up with larger firms in innovation and shows no difference in the quality and importance of product innovations [19]. In the following tables, we capture the differences between SMEs and large companies in terms of innovation capacity.

Thus, SMEs exhibit behaviours such as the ones listed in Table 1 ([4]), in comparison to large companies:

Dominant role of the entrepreneur / founder / owner	*Delegated management between shareholders and board of directors*
Reduced number of resources (capital, time employees knowledge)	*Economies of scale, resource abundance*
Flexible organizational capacity	*Rigid bureaucracy*
Emphasis on short-term	*Focus on medium and long term*
Local and regional focus, focus on customer needs	*International Accent, less tight links with customers*
Low degree of formalization	*High degree of formalization*

Table 1: Comparison of SMEs and large companies

Source: [4]

2. The eco-innovation assessment tool

To develop a model for assessing the overall performance of SMEs, start the analysis of sustainability maturity assessment

models and innovation within the organization [17].

Thus, we propose a model-type diamond / radar, bringing together five dimensions of comprehensive performance assessment, namely:

1. Strategy - which aims if the company has a strategic planning process, if open to innovation and whether it has implemented its strategy and policies through appropriate mechanisms for implementing a system of eco-innovation.

2. Processes - is taken into account eco-innovation ability of the company included in the development of new products, reduce environmental impact and integration of processes taking place within the organization to greater efficiency and sustainability.

3. Organization - namely, its capacity to support innovation, namely eco-innovation through internal communication from top to bottom, bottom to top and side.

4. Connections - company's ability to integrate upstream and downstream relationships, namely the value chain with suppliers and distributors, and competitors to facilitate diffusion of eco-innovation

5. Learning ability - the ability to keep company employees always connected to the latest information in the field, to facilitate access to know-how regarding best practices for eco-innovation nationally and internationally. It is also important to take into account the company's capacity in this area to learn from the failures and successes in terms of eco-innovation and diffusion in the organization and its environment best practices learned.

The proposed model is based on the fundamental idea of a simple tool used by the organization to be able to check the position of a radar chart, which would be able to observe the evolution of indicators for each area assessed. . The tool increases the topics covered by the Sustainability Assessment tool that can be found in literature, with elements related to innovation and eco-innovation (it increases the number of questions per category) in order to ensure a comparability throughout industries and in relation to the sustainability assessment.

This will assess a total of 14 categories for the five dimensions above, aimed categories and indicators to assess the sustainability for future international comparability in the last phase of the project, namely:

1. Sustainable development and innovation policy of the organization (Corporate Sustainability Policy)

2. Sustainable development strategy and global innovation (Overall Sustainability Strategy)

3. Government regulations (Gov't Policy and Regulation)

4. Trends impact on strategy (Impact of Trends on Strategy)

5. Supply chain (Supply Chain)

6. Green Label (Green Labeling)

7. Integrating Sustainability and Innovation (Integrating Sustainability)

8. Specifications / customer reactions (Specifications / Customer Insight)

9r. The evaluation process of the product life cycle (Life Cycle Assessment Process)

10. Eco-innovation: resource selection (Design for Environment - Material and Part Selection)

11. Eco-innovation: supply chain (Design for Environment - Supply Chain)

12. Eco-innovation: production (Design for Environment - Manufacture)

13. Eco-innovation: the use of the product (Design for Environment - Use Phase)

14. Eco-innovation: the end of the product life cycle (Design for Environment - End of Life)

Within each category, there will be questions to answer YES / NO reflecting eco-innovation capacity and improve overall performance, as described below in the next section. Each question is related to a certain score, the category total is a maximum of 4, minimum 0.

Based on totals for each category separately, we are generating a radar chart for the company in question, as illustrated in the following figure where it reaches the maximum extreme.



Figure 1: A spider chart of the eco-innovation assessment tool (an adaptation of the sustainability assessment tool)

Source: adapted from [10]

Thus a company that has all the indicators in all categories will be considered maximum capacity has increased eco-innovation without vulnerable areas and therefore no need for improvement. For a company that has an index less than 4, but positive, it is considered that the category is a sensitive area in which to apply specific policies to improve.

3. Model experimentation

To test his model was applied to a number of small and medium 2, the same areas mentioned where qualitative study conducted in the previous chapter, of which a company is driven entrepreneurship in Romania and developed exclusively for this environment, and the second company is part of a European network, the subsidiary of a multinational company in Romania.

The results obtained for as described in the following to each company.

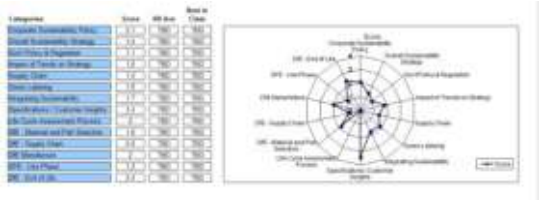


Figure 2: Applied eco-innovation assessment tool for company A

Source: author's calculations, 2013

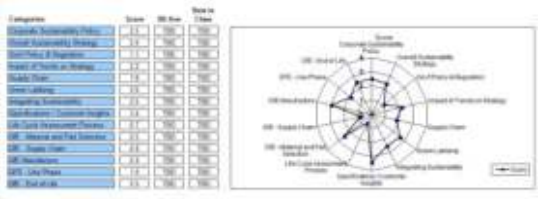


Figure 3: Applied eco-innovation assessment tool for company B

Source: author's calculations, 2013

Although interesting, the results cannot be interpreted in a macro- way, as they are not consistent. The two companies, although from the same industry, with the same capacities, exhibit completely different behaviours. Therefore, in order to ensure the proper implementation of the tool, the reserach must be conducted on a larger number of companies, from various industries and in various sizes.

4. Conclusions

This is a work in progress regarding a eco-innovation assessment tool, that can be implemented within a company, in particular in companies that are small or medium, but it can also be used in large firms, with a defined supply chain and a life cycle assessment tool implemented. The tool increases the topics covered by the Sustainability Assessment tool that can be found in literature, with elements related to innovation and eco-innovation (it increases the number of questions per category) in order to ensure a comparability throughout industries and in relation to the sustainability assessment. This work was supported by CNCSIS-UEFISCSU, project number PN II-RU TE_328/2010.

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Application of the Workshop Method as a Solution for a Regional Program of the Retail Entrepreneurship Development

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Abstract

Last three years in Ukraine were not favorable for the retail entrepreneurship development. Increasing the tax burden on small businesses and the development of international and national retailers has led to a decrease in the number of small retail enterprises. The improvement of the situation at the regional level can only be supported by local authorities through the creation of an enterprise development programs.

Usage of the Workshop method in the development of a regional program allows take into account the problems of entrepreneurs, to plan specific activities and to maintain a balance between the interests of small businesses and government.

Key words: Retail, entrepreneurship, development program, the Workshop method
J.E.L. classification: L81

Introduction

The basis of the market economy of any country is entrepreneurial relationships. Business development is a necessary condition for achieving prosperity in Ukraine as a whole and its individual regions.

International experience and practice of the entrepreneurship prove that the success of a country depends on the cooperation and synergy of large, medium and small businesses. Thus, in accordance with Ukrainian law small businesses are individual entrepreneurs without legal entity employing up to 20 people with an annual income of up to 2 millions euros and small businesses - legal entities - with up to 50 employees and annual revenues of 10 millions euros.

If large and medium enterprises form the economic potential of the country, the task of small business is a development of regional economy. Small enterpreneurship is the main source of regional local budgets generation from local taxes payments. It increases employment at the regional level and is a powerful social buffer that mitigates adverse crisis occurances in the region.

Contents

Retail trade is the main activity of Ukrainian small business: in 2011 the share of the retail entrepreneurship was accounted for 57.7% of total sales of small businesses and 45.8% of the total number of persons employed in small businesses [1]. The main reasons of retail trade business spreading are a relatively small initial investment, fast money return and a high level of profitability. Also, start of that business does not require special knowledge and only a minimum of management skills. It makes retail trade business attractive as well. However, with the growth of a trade enterprise special knowledge and expertise become more and more necessary.

Retail business makes it possible for an entrepreneur to earn for a life, to have independence in decision-making, to own their own destiny, has a certain status in society. Trading business is a favorite work closely connected with communication with people. It serves to the consumers to make contracts under the most comfortable conditions, controls the quality of products, creates a positive impression on people (shopping).

Thanks to the development of the retail enterpreneurship, Ukraine managed to avoid a social explosion in the nineties of the last century and the effects of crises in 2004 and 2009, when millions of people were left without work. Besides, trade reduces gender

inequality in the country, providing jobs to women.

Under the conditions of balanced national policy, small business is able to create thousands of new jobs and support the formation of Ukraine as an economically developed country.

However, according to official statistics [1], in 2011 in Ukraine only 70 people out of 10 thousand of population had small businesses. Compared to 2008 this number decreased by 9 units, indicating a negative trend, while in the EU this figure is at least 300 people.

The analysis of dynamics of the small businesses and individual entrepreneurs number shows that by 2009 their number increased. Even during the crisis in 2009 the average number of small businesses increased. However, the 2010 - 2011 years were unfavorable for small enterprises, many businesses shut down. Especially noticeable become the reduction in the number of individuals - entrepreneurs (2 times).

Closure of small businesses led to a significant decrease in the volume of sales of small enreprises for the sake of big ones. In 2011 the sale volume of big business exceeded half of the gross output produced in the country. This fact indicates a worsening of the business climate in Ukraine.

In our opinion, the main reasons of small business development slowdown in Ukraine are:

- Enactment in 2010 of a new tax code. It greatly increased the taxes for small businesses and led to a massive closure of entrepreneurs-individuals;
- Significant expansion of national and international retail chains in Ukraine. Small businesses can not compete with hypermarket networks;
- Limited or no financial resources. Extremely high interest rates of commercial banks do not allow finance small business normally. And money from the state and local budget funds to support small businesses hardly come;
- The lack of an effective mechanism for implementing government policy to support small businesses.

The issue of state support of entrepreneurship did not take its rightful place in the activities of local authorities. The complex of progressive laws on small business support exists, but its implementation at the regional level is a mere formality.

According to Ukrainian law since 2001 every two years complex programs of small business support are have to be developed at the regional level. These programs are one of the most important mechanisms to support entrepreneurship and to solve a wide range of problems.

In 2012 in Poltava the seventh entrepreneurship development program was created and firmly approved. Like the previous programs, at the local level it identifies main ways of implementation of the state policy for small business development. The program is closely connected to active regional policy, employment policy and investment and innovation directions of the city advancement. It aims at strengthening the role of local government in the support of small business, increasing its importance in the socio-economic development of the city and is an effective tool for solving actual problems of enterpreneurship.

In previous years, programs were developed by the traditional method. Permanent parliamentary commission Poltava City Council, branch management executive committee, the board of entrepreneurs, professionals of higher education institutions and community associations provided specific suggestions that were brought together into a single document by municipality specialists. Disadvantages of this approach are the program dependence on the activity of every part of the board, formalism and subjectivity in events creations and incoordination of individual items together; also, not all regional problems of entrepreneurship development are taking into consideration.

From the initiative of the author of the article, a new kind of method - Workshop method was used for the working out on "Entrepreneurship Development Program in Poltava for 2013-2014". Workshop is a format of a team-work. It aims to actively solving of a specific issue by its participants. Traditionally, during the Workshop leader organizes the discussion process (putting the "right" questions, clarifies all the aspects and so on) without imposing his expert opinion.

For the Poltava program discussion from several types of Workshop method it was chosen so-called "Problem" type. The goal of this type of method is to find the causes of problems and possible ways of problems solutions. This method was used for diagnosis and complex assessment of business environment, raising issues and finding solutions. Technology of the Workshop included 7 stages:

Stage I. Identification of problems that cramp entrepreneurship development in Poltava.

Stage II. Grouping problems on certain areas.

Stage III. Individual huddle of problems.

Stage IV. Discussion of ways to solve problems.

Stage V. Generation of points of the business development program.

Stage VI. Approval of the program on the Poltava City Council session.

Stage VII. Revision of the program implementation.

Working group of 35 people was pre-selected and approved. The working group included representatives of the departments of the executive committees and Poltava City Council, of the State Tax Service of Ukraine, of Poltava Chamber of Commerce, of NGOs of entrepreneurs, of Poltava Entrepreneurs Business Council and of Poltava University of Economics and Trade.

At the first meeting of the working group using brainstorming there were identified issues that prevented small businesses development in Poltava. Each of the participants proposed a problem that was fixed on paper and put up on the board. At the first stage proposed problems were not criticized and discussed. As a result, 44 problems were made during the 30 minutes work.

The results of the first phase showed that the Workshop participants most concerned about the problems associated with:

- Occurrence of administrative barriers (11 issues);
- Imperfect institutional infrastructure to support small businesses (8 issues);
- Insufficient professional knowledge and experience of entrepreneurs in doing business in today's environment (5 issues);
- The lack of effective mechanisms for financial and credit support of entrepreneurship (4 issues);
- Illegal actions of competitors (3 issues);
- Limited access to business information (3 issues);
- Lack of social equality in doing business (3 issues);
- Lack of effective incentives for innovations in small business (2 problems).

The number of problems identified in the first phase included 5 such that directly interfere with the development of retail entrepreneurship:

- Unregulated illegal street trading and the reluctance of regulatory authorities to deal with it;
- No strict definitions of requirements for facilities to conduct retail entrepreneurship;
- Lack of control over the ratio of the concentration of retail establishments to the density of population in the city;
- Imbalance in the set out of locations of retail establishments;
- Imbalance of interests of entrepreneurs engaged in retail activities on the markets and administrative authorities of these markets.

The second phase took place in the frames of the first meeting of the working group. While working in groups all the issues were separated between common problems of the economy of Ukraine (corruption, raiding) and issues that do not directly relate to the regional business development (excess of carriers, inadequate professional training of government officials, the complete lack of legal knowledge in the deputies of local council). Participants of Workshop grouped all of remaining problems into 4 areas under the proposed methodical guidelines, including:

Section I. Entrepreneurship regulations streamlining.

Section II. Financial and credit and investment policies.

Section III. Resource and information support of entrepreneurship.

Section IV. Entrepreneurship infrastructure formation.

For the third stage (individual huddle of problems) the results of previous stages were

filled into table consisting of two columns: in the left column identified problems were recorded, in the right - possible solutions. Each of the working group members get the table and within a week had to complete this table with own proposals on possible solutions of problems.

With ready own problems solutions participants took part in the second and third meetings of the working group. There were discussed solutions of problems that impede regional entrepreneurship (IV stage). In the discussion more than 80 possible solutions were proposed. These solutions included enhancing the role of NGOs in decision-making process of local authorities, the creation of centers of administrative services, rapid informing and explanation of new legal regulations to entrepreneurs, economic competition support and ensure fair business conditions for all entities. For financial credit and investment business support there was offered to provide financial support to entrepreneurs through partial compensations of interest rates for the use of bank loans, organizing of presentations and advocacy work on the granting of preferential loans, financing of business start-ups with promising business ideas, the involvement of the small business entities in the implementation of city investment projects.

All solutions were grouped into 4 sections.

Section I. Entrepreneurship regulations streamlining. During the discussion in frames of that section, following actions were proposed:

- To consider proposals to improve regulations on meetings of entrepreneurs and send desirable changes to the competent authorities;
- For law-enforcement agencies to provide inspections of persons that do unregulated illegal trade;
- To carry out public control inspections of entrepreneurial activities by control authorities;
- To create a public committee for regulatory policy analysis and proposals for deputies of the Verkhovna Rada of Ukraine;
- To make proposals for patenting of innovative ideas mechanism simplification;
- To come forward with a legislative initiative of enterprise closure procedure simplification, etc.

Section II. Financial and credit and investment policies. At the section there were proposed:

- To organize regular competitions for identifying and financing of entrepreneurial projects of social directions and the most effective innovative projects in the priority areas of the city development;
- To create and post online database of potential investors;
- To arrange regular competitions and fairs of investment projects;
- To involve association of credit unions in the business financing;
- To train entrepreneurs to develop business plans;
- To create the database of consultants and advisors for investment questions, etc.

Section III. Resource and information support of entrepreneurship. The main proposals are:

- To create a map of sale points' localization in the city and make decisions about opening of new stores taking into account that map;
- To afford free access for the entrepreneurs of information about communal property that is subject for privatization and is rented;
- To make collective decisions of entrepreneurs that would not lead to corruption and improper protection of other businesses;
- To establish and strengthen the role of public organizations on the markets;
- To organize agricultural weekend fairs, to allocate additional sale places for entrepreneurs on the markets;
- To develop marketing programs that provide advertisment and promotions to support local businesses;
- To provide feedback between the government and entrepreneurs with a help of public opinion surveys.

Section IV. Entrepreneurship infrastructure formation. The section includes next suggestions:

- To organize seminars and trainings for entrepreneurs, to post learning

materials online;

- To use innovative methods for selection of talented students to start their own business;
- To introduce into the high-school subject "Economics" topics relating to business development, to create training manual for pupils "How to start own business";
- To arrange competitions and championships among secondary school pupils on the basics of entrepreneurship to enhance motivation and identify potential entrepreneurs;
- To create and organize of distance learning website for entrepreneurs.

Based on the suggestions made by the participants, experts of municipal Executive board formed concrete events that have been placed in the basis of regional business development program. This document was approved at the Poltava City Council.

Conclusions

So, as a result of the Workshop method usage and creative work of the working group, regional entrepreneurship development program was established. The program provides improvement of organizational and resource coverage of small business, reduction of administrative barriers and the possibility of program adjustments (changes or additions) depending on changes in domestic and external conditions for its implementation.

The purpose of the Workshop is the exchange of experience and knowledge to create a joint specific product. The advantages of Workshop are that this method is practically oriented to offer ideas based on practical experience of participants and actively engages all stakeholders to cooperate. By using this method the basic principles of the business development program are kept: objectivity, transparency and equality (taking into consideration the interests of the local community and entrepreneurs).

The entrepreneurship development program implementation will significantly intensify retail business in the city and will help eliminate the problems hindering the retail development at the regional level. Implementation of specific program events will improve services, create new jobs and increase the local budget replenishment.

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Public Policy
End-of-Life Vehicles Reflected at Opel/Vauxhall

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Abstract:

Disposal of cars and light commercial vehicles at the end of their operational lives(-ELVs) is estimated to generate over ten million tones of material requiring treatment and disposal in 2005 within the European Union. This volume is projected to increase to fourteen million tones by 2015 as the number and average weight of vehicles increases. The company Adam Opel AG operates as a subsidiary of General Motors Europe AG, which is a major part of General Motors Corporation. Adam Opel AG is working on environmental protection for a long time (before 1990) since they realized they must act responsibly with the resources and they must invested decades of work into environmental innovation to reduce pollution and raise their sustainability. In terms of product development Opel's recycling strategy is based on two cornerstones: recycling –oriented design and development and implementation of material cycles for vehicle production.

Key words : product, life cycle, recycling, recovery
JEL: M30, N74

1.Introduction

Every year, end of live vehicles generate between eight and nine million tones of waste in the Community which should be managed correctly. In 1997, The European Commission adopted a proposal for a directive which aims at making vehicle dismantling and recycling more environmentally friendly, sets clear quantified targets for reuse, recycling and recovery of vehicles and their components and pushes producers to manufacture new vehicles also with a view to their recyclability. The legislation was officially adopted by Europea Parliament and Council in September 2000 and was published in Official Journal on 21st October as Directive 200/53/EC as the „ ELV Directive".

This Directive applies to vehicles and end-of-life vehicles, including their components and materials. It specifically covers motor vehicles with al least four wheels for transporting passengers and with a maximum of nine seats; motor vehicles with at least four wheels for transporting goods which weigh no more than 3,5 tones and three wheel motor vehicles. Practically the scope is to decrease the quantity of waste arising from vehicles and the legislation encourages vehicle manufactures and importers of vehicles into European Union to limit the use of hazardous substances in their new vehicles, to design and produce vehicles which facilitate re-use and recycling and to develop the integration of recycled materials. Since 1 July 2003, the use of mercury, hexavalent chromium, cadmium and lead in the components of vehicles placed on the market has been prohibited. Priority must be given to the re-use and recovery of vehicle components. The aim of this Directive is to increase the rate of re-use and recovery which (in average weight per vehicle and year) should reach 85% no later than 1January 2006 and 95% no later 1January 2015 and the rate of re-use and recycling (in average weight per vehicle per year) 80% no later than 1January 2006 and 85% no later than 1January 2015. For vehicles produced before 1980, the targets are lower [1].

Reviews suggest that ELV developments in Europe and Japan are having direct and indirect impacts on US manufacturers. US manufacturers are required to comply regulations in their European/Japanese manufacturing and sales operations. There is some reported evidence that US

manufacturers are using their experience in Europe and Japan to increase domestic car recycling in the US, and are trying to limit the need for specific regulations in the US by demonstrating voluntary progress in ELV recycling. There is also likely to be competitive market pressures from European/Japanese manufacturers operating in the US, who will be stressing the importance of recycling in their own marketing.

US manufacturers are researching, and taking steps towards, increasing ELV recycling rates on a voluntary basis. General Motors, Ford and Chrysler have formed the US Council for Automotive Research , a key objective of which is to promote and conduct research required for the technology to receiver, reuse and dispose of materials from ELVs. All car's manufacturers from United States of America have developed lists of restrictions on materials that are not used as specifications for their suppliers to restrict or exclude specific substances. Ford has introduced worldwide recycling guidelines and is seeking to increase the use of recycled materials and the recyclability of materials used in manufacturing process. General Motors with Ford has also been running a similar program, initially looking at recycling bumpers into housing for headlights, and using recycling from bumpers in new bumpers [2].

2 The research regarding policy of Opel/Vauxhall end of life vehicles

As a company and industry pioneer, Adam Opel's heritage is the oldest of all German car manufactures . The roots of the Opel brandname go back to 1862 when Adam Opel embarked on volume production of sewing machines. In 1889, Opel starts its automobile production in Russelsheim at a rate of eleven vehicles a year. Today, is one of the most technologically advanced automobile manufacturers in Europe and together with Vauxhall (in the United Kingdom) sels vehicles in over 40 markets in Europe. The company operates plants and development centers in seven European countries, and employ around 40.000 people. Many additional jobs are provided by over 6500 dealer/ service sites.

In 2011 Opel sold over 1.2 million passenger cars and light commercial vehicles in Europe, achieving a market share of 6,1%. With the market introduction of the electric Opel Ampera in 2011, the company has founded a new segment in the European automotive market and underlines its role as a trendsetter for progressive mobility solutions[3]. Besides production and the central corporate divisions, Russelsheim is also home to Opel's think tank, the International Technical Development Center (ITDC) were around 8500 highly qualified engineers, technicians and specialists meet the challenge of developing sophisticated, innovative automotive solutions that deliver exceptional value for customers including the recycling activities and finding new ways to protect environment[4].

Opel/Vauxhall welcomes the Community's initiative to adopt EU-wide rules for the environmentally-sound disposal of vehicles at the end of their life cycle. The company implemented their own Design for Environment guidelines and continue to work with other economic operators and government to develop markets and methods to improve recycling economies. The cornerstones for Opel's recycling policy are the recycling oriented design and the recovery concept for end of live vehicles(ELVs). In this vision Opel focuses on increasing efficiency in their recycling process by designing products from the start to be recyclable.

2.1. Recovery strategy

Opel/Vauxhall's recovery strategy comprises three key elements: recovery-oriented design; establishing closed material loops and recovery at all stages of the product life cycle.

Recovery-oriented design at Opel/Vauxhall follows Design for Environment guidelines which were first developed in 1993. These guidelines support design engineers to ensure as much as possible of the vehicle is recovered at the end of its life. This includes: proposals for easy pre-treatment of ELVs; material selection including increasing use of recycled materials and fast and efficient dismantling[5].

Closed material loops – in 1989 Opel/Vauxhall first introduced the use of recycling plastic in the Calibra model.

Through to today continued to release recycled materials for example over 10% of plastics in the new Astra recycled content. Since 1990, Opel/Vauxhall has worked closely with several dismantlers to study the optimal recovery/recycling process and develop design for recovery/recycling manuals for new cars and dismantling manuals for end-of-life vehicles. Opel/Vauxhall is also part of the International Dismantling Information System (IDIS) which provides computerised information on dismantling. Saab and General Motors imported models are included. In the present more than 130 plastic recyclate types have been specified and approved for use in production. In comparison to new resources, recyclate must fulfil all the same technical specifications and be produced at a lower costs. Where these two criteria are met, recycled materials are preferable, but quality is never compromised. The recycle team takes every effort to maintain high quality look and feel, mechanical and thermal durability, along with performance standards.

In fact because the recycled materials are of such a high standard and quality, they can be used for visible parts as well as hidden parts of Opel cars (for example Opel Insignia). Enabling dismantlers to identify materials is key to fast and efficient recovery. Opel/Vauxhall only uses recyclable plastics in car production and was the first car manufacturer to mark all plastic parts over 100 grams in 1979 according to ISO standards. To facilitate the economic recycling of cars at the end of their life, Opel/Vauxhall engineers aim to reduce the number of different material types used (numerous types of plastic are used in car production) and give preference to materials are compatible in a common recycling process(for instance, elastomers and polyethylene cannot be recycled together). Regarding the pre-treatment and dismantling is not enough for Opel/Vauxhall to integrate grecycled plastics and materials which are easily recovered into production but must also make it easier for those treating scrap cars to depolluted (remove fluids which can contaminate soil, water courses and sub-surface water) and dismantle their products. To design for pre-treatment means thinking ahead to allow for the fast and efficient removal of batteries in addition to draining fluids from components such as fuel tanks, engines and gear boxes.

Likewise, recyclable parts are arranged in such a way as to make them easily accessible and dismantable in order to reduce the time needed for- and thus the cost of- dismantling. Bodywork specialists have decreased the number of fasteners types used and try to avoid fastening techniques such as spot welding and insert foaming. Component fasteners can be loosened without the use of special tools and new attachment methods enable parts to be removed in just a few minutes- and yet remain secure while in use.

Design engineers, for example, decided to change the construction of the bumper of Corsa to speed up dismantling time. They dispensed with the usual two-part assembly of plastic bumper components and steel carrier(which is necessary to absorb energy). Now the steel support is part of the bodywork so that no additional dismantling is needed. The exterior components of the bumper is clipped on to the bodywork and held in place with two screws at each end. Removal of the front and rear bumpers now only takes two minutes.

Recovery throughout the product life cycle is the third step of the recovery strategy which is very important too. Opel has the largest network of certified vehicle dismantlers in Germany- about 240. Opel regularly audits its dismantling partners to ensure they may the requirements for environmentally-sound ELV recovery. In the United Kingdom, Vauxhall is one of the founding members of Automotive Consortium on Recycling and Disposal , which comprises representatives from motor, dismantlers, metals, and rubber industries[5]. The consortium is committed to improving the recovery of materials from ELVs to 95% in 2015. Opel has signed several voluntary agreements with similar objectives in countries like Portugal, Spain, France, Austria, Italy and Belgium.

More than 50% of Opel dealers in Germany are certified take-back points for ELVs.In addition, in 1995 Opel developed a waste disposal program. For all dealerships and service outlet taking back exchanged spare parts, fluids and packaging waste. At no cost to the last customer, Opel collects and integrates this waste into the recovery

loop. Opel is the only auto manufacturer which provide a nationwide system for treatment and disposal of almost 14.000 metric tones of automotive waste every year. The program has been introduced also in Austria and will be extended in other countries too. Manufacturing waste from Opel/Vauxhall plants is collected, sorted and re-introduced into production. At Vauxhall's Luton plant 63 tones of computer paper and 25 tones of other waste paper are recycled every year. Opel Exchange Parts is a re-manufacturing program which provides Opel dealers and service outlet a bonus for sending back worn parts (generators cylinder heads, transmissions) which- following a check- up and reconditioning are re-used for customer repairs at a lower cost then the original parts but with the same warranty.

Every year approximately 8 million cars are scrapped in Europe. About 75% of the car's material weight is recovered, with the remainder- rubber, textils, glass and plastics- going to landfill. Although there are several factors which currently hinder efforts to recover a greater percentage of the car. Ope/Vauxhall aims to reduce automotive waste going to landfill to 5% over the next 15 years. As part of Opel/Vauxhall's overall recycling strategy, cars are designed especially to enable greater recovery of non-metal parts.

Normally in every country the final owner brings his or her car to an authorised dismantler or in some cases to a dealer who either receives a fee from the car owner or makes a payment for it. Crash demaged and relatively new cars have a high value. The cars are depolluted-batteries and airbags are removed and all fluids such as oil, fuel, brake fluid and anti-freeze are drained and safely disposed of. Tires and catalytic convertors are also removed and where possible re-used. Marketable spare parts such doors, engines and gearboxes are dismantled for reconditioning and resale. The scrap remainder- mainly metal, rubber, textiles, glass and plastic – is pressed and transported to a shredder. After shredding, the metals are separated and sent for recycling in the steel or re- smelting industries. This means approximately 25% of the car's total weight goes to landfill. On average, most countries aim to decrease the amount of automotive shredder residue ending up in landfill by a further 80% in 2015.

Although dismantling information for most Opel/Vauxhall models is available across Europe, there is no common system in place to handle cars at the end of their life. However, with one or two exceptions, all countries in Europe have voluntary agreements (between manufacturers and related industries/associations and sometimes governments) or legislation in place to ensure that vehicle waste is properly treated and that achievement of over- all recovery targets continuously improves.

Car manufacturer's role in voluntary agreements is usually to improve the design of vehicles for recovery/recycling , provide dismantling manuals for all models, mark with common coding all plastic parts over 100 grams, work on global criteria for measuring recyclability, increase the use of remanufactured parts and participate/support projects aimed at increasing plastic recovery by- for example- better separation processes, researching new applications/markets for non-metallic materials and developing energy recovery processes for automotive shredder residues.

2.2. Limits to recycling

Opel/Vauxhall has made significant advancements over the years in an effort to increase the recyclability and recoverability of their cars. The Design for Environment guidelines enabled their engineers to ensure recovery/recycling capability from the early stages of a model's development by careful material selection, easier methods of dismantling and identification of parts and the use of recycled plastics in new vehicles .For example in 2000 30.000 metric tons of recycled plastic were used in the production of new vehicles at Opel/Vauxhall.

Thanks to this new way of thinking how to built cars so that they have a smaller impact on the environment at the end of their useful life, it is possible to recover up to 95% of most models total weight. Why then is only 75% of the average car recycled? And how will it be possible to achieve the overall recovery targets of 95% in 2015 as required in the proposed Directive 200/53/EC regarding end of live vehicles.

The three- quarters of the car which are currently recovered are fluids, catalytic converters and batteries which are removed

in the pre-treatment phase and spare parts or metal which have a market value when re-used or recycled. What about the seat, foam, glass, bumpers and other plastics? Are these elements recyclable/recoverable? Clearly they are- however there are important limitations.

The first aspect is economic. At present the profitability of end of life vehicles recovery is based on sales revenue from market components and scrap metal. The time and labour required to dismantle additional materials is one of the main reason for the less favourable economic result of a higher recycling factor. In many countries, there is no market for recycled materials and substantial subsidies would be needed to create one.

Material composition can be another factor which acts a barrier to recycling. On average,10% of a car's weight is plastics. There are numerous different types of plastic which are used in car production. Although Opel/Vauxhall has selected materials which are easy to distinguish and supplies information to facilitate identification and sorting for more recent models, it is still difficult to separate out the different grades- a prerequisite for plastics which cannot be recycled together. Technology is not available to separate the different grades post-shredding so it must occur at the dismantling stage – a labour intensive and expensive procedure all to obtain a material for which there is currently no market(imagine that this means for cars built before Design for Environment guidelines were introduced).

Glass, 3% of the total vehicle's weight, is also problematic. For safety reasons, front and rear window screens are bonded the car body and require special tools to be dismantled. Glass is also laminated , tinded and coated with a primer along the edges making it unsuitable for direct recycling. The amount of non-automotive, more easily-recyclable glass being recycled today currently saturates the market. Tires, which comprise the largest part of a car's rubber content, can also be recycled but- depending on the market- there are limited applications for the material. In Germany, the metal rim is removed and recycled while the rubber is used in cement kilns. Burning rubber for energy recovery is perhaps the best waste management option but this method also faces obstacles[5].

Another factor regards health effects. A little mentioned problem with dismantling for recovery/recycling is that someone has to do it is a labour intensive and cannot be handled by automation. Removing seat foam for example can be a health hazard as the material was often been contaminated by bacteria. A study carry out by the Consortium for automotive Recycling, found that even after being treated to produce insulation panels for carpeting, seat foam was still found to contain unacceptably high levels of bacteria.

Another factor is energy recovery. Recovery of the energy contained in the different materials of an end of life vehicle, which are currently landfilled, is an important option to help manufacturers achieve increased recovery levels until viable and economic material recycling methods are developed. Heat treatment to recover energy does not require material sorting of the different plastics. Mixed shredded waste has a high calorific content, and can be used as a substitute for non-renewable fossil fuels such as coal or oil. Modern energy recovery plants are clean and emissions are strictly regulated under two European Directives and several national regulations. In many cases, emissions are lower than those from coal-fired power plants. Energy recovery is, however, not only limit by the proposed EU Directive to 10% but faces unfounded opposition from the public at large in most European countries with the exception of Switzerland and those in the nordic region.

Setting high material recycling targets and limiting energy recovery is misguided for another very important reason. As the proportion of plastics versus metal content increase in new cars to save weight and decrease fuel consumption, higher quantities of plastics will have to be dismantled and recycled to fulfil the requirements of the Directive. For example, a car which- as a result of using lightweight metal such as aluminium or magnesium- weighs 250kg less than a standard model of the same size could emit more than 50g CO2 per km less than the heavier model. But because both cars contain virtually the same amount of non-metals, a larger portion of the non-metal components in the lightweight model must be recycled-

the share of non-metals to be recycled in the lightweight model would be about 44% compared to 33% for the heavier model-there by penalising the more environmentally-friendly version. Given the economic, technological and other obstacles to reaching high recycling targets, manufacturers are faced with a dilema: improve fuel efficiency or increase recyclability of cars? These objectives do not necessarily have to be a odds as long as there is flexibility to choose the best waste management option taking economic, social and environmental factors into consideration.

3. Conclusions

There are about 18 million cars on Europe's roads today which are Opel/Vauxhall, Saab or other General Motors brands. Since the early nineties, company designed their cars to ensure easy and efficient recoverability at the end of their lifecycle in an effort to limit their impact on the environment and ensure sustainable mobility for future generations. But what happens to a car when it comes to the end of its useful life? Are systems in place to recover or recycle valuable materials ?

It is important to note that scrapped vehicles represent only 0,2% of total landfill volume. The reason for this is simple: currently about 75% of the car is recycled. The policy of Adam Opel AG regarding protection of environment is responsable not forget to give customers maximum driving pleasure with minimum emissions. The company are not only continuously improving conventional engines, but are olso working on a full range of new, cleaner and more fuel-efficient technologies- including pure electric propulsion and various hybrid concepts. The specialists strive to improve CO2 emissions and fuel consumption without restricting driving performance. This is the principle behind the ecoflex models. Ecoflex technology consists of a lot of small, clever, changes that add up to a big increase in overall efficiency. It means improving fuel systems and eliminating hidden drags on consumption. Car buyers welcome the opportunity to drive both economically and ecologically: nowadays, up to 40% of all Opel models sold carry the ecoflex badge.

The Opel Ampera is Europe's first electric vehicle that is powered by electricity at all times and can be used without any compromise. For the first 40-80 km, power is supplied by the electricity stored in the 16-kWh, lithium-ion battery. If a longer trip is required, the gasoline-fueled generator powers the electric motor and keeps the battery at a satisfactory level. This technology is called extended-range electric vehicle.[6].

While in theory the economic value of these environmental benefits can be measured through a combination of market prices, damage costs and non-market valuation techniques, in practice arriving at such valuations is problematic but can also be expected to give rise to a variety of further financial and economic benefits, through: promotion of resource efficiency, promoting cost savings to public authorities, by reducing the costs of dealing with abandoned vehicles, enhancing the efficiency and sustainability of treatment sector, by raising professional and environmental standards and promoting modernizations of operations Progress in this area, combined with a willingness by government to take a more flexible approach to recovery options, will be a significant step towards ensuring the cleaner disposal of End of life vehicles and thus sustainable mobility for future generations.

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The Challenges of Human Resources Management Practice in a Knowledge Based Organization

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Abstract

Human resources represent an important asset for modern organizations especially in the context of knowledge based economy. The main competitive advantage is represented by knowledge possessed by the employee of an organization. Human resources management practice needs a different approach meant to attract develop and fully use such knowledge. This paper aims to analyse the growing impact of knowledge over human resources management practice. Mainly we discuss the manner in which the human resources management can respond to the challenges brought by the new context. Assuming new roles human resources management will support the transfer and development of knowledge within organizations. This new approach generates a real transformation of specific practice.

Key words: knowledge based organization, human resources management, new roles, challenges.
J.E.L. Clasification: M12

1. Introduction

In a knowledge-based economy the use of ideas prevails over the physical abilities and on the application of new technology rather over the exploitation of labour in a classical manner.

Such an economy implies that the knowledge is created, acquired, transmitted, and used more effectively by individuals, companies, and communities in order to induce economic and social development.

A key concept of the knowledge economy is that knowledge and education has become a business product, a productive asset.

Knowledge based organizations have increased their demand for high-skilled workers. Meanwhile, the demand for lower-skilled workers has declined. One of the most important challenges that such organizations are facing refers to achievement, development and retention of more high skilled people.

In such a context, the human resources management has become an important part of business model that will provide the skilful people that a company needs. New challenges arise for this particular field and should be considered in order to develop and maintain an appropriate level of knowledge for the organization.

2. The knowledge based economy - theoretical background

The knowledge economy refers to all jobs and companies in which the knowledge and capabilities of people determines competitive advantage, rather than the capabilities of machines or technologies.

The knowledge based economy has developed as a result of wide spreading usage of information and communication technologies.

In this information-intensive economy, competitive advantage is based primarily on the application of knowledge, and not all of the data, intelligence, and wisdom with which a global company needs to compete can be found in one place. Increasingly, knowledge is dispersed around the world.

In order to better understand the concept of knowledge based economy some general definition are presented.

According to the OECD report (2003) in knowledge based economy the role of knowledge as compared with natural resources, physical capital and low skill labor has taken on greater importance [5].

Another point of view at consider the knowledge based economy as the one in which the generation and exploitation of

knowledge has come to play the predominant part in the creation of wealth. It implies the most effective use and exploitation of all types of knowledge in all economic activity.

The development of this new concept was generated by several factors. First we should mention the information technology revolution. It has provided new opportunities for easy access to information from anywhere. New opportunities have been created for generating and transferring information worldwide.

Secondly, the globalisation process provided opportunities to any company, especially for smaller one, to take advantage quickly if they can adapt faster to changes that occurs e in the new knowledge-based economy. This represents a clear advantage of smaller companies over the bigger ones, because in such a new context the speed reaction is essential [4].

The companies can adapt faster to the changes that occur within the economic environment and exceed the competition by concentrating their efforts on research and development for the long time perspective and also by investing in education and training. The changes in the knowledge based economy are so rapid therefore the companies should consider the workers lifelong learning process as the primary source of maintain their knowledge potential.

Educated and skilled workers able to create, share and use the knowledge in order to ensure company's competitive advantage are essential for a knowledge based organization. A new model of training is needed in such organizations in order to keep up with the changing technologies. In the same time these workers should be capable to access the information infrastructure that provides effective communication, dissemination and processing of information. In other words, they should be able to access and share knowledge [4].

The knowledge based economy generated a new type of organization – the knowledge based one. Such an organization is characterized by a high degree of complexity. Its main ability is to collect knowledge from around the world and use it in specific local opportunities. This way, these companies are able to stay one step ahead their competitors [3].

This new type of organization requires a different approach centered on knowledge management at all levels, human resources making no exception. This new approach implies a different way to handle human resources management activities.

It can be argued that human resources management is facing real challenges that are bringing into discussion new roles that this domain should empower in order to achieve a greater importance and impact over the company performances.

3. New roles and challenges for human resources management

In the knowledge based economy the human resources management activities will be not resumed by the conventional functions of staffing, training and development, performance management etc. Human resource management work in the knowledge based economy will include activities that overlap with other traditional business functions (for example finance, marketing) and some new activities (for example knowledge management).

Therefore, human resources management will be no longer focused on the matter of managing people in a traditional manner. The new responsibilities are related to the management of capabilities that the employees are creating and the relationships that people must develop [1].

Human resources personnel are still accomplishing traditional tasks, although some of that activities has been outsourced (for example, staffing, benefits, etc.) or performed using specialized technologies (for example, electronic HR).

It could be noticed that an important part of conventional human resources management activities is now accomplished by line managers and professionals from other fields, such as information technology.

In the knowledge based economy, the human resources management activities have been extended. Therefore, specific responsibilities are reorganized by sharing among specialized managers, employees and external services suppliers.

The new technologies applied in human resources field allow increasing its value-added contribution to organizational performance using fewer personnel. In the same time, specialized solution for hr

generated more information available for employees and managers. It is o called disintermediation of HR activities.

Fast and cheap access to accurate real time HR information will be provided by the new technologies. Access and the ability to analyze, assess, interpret, manipulate, leverage, and share information effectively will be the key to giving the organization a strategic edge.

In order to increase employee effectiveness and efficiency an improved access to information is required. This means working from anywhere and at anytime. Instant access to all needed knowledge and to essential data will be a keystone for a successful company.

The human resources management in a knowledge based organization has to develop new roles that should enable to supply company's abilities needed to adapt to the challenges of the actual context. These new roles should exceed the classic boundaries of human resources management activities. The development of new practices should increase the contribution of this domain to the organization effectiveness.

Four roles are identified that make it possible to create those needed capabilities [2]:

- human resources steward,
- knowledge facilitator,
- relationship builder,
- rapid deployment specialist.

Every organization represents a sum of knowledge, skills, abilities of it employees, that makes it different from other organization. In the same time, these assets represent the basis to ensure a unique competitive advantage.

This new role (**human resources steward**) consists in accumulating, concentrating, conserving, complementing and recovering the collective knowledge, skills and abilities within an organization.

Human resources management specialists have to develop new capabilities among employees and stimulate commitment among them. A new kind of relationship must be developed within organization based on the principle of leading without excessive controlling. Such a relationship implies a significant, self-responsible contribution to organizational performance.

Human resources management faces few challenges on the road of assuming such a role.

Human resources management has to provide valuable human resources to the company and also to determine the growth of value for these resources.

The key knowledge workers should be identified, attracted and retained within the organization.

The recruitment and selection process should be reshaped in order to impose higher requirement for the new entry positions. Meanwhile, career management should replace job administrative activities.

Another important role that human resources management has to assume is **knowledge facilitator**. For knowledge based organization acquiring the most talented people and putting them to work is not the only major task. It also has to provide knowledge creation and to ensure its dissemination throughout its employees and often among business partners.

This new role of facilitating organizational learning and knowledge sharing among employees, departments and business partners involves several challenges. First, the accent is put on continuous learning process. The employees are encouraged to learn and develop their capabilities continuously. Human resources management has to find the most appropriate ways to attain these objectives.

Another challenge refers to the fact that the human resources management should provide the necessary knowledge and its dissemination among employees when this knowledge is needed. Related with this another issue that should be consider is the one regarding how to reward knowledge acquisition and sharing. Finally, this new approach should lead to the development of new organizational behavior patterns. Employees should be provided with a model of behavior that will enable them to maintain a constant effort toward the development of new knowledge.

Related with the previous role the human resources management should consider another one- **relationship builder**. The human resources management has to develop new practice that will enable employees to encourage, facilitate and sustain relationship within organization and also among business partners. This will lead to a better perception

of knowledge creation and also enables its sharing.

Related with the previous role the human resources management should consider another one- relationship builder. The human resources management has to develop new practice that will enable employees to encourage, facilitate and sustain relationship within organization and also among business partners. This will lead to a better perception of knowledge creation and also enables its sharing.

The rapid changes that are characteristic to the knowledge based economy, lead to another important role of human resources management – **rapid deployment specialist**. Human resources management has to ensure in a short time period the most appropriate human resources structure that a company need to valorize the short term opportunities that the market place bring to surface. In this manner a company could rapidly deploy its competitive advantage and overcome its rivals.

In this context, human resources management should concentrate its efforts on creating a flexible human resources structure that could easily adapt to these changes. The focus will be on results responsibility rather than the task assignment.

4. Conclusions

The knowledge based economy and the emerging knowledge based organization put at the core of business process the creation and dissemination of knowledge as a continuous endeavor.

In such a context human resources management is facing the challenge of major transformation. Two situations can be considered.

First, this domain fails to embrace these new opportunities and become less important in relation with other field of action within an organization.

Secondly, human resources management could assume the new roles above mentioned and become the most important field within an organization, having the greater impact over the effectiveness and its overall level of performance.

As further research issues we should consider the possibility of measuring the contribution of human resources management practice to the process of knowledge creation and sharing.

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Section II
Business Economy and Administration

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Subsection 3
Finance and Accounting

Assessing the Effectiveness of the Restrictions Imposed by the Stability and Growth Pact and The European Fiscal Compact – The Case of Romania

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Abstract

The Euro zone's deficiencies became obvious when the crisis turned permanent. The Euro zone was caught without a supervisory procedure on macroeconomic imbalances, crisis management instruments, adequate banking supervision and sufficient instruments of resolution. The primary reason for these failures is the lack of a fiscal union with an adequate authority over fiscal, structural and banking policies. Attempts to straighten these mistakes were done ad hoc and have so far been insufficient because they have implied a high moral hazard. Financial markets are increasingly aware of these shortcomings, and have begun to rely on the possibility of abolishing the Euro zone.

Cuvinte cheie: public debt, budget aggregates, budget deficit, automatic stabilizers.
Clasificare J.E.L.: G30, H61.

1. Introduction

Regarding fiscal rules, Stability and Growth Pact has had a negative impact. The Pact rules were not met before the crisis and the pact created unnecessary tensions among Member States by not allowing the defining of a strategy during the crisis and a coherent exit strategy. Original principles of the revised Pact, in 2005, remained unchanged and refers to [1]:

• the budget deficit to be within 3% of GDP;
• public debt to fall within 60% of GDP;
• Member States are is required to provide stability programs that present projections for public finances four years, bringing the medium term budgetary positions in balance (deficit of 1% of GDP, is allowed to Member States, with high growth and low public debt).
• fiscal effort should be at least 0.5% of GDP per year (measured in terms of primary structural balance, estimated by the Commission).

If the debt exceeds 60% of GDP, bringing the debt to this value must be done in a satisfactory pace. Once equilibrium is achieved structural balance, it must be maintained. Only automatic stabilizers are allowed to work, the structural balance calculation method being performed by the Commission. European Commission initiated the excessive deficit procedure (EDP), when a country exceeds the 3% budget deficit (unless this excess is temporary) and set a deadline for the country to bring its deficit below 3 % of GDP. Penalties may be applicable if countries can not meet their commitments after triggering the excessive deficit procedure, but they were never implemented.

Pact shortcomings were analyzed many times (see, for example, Mathieu and Sterdyniak, 2003), formulating the following critical:

1. 3% limit does not make sense in times marked by recession. A country affected by a

recession might need a budget deficit above 3% of GDP to offset declining demand in the private sector. Thus, this increase had no negative effect on their partners because this avoids the overflow of domestic demand in neighboring countries. In this respect, Germany in 2002 there was a deficit of 3.5% of GDP and inflation rate stood at 1.4%, and the current account surplus to 1.9% of GDP: can not see As German budget deficit could have a negative impact on partners.

2. Pact is considered to be inefficient for two reasons. • It can operate only in the economic cycle and restrictive measures should be taken only when the economy is located on top of the cycle. • Covenant not consider issues balance of payments, competitiveness, private debt and housing bubbles and financial.

3. Pact should provide sanctions for countries with excessive public deficits, which induce inflationary pressures or excessive deficits accumulate, causing the European Central Bank to raise interest rates. In fact, countries in excessive deficit procedure (EDP) are often countries with low economic growth and low inflation with public deficits that need to support their growth.

4. The rationale behind the concept of a balanced budget in the medium term has no clear economic justification. A country where private saving is too low (high) will require a budget surplus (deficit). It is also reasonable to finance public investment by government borrowing and therefore some government deficits are justified. In a situation of relatively low private demand, managing the government's balanced budget requires a low level of interest so that the objective of a balanced budget would not be feasible. A deficit kept permanently at 0% of GDP,

public debt rating could be stable and to be within shrinking share of GDP. Debt would reach a point at 0% of GDP.

5. In periods marked by economic growth, the Stability and Growth Pact (SGP) aims to reduce structural debt, but you can not put pressure on governments to do so. Episode 1999-2002 showed that the concept of good economic situation is problematic: Member States have refused to accept a ceiling on the unemployment rate, calculated by the Commission. In a recession, the rule becomes completely unworkable. Furthermore, the distinction between structural and cyclical balance is questionable: where and how should be introduced incentives?

6. Because there is a single interest rate that does not fit the specific situation of each country, each Member State should be allowed to use fiscal policy to achieve a satisfactory level of GDP (corresponding to the natural rate of unemployment).

7. Implementation of the SGP is mainly based on estimating the growth potential of the economy, which is problematic during the crisis.

2. Evolution of the gross domestic product and budget aggregates

For the period 2012-2015, according to the *Convergence Programme 2009-2012* and the *Report on the Draft of Budget Law for the year 2012 and the horizon from 2013 to 2015*, the projected evolution of Romanian GDP and budgetary aggregates has the value levels shown in Table 1.

Table 1: Projected evolution of Romanian GDP and budget aggregates for the period 2012-2015

- Mil. lei and % -

No.	Name		2012	2013	2014	2015
1	General Domestic Product		579.600	617.142	659.302	707.051
2	Budget Revenues	abs. val.	195.351	212.914	231.425	248.175
		% of GDP	33,7	34,5	35,1	35,1
3	Budget Expenditures	abs. val.	206.561	225.294	241.355	254.793
		% of GDP	35,6	36,5	36,6	36,1
4	Actual Budget Deficit	abs. val.	11.210	12.380	9.940	6.618
		% of GDP	1,9	2,0	1,5	0.9

Source: „ Report on the Draft of Budget Law for the year 2012 and the horizon from 2013 to 2015" and own calculations

As shown, the project is "optimistic", expressing the hope that **the GDP, budget revenues and expenditures will continuously grow**, while the size of the actual budget deficit (except for 2013, for which is projected a slight increase) shall decrease both in terms of absolute value and as a share of GDP, reaching only 0, 9% at the end of 2015. [1]

If these projected levels will become those effectively recorded in the Romanian statistics for the 4 years period under study, it means that the fiscal policy promoted was appropriate *and there was slightly better in Romania and foundations were laid for "the so much better" that we all want*.

Thus, a significant increase in GDP is expected, which at the end of 2015 will be with 127.451 million lei over the projected level for 2012, which means an increase of about 22%.

Budget revenues in 2015 will be with 52824 million lei over those of 2012, which means an increase of about 27%, while budget expenditures will increase by only 48.232 million lei, i.e. 23.35%, registering a regressive growth in relation to the projected increase of budget revenues.

Under these conditions, the actual budget deficit will decrease from 11210 million lei in 2012 to 6618 million lei in 2015, reaching a share of only 0, 9% of GDP.

These trends are shown graphically in Figure no. 1.

As a signatory part to the new *Treaty on Stability*, *Coordination and Governance in EMU*, Romania is in a better position, given the lower dimension of the public debt - which is well below 60% of GDP. Therefore, **the new structural budget deficit limit of Romania will be 0, 7% of GDP** - which is above the 0, 5% of GDP stipulated in the treaty as a medium-term objective for EMU Member States.[2]

Control of public finances should become very strict, with a number of clear advantages, but also an important disadvantage in order to achieve this limit (which we consider to be very "ambitious"!).

Obviously, given the negative experience of Romania in recent years in the field of taxation, the most important advantage is **the inability to promote pro-cyclical fiscal policy**, which will be backed by **a strong fiscal discipline**!

The downside is **the narrowing of "shunting" fiscal space** [3] necessary to stimulate the economy during periods of recession (by lowering the overall tax burden and increase of some categories of budgetary expenditures).

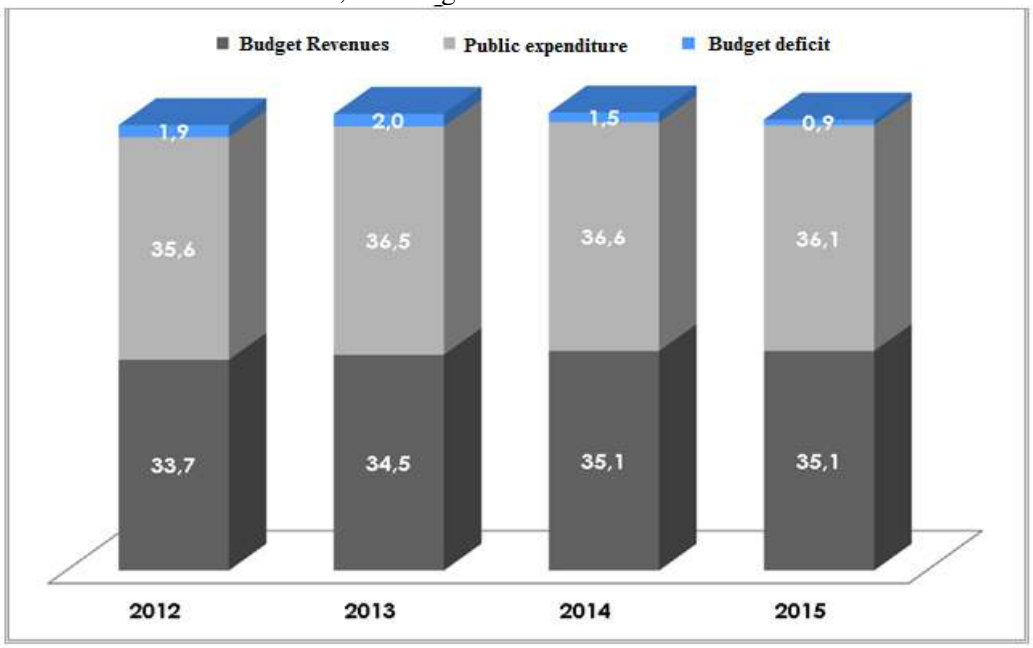


Figure 1: Projection of the share of budgetary aggregates in GDP, for the period 2012-2015

Structural deficit's limit of 0, 7% of GDP for Romania will be almost certainly achieved long before the actual budget deficit reaches at 3% of GDP - corresponding to the convergence criteria of the Maastricht Treaty (which becomes obsolete, under the new European Fiscal Compact). In fact, giving credence to projections presented in Table. 2, *evolution of the actual deficit will get us away from this part of the past in the coming years!*

However, if we take into account this level of 3% of GDP of the effective budget deficit and a coefficient of actual revenues and expenditures' sensitivity equal to 0, 3 (as has already been calculated for Romania), the output-gap should be equal to 7, 66% for compliance of the structural deficit with the limit of 0, 7% of GDP - and such economic contraction was recorded in Romania only in 1997 and 2009.

But, as stated in some papers [1], [4] it was shown that during a full economic cycle (i.e. on medium and long term), **the average actual budget deficit equals the actual average structural deficit** – so the average cyclical deficit is equal to 0 (zero). Under these conditions, by assuming a structural deficit limit of 0, 7% of GDP, *Romania has the obligation that the average of actual budget deficit over a full economic cycle to be equal to at most o, 7% of GDP*, which compared to the historical average of structural deficit for the period 1999-2011 of 3, 8% of GDP will actually mean recording a much lower budget deficit and "shunting" fiscal space compared to the recent past.

3. Conclusions

Because of the relatively low influence of automatic stabilizers in the Romanian economy - than that of the average Euro zone member states, EU-27 and the 23 Member States of the European Union - in times of economic recession, **discretionary fiscal stimuli should be much stronger here** - which means accepting *a higher structural budget deficit* (we consider the limit of 1% of GDP) so to restore the economy to its potential.

Since the limit of structural budget deficit can not be exceeded, the solution remains **intensifying the action of automatic stabilizers**.

It was demonstrated theoretically and empirically that the intensity of automatic stabilizers' action is dependent on the share of tax revenues and social contributions to GDP, significantly higher sensitivity of profit tax in relation to the cyclical position of the economy and the progressive degree of income taxation.

In Romania, for electoral reasons, tax progressivism was "banned" and taxation proportional to a "unique quota" of both profit and incomes of the general population was promoted. In this context, to achieve an increase in size of budgetary revenues and their share in GDP based on the upward evolution of GDP and the relative reduction of the compulsory levies' pressure, *the growth of taxation base and increase of the degree of collection of taxes and social contributions established by the state, including at local and regional level is compulsory*.

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The Current Status of Financing Public Higher Education Institutions in Romania – The Case of The University of Craiova

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Abstract

Public institutions have as their main mission the redistribution of public wealth through the community services.

In the Romanian budgeting system, education is considered a priority of national interest.

Higher education is a clear contributor to the development of the society as a whole by providing knowledge to youngsters as to develop and improve their training in various fields of study.

Currently, academic education faces a strong underfunding, which is an impediment to the progress expected. In addition, higher education is still deeply marked by the legislative changes from 2011 which came as an approach of convergence with the European requirements.

This paper appears as a practical study in which we intend to highlight the current financing system of the University of Craiova, its structure and its most "consistent" sources of financing in the context of an unfavorable underfunding.

Keywords: budget financing, subsidies, own revenues, underfunding, university management.

J.E.L. Classification: G10, G14, I22.

1. Introduction

Public institutions have features which define and distinguish them from the commercial entities, but also particularities that are imposed by the nature of the activity object.

Specialists define public institutions as entities that carry out activities, usually of a social matter, in the community interest, activities that do not produce incomes or that generate insufficient incomes for covering their costs, being necessary the allocation of budget resources to cover these costs [1].

The role of public institutions is to provide public services of high quality to meet social needs of individuals and businesses, in terms of economic efficiency [2].

The education can be found among the services offered by the public institutions in Romania and implicitly the higher education. In our country, the academic education is carried out through universities (institutions of higher education) [3].

Although the educational function is provided mostly through public institutions of higher education, private educational institutions also coexist. This situation has generated debates and disagreements regarding:

- the coexistence of public and private education;
- the training categories that the public education sistem must ensure (initial training, continuous training; primary training, secondary and higher training) [4].

In what follows, we will get farther from the private sector, because the subject of our study represents a public institution of higher education: the University of Craiova, that represents by far the most prestigious university in the Oltenia area.

2. Content

The University of Craiova is an institution of large dimentions, that carries on a sizable

and complex activity related to insuring at high quality standards and efficiently the educational process.

The National Education Law stipulates that all financial resources of state universities are considered own revenues [3]. For this reason, we analyze the case of an university fully funded from own revenues, its annual budget being consisted from: budgetary financing and own incomes.

Generally, state universities revenues consist of: amounts allocated from the budget of the Ministry of National Education under contracts, own incomes derived mainly from tuition fees collected under the law from individuals and businesses, foreign or Romanian, interest, donations, sponsorships and amounts obtained from other sources [5].

Budgetary financing consists of amounts allocated from the Ministry of National Education and includes: institutional funding that is received under the institutional contract [6], and complementary funding that is received under the complementary contract.

In our country, in 2011, the classification of the universities was compulsory under the new National Education Law, which refers to three groups of universities namely:

- universities of advanced research and education;
- universities of scientific research and education;
- universities focused on education.

Following this process, the University of Craiova was classified as university in B category, focused on research and education, which resulted in drastic reduction of the budgetary funding allocated to it in 2012 compared with 2011, as can be seen from the analysis presented in Table 1.

If in 2011 the budgetary funding allocated for the university amounted 82.413.177 lei, in 2012 there were granted from the state budget only 73.053.998 lei, which indicates a decrease of 9.359.179 lei, that means a decrease percentage of 11,36%. This decrease was due to the faster decrease in institutional funding in comparison with the increase in complementary funding. In addition, in the period under study we can easily notice that the overwhelming percentage of budgetary funding was represented by the institutional funding, with a slight decreasing trend in 2012 in favor of complementary funding.

Table 1 – The Analysis of budgetary financing of the University of Craiova in 2012 compared with 2011

Type of financing	Value in 2011 (lei)	Value in 2012 (lei)
Institutional financing	68.431.334	57.293.418
Complementary financing	13.981.843	15.760.580
Budgetary financing	**82.413.177**	**73.053.998**

Source: The Annual Report of the Rector of the University of Craiova on the Situation of the Institution for 2012

The significant decrease of budgetary financing generated a strong pressure on the University, emphasizing the efforts of the people responsible with the management of the institution in the sense of judicious and effective allocation of resources that were already considerably reduced. Furthermore, in this sense, in the annual activity report published in 2013, for 2012 [7], the rector of the University of Craiova states that "the decrease of the resources from public funds generated a reallocation of funds depending on each situation and a tendency to deviate from the overall priorities of the institution". Finally, the crisis situation imposed forced measures unfavorable for the didactic staff, but especially for the non-teaching staff.

Turning our attention to the institutional funding it is necessary to mention the fact that in 2012 it was composed of:

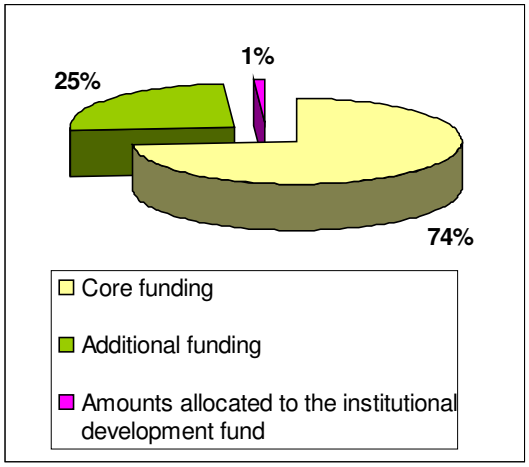
- **Core funding** that was received by each of the three university cycles (bachelor, master and PhD) related to the number of unitary equivalent students and to the number of doctoral grants, representing the total amount of 42.203.411 lei;
- **Additional funding** consisting of: funding allocated to the three university cycles (bachelor, master and PhD) related to the number of unitary equivalent students and to the number of doctoral grants and funding allocated to support the programs of local

communities development, meaning a total amount of 14.425.640 lei;

- **Amounts allocated to the institutional development fund,** namely 664.367 lei.

The structural analysis of institutional funding can be seen in Figure 1, standing out the significant share of core funding (74%), followed by the additional funding share (25%) and finally the percentage of 1% for the institutional development fund.

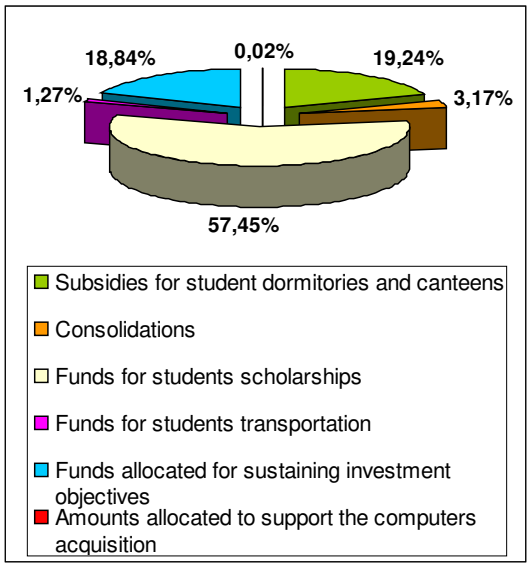
Figure 1 – The Structural Analysis of Institutional Funding for 2012



Source: The Annual Report of the Rector of the University of Craiova on the Situation of the Institution for 2012

However, the structural analysis of the complementary funding, graphically represented in Figure 2, reveals in a justified way the overwhelming share of the amounts allocated for the students scholarships funding (57,45%), followed by the share of subsidies allocated to support yhe activity of student hostels and canteens, more precise subsidies for accommodation and meals (19,24%), then the share of funds allocated for sustaining investment objectives (18,84%), and finally the extremely low percentage of budget allocations for consolidations (3,17%), for students transportation (1,27%) and the almost negligible percentage for the amounts received to support the computers acquisition (0,02%).

Figure 2 – The Structural Analysis Of Complementary Funding for 2012



Source: Own Processing after the Rector's Annual Report on the Situation of the University of Craiova for 2012

In the somber context of underfunding, we consider appropriate to turn our attention on the own revenues of the University of Craiova, analyzing for the start their structure and their dynamic development in 2012 compared with 2011.

As with all higher education institutions, the main source of income for the University of Craiova is the tuition fees procured from the students, master students and PhD students who are not financed from the budget. The fees quantum is set by the University Senate, at the proposal of the faculties. In addition to the tuition fees, the University can also obtain funds from: admissions, registrations, re-registrations, exceeding the legal tuition period, failed exams and reexaminations.

It is imperative to take into consideration that the process of tuition fees collection has been seriously affected by the global economic crisis. For this reason, the university management was forced to focus on stimulating other own sources of funding, such as:

- incomes from rental of premises;
- revenues from sponsorships;
- revenues from the provision of services;
- interest income;
- other incomes.

Another important source of own incomes are the amounts obtained from irredeemable external funds. University of Craiova ran in 2011 - 2012 about 50 projects of which: 38 projects were funded by the European Social Fund and 12 projects were financed by the European Regional Development Fund, aiming for: the diversification of partnerships, enhancing the added value of the implemented projects, the diversification of major intervention areas and especially the optimal allocation of the financial, logistical and human efforts necessary for implementation.

In 2012 the revenues from operational programs were estimated at the value of 21.138.785 lei, while in 2011 they amounted to 26.824.452 lei, revealing a decrease in absolute value of 5.685.667 lei which means a relative decrease in percentage of 21,20%. This is due to the fact that the University has faced more prominent, in recent years, with the non-reimbursement of payments made for the implementation and the development of EU funded projects, which attracts by itself the emphasis of the budgetary pressure.

We also believe that it is useful to focus our attention to scientific research as well, as an important element of contribution to the development of higher education and as an integral part of the mission undertaken by the University of Craiova. Scientific research is carried out under research contracts without VAT (projects won in national competitions) and under research contracts with VAT (projects funded by others). In 2012 own revenues obtained from the research activity of the University of Craiova (including subunits) were in the total amount of 9.855.751 lei, representing 12% of total incomes obtained in 2012. Analyzing exclusively the incomes of the University of Craiova (without subunits) from research activities, we note a decreasing trend. In 2012 they were at the level of 7.926.545 lei and in 2011 at the level of 11.683.113 lei. Thus we observe a decrease in absolute amount of 3.756.568 lei which means a relative decrease of 32,15%.

Moreover, we also consider opportune to analyze the issue of micro production incomes. Thus, in the period under review (2011-2012) University of Craiova performed activities of micro production through the Station for Agricultural Research and Development of Caracal and through the Experimental Teaching Station of Banu Mărăcine. In the first case, in that period the revenues increased by 2.670.335 lei, respectively by 46,02%, reaching in 2012 the level of 8.472.622 lei. In the second case, there was a decrease in revenues from year to year at the rate of 13,50%, reaching in 2012 a level of incomes of 537.134 lei. Overall, in 2012, revenues from micro production represent 11% of total own revenues obtained by the University of Craiova.

Another component of own incomes earned by the University of Craiova are revenues of student hostels and canteens, but they have a lower share in the total own resources of the institution (7% in 2012). University of Craiova has 12 student dormitories (including the dormitory from Drobeta Turnu - Severin), with a total capacity of approximately 3.300 beds. The institution also has two student canteens: one located inside the Agronomic Complex and one located on the premises of the Campus of the Faculty of Mechanical, the latter featuring modern facilities. Revenues from student dormitories and canteen shall consist of:

- revenues from taxes of accommodation in dormitories;
- incomes from rental of premises;
- revenues from the sale of food prepared in the two canteens.

In 2012 compared with 2011 revenues of hostels and canteens increased with 692.293 lei (respectively by 14,69%). Instead, subsidies received from the state budget to support the activity of student hostels and canteens (which, as we stated earlier, are part of the complementary funding) decreased in 2012 compared to 2011 with 651.804 lei in absolute size, respectively with 17,69% in relative size.

In addition, a structural analysis of the total revenues from hostels and canteens activity highlights a decrease in the share of grants allocated from the state budget (from 44% in 2011 to 36% in 2012) in favor of their income (from 56% in 2011 to 64% in 2012).

Analyzing the overall revenues of the University, presented in Table 2, it is obvious that they have decreased in 2012 compared with 2011 to 8.746.726 lei,

respectively by 10%. This decrease was caused by:

- the decrease of the revenues from tuition fees;
- the decrease of the revenues from external funds (more precise a decrease in refunds);
- the decrease of the revenues from research activities.

However, as we mentioned before, the incomes from micro production increased by 2.058.877 lei, respectively by 30% and own revenues from the activity of dormitories and canteens increased by 692.293 lei respectively by 15%.

Table 2 – The Analysis of Own Revenues of the University of Craiova in 2012 in comparison with 2011

Type of financing	Value in 2011 (lei)	Value in 2012 (lei)
Own revenues	38.496.366	35.273.618
Research	12.445.232	9.855.751
Micro production	6.950.879	9.009.756
Own revenues of hostels and canteens	4.713.220	5.405.513
Operational programs	26.824.452	21.138.785
TOTAL	**89.430.149**	**80.683.423**

Source: The Annual Report of the Rector of the University of Craiova on the Situation of the Institution for 2012

3. Conclusions

The reduction of budgetary funding due to the classification of the university as an institution of higher education of class B and the decrease of its own revenues as a consequence of the global economic recession, generated considerable pressure on the institution and especially on the university management, which was compelled to alter its resource allocation strategy.

From the information presented above, we conclude that in 2012, the University of Craiova achieved total revenues amounting to 153.737.421 lei of which: budgetary financing in amount of 73.053.998 lei and own revenues in amount of 80.683.423 lei. These were used to partially cover the expenses (personnel, goods and services and capital expenditures) amounting to 174.785.539 lei. To cover the gap, it was necessary to use a part of the resources available at 31.12.2011, more precise the sum of 21.048.118 lei.

Following the process of "rationalization" of resources alocated from the state budget, own revenues remained clearly the "substantial" funding sources, exceeding the budgetary funding in 2012 with 7.629.425 lei, respectively by 10,44%.

Under the impact of budgetary pressures caused by both the reduced funding from the state and the reduction of their own incomes, the management of the University of Craiova main objective was to stabilize and strengthen the financial situation, being forced to adopt a very cautious fiscal policy. In this way they tried as much as possible to stimulate resources from own sources such as rental of premises, the work of agricultural resorts, sponsorships and more. Also, costs were reduced to the maximum extent possible for the purposes of continuing the activities under the conditions of a balanced budget.

In this extremely unfavorable context, our recommendations for improving the financial situation relates mainly on identifying additional sources of funding to supplement existing resources and to support the good running of the university.

Thus, we believe it would be appropriate and beneficial to approach the idea that supports the establishment of associations or foundations that contribute to enhance the performance of the university.

It should also be taken into account the variant of establishing partnerships with the private sector in order to disseminate the results of academic research in various fields. Resources obtained in this way could be used to finance the aims of the institutional strategic plan.

However, in terms of improving the current system, we consider that all efforts should be made as to unblock the sums that

are expected to be reimbursed for the projects financed from European funds. In this endeavor it is absolutely necessary to involve the project managers, which should stimulate and implicate themselves as much as possible in an active way in the recovery of the amounts paid by the University for the ongoing and implementation in good conditions of these projects.

Finally, we should not overlook the importance of engaging in the research situation, considering that the university management should identify a way of stimulating and motivating the faculties to scientific research, which is considered beneficial for both sides: both for the university teaching staff and for the institution as a whole, because research contracts represent a consistent source of private funding.

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Approaching the Concept of Intangible Assets in the Context of the Knowledge Society

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Abstract

Third's millennium society is a world of uncertainty, limited resources, speculation and sudden overthrow. These situation's characteristics seriously put their imprint on organizations in all aspects involved in these processes. In this world of change we are almost always required to identify one or more saving solutions of inexhaustible nature.The explosion of information and communication technologies have profoundly transformed the society and as result the production activities have been pushed towards the creative side. In this new age of knowledge intangible's role tends to be a predominantly knowledge base in the development of the current society.

Key words: intangible assets, organization, knowledge society.
J.E.L. classification: M41

1. Introduction

The history of the economic life is built from a succession of periods of continuity and discontinuity [1].

The term that defines the current state of society to which we belong is "change". Be it new discoveries, new alliances or arrangements, all these actions have only one purpose, namely the development of society as a whole of individuals (micro level: family, peers, community) or as a set of communities (at macro level: cities, counties, regions, states, etc.). If these "changes" with the phenomenon of internationalization ties, we can capture the concept of globalization trends.

The globalization process has started, we consider from a necessity. As national boundaries of social and economic development began to become somewhat "tight" restrictions on exports or imports of goods as well as those relating to capital movements have been amended to encourage interstate relations and globalization has become pervasive. Given these conditions we witness significant changes in the world economy that result in moving the center of gravity of the world transition from a "world" bipolar to multipolar one as a direct result of the "new economy".

In all areas of development there are driving forces from matter and energy moving towards information, knowledge and immaterial.

These processes of dematerialization of the economic activity are a concrete result of the economic globalization and the open markets. These aspects include many essential processes affecting all the domains of the social and economic life[2].

Dematerialization of activities, therefore is not limited to the economy of natural resources and energy. It is manifested above all elements of the current society by increasing the share of information and knowledge in the production process.

Thus, we can speak of a new knowledge-based economy that is integrating the knowledge society and sustainable development objectives, based on social justice and equal opportunity, ecological protection, freedom, cultural diversity, development, innovation and restructuring business. These processes are a new stage of human civilization which allows broad access to information, a new way of working and knowledge, enhancing the possibility of economic globalization and increasing social cohesion [3].

In this new type of economy and in the knowledge society, intangible assets such as knowledge and information management and knowledge become the new core competencies[4]. Human resource and its knowledge capital becomes the main point of

interest of the participants involved in the economic life. Moreover the sphere of interest of managers moved from one side to another, towards the physical production of knowledge production that can be exploited at levels well above the others.

Given these conditions the role of any science is almost exclusively based on knowledge and intangible elements of nature. This raises the question of how well can a science such as accounting is capable to capture these contents and how well it can to quantify their influence on the organizational value.

2. Current society challenges and accounting profession in the context of dematerialisation of activity

In the context of globalization, concepts like economics of modern e-commerce requires appealing to a core competence where knowledge is the main driving force.
The new economy brings an increased interest to so- called knowledge society, employee/ employee brainpower. Throughout history, the victory was in the hands of those who used the knowledge, being aware of their potential unmatched. Knowledge is more important than before, because we are in the midst of an economic revolution that gives rise to the information age. Modern economies are now interconnected, forming a complex adaptive system. In such systems, natural resources are scarce and cognitive constraints of individuals. The shift from physical capital accumulation with decreasing returns to human capital investment, research and development, innovation- engines of the economy with increasing returns are considered to be part of the modernity. Investment in human capital, education, research and development gives pozitive externalities. Given these new conditions, the current society activities take place in an environment of economic, social, financial and global business full of challenges, characterized by changing shareholders and regulatory bodies in each country [5]. Under these conditions only adaptive and intelligent organization can have chances of survival and potential market dominance. As follows, the concept of the company recorded a reversible by switching to the ability to organize optimally, physical assets over time and space, to the ability to save, operate and connect knowledge and skills[1]. At the organizational intelligence, knowledge is located in a permanent evolution, according to predetermined goals of giving a creative and an intelligent response to the environment acting agency. Moreover, knowledge is reconfigured, to diversify and expand as practicing what we want and set to influence and shape the economic environment on different actors. Therefore knowledge sources are more organic than mechanical causes due. Knowledge is based on a variety of factors able to mold and shape new adaptable firms to existing conditions. New Guidelines and very important and in the same time are to respect when we consider and organization in terms of knowledge. The concept, becomes, under these conditions, the most important asset of an organization and its key to survival in the information society [5]. Given these circumstances the role of the accounting science- as an economic image of an organization becomes one uncertain. Forced to undergo concurrent logic of legal, economic and financial, accounting presents picture of the economic life of the enterprise. As a result evaluation methods are increasingly challenged [1]. Moving towards, the economic stakes of immaterial side are increasing and in the same time are making difficult the appreciation of the true image of the company. Investment valuation methods are more and more challenged. Following the same idea, intangible economic stakes make increasingly difficult to assess return on investment. Traditional economic calculation based on static data reasoning belonging to an organization, must take into account now, the change in the organizational environment induced by the production process. Ignoring these changes, leads often to create an image inconsistent related to the economic truth. Such accounting system finds itself in difficulty to reflect the contribution of intangible investments and the way they bring value to the firm. Under these circumstances, one may wonder to what extent accounting science dominated by conflicting demands manages to highlight the economic potential of enterprise decision making and to enable it to different categories of users [1]. Current accounting systems, whose instruments and financial

reporting pacts are strongly imbued with taylorism, have difficulties in identifying and measuring intangible investments [6]. Major problem comes from the lack of "cause and effect" relationship in recognition of costs as intangible investments and thereby "activating" their balance sheet. Thus, we can say that if the early nineteenth century legislative focus of accounting reports was related to the balance sheet, changes in recent years have led to the transfer of information interests of participants in the profit and loss account. According to the same study [6], the stock market is primarily interested in short-term profit, as shown in the income statement. Thus, users of accounting information requirements are fulfilled tasks for accounting professionals. The emphasis is on current year's results and on the influence of financial reporting for investment decision making. Therefore during the analysis of economic indicators is reduced and the interest of investors are turning to short- term performance. The character of this process is not beneficial to the long- term analysis of organizational indicators.

From this perspective and, implicit, the recognition and the valuation of intangible nature are subject to failure. As a natural consequence of this process, to achieve short-term objectives and to maximize the creation of value for shareholders is done with the sacrifice the long- term performance. Quitting strategic responsibilities cover for issues on a long term, in favor of short- term, not only it brings short- term results but in the same time it is threatening the stability or survival of the organization's competitive environment. Thus, although the role of accounting science remains the same, the way this is done varies.

The issue of evaluation and recognition of new intangible nature elements continue to incite even more controversy. The more we live in a society marked by competition and development the investments tend to depend more on the side of the immaterial heritage components of the organization than the material nature ones.

3. Performance management and corporate governance- in terms of dematerialisation of business organization

There is no doubt that the modern economy that is becoming more "immaterial"[5]. In this new kind of economy, the competitive advantage belongs to those who are knowledgeable enough and wise enough to know and recognize that the real resources of century XXI 'st century are knowledge, information, innovation, creativity and intellectual capital [7].

As a result, the interest in intangible values became increasingly larger in recent decades. Competitive advantage based on intangible assets and the way you can combine resources (tangible and intangible) in a distinctive manner by companies lead or not to success. Production and dissemination of financial information by a company is as important as the result of human will and consciousness in organizations' success [8].

The interests of users of accounting information are different, which can lead others, such as managers, to intervene in the application of accounting policies so that the company's image to create them competitive advantages over the competition. A truly competitive company[7] must be based on knowledge and also needs to integrate the intangible assets, and to focus with predilection on the company's projects and the quality of knowledge that will create and develop. Also, factors associated to the side of the management's company need to turn their attention to the company's image, the impact that it has over the external environment and the ability to gather long-term assets and human resources.

Managing key intangible resources depends on factors related to capital management knowledge, to what extent the knowledge capital management can generate profit and under what conditions trade can take place within knowledge products. Also it became a cognitive process for knowledge-based organizations, the basic ingredient of all that is produced, bought and sold. Such intangible resources management should emphasize three components, namely resources and competence, functions and processes. Once they highlighted competitive advantage in the financial statements is guaranteed.

However measuring organizational performance in the new developing conditions is a very difficult process. This difficulty comes from the novelty of factors involved and the lack of recognition and

measurement of common policies in order to create an uniform business environment. The determination of these features is almost impossible in the absence of clear procedures or indicators to measure the influence of intangible assets on the market value of the organization. New accounting approaches at European level (IASs), International (U.S. GAAPs) and also trying to set up a national common issues regarding intangible assets. These processes can only assure us that this character intangible elements is significant in evaluating the performance of the organization and that they may be liable for failure or success of an enterprise. Due intangible forms in which they are found, the evaluation factors help to discover hidden resources management, which should be exploited and used [9]. However, pressure of the external environment influence the manner of reporting intangible elements - the desire to achieve concrete and present results (tangible) at the expense of significant net future earnings (investment in intangible data elements) makes some of the present organization to report or not the presence or absence of elements. This can be benefic or it may harm the organization. All these elements are related to the manner in which the organization manages to organize the flow of information to market competition. Success of this action is subject to the relations between organization and its information systems, on the one hand, and local governments, regional and national, on the other. Much of this information should be reported and therefore the need for policies and strategies at local, regional and national range to standardize the way they are reported is imperative.

4. Conclusions

We are witnessing today a mass phenomenon identified under the globalization and internationalization of the economy with direct influence on human society. Business operate in the virtual environment, knowledge circulates electronically and economic accounting specialists recognize new values without material form, but with strong economic influences [10]. Modern society, be it her at micro or macro level is dominated by the phenomenon of change. The latter may be assigned, on the one hand and the processes of evolution and involution of society. All these are viewed from the perspective of quality of work human factor, which takes into account the initial and its further development. So the key to competitiveness was discovered, again I would say, so know the new values society development, human factor accounting for duty again or why not right to continuously develop and create knowledge. In the same time, the knowledge society's intangible resources are a prerequisite for achieving competitive advantage and long- term development of environmentally. Also the management of intangible resources is essential to achieve competitiveness and convergence. New economic conditions and consequently the new economy requirements, new ways to measure, recognize and report components of economic assets of the company. These newly methods are already considered a great help of accountants and managers in order to achieve profit. Given their character the recourse to this type of resources to create value represents a challenge for specialists in general. Researches in the field believe that the future will be able to make these measurements on operational parameter for each region and especially to help the development of methodological studies and the dissemination of knowledge and experience in economic society.

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Income tax - European and Domestic Theoretical Approach

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Abstract

Taxation of profits made by companies in general was constantly a topic discussed and interpreted, the relationship between accounting and taxation representing an area of conflict because tax principles and methods are not under the control of the company. Measurement and accounting of the accounting and tax results were conducted with different goals in mind: accounting profit reflects the application of accounting principles for fair measuring of the activity, while tax profit represents the interests of the tax authority. A possible solution to the convergence between accounting and fiscality is taxation deferred as a result of the existence of differences between accounting and tax rules.

Keywords: income tax, fiscality, depreciation, international accounting standards

J.E.L. Classification: M48

1. Introduction

Income tax, as well as other taxes, has emerged as a war tax being introduced by Napoleon in 1799. It was canceled in 1802 when the war ended, but was reintroduced in 1803 as a result of resuming hostilities. Further positioning it on a time scale, 1818 brings with it the elimination of this type of tax only to be reintroduced 27 years later, since when it remained a permanent tax [1].

When the word "tax" is pronounced, regardless of its nature, the first perception takes into account the fiscality and the obligation to pay a sum of money to the state.

Over time, due to the development of business relationships, the appearance of groups of economic entities, as a result of cross-border relations, has arisen the more acute need on the accounting treatment of taxes, and especially of income tax, given the multiple implications attached [3].

Income tax is the tax on profit gained by an economic entity as a result of doing business. Profit represents "wealth" made by the economic entity, the part of shareholders after paying tax, which makes it having a major influence on the mode of determination and on the accounting treatment that it supports it. The influence of this research topic in international research in the fields of accounting, taxation, auditing is growing and has the potential to expand as future research area.

King [5] stated that taxation makes the state, through tax administration, to be a business partner of economic entities, taxes reducing their value. Thus, management has a fiduciary duty to shareholders, considering the tax effects of business decisions. In this respect, fiscal management has in terms of payment obligations to the state budget, the task of achieving the 3 L: least, latest, legal so discussed in the literature.

The National Agency for Tax Administration, on the other hand, seeks to obtain bigger sums from the state budget, so from the perspective of the state, only one L (legal) would be equivalent to those seeked by the accounting, the other two items transformed into: as much and as quickly as possible. It can thus be easily held a debate.

As can be seen, the interests of both parties (shareholders vs. State) are opposite in this respect and the results of the two will be different (accounting result vs. tax result),

each of the two sciences (accounting and taxation) using their own rules.

On the other hand, the primary goal of accounting is to ensure true and fair financial statements through its principles, accounting having though an overwhelming influence on the result (for example, the principle of independence of the year).

In order to achieve its two goals (most accurate presentation vs. ownership - state relationship), accounting developed through international bodies IASB and FASB, two accounting referentials (IAS 12 and SFAS 109) with the same main goal: income tax accounting.

2. European and national tax legislation on income tax line

Income tax treatment in terms of tax regulations is drawn in two main directions, namely:

- Tax harmonization → the achievement of a common consolidated tax base (CCCTB)
- National legislation of income tax

The tax harmonization process at the European Community level began in 1957 through the Treaty of Rome, in the art. 2 being noted that the main objective of the European Community is "the achievement of a common market and the progressive approximation of the economic policies of the Member States in order to promote within the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated increase of the standard of living and closer relations between the States belonging to it".

A first important step towards tax harmonization at EU level was the Neumark Report in 1962. By 2001 was made some progress which led to the shaping and proactive involvement towards materialized efforts for fiscal harmonization. Through longitudinal analyses with causal and critical accents here and there, in the following paragraphs were outlined the main facets of the debates which accompanied this complex endeavor. I proceeded to an approach channeled on the debate related items, efforts, commitment and desire outlining the obstacles as a purely chronological description of the events cannot outline an overview as any essential points captured during this process whose magnitude can be judged only a posteriori.

Thus, after many years of debate on tax harmonization and tax asymmetry at EU level, in 2001 began the debate on the implementation of the CCCTB, the starting point depicting exactly this diversity that exists between national tax systems.

In 2004, following preliminary analysis started back in 2001 they set up debates on the implementation of a Common Consolidated Tax Base.

The main objective of this endeavor was to align the tax treatment of the group, to ensure the smoothest transmission of information among its members, the focus point being cross-border groups [5] but also the uniformization of the relationship between accounting and taxation.

The main starting point, set within the CCCTB base document (European Commission Communication, entitled Towards an internal market without tax obstacles – A strategy for providing to economic entities a common consolidated tax base for activities in the EU) sees the taxation of the domestic market, creating shortages and preventing economic operators to fully utilize their own resources. This implies a decrease in welfare, respectively, an undermining of the competitiveness between economic entities in the EU and at the same time prevents the achievement of the main objective set by the Lisbon European Council.

In 2003, the Commission launched a debate on the use of referential IAS/IFRS as the starting point for determining the consolidated tax base, the aim not being the absolute takeover of provisions of the accounting referential [7]. Responses got from respondents showed a dispersion of opinions on the question under discussion, respondents generally agreed with the use of common tax base, but the manner of application of IAS/IFRS being different in the answers provided by them.

The Committee resumed in 2006 the idea of using IAS/IFRS as a starting point in developing a common consolidated tax base. The argument brought in favor of the IAS/IFRS referential is represented by the fact that in order to achieve the objective, the working groups that were responsible for carrying out the analysis on the tax treatment

of a set of items identified as causing divergences in the EU, would be relieved that work, in case where all groups of entities within the EU would apply the IAS/IFRS. Later in favor of IFRS implementation were brought arguments based on increasing the comparability and relevance of financial information [5].

In the same document it is stated that "IAS/IFRS will still be used as a base design tool, because it provides a language and some common definitions. In particular, elements of these standards that are not aligned with the CCCTB treatment will not be imported, and thus they will not have a direct formal connection with the constant changes in standards (IAS/IFRS)".

The basic idea concerning the proposal to use the IAS/IFRS as a starting point towards the CCCTB is the relationship between accounting and taxation, manifested through the different results obtained in the two sciences (accounting result vs. tax result)[6].

Thus, most of this chapter is devoted to presenting the items subject to debate, in order to align the tax treatment at the EU level, selecting the items outlined based on the relationship between accounting and taxation.

Presenting the issues that define the CCCTB is implemented in a comparative manner being outlined comparative aspects of differentiation between the accounting treatment and tax treatment proposed for the CCCTB.

2. Tax rates

The tax rate applicable to the taxable profit is 16% with the exceptions of the article 38 of Law no. 571/2003 regarding the Fiscal code, as amended and supplemented.

3. Declaration and payment of income tax in accordance with the relevant national legislation

1) Declaration and payment of income tax, with the exceptions provided for in this article shall be performed on a quarterly basis not later than the 25th of the month following the end of quarters I-III. Completion and payment of corporation tax for that fiscal year shall be made by the deadline for the submission of income tax declaration.

(2) As of January 1, 2013, taxpayers, other than those referred to in paragraph (4) and (5), may opt for declaration and payment of income tax annually, with prepayments made quarterly. The time by which tax should be paid on an annual basis is the term for the submission of income tax declaration.

(3) The option for annual system of declaration and payment of income tax is made at the beginning of the fiscal year for which is required the application of the provisions of paragraph (2). The option made is mandatory for at least 2 consecutive fiscal years. The annual output of declaration and payment of income tax shall be made at the beginning of the fiscal year for which is required the application of the provisions of paragraph (1).

(4) Banking taxpayers – Romanian legal entities and branches in Romania – foreign legal entities are required to declare and pay income tax annually, with prepayments made quarterly. The time by which the payment of the annual tax must be paid is the deadline for income tax declaration.

(5) The following taxpayers are required to declare and pay income tax as follows:

a) nonprofit organizations are required to declare and pay income tax annually until the 25th February of the year following the year for which the tax is computed;

b) taxpayers obtaining majoritary income from cereals and technical plants, horticulture and viticulture are required to declare and pay income tax annually by 25th February of the year following the year for which the tax is calculated;

c) taxpayers referred to in article 13 letters c) - e) are required to declare and pay income tax quarterly, according to paragraph (1).

(6) Taxpayers other than those referred to in paragraphs (4) and (5), which, in the previous year were in one of the following situations:

a) newly established;

b) recorded fiscal loss at the end of the previous fiscal year;

c) have been temporarily inactive or stated on oath that there are no activities at the headquarter/secundary registered offices, situations submitted, according to legal regulations, in the registry of commerce or in the register kept by the competent courts, as appropriate;

d) they were liable to pay taxes on the income of microenterprises in the year for which income tax is applied to the system of declaration and payment referred to in paragraph (1). For the purposes of this paragraph shall not be considered to be newly established contributors recorded as a result of the restructuring operations carried out in accordance with the law.

4. Treatment of income tax by IAS 12

In all countries there are differences between the rules for determining the accounting result and the rules for determining tax result with influence on income tax. Income tax is one of the most important State budget revenues of the Planet. The importance of this tax determined the IASC-IASB in 1979 to publish IAS 12 relating to the recognition of income tax in the financial statements, regulation which came into force on January 1, 1998, revised in 1996 and 2000.

Income tax is in Romania one of the constant concerns of the professional accountant. If profit is the manager's interest, the income tax is borne by the accounting officer.

IAS 12 is known in the accountants' environment as a heavy rule in terms of the difficulties involved in the understanding and practical application of its provisions in the context of regulations in Romania. The main problem appeared in the income tax accounting is the method of recognition of current and future tax consequences of [3],[8]:

- future recovery of the accounting value of assets and liquidation of liabilities occurring in the balance sheet of an entity; and
- transactions and other events of the current period that are recognised in the financial statements of an entity.

5. Conclusion

OMPF 3055/2009 [10] makes no specific mention related to income tax implying that it is accepted the full application of IAS 12. Otherwise, subsequent regulations come to confirm this. An interesting thing is that to these rules have been approved solutions relating to the application of the legal provisions relating to the income tax, in conjunction with the Accounting regulations harmonized with the European directives and with the International Accounting Standards, issue that to sign in the traditional line of sources of law, must be regulated.

This was necessary to clarify issues related to the application of IAS 12, but also for "giving letter of law" of some "solutions".

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Recent Evolutions on the Bancassurance Products and Services Market

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Abstract

The beginning of the world economic crisis and the decrease in the financial intermediaries profits (both banks and insurance companies), made intermediaries rethink their offer in such a way as to obtain favourable results. In this context, bancassurance activity got a boost, being stimulated by the superior revenues of the bancassurance products and services in respect to the classical ones.

The present paper is an empirical study that shows the recent evolutions in bancassurance at world level and underlines the factors that stimulate the development of bancassurance products and services such as the GDP per capita, the need to save, the degree of development of the banking and assurance.

Key Words: bancassurance; banking; life insurances, non life insurances
J.E.L. Code: G 21, G 22, G 29, L 25

1. Introduction

As the world of finance has developed a great deal in the last few decades and the competition in this world became bigger and bigger each day, financial integration and bancassurance have kept the first page for investors as well as for consumers, for insurance regulators and bankers as well. The household savings and the connected management of assets become more and more interesting both for bankers and insurers.

The starting point of a new era for financial integration was the financial deregulation in Europe in the 80's. Bank assurance activities in the Asia-Pacific region approached European levels (Retail Banker International, 2007) but tapered off in USA and incremental shares from banks.

Bancassurance in not just a simple method of distributing insurance products but a world movement that breaks down the traditional barriers between the large variety of businesses that supply financial products and services. The bancassurance phenomenon involves a full integration of financial services which allows the selling of typical insurance products, through the bank's channels, towards the bank's clients. Developed in the 90s on the mature European markets, in the context of financial dereglementation, bancassurance was revitalized by the economic crisis as it offers products and services with much better revenue than the banking or classic insurance products.

As bancassurance can occur in two ways, literature is focused on two directions:

- Bancassurance formed through portfolio investment or in other words through merger and acquisitions activities. This way of forming bancassurance was analysed by Carow, 2001a, 2001b; Fields, Fraser, and Kolari, 2007a, 2007b; Boubakri, Dionne, and Triki, 2008.
- Bancassurance formed through in-house generated bancassurance products, when subsidiaries of the banks get involved into assurance activities [23].

A bank can find different ways of getting a share of the insurance market. It can decide to start up a new insurance company, buy an existing one or just get into a joint venture with an insurance company. Sometimes, banks can generate the same sort of advantages by simply developing a

distribution contractual relationship with the insurer (OECD, 1992).

Kalotychou and Staikouras [18] consider that the way bancassurance is delivered through different affiliation models influences the outcome. Most studies before were just analysing the bancassurance activities of USA and of the European banks [8, 9, 14, 15].

One of the subjects that was very present in the bank consolidation literature was that of the risk reduction (different authors considering that bank consolidation reduces risks) and value enhancement effects of bank consolidation [13, 24, 8, 9, 20]. In order to reduce risks, banks need to span short and long-term liability/asset structures. Diamond [12] argues that this can be done through bank-insurance consolidation and more than this, bancassurance consolidation also attracts and keeps individual customers and corporate clients.

Carow [8] analysed the connection between the bank's stock prices and its decision to get into the insurance industry and did not find any significant relation. On the other hand, Bergendahl [6] considers that the profitability of bancassurance depends on the number of branches, the number of insurance specialists per branch, the number of customers, the cross-selling ratio, and the degree of learning. Fields, Fraser, and Kolari [14] consider that bancassurance combination results in positive gains for the shareholders of bidding firms and identify a positive relationship between bidder returns in bancassurance mergers and potential economies of scope.

The cost advantages of bancassurance activity were highlighted by a number of authors such as Norman L. (2007); Lih Ru Chen, Jin Lung Peng, Jennifer L. Wang (2008); Franco Fiordelisi & Ornella Ricci (2011). Most of these authors take into account the reduction of distribution costs as well as of those of management and the impact of such a reduction on the revenue. In order to sell bank products or insurance products, banks and insurers put at each other's disposal their networks, personnel and consultancy services. One major advantage is using the databases of both the banks and insurance companies and therefore being able to better understand and fulfil the needs of the clients.

In 1985, Felgren was saying that banks have greater cost advantages than the incumbent insurance companies when they decide to sell insurance products as they have the advantage of being able to use the existing structure and logistics of the bank (branches, offices, trained labour force etc). Bergendahl [6] also considers that the economic reason for selling multiple products is the efficient use of fixed capacity resources. He looks also at the customer's demand for products from a single channel and the fact that banks need different product combination strategies in order to improve the rate of return that the bank provides to its shareholders.

On the other hand, insurance companies that are also affected by the bank assurance activities tend to get no gain from bancassurance consolidation [3, 4]. This contestable market theory considers that in order for an industry to earn economic profits for an extended period, it is a must that there are set barriers that prevent potential sellers from entering the industry. According to this theory, increased competition from banks' expansion into the insurance industry will force existing insurance companies to reduce their earning spreads.

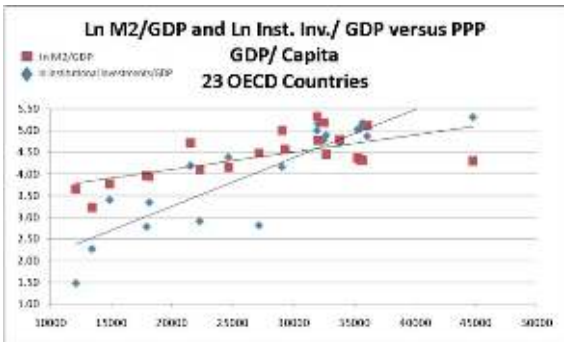
Other researchers such as Berger, Humphrey, and Pulley, 1996; Milbourn, Boot, and Thakor, 1999; Barth, Brumbaugh, and Wilcox 2000; Akhigbe and Whyte, 2001 focus on features such as organizational form, product mix and distribution networks an set a relationship between the realization of scope economies and bank-specific characteristics.

Still, even if the literature analyzing the scope economies is quite varied, little academic research considers the relationship between the realization of scope economies and joint production activities and even fewer studies can set an empirical connection between the economies of scope and the banks' involvement in the bancassurance.

Some authors, like Webb, Grace, and Skipper 2002 argue that the relationship between the banking and insurance sectors is one of causality in both directions.

Tests were performed regarding the factors that determine the key effect of private credit development, trying to show whether this development is due to the role of

banks as intermediates or to the broader role of institutional investors.



Sources: IMF, OECD, World Bank analysis.

The graph shows the direct link with GDP per capita. The income levels are increased by bank intermediation (proxied by M2 [money and quasi money] as a ratio of GDP, (the red dots) and by the role of institutional investors (assets under management as a ratio of GDP, shown by the blue dots). In the highest-income countries, institutional investors become the most important link between savings and investments.

2. Empirical evidence on the Bancassurance Market

Bancassurance didn't have the same success in all the countries where it was found. In some countries the market share of insurance placed through Bancassurance has increased at a very quick pace getting over 40% for Life insurances and over 10% for other types of insurances, while in other countries the market share stayed way beyond these levels.

In the following table, we have a list of countries from the category which have an important market share of insurance placed through Bancassurance, list provided by insurance regulators, insurance associations, Axco, Limra, and Swiss Reestimates for 2007.

Table 1

Countries Where the Bancassurance Market Share Has Shown Important Growth and Exceeds 40 Percent (Life) or 10 Percent (Non-Life) percent

Country	Bancassurers' Life Share	Bancassurers' Non-Life Share
Australia	43	Very small
Belgium	48	6
Brazil	55	13
Chile	13	19
France	64	9
Italy	59	2
Malaysia	45	10
Portugal	88	10
Spain	72	7

Sources: Gonulal, S., Goulder, N., Lester, R.(2012) "*Bancassurance—A Valuable Tool for Developing Insurance in Emerging Markets"* Policy Working Paper 6196, The World Bank .

The increasing role of bancassurance is underlined by the fact that in some developed countries, over 50% of the prime income generated by the insurers specialised in life insurances are from the bancassurance sector[17].

In the majority of cases, the penetration of bancassurance in Life insurance was more significant than that in Non-Life insurance. Still, Chile contradicts this hypothesis registering a 19% non-life share while the life share is of only 13%. The importance of the bancassurance can be also influenced by the different way different markets reacted to this new approach to offering insurances. For example, the data computed for Australia could be biased due to the fact that many banking groups used acquisition procedure, buying Life insurers, in order to gain better shares of the Life insurance market. This created an apparent link which cannot be considered a real proof for the fact that the market share originated in the bancassurance sales process. Still, if we look at the Brazilian market, the Italian one or the Spanish market, these were literally transformed by the bank assurance. In Germany or Japan, the clear segregation of distribution channels stops the development of bancassurance. In Italy, due to the tradition of selling insurance products through independent insurance advisors, bancassureurs are unlikely to gain important market shares.

A smaller share of the market is held by bancassurance in USA, Canada or Japan as the laws are less permissive [11]. On the other hand, the share of bancassurance in emerging countries such as China, Taiwan and East and Central European countries has increased.

In Latin American and Maghreb countries, a high influence was generated by the historical links with some of the most powerful Bancassurance markets (France, Portugal, and Spain). The EU Accession countries were influenced by the presence of the Western European insurers.

In the case of Asia, bancassurance has very specific evolutions even though the global insurers had some major influence.

In the very high income markets, bancassurers align their marketing mixes with income level, by adopting complicated segmentation of their customers, a major challenge being to move from high-volume low-margin single-premium Life products to regular premium savings contracts.

According to the publicly available data regarding the structure and types of insurance products and services sold through the bancassurance activity [25], one can notice that the offer has evolved both in the general insurance zone (insurance for business, credits, financial risks) and in the Life insurance zone. The trend followed by banks and insurance companies is to offer their clients long-term life insurance products that have a strong saving side as well as private pension funds plans that have better revenues.

Table 2
Leading Emerging Bancassurance Markets

Region/ country	GDP per Capita ($)	M2/GDP (%)	Bank Branch as per 100000 Adults	Life Premium as % GDP	Non-Life Premium as % GDP[a]	Life (Estimated % Banc assurance)	Non-Life (Estimated % Banc assurance)
Latin America							
Brazil	8.360	66	12	1.3	2.0	77	12
Chile	9484	79	15	2.5	1.6	35	28
East Asia							
China	3739	167	n.a.	2.4	1.2	48	n.a.
Malaysia	6920	134	12	2.7	1.5	32	7
Thailand	4151	110	11	2.4	1.2	31	10
North Africa							
Morocco	2884	106	12	0.9	1.9	60	3
South Asia							
India[b]	1077	70	9	3.7	0.6	7	35
EU Accession							
Hungary	12837	60	17	1.6	1.6	20	n.a.
Poland	11296	53	33	1.9	1.9	43	4

Sources: World Bank Development Indicators, IMF database, Axco Reports, 2008– 2009 data.
Note: n.a. = not available.
a. Including Health and Accident.
b. Bancassurance accounts for 19 percent of non-LIC Life sales in India.

The different rates of development of bancassurance around the world are also partly due to the difference in legislative and regulatory standards from one country to another and also to the differences in the tax systems and pension systems structure. For example, in France, life insurance products qualify for tax incentives and are very similar to banking products (which makes them easy to sell by banking networks).

Bancassurance has highly developed in countries where banks play a significant role in the financial system (Belgium, France, Netherlands) while in countries that turn around the stock market (UK, USA), bancassureurs have a smaller market share. In countries with an underdeveloped insurance market, foreign insurers try to join forces with a local banking network, this explaining the development of bancassurance in Latin America and Spain.

3. Conclusions

1. After 2007 when the economic-financial crises started, there can be noticed a new approach used both by banks and insurance companies. They both try to use the logistic chains, employees and knowledge of each other.

2. If we compare classic products and services with the bancassurance ones, the bancassurance products give some advantages regarding the distribution and management costs. Bancassurance allows suppliers to better identify the customers' needs and offers the warranty of an increased quality of the services, making it possible to get to the win-win-win state.

3. Even though the bancassurance activities are on an ascending trend, the market shares owned in each country differs. The financial integration degree is different from one country to the other and depends on factors such as the GDP per capita, the need of saving, the favourable legislation,

4. One can notice that the offer has evolved both in the general insurance zone (insurance for business, credits, financial risks) and in the Life insurance zone. The trend followed by banks and insurance companies is to offer their clients long-term life insurance products that have a strong saving side as well as private pension funds plans that have better revenues.

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Financial Innovation and the Current Economic Crisis: Do the Benefits Outweigh the Disadvantages?

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Abstract

Globalization of financial markets and growing competition amid investment banks were the main stimuli for financial innovation. This paper aims to present the main implications of financial innovation. As most papers on this subject mainly cover the US market, the current paper distinguishes itself through its goal of analyzing the European securities market and assesses the impact of innovative financial instruments on the economic environment. The analysis performed in this paper shows the extent to which financial innovation is good for the economy and highlights the changes in consumer behaviour towards certain types of items used for funding.

Key Words: financial innovation, securities, crisis
J.E.L. Code: G01, F62

1. Introduction

Since the beginning of the current financial crisis, financial innovation has regained the attention of researchers throughout the globe. The impact of financial innovation has become a topic of controversy among economists, as there are believes that innovation usually is used to find a solution to complex financial issues. Merton (1992) [16] and Miller (1986) [18] characterize financial innovations as "an engine for economic growth". Similarly, Bresnahan and Trajtenberg (1995) [2], and Helpman (1998) [9] consider that these innovations can not only generate returns to the innovators but also may provoke changes on the entire economic system. In 2010, Michalopoulos, Laeven, and Levine [17] argue that growth is driven not only by entrepreneurs aiming to maximize their profits through the commercialisation of new technologies, but also by financial entrepreneurs who develop new ways to screen and fund the technologists. On the other hand several economists perceive financial innovation, especially new financial products, as having negative implication on the economy and blaming it for the eruption of the global financial crisis. As Tobias and Hyun [23] show in their analysis of the connections between the banking and capital market developments, the financial crisis started in 2007 highlighted the changing role of financial institutions and the growing importance of the "shadow banking system". He shows that the excessive innovations due to the contractions of funding tended to precede the onset of financial crises. Levitin (2009) [14] characterized recent changes in retail financial solutions as "negative innovations", such as "opaque pricing, including billing tricks and traps that encourage unsafe lending practices". Similarly, Krugman (2007) [11] states that innovations such as CDO, SIV, RMBS and ABCP we're sold under false pretences, resulting in higher risk exposure for investors than what was initially planned. Lastly, Johnson and Kwok (2009) [23], Litan (2010) [15], Mishra (2010) [19] show that financial innovations can not be considered fully good or bad, but contain a mixture of elements.

Lerner and Tufano (2010) [13] define financial innovation as "the act of creating and then popularizing new financial

instruments, as well as new financial technologies, institutions and markets". In practice, the differentiation of financial innovation into process innovation and product innovation is not clear, as process and product innovations are often linked. Innovation includes the acts of invention and diffusion, although in point of fact these two are related as most financial innovations are evolutionary adaptations of prior products.

Through financial innovation financial systems perform functions like: managing risk, obtaining information that is necessary in decision making as well as pooling funds and moving them in time or space. Finnerty (1992, 1988) [4, 5] showcases a set of function's, two of which correspond to the functions identified by Merton (1992) [16], and a third which is a mix of the latter's movement of funds and pooling functions.
Although the subject of financial innovation has captured more attention since the beginning of the recent financial crisis, it appears to be an omnipresent process. Tufano (1995, 2003) [24, 25] illustrates how financial innovation has been part of the economic landscape for centuries. Moreover, Goetzmann and Rouwenhorst (2005) [7] showcase 19 major financial innovations spanning over the last 4000 years, ranging from the invention of interest to the creation of Eurobonds.

The study conducted by Ben-Horim and Silber (1977) [1] tests the hypothesis that regulatory constraints induce innovation. Their findings suggest that the rising prices of these items, as they approached regulatory constraints, were associated with some of the important innovations of the 1960s, such as negotiable CD. Another important study was conducted by Molyneux and Shamroukh[20] in 1996, examined the diffusion of the underwriting of junk bonds and of note issuance facilities (NIFs) during the 1978-1988 and 1983-1986 periods. They conclude that demand changes or changes in regulations have an important role in the diffusion of junk bond underwriting. In 2000, Grinblatt and Longstaff [8] demonstrated that investors use Treasury STRIPS in order to take advantage of the accounting and tax asymmetries.

2. The implications of financial innovation

Due to the distinct characteristics of financial innovation, the assessment and quantification of the benefits it generates is widely recognized as being impossible. However, several empirical studies demonstrate the positive outcomes as a result of financial innovation. Studies carried out by Tufano (1989) [26] and Carrow (1999) [3] showcased that innovators earn higher market shares than followers, even though imitation is rapid. Another benefit of financial innovation is the achievement of significant tax benefits. For instance, to the passage of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), an issuer of zero coupon bonds could have amortized the original issue discount-the difference between the face amount of the bonds and their issue price-on a straight-line basis for tax purposes. Being able to deduct the interest expense faster than the interest implicitly compounded on the bonds produced significant tax benefits, which were greater the higher the bond's offering yield. Also, innovations such as the shelf registration process and electronic funds transfer have led to reduced transaction costs.

From Miller [18], Silber [21, 22], and Van Horne [27] papers we derive the following benefits as a result of financial innovation: tax savings, reduced transaction costs, reduced agency costs, opportunities to reduce some form of risk or to reallocate risk from one market participant to another who is either less risk averse or else willing to bear the risk at a lower cost and accounting benefits.

The World Economic Forum [29] identifies three major negative implications as a result of financial innovation: consumer disservice, loss of market integrity, insolvency of institutions and rising systemic risk.

In the case of consumer disservice, suitability plays a key issue regarding the process of financial innovation. It is often that a financial product is designed to offer an adequate solution to a certain consumer segment but it is an unsuitable solution for another consumer segment. For instance, low documentation mortgages were initially developed for affluent self-employed consumers and small business owners for whom traditional documentation standards were onerous. For a higher fee or interest

rate, the borrowers could reduce the complexity of a loan application and speed the overall process. Later this product was offered to low-income borrowers with poor credit for whom it was less adequate. Also, some financial products are likely to generate issues if their suitability is a function of a rare event. This can lead some borrowers to choose adjustable-rate mortgages (ARM) or so-called option-ARMs or other introductory-rate products in settings where they may be inappropriate, perhaps because the applicants systematically under-estimate the chance of rate increases, or the likelihood that they will continue to hold the product over a long enough time for upward rate changes to materialize.

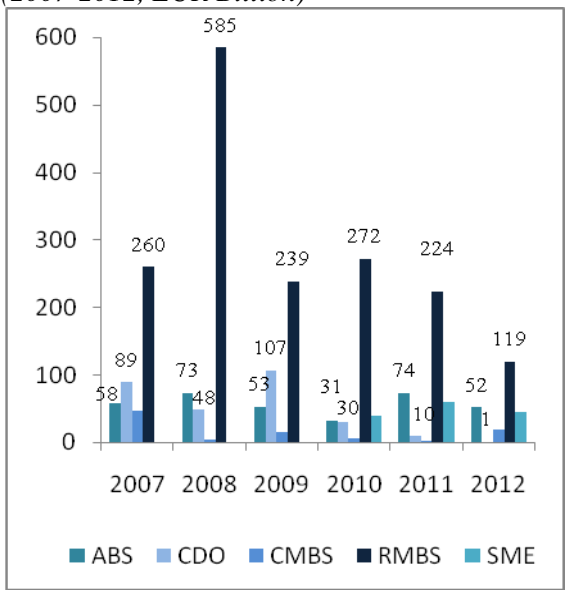
In the case of institution insolvency, the recent financial crisis demonstrated that the misapplication or wrong design of a financial product can play a central role in the downfall of an institution.

Systemic risk is not usually related to financial innovation. However, the 2007 financial crisis showed that financial innovation may lead to a build-up of risk across the financial system to such an extent that that a solvency or liquidity crisis occurs and governments and regulators eventually have to step in to prevent collapse. In order to prevent this from happening, innovators should identify the products that are likely to lead to exacerbate system risk so that the danger should be recognized and diminished before a crisis materializes. Lastly, loss of market integrity may lead to a sharp fall in both trading volume and market prices as participants seek to limit the damage to their portfolios and preserve liquidity, which in turn may have spill-over effects in other markets and, potentially, the system as a whole.

3. Empirical evidence on the Financial Innovations Market. The Case of Europe

From the beginning of the current financial crisis there have been numerous critics regarding the negative impact of financial innovation on capital markets. Such negative views, coupled with the uncertain economic conditions surrounding Europe have led to a decrease in bond issuance. Judging by their collateral, European securities can be classified as: Asset Backed Securities (ABS), Collateralized Debt Obligations (CDO), Commercial Mortgage-Backed Securities (CMBS), and Residential Mortgage-Backed Securities (RMBS).

Figure 1 – Securities Market in Europe (2007-2012, EUR Billion)



Source: The Association for Financial Markets, Securitisation data report, 2007-2012 (AFME)

Securitisation grew significantly in Europe and in the Eurozone before the crisis. In 2006 and 2007, pre-crisis issuance of European securitisation placed with third party investors reached €450 billion per year [16]. In 2009, as a result of numerous downgrades made by rating agencies, coupled with low demand for corporate loans (due to reduced fixed income investment, scarce M&A activity and competition with alternative financing sources) and reduced investor base, issuance of ABS declined 28% over the previous year, reaching €53 billion, followed by a 59.16% decline in RMBS issuance (to €239 billion). However, the volume of CDO's and CMBS' issued during the same time frame doubled, due to a shift in SME loan preference for these two types of assets.

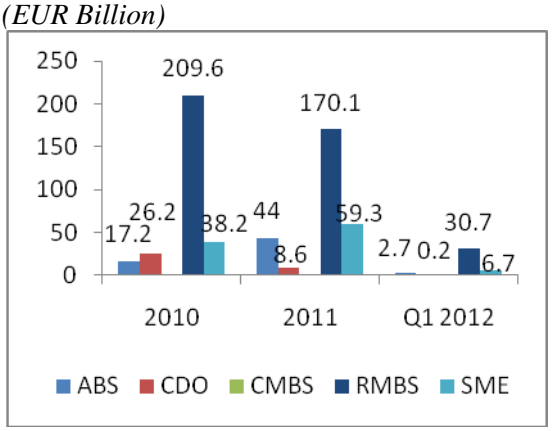
In 2010, the issuance levels for three of these main asset categories declined, (ABS – 40%, CDO – 72%, CMBS – 60%), as a result of weak market conditions and sovereign downgrades for countries in the Euro zone (e.g. Greece in December 2009). The decline in CDO was mainly determined by the separation of the SME securities from this

asset category, which from 2010 form a separate segment altogether. This particular segment demonstrated growth potential as a result of rising loan demand for mergers and acquisitions and growing demand for short term loans. Additionally, a new segment appeared, WBS (whole business securitization) where senior creditors of an insolvent business effectively gain the right to control the company. Between 2010 and 2011 placement with third party investors was still only €80-90 billion per year, due to macro volatility, regulatory uncertainty and government/central bank liquidity programmes.

In 2011, ABS issuance doubled (reaching €74 billion), as a result of strong demand for mainstream asset classes (e.g. Dutch prime residential mortgages, German auto, etc). According to the OECD [30], out of the approximately €87.9 billion placed (both public, private, and pre-placed); the majority were UK securitisations (50.7%), followed by the Netherlands (27.0%) and then Germany (11.3%). Further growth for this category was fuelled by a good retention rate (40%) in the previous year. Growth in SME issuance was fuelled by the ECB initiative to reduce collateral requirements for SME deals.

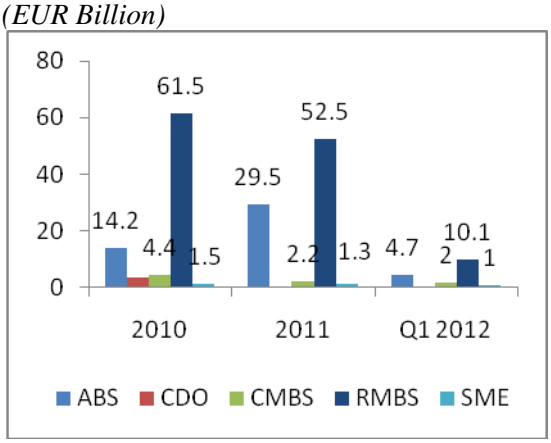
In 2012, as a result of negative economic environment still present in Europe all item classes saw declines in issuance levels. Furthermore, approximately 43% of the total outstanding was placed with third party investors, while approximately 57% was retained on bank balance sheets, to be used for repo, or used for other secured funding.

Figure 2 – Retention by Type of Collateral (EUR Billion)



Source: The Association for Financial Markets, The Economic Benefits of High Quality Securitisation to the EU Economy, November 2012

Figure 3 – Placement by Type of Collateral (EUR Billion)



Source: The Association for Financial Markets, The Economic Benefits of High Quality Securitisation to the EU Economy, November 2012

As a result, approximately €900 billion of currently outstanding securitisations has been placed with investors, down by one third from approximately €1.4 trillion before the crisis. Despite an increase in placed levels over the last two years, the share of retained issuance is still significant. This is a reminder of both the funding difficulties faced by European banks and the important role the ECB is playing as liquidity provider to the European Banking system [16].

Securitisation is an important funding tool in Europe despite its downsides and has contributed to funding real economy assets. It is a channel for borrowers to enter on the capital markets. In times of difficult access to financing, securitisation can improve credit availability by allowing banks to free up their balance sheets for further lending.

While a regulatory framework which creates a well–functioning, transparent securitisation market is necessary, its unintended consequences need to be considered. Under Basel III/CRD IV, banks, traditionally the key investors in the securitisation sector, will now be forced to increase capital deleverage and change the mix of assets they have available to meet regulatory standards; as a consequence, a reduction in their exposure to securitized products is likely. With Solvency 2, very harsh capital requirements are likely to eliminate altogether demand for securitised

products from insurance companies. Europe is facing negative growth and weak investment. One of the most pressing issues is the negative effects that Basel III, CRD4 and Solvency II will have on corporate lending. Across the businesses in Europe, this can generate lower availability for long term credit and a higher cost for the financing sources. On top of that, there is a lower equity investor base. The effects will particularly harsh on SMEs, the smaller and less creditworthy companies, at a time when they are already facing significant difficulties in their access to finance [16].

Based on estimates from Eurostat, in August 2012, Euro zone GDP contracted by 0.2% compared with the previous quarter. A resilient economic performance from the Euro zones' biggest economy, Germany (which grew by 0.3% quarter on quarter) was offset by sharp contractions in the economies of Italy (0.7%), Spain (0.4 %) and Finland (1%). Meanwhile, the Greek economy shrank a year on year rate of – 6.2% [16].

A number of bank regulatory reforms and the current economic downturn adversely impacted bank lending significantly, consequently affecting SMEs, whom rely on debt finance as their prime funding source. According to a recent ECB survey, the gap between SMEs' demand for funds and their supply is widening. In the six months to March 2012, the percentage of SMEs requiring bank loans (8%) and bank overdrafts (14%) was higher than the previous six months (up from 5% and 10% respectively). A possible source of liquidity for banks providing finance for smaller companies is the loan securitisation market. Additionally, statistics from Standard & Poor's show that between 2007 and 2011, the amount of funding provided through SME loan securitisation has been significant and performed very well: €103 billion of SME loan securitisation was issued and rated by S&P, with a very small cumulative default rate across all tranches of 0.20% of total issuance. Therefore, securitised products could play an important role in reducing the funding gap by helping to free up banks to clear their balance sheets for further SME lending.

Conclusions

The European financial market shows a dynamic landscape, shaped under growing competition among investment banks and increasingly stringent environmental regulation. Financial innovation plays a key role in these markets, reducing risk exposure and providing means of funding. As statistical evidence suggests, the placement ratio for securities is improving, demonstrating a shift towards funding obtained through securities. A key user group that is likely to capture a larger segment of the securitisation market in Europe in future will be small and mid-sized companies, as a result of loan standards practiced by banks, which have remained high. However, increasingly stringent regulatory constraints announced by governing bodies are likely to hamper issuance volume in the near future. Additionally, these could have a negative impact on the economic agents that could not meet credit standards, and were relying on this solution for acquiring the necessary funding.

Despite its advantages, financial innovation can have an adverse impact on the economic environment if it is not used properly. Proof of this is the current financial crisis, where lax government regulations, coupled with lack of knowledge on behalf of investors led to disastrous financial effects.

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Considerations Regarding The European System of National and Regional Accounts – ESA 1995

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Abstract

The European System of National and Regional Accounts, 1995 ESA or simply ESA was adopted as a regulation of the European Council on 25 June 1996 and is an internationally applicable accounting framework that allows analytical and detailed description, analysis and evaluation structure, which is called the total economy, its components or specific aspects, its evolution over time and its relations with other economies total. It replaces the European System of Integrated Economic Accounts published in 1970, SEC 70. Data obtained from the ESA 1995 are essential tools for defining and pursuing social and economic policies of the Member States of the European Union. This article presents some considerations regarding the european system of national and regional accounts, 1995 ESA: concepts, functions, differences between the systems 1995 ESA and 1993 SNA and between 1995 ESA and 1970 ESA.

Cuvinte cheie: 1995 ESA, European system accounts, accounting, 1993 SNA
Clasificare J.E.L.: E01, M41, P24, E20

1. Introduction – Short history of national accounts

The overall objective of the System of National Accounts is to provide a comprehensive conceptual framework, a system for macroeconomic evidence and analyzing, to characterize the economic structure of a country based on international methodological standards unitary character. Used in international statistics of most countries, the system of national accounts is an accounting tool absolutely necessary for the preparation and reporting of macroeconomic statistics, for analyzing and evaluating the performance of an economy.

The origin of the national accounts is considered to be in the interwar period, in 1928 the League of Nations held the International Conference of Statistics and in 1939 published estimates of national income. Origins System of National Accounts are based on the UN Subcommittee report published in 1947, which had like support a project of Richard Stone. At its first session in 1947, the Statistical Commission of the United Nations emphasized the need for international statistical standards for the development and maintenance of comparable statistics.

European Economic Organization published in 1950 a set of accounts, thus grounding the standardized system of National Accounts, published in 1952, whose objective was to provide a standard table with basic information to describe and analyze the economic activity and define and classify the inputs in a table of accounts. Thus, in the same year, a group of experts has formulated standards system called "national system of accounts and tables".

Compared to the Report from the 1947, which presented a set of six standard accounts (three on production, capital, foreign transactions and three accounts for core sectors: enterprises, households and non-profit institutions, government), the 1953 report also presented a set of 12 tables showing the detailed classification standard and alternative flows in the economy. These accounts were published of two revisions: first review in 1960 and second in 1964.

In 1968, a group of experts from the United Nations and the Organization for Economic Cooperation and Development - OECD has founded a new system of national accounts. They considered accounts at constant prices and distribution system was

based on "inputs" and "outputs". System of National Accounts 1993 SNA represents a major breakthrough in the national accounts and embodies the result of improving the features of the old system in 1968, its harmonization with other international statistical standard; the 1993 SNA includes separate accounts for revaluation of assets as a result of the impact of inflation, contains both classifications appropriate timing and simplification and harmonization of macroeconomic indicators, being more complete than previous versions.

2. ESA 95 – theoretical aspects

The European System of National and Regional Accounts, 1995 ESA or simply ESA was adopted as a regulation of the European Council on 25 June 1996 [2] and is an internationally applicable accounting framework that allows analytical and detailed description, analysis and evaluation structure, which is called the total economy, its components or specific aspects, its evolution over time and its relations with other economies total. It replaces the European System of Integrated Economic Accounts published in 1970, ESA 70.

Statistics obtained under the ESA 1995 are essential for definition and monitoring economic and social policies in the European Union, because they allow a consistent quantitative, reliable and comparable description of the European Union economies. Specificity of the ESA 1995 consists in its focus on the conditions and requirements of the European Union so it can be used as a central reference support for social and economic statistics of the European Union and its Member States. Romania National Accounts have been developed since 1990, based on the European System of Integrated Economic Accounts 1979 (ESA 1979). ESA methodology 1995 became operational in 2001, according to this methodology first estimates were made for 1998, 1998 being the year of the connection between the two versions of the European System of Accounts.

3. ESA 1995 – Functions

Data from the European System of Accounts ESA 1995 are essential tools for defining and pursuing social and economic policies of the Member States of the European Union. This new system allows the European Community institutions, governments and economic and social agents to make decisions on the basis of harmonized and reliable statistics. Specific functions ESA 1995 are of major importance and concern [3]:

- monitoring and guiding European monetary policy (EMU convergence criterion was defined in terms of national accounting: public deficit, public debt and GDP);
- European Union subsidies regions through the Structural Funds (whose charges were based in part on accounts regionalized national accounts data);
- determining the European Union's own resources, which depend on national accounts data as follows: total European Union resources is determined as a percentage of gross domestic products of the Member States, contribution of each Member State to third own resource of the European Union (VAT) is strongly influenced by national accounts is determined based on average rates and the relative contribution of each Member State to fourth own resource of the European Union is based on its gross national product.

In addition to these functions, the ESA 1995 accounting can be used to analyze and evaluate:

• the structure of the total economy (value added and employment by industry and by region; income distributed by sector; imports and exports by product group; final consumption expenditure by product group; fixed capital formation and fixed capital stock by industry; structure of flows and stocks of financial assets by type of asset and by sector;

• total economic relations with other total economies by: analysis of the interdependencies between the economies of the European Union, analyze the composition and destination of exports of the European Union, comparing the role that the government of the Member States of the European Union has, comparing the rate of growth of GDP or disposable income per capita in the European Union with the U. S. and Japan;

• develop a total savings over time by: analyze the growth rate of GDP, analysis of

inflation, industrial structure comparing the total economy over a period of time, analysis of seasonal patterns in household expenditure on quarterly accounts;
• aspects or specific parts of a total economy: banking and finance in the national economy, role of government, economic structure of a given region relative to the national one.

4. Features ESA 1995 concepts

Concordance between the needs and possibilities of data collection is ensured by the eight essential characteristics of the concepts in the ESA 1995 [3]:
- *international compatibility*: since 1995 ESA system is fully consistent with the revised System of National Accounts 1993 SNA, which serves as the global benchmark for establishing national accounts, for all Member States of the European Union, ESA 1995 is the norm application in transmitting accounting data to international organizations;
- *consistency*: in all respects ESA 1995 concepts are consistent with those established worldwide by 1993 SNA; this coherence of concepts, used in the accounting identities allows the combining data from different parts of the system, leading to calculation of rates such as value added per hour worked, national disposable income per capita fixed capital formation as a percentage of fixed capital stock, deficit and debt as a percentage of GDP, or estimates by balance;
- *harmonization* with the concepts of other social and economic statistics: concepts used in ESA 1995 are like those of the SNA 1993 totally consistent with the main directives of various international economic statistics, however, concepts and classifications used by the ESA in 1995 are also used by European Union Member States in drawing up social and economic statistics;
- *operationality*: concepts used by the system have been designed specifically for their measurement, this operational nature consists of the following: to estimate certain concepts are accompanied by clear indications; has been adopted some simplifying conventions; certain jobs or activities are described only if they are of significant importance; concepts are harmonized with economic and social statistics concepts that are the base of the national accounts;
- *flexibility and multifunctionality*, the concepts are multifunctional that are suited to many applications; the flexibility ESA 1995 means the possibility of introducing additional criteria which do not conflict with the logic of the system;
- *recognition and securing a long period*, the concepts have been adopted as the international standard for decades on the one hand, and on the other hand, on the various international guidelines on national accounts, most of the basic concepts have remained unchanged;
- *focus* on describing the economic process in monetary terms, readily observable; most stocks and flows that are not readily observable in monetary terms or which have no monetary counterpart are not taken into account;
- *difference* from the majority of the concepts used in administrative data sources; this can be explained by the existence of administrative concepts that differ from one country to another, preventing any international comparison, fluctuates over time does not allow a comparison of the period, they are not consistent from one data source to another.

5. Differences between the two systems of accounts: ESA 1995 and SNA 1993

The basic principle of the ESA 1995 was and is that the new European guidelines are fully consistent with the revised System of National Accounts (1993 SNA, or SNA), which provides guidance on national accounts around the world ([2], [3]). According to this principle, the new European system of accounts can more precise interpret and present the SNA 1993 system guidelines, but can not change the basic principles of accounting. Essentially, ESA 1995 is consistent with the 1993 SNA definitions, classifications and accounting rules. However, there are some differences between the two methodologies, namely:

a) *in terms of presentation[3]*:

• in ESA 1995 there are separate chapters regarding on transactions in products, distribution and financial operations. In the 1993 SNA these transactions are explained in seven chapters dealing with different accounts (e.g. production account, the primary distribution of income account, the

capital account and the rest of the world);
• 1995 ESA describes a concept by providing a definition and then a list containing items that include but those that exclude them. The 1993 SNA describes concepts usually in more general terms, also explaining the reasons behind the adopted conventions;
• ESA 1995 also contains special chapters devoted to regional accounts and quarterly accounts;
• 1993 SNA also contains a chapter on satellite accounts.
b) in terms of concepts [3], ESA 1995 is more specific and more accurate than the 1993SNA:
• 1993 SNA does not contain very precise definitions for the terms "market", "own final consumption" and "other non-market" to class institutional units, units of local economic activities and their outputs. This implies that, in this respect, evaluation and classification of production sectors are not defined precisely enough. ESA 1995 introduced therefore more clarification and also added in some specific cases, the criterion that the sales of a market producer should cover at least 50% of its cost of production;
• SNA 1993 provides concrete recording thresholds for recording small tools in intermediate consumption;
• ESA 1995 requires that several types of household production of goods such as cloth weaving and furniture making are not significant in European Union Member States and therefore need not be registered;
• ESA 1995 explicitly refers to the institutional arrangements specific to the European Union, such as the Intrastat system for recording intra-community flows of goods and Member States' contributions to the European Union;
• ESA 1995 contains specific European Union classifications (e.g. CPA for products and NACE rev. for specific industries, but in the same time, harmonized with the relevant United Nations classifications);
• ESA 1995 contains an additional classification for all external operations by which they are divided into those that occur between residents of the European Union and those with non-European Union residents.

6. Differences between the two systems of accounts: ESA 1995 and ESA 1970

The two systems ESA 1995 and, its previous version, ESA 1970 differs both in terms of coverage area and regarding on the concepts used. Most of these differences correspond to those observed between the 1968 SNA and the 1993 SNA. The main differences found are([2], [3]):
a) in terms of concepts:
• registration of literary and artistic works (writings, musical compositions) as production, payments for this work is, from that point, payments for services and not property income;
• assessing the production of insurance services, various changes in the field;
• more detailed treatment of trade and transport;
• the use of chain indices for constant price calculations;
• the concept of lease (leasing), ESA 1970 not take into account than simple lease;
• registration spending on software development and prospecting of deposits in capital formation and not in intermediate consumption;
• recording a capital consumption infrastructural works of government (roads, dams, etc.)
• identification of new financial instruments, such as repurchase agreements (sponsorship) and financial derivatives.
b) *regarding the coverage area on*:
• inclusion of balance sheets;
• introduction of new concepts: final consumption, actual final consumption adjusted income, real disposable national income;
• decomposition of households in subsectors;
• inclusion of other changes in assets (introducing concepts other changes in volume, nominal holding gains and real holding gains);
• applying the concept of purchasing power parity.
c) *other differences* that are not a consequence of changes to the 1993 SNA:
• introduction of input supply and use tables;
• application for some registration thresholds and some references to specific institutional arrangements of the European Union;
• introducing of the concepts of active production and unemployment;

• the valuation of output at basic prices.

7. Some conclusions

The European System of Accounts -ESA 95 constitutes a coherent, consistent and integrated system of national accounts, an internationally applicable accounting framework that allows analytical and detailed description, analysis and evaluation structure of the "total economy", its components or specific aspects, its evolution over time and its relations with other economies total.

The ESA 95 was designed to show economic processes in accordance with macroeconomic theory, providing not only a classification system and accounts structure, but also various rules such as valuation, time or recording, etc. ESA 95 is not restricted to annual national accounting, but applies also to quarterly accounts and regional accounts.

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Tax Policy Measures and their Influence on the Romanian SMEs

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Abstract

This article aims to study the tax measures taken by the Romanian authorities during the global economic crisis and their impact on the SME sector. The SMEs are essential to the economic recovery; the economic crisis had serious consequences on their number and performance. Global and SMEs' specific tax measures were taken by the Romanian government in the 2009-2011 period with the goal to countervail the negative effects of the economic crisis and to increase the budget receivables. The research method used is the quantitative analysis of documents and synthesis. The used variables refer to the SME sector dynamics, the evolution of labor productivity, indicators of corruption, tax evasion and underground economy.

Key words: tax policy, SME sector, corruption, tax evasion, labor productivity.
J.E.L. classification: E26, G01, H25, H26, H30

Introduction

The global economic crisis led to increasing budget deficits in the majority of the EU member states so that these countries had to take effective measures to correct the deficit below 3% of GDP, which was based on increasing revenue and reducing costs. The EU member states have taken a number of fiscal measures to ensure the sustainability of public finances on the medium and long term.

The tax reforms of the Member States should aim primarily to create new jobs, improving the pension systems and relaunching economic growth. In the EU countries there has been a clear trend of increasing indirect tax rates, namely VAT and excises in the last years. After the 2009 tax changes, in the 2010-2011 period we witness an additional increase of these rates. In terms of direct taxes, the increases were lower but the coming years will demonstrate the effectiveness of tax measures in this area. Thus, tax revenues have increased mainly due to consumption taxes, while tax cuts took place mostly in the labor taxation [1].

Considering that SMEs have an important role in the welfare of the communities, they are essential to the economic recovery in the context of the current global crisis. SMEs also play a key role within the Europe Strategy 2020 context by contributing to the economic health of European economies. This strategy provides the following actions needed to support the SME sector: reducing tax burden, facilitating access to finance, supporting SMEs to enter new markets, ensuring fair competition, promoting education and entrepreneurial skills, intellectual property rights protection, encouraging research and development, SME support in the competition context [2].

A mismatch between the economic environment and the tax system can have a negative impact on the concerned country's future. The legislative stability, the elimination of corruption and red tape, reducing the liabilities like taxes, fees and contributions, the gaps in the legal system, improving the process of tax obligations collection, the efficient spending of collected resources are just some aspects that should be considered when adopting measures affecting the tax system [3].

Economists and researchers in economics claim that increasing corporate income taxes, personal income taxes and social contributions are the most harmful decisions

that can be taken during financial and economic decline. This is explained by the fact that cutting the personal income tax stimulates investments, while reducing the corporate income tax and social contributions increases labor supply and demand with a direct effect on reducing unemployment [4].

1. Research methodology

The paper combines the qualitative and quantitative research by using the specific methods, the document analysis and content analysis. In order to accomplish the established objectives we resorted to a series of references composed of specialized books, accounting, fiscal and juridical norms, studies and articles published at national and international level by several bodies in the field. We gathered data from the European Commission - SBA Fact Sheet Romania and Taxation Trends in the EU, Global Integrity and World Competitiveness in order to perform an analysis of the Romanian tax policy and the SME sector evolution in the period 2008-2011. The used variables refer to the SME sector dynamics, the evolution of labor productivity, indicators of corruption, tax evasion and underground economy.

2. General and specific tax measures with an impact on the SME sector taken by the Romanian government in the period 2009-2011

The most important tax measures taken by the Romanian government in the period 2009-2011 with an impact on the SME sector are the following [5] [6] [7] [8]:

- The decrease of the VAT rate (from 19% to 5%) for the building of social dwellings
- The firms that registered loss or zero profit were forced to pay a lump-sum tax from May 2009 till October 2010
- The loss carryforward period increased from 5 years to 7 years enforced from 2009. There are no loss carry-backs provisions
- Higher levels of social contributions for employees and employers; the decrease of employer's contributions for work accidents and occupational diseases by 0,5%
- The hike of the VAT standard rate with 5 percentage points till 24%
- Increasing the income tax base and social contributions by charging launch vouchers and capital gains (including interest on bank deposits)
- Only in august 2010 were published rules for granting deduction of 20% tax calculation for eligible R&D costs and the possibility of using accelerated depreciation method for devices and equipment used in R&D
- Income tax of 3% obtained by micro-firms (with 1-9 employees and a turnover of less than € 100,000) is reintroduced as an alternative to the general corporate tax (16%)
- The application of the reverse charge for the supply of cereals and industrial plants starting with the 31st of May 2011
- Increases in certain local taxes (for example: the car tax, taxes on the release of certificates, authorizations for advertisements).

3. Indicators regarding tax evasion, underground economy and corruption in Romania in the period 2008-2010

As a result of tax incentive measures taken by the Romanian government and decrease in the perception of corruption in 2012, we analyzed how the business environment reacted to these changes through the number of SMEs and, more important, the evolution of labor productivity in the same period.

Romania's overall performance has changed little since Global Integrity's previous assessment in 2008. Because of its compliance with EU accession mandates, Romania earns a sparkling rating for its overall legal framework in combating corruption. However, the implementation and enforcement of that legal framework leave much to be desired. Whistle-blowing measures in the public sector do exist, but they continue to be ineffective largely because of inadequate staffing and funding. The ombudsman office has very weak investigatory and prosecutorial powers, while law enforcement is often politicized. As with many other countries, Romania suffers from poor accountability and transparency in political financing. The agency charged with monitoring party and individual candidate expenditures relies on voluntary self-reports rather than actively pursuing investigations and imposing penalties. Civil service oversight remains weak, including the

ongoing challenge of political and nepotistic criteria factoring into hiring and firing decisions [9].

According to the World Economic Forum report, among the most problematic factors for doing business include: the corruption in the first place (17,4% of responses) ranks four places up in 2012 compared to 2011, the taxation rates in second place (13,9% of respondents' answers) and fiscal rules in fifth place with 7,6% of responses [10].

Table 1 Global Integrity Index – Romania

Scores	2008	2010	Evaluation
Overall Score	80	79	Moderate
Legal Framework Score	97	95	Very strong
Actual Implementation Score	64	64	Weak
Implementation Gap	34	31	Very large

Source: http://www.globalintegrity.org/report/Romania/2010

From table 1 we observe that the gap implementation of the legal framework on corruption is very high in 2008 and 2010. Regarding integrity, Romania hasn't made progress during the crisis. Overall score dropped by one point, being evaluated from strong to moderate.

Analyzing corruption as a whole, through the Corruption Perception Index (CPI), Romania is perceived as one of the most corrupt countries in the EU, along with Greece and Bulgaria. According to the World Competitiveness, the Tax Evasion Perception Index in Romania is determined on a scale from 0-10, where 10 is the state with tax evasion seen as practically non-existent and 0 defines a perception of a state with the highest tax evasion [11].

Table 2 Indicators regarding the tax evasion, the underground economy and corruption in Romania in the period 2008-2010

Indicators	2008	2009	2010
Tax Evasion Perception Index	3,21	1,68	2,09
Underground economy share in the GDP	29,4	29,4	30,2
The total tax evasion share in the official GDP	17,45	17,57	17,44
Corruption Perception Index	3,8	3,8	3,7

Source: http://www.evaziune_coruptie.ase.ro/media/Date_Evaziune_Coruptie.pdf

In the period 2008-2010, the share of the underground economy in GDP increased by 0,8%, the Corruption Perception Index fell by 0,1, showing increased phenomenon of corruption, the Tax Evasion Perception Index decreased by 1,12, suggesting an increasingly worse perception of tax evasion and the Total tax evasion share in the official GDP remained constant.

Considering these aspects, we conclude that the fiscal measures taken by the Romanian government in 2009, 2010 and 2011 to counteract the negative effects of the economic crisis did not have a favorable impact on the indicators mentioned above. The intensification of corruption and tax evasion results in attracting increasingly less foreign investors, a reduction of their investments in Romania with negative effects on the business environment, on the SME sector and the economy in general. Only in 2012 the Corruption Perception Index increased to 4,4 from 3,8 in 2008, suggesting a decrease in the phenomenon of corruption

in Romania.

4. The SMEs' dynamics in Romania in the period 2008-2011

In 2010, compared to 2008, there was a fairly significant increase in the number of SMEs (18,96%) in Romania. This is due in particular to the increase in the number of micro-enterprises (19,33%) and secondly in the number of small firms (18,49%). In 2011, compared to 2010, the growth was lower, of 1%; a positive trend recorded only the micro-enterprises (2,34%), the rest recorded decreases in the number of firms, especially medium-sized companies (-13,66%).

Table 3 The number of SMEs in Romania (2008-2011)

	Number of SMEs		
	Number		**Variation**
Type of SME	**2008**	**2011**	**%**
Micro	389.389	475.536	22,12%
Small	41.500	45.131	8,75%
Medium	9.174	8.348	-9,00%
Total SMEs	**440.063**	**529.015**	**20,21%**

Source: SBA Fact Sheet Romania 2009, 2010-2011, 2012, European Commission [12] [13] [14]

Labor productivity is an important indicator of economic efficiency of a company showing the fruitfulness of labor used in production. Labor productivity growth is the most important factor to increase production, reduce production costs and increase the profitability and competitiveness of domestic and foreign products. Apparent labor productivity represents the value added at factor cost divided by number of employees, rate that is expressed in thousands of dollars per employee [2].

Table 4 Labor productivity in Romania (2008-2011)

	Labor productivity					
	Thousand €/person		**Variation**	**Thousand €/enterprise**		**Variation**
Type of SME	**2008**	**2011**	**%**	**2008**	**2011**	**%**
Micro	12,55	6,65	-47,05%	28,25	13,88	-50,87%
Small	14,62	9,75	-33,27%	289,16	181,69	-37,16%
Medium	14,96	11,15	-25,47%	1.526,05	1.126,02	-26,21%
Total SMEs	**14,05**	**9,04**	**-35,66%**	**84,08**	**45,75**	**-45,59%**

Source: processed data after SBA Fact Sheet Romania

From the above table we observe that the economic crisis was felt most strongly by micro-enterprises since labor productivity expressed in thousands of euros per employee decreased by 47% in the period 2008-2011 and the one expressed as thousands of euros per company decreased by about 51% over the same period, double compared to the reduction recorded by the medium firms. Overall we find that labor productivity measured as thousands of dollars per company (-45,59%) fell more strongly than the one expressed in thousands of dollars per employee (-35,66%).

Conclusions

The recent economic and financial crisis has had serious consequences on the performance of SMEs in Romania. The European Commission statistics show a decrease in the SME sector productivity by 36% during the period 2008-2011, the most affected being the micro-enterprises because labor productivity measured as thousands of euros per company decreased by about 51% over the same period, double in comparison with the cut recorded by medium firms. There is a direct relationship between labor productivity and the class size in which the firm is included. Fiscal measures taken by the Romanian authorities during the analyzed period failed to stop the sharp decline in labor productivity of SMEs.

The austerity measures taken by the Romanian government in 2010, like cutting the wages by 25% to 40% (including bonuses), applying the contribution to health insurance (5,5%) to retirees with pensions higher than 740 RON and increasing the standard VAT rate of 5% caused a decrease in the purchasing power of the entire population and sales, companies being forced to adapt their offer and reduce costs, mainly those related to staff.

The main microeconomic effects of increasing standard VAT rate by 5% in 2010 were: increase of costs for the Romanian firms and reduction of the recorded profit; decrease of purchasing power of consumers has led to a decline in demand, sales and profits as well as a deepen phenomenon of tax evasion.

The flat tax on micro-enterprises which was mandatory in the period May 2009 - October 2010 has been repealed. As a consequence, the micro-enterprises proportion has improved in 2011 compared to 2010 by 1,1%. Moreover, the number of Romanian SMEs in absolute terms increased by 20% during the 2008-2011 period. The main consequences of introducing the flat tax in Romania in May 2009 for SMEs were: increase of the natural authorized individuals' number, growth of suspensions and dissolutions' number, reduction of employees' number in SMEs, diminishing declared turnover, a negative perception of business environment and the increase of tax evasion.

Fiscal measures taken by the Romanian government during the period 2009-2011 in order to countervail the negative effects of the economic crisis have not had a positive impact on indicators of corruption and tax evasion. The enhanced corruption and tax evasion result in attracting increasingly less foreign investors, a reduction of their investments in Romania with negative effects on the business environment, on the SME sector and on the economy in general. Romania is perceived as one of the most corrupt countries in the EU, along with Greece and Bulgaria, and only in 2012 the Corruption Perception Index increased to 4,4 from 3,8 in 2008, suggesting a decline in the phenomenon of corruption in Romania.

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Effects of the Economic and Financial Crisis on the Revenues and Expenditures of Romanian Local Governments

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Abstract

In times of economic crisis, not only central governments but also local ones may experience deterioration in their financial situation. Also, the latter not only may but also should contribute through specific budgetary measures to the stabilization and recovery of the economy. Based on such considerations, this paper aims to provide, by analyzing relevant data from Eurostat and the Romanian National Institute of Statistics, an assessment of the effects of the crisis on the revenues and expenditures of Romanian local authorities, highlighting their peculiarities in relation to the effects recorded in other Central and Eastern European countries or stipulated in the literature. Also, the paper aims, by analyzing the changes in the structure of Romanian local budget revenues and expenditures, to assess the rationality of the measures adopted by local governments in crisis as well as their compatibility with the objectives of stabilizing national economy and promoting long-term economic growth.

Key words: local governments, local revenues, local expenditures, anti-crisis strategy
JEL Codes: E62, H71, H72

1. Introduction

The global economic and financial crisis emerging in September 2008 made a strong impact on the national economies of affected countries, firstly resulting in the deterioration of their economic situation (GDP contraction, increase in unemployment, exports shortfall, etc.) and secondly, of the state of their public finances. To the cyclical evolution of budgetary revenues and expenditures were added the negative budget balance effects resulting from the discretionary fiscal policy measures adopted by national governments to counter the effects of the crisis and help the economy stabilize and recover.

Although the negative effects of economic recession on public finances were felt at all levels of government and a rational economic recovery strategy should rely on the coordinated contribution of all public authorities, the literature, including the Romanian one, most often aims at primarily assessing the impact and contribution of central governments, and only rarely and inconsistently that of subnational ones.

From this point of view, this paper aims to complement this deficiency by offering, based on the analysis of relevant data provided by Eurostat and the Romanian National Institute of Statistics, a more thorough evaluation of the effects of the crisis on Romanian sub-national communities, primarily on their budgetary revenues and expenses. For comparison reasons we will also consider, at some points, the situation of other countries from Central and Eastern Europe.

2. Local public finance in times of crisis – some theoretical considerations

In times of economic and financial crisis, not only central governments but also state or local ones may experience deterioration in their financial position, the literature highlighting ([6], [8], [9] and [10]), based on recent or past experiences of various countries, several possible channels through which such effects may arise:

- reduced fiscal revenues, especially there where local taxes are based on less stable tax basis;
- reduced transferred resources from the level of other public administrations, mainly central governments, on the background of the financial difficulties

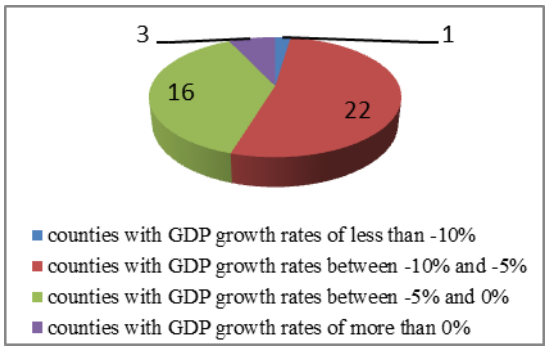
that they at their turn may record, calling for fiscal consolidation measures;

- reduced access to bank credits and financial markets and higher financing costs, due to both the lack of liquidity on the market, banks' reluctance to lending and increasing investors' risk aversion; this could lead not only to a smaller amount of borrowed resources available for new or old projects but also, in some cases, even to the insolvency of local governments;
- reduced income or even losses from the financial assets held by local governments, there where local authorities are permitted to invest funds in the market;
- increased demand for social benefits due to reduced economic activity and corresponding increase in unemployment, with negative impact on the size of local government expenditures;
- cancellation or postponement of projects developed in partnership with private agents, due to the financial difficulties that they, at their turn may register.

Also, in times of economic and financial crisis, public authorities are directly responsible for the development and implementation of strategies aimed at helping the economy in trouble recover. Although the task of economic stabilization is most often attributed to central governments, it is generally admitted that a coherent anti-crisis strategy should also take into account the complementary contribution of subnational governments. Accordingly to the recommendations of the Council of European Municipalities and Towns, "a comprehensive economic recovery cannot be initiated without the involvement of Europe's towns and regions" [1].

Two arguments can be put forward in this respect. First, some important engines of economic growth may be found locally and local public authorities are responsible for performing a wide range of activities with direct impact on the overall growth and development of the economy, such as local infrastructures. Secondly, the effects of the crisis were often felt differently at territorial level, which calls for locally differentiated compensating actions, both as magnitude and content.

Figure 1. Distribution of Romanian counties by the average annual GDP growth rate, 2008-2010



Source: the authors, data from Eurostat

A simple look at the effects of the economic crisis on the dynamics of territorial GDP in Romania confirms this situation, as can be seen in figure 1. The average annual GDP growth rate between 2008 and 2010 varied substantially between different Romanian counties, from -10.56% in Prahova to 14.84% in Giurgiu.

3. The impact of the economic crisis on Romanian local budget revenues

On the background of the global economic crisis, the effects of which were recorded in Romania too since 2009, local authorities were confronted, like other European countries, with a reduction in their budgetary revenues.

Table1. Local budget revenue in Romania and other Central and Eastern European countries (% of GDP)

Country	2008	2009	2010	2011
Bulgaria	6.9	7.7	7.0	6.7
Czech Republic	10.8	11.5	11.3	11.0
Estonia	10.3	11.0	10.3	9.8
Hungary	11.6	11.9	11.9	12.1
Latvia	11.3	11.1	11.4	10.2
Lithuania	9.1	10.4	11.4	9.7
Poland	14.0	13.7	13.9	13.4
Romania	8.8	9.3	9.5	9.1
Slovenia	8.4	9.5	9.7	9.6
Slovakia	6.0	6.5	6.4	6.6
EU average	11.4	12.1	11.9	11.7

Source: the authors, data from Eurostat

However, as results from the data presented in table 1, not only this effect occurred later than in other Central and

Eastern European countries, only in 2011 (when there was registered a reduction of 0.4% of GDP in the local budget revenues compared to 2010), but also its dimensions were, on average, less consistent. Local budget revenues decreased within 1 or 2 consecutive years with over 1% of GDP in Lithuania, Bulgaria, Estonia and Latvia. On the contrary, the effects of the crisis were almost insignificant in Slovenia and Slovakia (where local revenues fell by only 0.1% of GDP and in only one year) and revenues even increased in Hungary.

However, this apparently favorable situation for Romania hides contradictory realities. At first glance, the data in table 2 confirm a less significant negative impact of the crisis on the overall budgetary revenues of Romanian local communities, expressed in absolute figures. Compared with 2008, these even were higher in 2011, with over 1 billion lei. However, when analyzing the structure of local revenues, we can see that the impact of the crisis on tax revenues was rather severe, as they decreased continuously from 2008 to 2011, with over 4 billion lei (almost 12% of the initial level), which confirms the general trend found in other European countries.

Table 2. The composition of local budget revenue in Romania (billion lei)

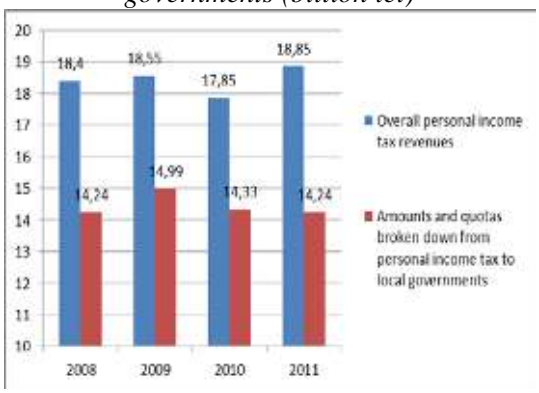
Revenues	2008	2009	2010	2011
Fiscal revenues, out of which:	37.35	36.73	34.54	33.02
Taxes on income	14.38	15.04	14.47	14.49
Taxes on goods and services	19.67	18.25	16.14	14.42
Property taxes	3.16	3.32	3.79	3.98
Non-fiscal revenues	1.30	1.34	1.55	2.20
Subsidies	4.35	4.38	5.29	5.62
Amounts received from EU	N/A	0.71	2.25	3.60
Other revenues	0.64	0.36	0.29	0.39
Total	43.63	43.53	43.92	44.80

Source: the authors, data from the Romanian National Institute of Statistics

A possible explanation for this situation could be that the taxes on property (buildings, land, vehicles, etc.), based on safer and less sensitive to economic situation tax basis, represent only a small share of the total budgetary revenues of Romanian local governments, less than 10%. Thus, given the enforced system of establishing these local taxes in Romania, which takes into account to a lesser extent the fluctuating market value of movable and immovable property and relies to a greater extent on other, more stable indicators such as the surface of buildings or the engine capacity of vehicles, revenues from property taxes have steadily risen, even on the background of the crisis (from 3.32 billion lei in 2009 to 3.98 billion lei in 2011, with almost 20%). However, the effect was insufficient to fully compensate for the reduction in other fiscal revenues.

Against the background of rising unemployment and reducing personal income and corporations' profits, the decrease in local budgetary revenues from income tax (from 15.04 billion lei in 2009 to 14.49 billion lei in 2011) appears to be a natural result of the economic downturn. The adverse impact of the crisis on local budgets was, however, enhanced by the consolidation measures adopted by central authorities, which decided to successively reduce the quotas broken down from personal income tax allocated to local budgets (as the main component of local taxes on income) from 82% to 77% in January 2011 and 71.5% in December 2011, depriving local authorities of significant financial resources. Thus, as can be seen in figure 2, although the overall revenue collected from personal income tax increased in 2011 compared to 2010, the impact on local revenues continued to be a negative one, trend to be extended in 2012.

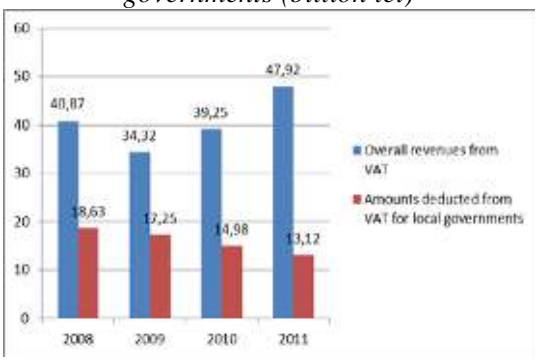
Figure 2.Overall personal income tax revenues and amounts and quotas broken down from personal income tax to local governments (billion lei)



Source: the authors, data from the Romanian National Institute of Statistics

The most important contribution to the reduction in local governments' tax revenues came from the taxes on goods and services (mainly VAT), which decreased from 19.67 billion lei in 2008 to 14.42 billion lei in 2011, with over 25% (table 2). Paradoxically, this effect occurred even against the controversial measure, in force since July 2010, to increase, in times of crisis and contrary to the conventional wisdom calling for tax cuts, the standard VAT rate from 19% to 24%, which should have led to a substantial increase of raised budgetary revenues. Although, as can be found in figure 3, such an increase of the overall VAT revenue raised to the central budget occurred, as it rose by nearly 40% in absolute figures in 2011 compared to 2009, this increase was not transmitted to local budgets due to the decision to constantly amputate the amounts deducted from VAT allocated to local communities, which decreased by almost 25% during the same 2 years timeframe. The effects are even more unfavorable as part of this revenue serves to the direct funding of expenditures with high impact on the future development of local communities and the nation as a whole, such as expenditures for roads or development of infrastructure in rural areas.

Figure 3: Overall revenues from VAT and amounts deducted from VAT for local governments (billion lei)



Source: the authors, data from the Romanian National Institute of Statistics

Compensating favorable effects on local budgetary revenues came from subsidies, mainly from the state budget, which increased by 1.24 billion lei from 2009 to 2011, and the amounts received from EU, either as refunds on previous expenditures or pre-financing of EU projects, which increased by 2.89 billion lei during the same timeframe (table 2). Basically, confronted with tax revenue shortfalls and benefiting from increased expertise in managing European projects, local authorities turned to a greater extent to the non-refundable resources from EU funds and programs to ensure the financing of local development projects. However, compared to other CEE countries, the absorption rate is still quite low in Romania, which indicates the imperative of developing this source of funding, by reducing bureaucracy, providing sufficient resources for co or pre-financing etc. Local borrowing, with or without the guarantee of central government, might prove to be a good option, especially since the rules limiting the access to new local public borrowing [5] do not apply for loans aimed at co-financing or pre-financing projects benefiting from EU's financial assistance.

4. The impact of the economic crisis on Romanian local budget expenditures

Referring to local public expenditures, although they were expected to increase in times of recession, due to both the cyclical evolution of expenses sensitive to economic conditions (such as social protection ones) and to the economic stabilization measures that could and should be adopted not only by central but also by sub-national governments, they were reduced in varying proportions in all Central and Eastern European countries (table 3). In Romania, the decrease of local budget expenditures was the lowest compared to other countries of our analysis, of only 0.4% of GDP from 2009 to 2011, similar to that of Slovenia.

The above findings could mean that, facing diminishing financial resources, local authorities were effectively constrained to restrict public spending, the role they were assigned in national anti-crisis strategies being rather a modest one. This reaction was also driven, in most countries (among them Latvia, Estonia, Hungary, Lithuania, Slovakia and Romania [2]), by the existence of numerical fiscal rules applicable to local governments and forcing them to practice balanced or surplus budgets or limiting their access to alternative financial resources, such as loans. Also, in some countries, once budgetary consolidation strategies aimed at reducing overall budget deficits and ensuring public debt sustainability were launched,

constraints became even more severe, as local governments benefited from diminished central government financial support.

Table 3. Local budget expenditure in Romania and other Central and Eastern European countries (% of GDP))

Country	2008	2009	2010	2011
Bulgaria	7.3	8.6	7.0	6.7
Czech Republic	10.9	12.0	11.8	11.4
Estonia	10.9	11.5	10.0	9.7
Hungary	11.6	12.3	12.7	11.5
Latvia	12.6	12.8	11.8	10.8
Lithuania	9.3	10.8	11.3	10.1
Poland	14.1	14.8	15.1	14.1
Romania	9.9	10.1	9.6	9.7
Slovenia	9.1	10.1	10.1	9.7
Slovakia	6.0	7.2	7.3	6.6
EU average	11.6	12.4	12.2	11.9

Source: the authors, data from Eurostat

The analysis of changes in the functional structure of public expenditure generally indicates a quite rational approach of Romanian local authorities. It can be seen from the data in table 4 that, although social security and assistance expenditures from local budgets increased in 2008-2010, as expected, the increase was not significant and was kept under control, the trend reversing afterwards and the level of these expenditures being in 2011 even lower than in 2008. Also, local public spending cuts in 2009-2011 mainly concerned expenditures with less negative impact on economic growth, such as general public services or defense and public order, although their social negative impact is not to be neglected. Conversely, other public expenditures, such as those with economic affairs or development, housing and water supply, with a prominent economic content, increased significantly, in part as a result of a greater availability of EU financial grants for these purposes.

Table 4. The functional composition of local budget expenditure in Romania (billion lei)

Expenditures	2008	2009	2010	2011
General public services	5.67	5.82	5.24	5.18
Defence, public order and national security	0.61	0.66	0.53	0.49
Social and cultural expenditures, out of which:	22.27	22.52	21.19	20.37
Education	12.65	12.62	10.72	9.92
Social security and assistance	6.32	6.37	6.74	5.77
Public services and development, housing, environment and water supply	4.82	5.36	5.53	7.37
Economic affairs, out of which:	8.84	7.72	8.71	10.61
Transport	6.98	5.42	6.29	8.03
Total	42.21	42.07	41.21	44.00

Source: the authors, data from the Romanian National Institute of Statistics

However, we consider to be disputable the decision to reduce local public spending on education, since pre-university education financing in Romania is ensured, for the most part, at the level of local communities, from the shared amounts of certain state budget revenues (personal income tax before 2011 and VAT afterwards). The reduction of financial resources redistributed to local authorities by such means effectively passed on the availability of resources for education, an underfunded sector compared not only to other sectors but also the actual financing needs. The decision is even more disputable as it is generally recognized the critical role of such expenditures, together with the research, development and environment ones, in shaping a "smart" budgetary strategy, aiming at long-term economic growth and development.

Table 5. The economic composition of local budget expenditure in Romania (billion lei)

Expenditures	2008	2009	2010	2011
Current expenditures, out of which:	34.82	35.63	34.80	35.15
Compensation of employees	15.31	16.36	13.58	11.24
Goods and services	9.51	8.34	8.51	9.49
Social assistance	3.23	2.95	3.42	2.87
Capital expenditures	7.21	6.32	6.03	8.33
Other expenditures	0.18	0.12	0.38	0.52
Total	42.21	42.07	41.21	44.00

Source: the authors, data from the Romanian National Institute of Statistics

The changes in the economic composition of Romanian local public spending largely confirm the previously observed trends (table 5). Although local spending on social assistance rose in 2010 against the backdrop of deteriorating financial situation of many people and increased number of social assistance beneficiaries, the trend was reversed in 2011. Also, although declining in 2009 and 2010, capital expenditures increased even more in 2011, while public spending on the compensation of employees decreased continuously since 2009, due to both public wage cuts and the removal of some bonuses and other benefits. Though rational in kind, these measures were inconsistently and incoherently implemented, allowing for the affected public employees to contest them within the courts of law and win and thus leading to additional budgetary efforts in the coming years, when these obligations are due.

5. Conclusions

Similarly to other Central and Eastern European countries, the effects of the global economic and financial crisis were felt in Romania not only at the level of central but also local governments. A deterioration of their financial situation was registered, although not as sharp as in other countries.

The negative effects on local budget revenues did not come only from the direct impact of economic recession, but mainly from the discretionary measures adopted by central government. In the context of the budgetary consolidation strategy initiated in 2010, it successively amputated the revenues assigned to local governments as quotas and amounts deducted from some state budget revenues, thus depriving local authorities of important financial resources.

As for local public spending, although Romanian local authorities were effectively forced, just like in other countries, to cut expenditures in order adjust them to smaller revenues, the overall change was quite small. Basically, the reduction of some types of expenditure like general public services, public order or the compensation of employees, was offset at least in part by the increase of others, such as economic affairs or capital expenditures. Although such structural readjustments can only be appreciated as they are, under the condition of ensuring high efficiency of such spending, consistent with the objective of economic growth, the adopted measures proved to also have significant shortcomings. It may be disputed, in this respect, the decision to cut some expenditure items such as on education, a real investment in human capital and a valued component, in our opinion, of a smart economic growth strategy.

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The Effect of Working Capital on Profitability: Evidence from Romania

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Abstract

The golden rule of financial equilibrium state the noncurrent resources should finance noncurrent assets and current resources should finance current assets. Managing working capital suppose to provide cash, which is indispensable for a company to run its day-by-day activities.

The main aim of this paper is to test for a sample of Romanian publicly companies if working capital is managed at an optimum level, and if companies hold too much or too less cash, which obviously would affect profitability.

The results suggest that in order to increase profitability managers from Romanian publicly companies could increase profitability by reducing the number of days cash conversion cycle and, as second result, companies do not hold too much cash.

Keywords: profitability, working capital, days of inventories, days of accounts receivable, days of accounts payable.
JEL code: G30, G31, G32

1. Introduction

Working capital management is one the most important integrated decision in corporate finance since cash holdings can make the difference between performance and failure at firm level. Managing working capital suppose to provide cash, which is indispensable for a company to run its day-by-day activities.

Statistics depict that firms has an average of 40% of its assets invested in current assets and CFOs spends about 80% of time in managing short term financial decisions. Deloof (2003) found that in 1997 13% of total assets for Belgium companies were represented by accounts payable while accounts receivables and inventory were represent by 17% and 10% respectively.

Furthermore, it was found that in the UK corporate sector more than 80% of daily business transactions are on credit terms. According to Ernst & Young's working capital report, compared with 2010, in 2011 working capital performance for US companies has improved – with cash conversion cycle dropping by 3% - while for European companies remain unchanged.

There are several papers that have tested the effect of working capital on profitability for different samples, periods and environments but the conclusion was almost similar in all cases: there is a negative relationship between profitability and working capital.

Given the previous empirical works, the main aim of this paper is to continue carrying the working capital debate into emerging markets area. The paper contributes to the literature in at least two ways. First, it focuses on Romanian publicly firms, where few research has been done and without regression analysis [1]. Second, the empirical results validate the findings of previous researchers, in this respect adding substance to the theory for this topic.

Two hypotheses have been tested in this paper. First, the main hypothesis is that working capital affects profitability, either positive or negative. Second, is if companies hold too much or too less cash, which obviously would affect profitability. The results suggest that in order to increase profitability managers from Romanian publicly companies could increase profitability by reducing the number of days cash conversion cycle and, as second result, companies do not hold too much cash.

The paper is organized as follows. Section 2 briefly reviews the literature on working

capital management and profitability. Sample construction, data collection and model proposed are described in Section 3. Section 4 provides the results for the effect of working capital management and cash on firm value. Finally, Section 5 concludes the paper with a summary of its main findings.

2. Literature review

The golden rule of financial equilibrium state the noncurrent resources should finance noncurrent assets and current resources should finance current assets. For many decades the focus in corporate finance was rather on the long-term financial decisions such as optimal capital structure or dividends, by testing several profitability models through debt ratio, noncurrent assets ratio, investment decisions. Taking in account both statistics aforementioned and golden rule hypothesis will emphasize the importance of working capital management, as main issue of current liabilities – current assets relation.

The interest for working capital management is recently and enjoyed a substantial increase. Most empirical works use regression analysis but there are some studies based on a survey. A starting point in this topic is considered Shin and Soenen paper. They found a negative and strong relationship between cash conversion cycle firm profitability for US firms during 1975-1994 [2]. They also provide a suggestive example in this topic for two companies, Wal-Mart and Kmart. In 1994 both companies exhibit similar profile in terms of capital structure, but Kmart faced constraints and went bankrupt whereas Wal-Mart didn't. Kmart failure was related to poor working capital management since it had a cash conversion cycle of about 61 days. As a comparison, Wal-Mart set a shorter conversion cycle of 40 days.

In another study that include US companies from 1990 through 2004, it was confirmed the theory that firms over-invest in working capital. In addition, it was found that working capital policy is affected by determinants such as industry, size, expected growth sales, proportion of outside directors, CEO compensation and CEO's share ownership [3].

The theory that firms over-invest in working capital was confirmed too for companies from other countries, either developed or emerging. Thus, using a sample of Belgian companies during 1992-1996 Deloof found a significant negative relationship between gross operating income and cash conversion cycle, and also it components such as days accounts receivable, inventories or accounts payable [4]. Lazaridis and Tryfonidis conclude that in order to create profit managers from Greece companies should keep cash conversion cycle at an optimum level [5].

This conclusion was suggested too in an empirical work through UK companies listed at London Stock Exchange during 2006-2008 [6]. In addition, the researcher found that profitability is negatively related with liquidity and debt ratio and positively related with size. Gill et al. paper seek to extend Lazaridis and Tryfonidis model for US companies and find similar results [7].

A consistent body of research was conducted in this topic for companies from emerging countries such as India, Nigeria, Pakistan or Kenya. However, the conclusion was unanimous and unambiguous: managers can create value by decreasing cash conversion cycle.

In a survey research over UK firms, Ricci and Di Vito highlight that regarding international cash management often operations 68% use wire transfers, 52% pool cash, 61% transfer funds electronically and only 23% net payments.

Regarding international cash collections and credit management, the researchers conclude that open account sales is the most commonly method and use more secure techniques such as letter of credit and documentary collections only when they are unfamiliar with customers. Regarding the influence of international sales levels on the use of working capital management vehicles, the results suggest a little impact and could reflect the influence of corporate culture [8].

Another stream of the literature has focused on the relationship between level of cash and firm value. Pinkowitz et. al found that cash-value relation is influenced by corporate governance. Thus, in countries with low governance score cash holdings is less valued than in countries with high

governance score [9]. Autukaite and Molay integrated both working capital and cash holdings in a company value model for the case of French companies and the main conclusion was that these two variables do not explicitly create value [10].

3. Data and methodology

This section describes data collection, variables and empirical model for the relation between working capital and profitability. The sample is based on a database provided by Romanian Ministry of Finance that consists of main categories from financial statements of the Romanian companies.

The sample was constructed by including all listed companies at tier 1, 2 and 3 at Bucharest Stock Exchange (BSE) for the period 2001-2011. Furthermore, following standard practice, companies from banking and financial sector were dropped from initial database, resulting a final sample of 67 companies.

Profitability is measured by return on sales (ROS), which is defined as net income divided by total sales. This measure is rather an efficiency view for profitability, which determines if a company generates enough of a return compared to sales effort.

Cash conversion cycle (CCC) was used as a proxy for working capital and is defined as number of days inventory plus number of days accounts receivable minus number of days accounts payable. This is a comprehensive measure that reflects the time span between the expenditure for the purchases of raw materials and the collection of revenues for goods sold.

In order to improve the model and to remain consistent with the aim of the paper, it was used an additional control variables, natural logarithm of cash holdings (CASH). Cash holdings can be used to finance new investments and thus generate profitability or can reduce the likelihood of financial distress. However, a high level could be costly and decrease profitability.

The model uses a co-relational study and employ ordinary least squares (OLS) for panel data. In this respect, the model is built as follows:

$$ROS_{i,t} = \alpha + \beta_1 * CCC_{i,t} + \beta_2 * CASH_{i,t} + \nu_{i,t} \quad (1)$$

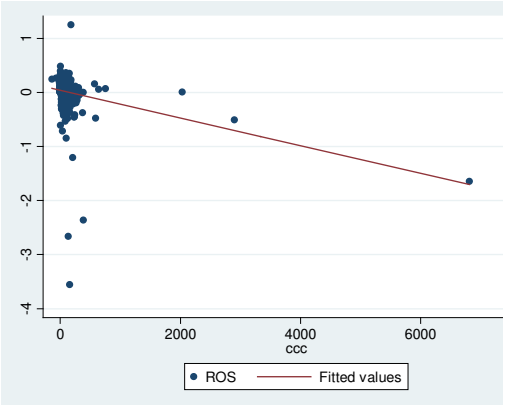
with $\nu_{i,t}$ the idiosyncratic error component.

First it was performed a OLS model with CCC as independent variable and after, a second OLS model was performed by adding CASH as second independent variable. By this step-by-step estimation, it can be tested if CCC effect over ROS is absorbed or not by CASH, as other variable that reflect liquidity issue.

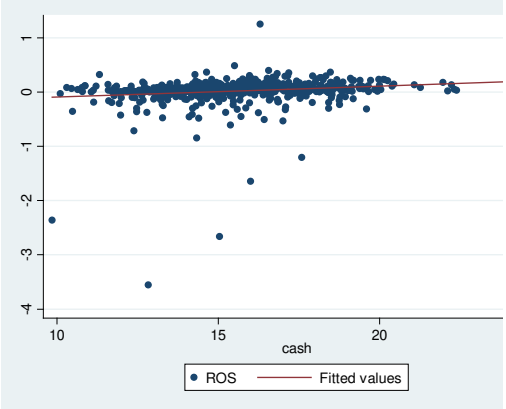
4. Results

The main hypothesis of this empirical work is that working capital affect profitability, either positive or negative. Secondary is if companies hold too much or too less cash, which obviously would affect profitability. The first step in this analysis requires a graphical inspection between each independent variable and dependent variable. The scatter diagram between ROS and CCC is reported in figure 1a, while figure 1b reports the scatter between ROS and CASH.

Figure 1 The relationship between performance and working capital (1a) and cash (1b)



(1a)



(1b)
Source: Author calculation

From Figure 1a it could be observed, a linear and negative relation between profitability and working capital. From this association several observations can be drawn. First, like companies from other countries, Romanian companies could increase profitability by reducing the cash conversion cycle. Second, linear model which includes OLS is suitable for testing the relation between working capital and profitability.

Figure 1b exhibit a linear and positive relation between profitability and cash holdings, suggesting that Romanian companies do not hold too much cash.

Next, regression analysis was used to investigate the impact of working capital on profitability, the results being reported in table 1. Model 1 includes only working capital as dependent variable, while model 2 adds cash holdings as a second independent variable.

Table 1 Results

VARIABLES	COEFFICIENTS	
	Model 1	**Model 2**
CCC	-0.256e-03***	-0.252e-03***
	(0.000)	(0.000)
CASH		0.0190***
		(0.004)
CONS	0.040***	-0.254***
	(0.009)	(0.064)
R-squared	0.092	0.118
Adj R-squared	0.091	0.115
F-statistic	74.599	49.036
p-value	0.000	0.000
Root MSE	0.232	0.229
Firms	67	67
Observations	737	737

Notes:
Standard errors are shown in parentheses.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$
Source: Author calculation

Based on these results, suggest that both hypotheses are confirmed for Romanian companies, respectively a negative relation between CCC and ROS and a positive relation between CASH and PROF. The coefficient of cash conversion cycle is negative and highly significant in both models and implies that an increase by 1 day in number of days cash conversion cycle will lead to a slightly decrease by $25.6*10^{-3}$% in return on sales. Furthermore, variable of interest added in model 2 is significant too and do not alter the results for variable of interest

According to these statistical results, it worth be noticed that in order to increase profitability managers could increase profitability by reducing the number of days cash conversion cycle. Regarding the debate of which level do investors place on cash holdings, the positive relationship suggest that Romanian companies do not hold too much cash, which could be costly for shareholders.

To sum up, the empirical results for Romanian companies confirm similar behavior with companies from other countries, either emerging such as Greece [5 Lazaridis and Tryfonidis, 2006] or developed such as Belgium [4], UK [6] or USA [7].

5. Conclusions

The main aim of this paper was to test what is the effect of working capital on profitability and if Romanian companies holds and optimum level of cash. Using a sample of 67 publicly companies, the results suggests that profitability is negatively related with working capital and positively with cash holdings. Thus both hypotheses considered were confirmed.

This topic still remains of great importance and further research is worth doing in looking for the relationship between profitability and working capital. A larger dataset could be used, both in terms of

companies and in terms of period number of companies or the model could be improved by taking in account other internal and external determinants of firm profitability.

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Methods for Measuring the Impairment of Accounts Receivable

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Abstract

Accounts receivable consists of amounts from customers. Companies are required to make ongoing estimates related to the collectability of accounts receivables and to maintain an allowance for estimated losses due to customers' inability to make the payments. Changes in economic conditions, in collection efforts or in trade credit policies may cause differences in estimates of uncollectible accounts. The article reviews the methods for measuring the impairment of accounts receivable: percentage of sales, percentage of receivables, aging schedule, and roll-rate matrix. Under these methods future expectations for bad debts are determined, based on historical level of credit losses and on judgements about the creditworthiness of the customers.

Key words: accounts receivable, impairment, uncollectible accounts, bad debt expense, expected loss
J.E.L. Classification: M41, G32

1. Introduction

Most businesses provide credit to their customers, either because it's not practical to require immediate cash payment or to encourage customers to purchase the company's products or services. Trade credit is generated through credit sales and managed through "receivables". Offering sales on credit is a common practice for most companies, thus receivables may be one of the most significant assets in the company's balance sheet. [1]

From the accounting perspective, receivables are financial instruments, explicitly financial assets based on contractual rights to receive cash or other financial assets from another entity.

An important part of the receivables are "trade receivables", which are claims against customers for goods and services that are an output of the entity's ordinary activities (i.e., accounts receivable and notes receivable). Accounts receivable are oral promises of the customers to pay for goods sold and services rendered. They represent "open accounts" resulting from short-term extensions of credit, being usually collected in 30-60 days [2]. Accounts receivable are almost always classified as current assets because their normal collection period, even if longer than a year, is part of the operating cycle [3].

When a receivable is accompanied by a formal promissory note, it is referred to as a note receivable. Notes receivable are written promises to pay a certain amount on a specific future date.

Considering the classification of financial assets under International Accounting Standard (IAS) 39 "Financial instruments: recognition and measurement" [4], accounts receivable fall into category of "loans and receivables", which are, basically, non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. IAS 39 requires recognizing a financial asset in the statement of financial position when the entity becomes a party to the contractual provisions of the instrument. At the time of the initial recognition, loans and receivables will be carried at fair value, which, in the particular case of the accounts receivables, will be the invoiced amount. The original invoice amount is the exchange price agreed on by the buyer and seller. Subsequently, loans and receivables are measured at amortised cost using the effective interest rate method. The effective interest rate method spreads the interest income or expense over the life of the financial asset. Such a method is not considered relevant to accounts receivables where normally there is no interest payment

to spread [5]. Therefore IAS 39 allows short-term receivables with no stated interest rate to be measured at the original invoice amount, if the effect of discounting is immaterial.

2. Impairment valuation of accounts receivable

Companies report short-term receivables at cash realizable value that is the net amount they expect to receive in cash. Determining cash realizable value requires estimating both uncollectible (impaired) receivables and any returns or allowances for doubtful accounts. Such losses are a normal and necessary risk of doing business on a credit basis [6].

Companies are required to assess their receivables for impairment each reporting period. Under current IAS 39, the impairment guidance for accounts receivable relies on the "incurred loss" approach. The impairment assessment starts by considering whether objective evidence indicates that one or more loss events have occurred. These events are basically situations where the customer is unlikely to fulfil the repayment obligations as per contractual terms: significant financial problems of the customer; payment defaults; renegotiation of terms of the receivable due to financial difficulty of the customer; measurable decrease in estimated future cash flows from a group of receivables since initial recognition, although the decrease cannot yet be identified with individual assets in the group [7]; indications of customer filing for bankruptcy or insolvency proceedings [8]. A receivable is considered impaired when a loss event indicates a negative impact on the estimated future cash flows to be received from the customer.

Receivables that are individually significant should be considered for impairment separately. Receivables that are not individually significant may also be assessed individually. Any receivable individually assessed that is not considered impaired should be included with a group of assets with similar credit-risk characteristics and collectively assessed for impairment. Any receivables not individually assessed should be collectively assessed for impairment.

Accounting for bad debts is based on the allowance method, recording an adjusting entry that debits bad debt expense and reduces accounts receivable indirectly by crediting a contra account (allowance for uncollectible accounts) to accounts receivable for an estimate of the amount that eventually will prove uncollectible. The net of the two accounts is the net realizable accounts receivable reported in the statement of financial position.

In practice, there are several methods used for estimating the amount that should be reported in the allowance account. The "percentage of sales" and the "percentage of receivables" approaches are examples of impairment testing used for the collective assessment of accounts receivable.

The percentage of sales is based on the income statement approach. Bad debt expense is estimated as a percentage of each period's net credit sales. This percentage is usually determined by reviewing the company's recent history of the relationship between credit sales and actual bad debts [9]. Under this method, the amount of the bad debt expense matches the expense with corresponding revenue. The journal entry debits the bad debt expense account and credits the allowance account for the same amount. The allowance balance is not the target of the calculation and, thus, is not computed to give the best measure of uncollectible accounts [10].

For the year ended December 31, 201X, the following information pertains to Company XYZ:

Credit sales (net of VAT)	CU75,000
Sales returns	CU 4,000
Sales discounts	CU10,000
Net credit sales	CU61,000

Based on prior experience it is estimated that bad debt expense should be approximately 8% of net credit sales, that is CU61,000 × 8% = CU4,880.

The adjusting journal entry to record bad debt expense for 201X will be as follows:

Bad debt expense	4,880	
Allowance for doubtful accounts		4,880

The statement of financial position will show the following:

Accounts Receivable	CU61,000
Allowance for doubtful accounts	(CU4,880)
Net Accounts Receivable	CU56,120

The percentage of receivables is based on the balance sheet approach. Under this method future bad debts are estimated by

calculating the net realizable value of accounts receivable to be reported in the statement of financial position. Bad debt expense is an incidental result of adjusting the allowance account to the necessary balance. This could be done by analyzing each customer account, by applying a percentage to the entire outstanding receivable balance, or by applying different percentages to accounts receivable balances depending on the length of time outstanding (table no. 1). The most appropriate calculation normally employs an accounts receivable aging schedule that results from applying different percentages to accounts receivable balances depending on the length of time outstanding.

Depending on the diversity of its customer base, the company would use appropriate groupings if its historical trade credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group accounts receivables include geographical region, product type, customer rating and collateral or trade credit insurance. In practice, an accountant uses all information available to obtain the best estimate of the amount of uncollectible receivables. That amount becomes the target ending allowance balance and will be the amount ultimately reported on the statement of financial position [11].

Table no. 1. Accounts receivable aging schedule

Age of debts	**Balances 31.12.201X** (CU)	**Doubtful debts** (%)	**Provision** (CU)
Less than 30 days	23,700	-	-
30 to 60 days (not past due)	16,500	1	165
60 to 90 days past due	7,600	3	228
90 to 120 days past due	5,100	5	255
120 to 180 days past due	3,300	8	264
Over 180 days past due	1,100	15	165
Totals	57,300	x	1077

Assuming that the balance of the allowance account prior to adjustment is CU800, the bad debt expense is: CU1,077 – CU800 = CU277

The adjusting journal entry to record bad debt expense for 201X will be as follows:

Bad debt expense 277
Allowance for doubtful accounts 277

The statement of financial position will show the following:

Accounts Receivable CU57,300
Allowance for doubtful accounts (CU1,077)
Net Accounts Receivable CU56,223

The system of provisioning based on the methods explained above is widely used, particularly on accounts receivable portfolios with the following characteristics: bad debt is insignificant in proportion to the overall portfolio; bad debt level is rather stable; there are no marked trends in delinquency. When these conditions are not met, these methods are likely to be misleading.

As a result of the project to reconsider the current accounting requirements for financial instruments, International Accounting Standard Board (IASB) has proposed that entities should recognise and measure the credit loss allowance or provision based on an "expected credit loss" approach. The "incurred loss" approach under current IAS 39 differs from the proposed "expected loss" approach for the following reasons:

(i) under the "incurred loss" approach, a triggering event has to have occurred in order to recognise an incurred credit loss resulting from that triggering event; under the "expected loss" approach, it is not necessary for a triggering event to have occurred in order to recognise an expected credit loss;

(ii) the "incurred loss" approach relies on historical and current information to estimate the impairment allowance; the "expected loss" approach requires entities to consider forecast information (in addition to the historical and current information);

(iii) under the "incurred loss" approach, there is a threshold that must be met in order to record a loss, which is the concept of "objective evidence of impairment"; under the "expected loss" approach, this threshold does not exist [12].

This change in approach would result in both mechanical and practical changes as to

how an entity addresses the impairment of financial instruments, including:

- changes in the expectations of credit losses are always recognised in the overall provision for impairment that is recognised;
- the information that is considered in determining expectations of credit losses is broadened (i.e. to include reasonable and supportable forecasts);
- an increase in an entity's judgements, assumptions, and estimates in relation to what constitutes a significant deterioration in credit quality, when such a deterioration has occurred, and the determination of the expected future cash flows;
- the above judgements, assumptions, and estimates are required to be applied on a continuous basis [13].

As a part of its project on accounting for impairment of financial instruments, IASB released a new exposure draft (ED) "*Financial Instruments: Expected Credit Losses"* on 7 March 2013. From the impairment measurement perspective, the model being developed uses two measurement objectives: "12 months' expected loss", and "lifetime expected loss". When financial instruments are initially recognised, an entity would provide a credit loss allowance or provision equal to 12-month expected credit losses. Subsequently, the 12-month expected credit losses would be replaced by lifetime expected credit losses if the credit risk has increased significantly since initial recognition (the lifetime expected credit losses criterion).

The credit loss allowance or provision would revert to 12-month expected credit losses if the credit quality subsequently improves and the lifetime expected credit losses criterion is no longer met.

In case of trade receivables, a simplified approach is proposed: the loss allowance should be measured at an amount equal to lifetime expected credit losses at initial recognition and throughout the asset's life for short-term trade receivables (that do not constitute a financing transaction) [14].

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of accounting receivables. Over its life, an account receivable will evolve over several numbers of stages. The company would use its historical credit loss experience for trade receivables to estimate the expected credit losses that are possible in the next 12 months or over the remaining life of the assets as relevant. The expected credit losses on trade receivables may be calculated using a provision matrix or roll-rate matrix that captures this evolution.

The roll-rate matrix might specify fixed provision rates depending on the number of days that a trade receivable is past due. A roll-rate is the probability of passing from one stage to the next. The roll-rate from stage "s" to stage "s+1" is defined as the amount in stage "s+1" in period "t+1" divided by the amount in stage "k" in period "t".

Table no. 2 presents the roll-rate calculation.

Table no. 2. Roll-rates calculation

Status	**Balances 31.12.201X** (CU)	**Balances 31.01.201X+1** (CU)	**Roll rate**
Total current	40,200	41,000	-
- carried forward	x	34,170	34,170/40,200 = 85%
- new invoices	x	6,830	-
60 - 90 days	7,600	4,200	4,200/40,200 = 10%
90 - 120 days	5,100	2,500	2,500/7,600 = 33%
120 - 180 days	3,300	2,000	2,000/5,100 = 40%
Over 180 days	1,100	1,500	1,500/3,300 = 45%
Write off	x	800	800/1,100 = 73%

The bad debt provision is calculated by multiplying through the roll-rates for a given initial distribution of debt. The roll-rates calculated in table no. 2 are applied to the accounts receivables at the end of December 201X. It is possible to calculate the write-off receivables after a longer period of time, and also the provision corresponding to each stage (table no. 3).

Table no. 3. Application of roll-rates

Stage	Roll-rate	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun
Current	85%	40,200	34,170	29,044	24,687	20,984	17,837	15,161
60 - 90 days	10%	7,600	4,200	3,417	2,904	2,469	2,098	1,784
90 - 120 days	33%	5,100	2,500	1,386	1,128	958	815	692
120 - 180 days	40%	3,300	2,000	1,000	554	451	383	326
Over 180 days	45%	1,100	1,500	900	450	250	203	172
Write-off	73%	0	800	1,095	657	328	182	148
Cumulative write-off	-	0	800	1,895	2,552	2,880	3,062	3,210
Outstanding	-	57,300	44,370	35,747	29,723	25,112	21,336	18,135

The method can be generalised in case that accounts receivable pass between stages, because of partial payments, or stay in the same stage for several successive periods [15]. This is accomplished by treating the payment received as being separate from the state of the account. Assuming an account in stage "s" with a debit balance of CU5,000; the company receives a payment of CU1,000. In this case, CU1,000 passes to the "paid-back" stage, and the remaining CU4,000 passes to the current balance in stage "s+1". Based on the portfolio of accounts receivable considered in table no. 2, it is further assumed that for accounts in stage 1 (60 – 90 days past due) the company receives payments of 20% to recover, for those in stage 2 (90 – 120 days past due) and stage 3 (120 – 180 days past due) receives 25% payment, and in stage 4 (over 180 days past due) a 30% payment is necessary (table no.4).

Table no. 4. One-month generalised roll-rates

January state	December state					Total carried forward	New invoices	January balance
	Current	60 - 90 days	90 - 120 days	120 - 180 days	Over 180 days			
Paid back	1,830	1,020	775	450	90	4,165	-	-
Current	34,170	4,080	2,325	1,350	210	42,135	6,830	48,965
60 - 90 days	4,200	0	0	0	0	4,200	-	4,200
90 - 120 days	0	2,500	0	0	0	2,500	-	2,500
120 - 180 days	0	0	2,000	0	0	2,000	-	2,000
Over 180 days	0	0	0	1,500	0	1,500	-	1,500
Write-off	0	0	0	0	800	800	-	800
Total	40,200	7,600	5,100	3,300	1,100	57,300	-	-
January outstanding	38,370	6,580	4,325	2,850	210	52,335	6,830	59,165

The company receives payments of CU4,165; other CU800 receivables are written-off and new invoices of CU6,830 are issued. The last column shows the structure of the receivables portfolio at the end of January. The total amount outstanding is CU59,165 of which CU48,965 is current. This takes account of new invoices and of the progression of accounts through various stages. Therefore, the generalised roll-rates give the possibility to estimate month by month the state of the receivables portfolio, the outstanding balances and risk structure [16].

3. Conclusions

Providing credit to customers in the form of normal trade receivables is usually a necessary activity. Companies that extend credit to customers are aware that it's unlikely that all customers will fully pay their accounts. Bad debt expense is an inherent cost of granting credit, incurred by the company in order to make sales.

In practice, there are several methods used for estimating the impairment of receivables: percentage of sales, percentage of receivables, aging schedule, and roll-rate matrix. All these methods are based on the

past observations to determine future expectations for financial statements and bad debts, given the difficulties in knowing which customers will fail to pay back and which will make on their obligations.

As it's not expected that all accounts receivable will be collected, the statement of financial position reports only the expected net realizable value of the asset, that is, the amount of cash the company expects to actually collect from customers. Provisions for impaired accounts receivables are established based upon the difference between the receivable value and the estimated net collectible amount. Likewise, the expense is matched with sales revenue in the income statement for the same period.

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Application of Autoregressive Models for Forecasting Marine Insurance Market

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Abstract

The shipping industry represents an important component of the global economy. In the context of globalization the importance of marine insurance has increased more than even before. Without insurance, ship owners would be subjected to a wide range of risks that they would not be protected from.

Marine insurance facilitates global trade, ensures economic property, provides peace of mind, improves quality of life and provides social benefits. Taking in consideration all these advantages, it becomes essential to analyze and forecast the evolution of the marine insurance market.

Key words: marine insurance, gross written premiums, ARIMA models, forecasting
J.E.L. classification: C22, G22

1. Introduction

Marine insurance represents the oldest form of insurance and many clauses of the modern marine insurance contract have roots from centuries ago. Its origins can be traced right back to ancient Rome and Greece, but formally it was created in the fourteenth century when the powerful European states dominated much of the world's trade.

The marine insurance policies protect the assured against marine perils. Marine perils comprise perils of the sea, fire, war perils, pirates and rovers, thieves, captures, seizures, restraints and detainment of princes and people, jettisons, barratry and any other perils which are either of the like kind or may be specified by the policy.

Marine insurance is an area which involves a lot of thought, straightforward and complex dealings in order to achieve the common ground of payment and receiving. But as much as complex the field is, it is nonetheless interesting and intriguing because it caters to a lot of people and offers a wide range of services and policies to facilitate easy and uncomplicated business transactions.

2. The marine insurance

Although marine insurance is small in volume, accounting a small share of the global non-life premium, it is highly specialized, representing a variety of risks. Most local marine insurers are organized in and represented by their national organizations, which again are organized in the International Union of Marine Insurance. The premiums of marine hull insurance are computed through a qualitative and quantitative combined analysis by taking in considerations factors such as individual fleet statistics, risk profile and available premium scales and claims statistics for a matching vessel portfolio.

The subject of marine insurance is very wide, which is why there is a definite categorization of various types of marine insurance and different types of marine insurance policies. The types of marine insurance available for clients benefits are many and all of them are viable in their own way. In order to enjoy the advantages provided by this type of insurance, a client can choose the appropriate marine insurance plan in accordance with its business profile.

The different types of marine insurance comprise[1]:

- Cargo Insurance protects specifically the

cargo of the ship and also the belongings of a ship's voyagers.

- Hull Insurance mainly deals with the torso and hull of the vessel along with all the articles and pieces of furniture in the ship. This type of marine insurance is mainly taken out by the owner of the ship in order to avoid any loss to the ship in case of any damage occurring.
- Liability Insurance provides compensation to any liability occurring on account of a ship crashing or colliding and on account of any other induced attacks.
- Freight Insurance provides protection to merchant vessels' corporations which stand a chance of losing money in the form of freight in case the cargo is lost due to the ship facing an accident. This type of marine insurance solves the problem of companies losing money because of a few unprecedented events and accidents occurring.

In addition to these types of marine insurance, there are also various types of marine insurance policies which offer flexibility to the clients when choosing the appropriate protection. The different types of marine insurance policies comprise:

- Voyage Policy is that type of marine insurance policy which is valid for a particular voyage.
- Time Policy is valid for a specified time period (usually a year).
- Mixed Policy is that kind of marine insurance policy which offers a client the benefit of both time and voyage policy.
- Open (or) Un-valued Policy: In this type of marine insurance policy, the value of the cargo and consignment is not put down in the policy beforehand. Therefore, reimbursement is done only after the loss to the cargo and consignment is inspected and valued.
- Valued Policy is the opposite of an open marine insurance policy. In this type of policy, the value of the cargo and consignment is ascertained and is mentioned in the policy document beforehand, thus making clear about the value of the reimbursements in case of any loss to the cargo and consignment.
- Port Risk Policy is taken out in order to ensure the safety of the ship while it is stationed in a port.
- Wager Policy is one where there are no fixed terms of reimbursements mentioned. If the insurance company finds the damages worth the claim, then the reimbursements are provided, else there is no compensation offered. Also, it has to be noted that a wager policy is not a written insurance policy and as such is not valid in a court of law.
- Floating Policy is a marine insurance policy where only the amount of claim is specified and all other details are omitted till the time the ship embarks on its journey. For clients who undertake frequent trips of cargo transportation through waters, this is the most ideal and feasible marine insurance policy.

3. Literature review

Kingston (2005) examines the nature of institutional change in the marine insurance industry in Britain and America during its critical formative period 1720-1844, identifying the effects which persist nowadays. Marine insurance had an important role in facilitating the expansion of trade during that period, but the industry evolved in different ways in different countries. The author examines how exogenous and endogenous changes in the political, legal and economic environment affected the evolution of these institutions over time[2].

Nieh and Jang (2006) investigate the determination of the underwriting margin of ocean marine insurance in US for the sample period 1951-2001, which is the vital component of the ocean marine insurance price. In an autoregressive distributed lag (ARDL) cointegration framework, the authors analyze the underwriting cycle in US ocean marine insurance market taking in consideration the fact that underwriting margins will shift dynamically between hard and soft markets back and forth. The importance of modeling and predicting underwriting cycles lies in the fact that insurers could improve their operations' volatility and reduce their capital costs. They conclude that the US ocean marine insurance market is a mature, efficient and competitive insurance line[3].

Marine insurance is considered to be the oldest type of insurance. Ceccarelli (2007)

investigates how late Medieval merchants were evaluating various factors of risk involved in the sea trade. His paper highlights that even though businessmen did not use probabilities in a strict statistical sense, their computations were based on various levels of probabilistic reasoning. Thus, late medieval underwriters were able to conceive an actuarial determination of the likelihood of an event. Moreover, they had adopted commercial strategies in order to reduce and redistribute risk as a practical solution in facing sea dangers, counting on a well established experience developed in years of deals and on the study of manuals and updated news reported by correspondents of firms spread around the major European seaports[4].

Li et al. (2009) perform a quantitative analysis of materiality in marine insurance in order to determine the factors that significantly relate to marine incidents. Through the step-wise random intercept model and panel data of total loss incidents during the period 1999-2007, the authors build a factor-weighted risk indicator, that may be used in the ex ante risk assessment of insured vessels. This risk index system is useful for measuring the risk level of a ship when the involved parties conclude the contract[5].

Wand and Liu (2010) analyze the relationship between maritime insurance and the development of shipping, finance and regional economy by applying partial correlations method. Their study is aimed to identify the key factors in local marine insurance development, concluding that Shanghai has advantages such as property insurance development and cargo handling capacity. In their opinion, these advantages could contribute to the marine insurance development, to the local economic development and to the improvement of the link between international shipping and finance development[6].

4. Data and methodology

In this study, we have used ARIMA models in order to estimate and forecast the evolution of the marine insurance segment. For the empirical study we have used the annual data series of real gross written premiums for the period 1996-2011. Data were collected from IUMI (International Union of Marine Insurance) database and computed by applying the Chain-Ladder method. Finally, ARIMA models were built with EViews 7.

The general ARIMA model is called an ARIMA(p,d,q), with "p" being the number of lags of the dependent variable (the AR terms), "d" being the number of differences required to take in order to make the series stationary, and "q" being the number of lagged terms of the error term (the MA terms). An ARIMA(p,d,q) (AutoRegressive Integrated Moving Average with orders p,d,q) model is a discrete time linear equations with noise, of the form:

$$\left(1-\sum_{k=1}^{p}\alpha_k L^k\right)(1-L)^d X_t = \left(1+\sum_{k=1}^{q}\beta_k L^k\right)\varepsilon_t$$

Firstly, we have applied the ADF test (Augmented Dickey-Fuller) to verify the stationarity of our time series. From an economic point of view, shocks to a stationary time-series are temporary and over time, the effects of the shocks will be absorbed. We have estimated the existence of a unit root for the original data and the absence of a unit root for the second-difference data. Therefore, the variable is integrated of order 2 and denoted by I(2).

Table 1. The ADF test for second-difference data

Null Hypothesis: DD_GWP has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.356012	0.0060
Test critical values:	1% level	-4.057910	
	5% level	-3.119910	
	10% level	-2.701103	

*MacKinnon (1996) one-sided p-values.

Source: own computations

If the probability is lower than the significance level (1%, 5% and 10%), the null hypothesis is rejected. We can notice that the second-difference data is stationary.

In order to select the appropriate ARIMA model, we will apply the Box-Jenkins approach, which is a three-stage method, comprising identification, estimation and diagnostic checking.

Once we have achieved time series stationarity, the next step is to identify the "p" and "q" orders of the ARIMA model. In

the identification stage, we will analyze the time plot of the series autocorrelation function and partial correlation function, which provide useful information regarding outliers, missing values and structural breaks in the data.

Table 2. Autocorrelation function and partial correlation function

Date: 04/04/13 Time: 13:08
Sample: 1996 2011
Included observations: 14

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
		1	-0.255	-0.255	1.2080	0.272
		2	-0.106	-0.190	1.4199	0.492
		3	0.153	0.077	1.8951	0.594
		4	0.075	0.139	2.0211	0.732
		5	0.041	0.156	2.0638	0.840
		6	-0.310	-0.287	4.7619	0.575
		7	0.128	-0.079	5.2650	0.625
		8	-0.050	-0.171	5.4191	0.712
		9	-0.097	-0.075	5.8369	0.756
		10	-0.037	-0.057	5.9123	0.823
		11	0.003	0.030	5.9129	0.879
		12	-0.021	-0.093	5.9606	0.916

Source: own computations

From the table above we can see that there are two significant spikes on the ACF, and then all are zero, while there are also two significant spikes in the PACF, which then dies down to zero. This suggests that we might have up to MA(2) and AR(2) specifications. Thus, the possible models are the ARIMA(1,2,1), ARIMA(1,2,2), ARIMA(2,2,1) or ARIMA(2,2,2) models.

In the estimation stage, each of the tentative models is estimated and the various coefficients are examined. The estimated models are compared using the Akaike information criterion (AIC) and the Schwartz Bayesian criterion (SBC). We will choose the model with the smallest AIC and SBC values. The Box-Jenkins approach requires that the series is stationary and the model invertible. Therefore, the modulus of each AR coefficient has to be lower than 1, the sum of AR coefficients has to be lower than 1 and the modulus of each root has to be lower than 1. According to this criteria, only the ARIMA(2,2,1) model is stationary and invertible.

Table 3. Estimation of ARIMA(2,2,1) model

Dependent Variable: DD_GWP
Method: Least Squares
Date: 04/04/13 Time: 16:05
Sample (adjusted): 2000 2011
Included observations: 12 after adjustments
Convergence achieved after 13 iterations
MA Backcast: 1999

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19867561	2.25E-08	0.088274	0.9318
AR(1)	0.365594	0.423113	0.864057	0.4127
AR(2)	0.001329	0.368004	0.003229	0.9900
MA(1)	-0.885107	0.195420	-4.511297	0.0020

R-squared	0.258078	Mean dependent var	19867561
Adjusted R-squared	-0.022696	S.D. dependent var	1.50E+09
S.E. of regression	1.52E+09	Akaike info criterion	45.37842
Sum squared resid	1.84E+19	Schwarz criterion	45.54006
Log likelihood	-268.2705	Hannan-Quinn criter.	45.31858
F-statistic	0.917927	Durbin-Watson stat	2.002312
Prob(F-statistic)	0.474545		

Inverted AR Roots	.36	.01
Inverted MA Roots	.89	

Table 4. ARIMA(2,2,1) structure

Inverse Roots of AR/MA Polynomial(s)
Specification: DD_GWP C AR(1) AR(2) MA(1)
Date: 04/04/13 Time: 17:06
Sample: 1996 2011
Included observations: 12

AR Root(s)	Modulus	Cycle
0.360239	0.360239	
0.005355	0.005355	

No root lies outside the unit circle.
ARMA model is stationary.

MA Root(s)	Modulus	Cycle
0.886107	0.886107	

No root lies outside the unit circle.
ARMA model is invertible.

Source: own computations

In the last stage we examine the goodness of fit of the model. Thus, we will test the statistical significance of model's coefficients, autocorrelation of residuals, homoskedasticity and the absence of additional ARCH terms and the normal distribution of residuals.

Regarding the statistical significance of model's coefficients, AR(1) and AR(2) are insignificant due to the lack of data, while MA(1) term is statistically significant. According to the residuals' correlogram, there is no serial correlation of error terms.

Table 5. Correlogram of residuals

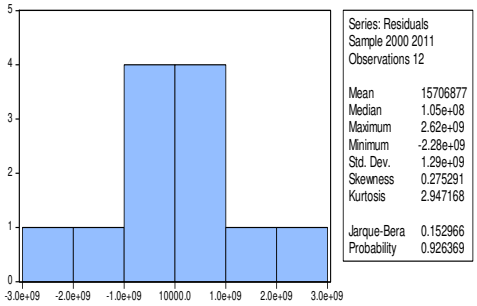
Date: 04/04/13 Time: 17:39
Sample: 2000 2011
Included observations: 12
Q-statistic probabilities adjusted for 3 ARMA term(s)

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
		1	-0.027	-0.027	0.0111	
		2	-0.059	-0.060	0.0694	
		3	0.183	0.181	0.6951	
		4	0.032	0.039	0.7171	0.397
		5	-0.025	-0.003	0.7320	0.694

Source: own computations

If the probability of Jarque-Bera test is higher than the significance level (1%, 5%, 10%), the null hypothesis of normal distribution is accepted. According to Figure 1, the residuals of our model have a normal distribution.

Figure 1. Distribution of residuals



Source: own computations

According to F-statistic and Obs*R-squared tests which are higher than the 10% significance level, the null hypothesis of absence of serial correlation of squared errors is accepted. Thus, there are no additional ARCH terms and we can notice the presence of homoskedasticity.

Table 6. Heteroskedasticity ARCH test

Heteroskedasticity Test: ARCH

F-statistic	1.578049	Prob. F(1,9)	0.2274
Obs*R-squared	1.728643	Prob. Chi-Square(1)	0.1885

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 04/04/13 Time: 18:00
Sample (adjusted): 2001 2011
Included observations: 11 after adjustments

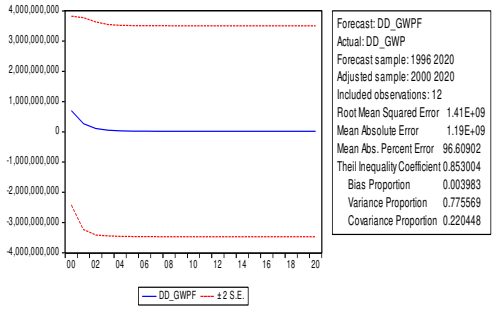
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.29E+18	8.26E+17	2.769135	0.0218
RESID^2(-1)	-0.390042	0.301089	-1.295395	0.2274

R-squared	0.157149	Mean dependent var	1.57E+18
Adjusted R-squared	0.053499	S.D. dependent var	2.30E+18
S.E. of regression	2.23E+18	Akaike info criterion	87.49844
Sum squared resid	4.47E+37	Schwarz criterion	87.56879
Log likelihood	-479.2304	Hannan-Quinn criter.	87.45084
F-statistic	1.578049	Durbin-Watson stat	2.321290
Prob(F-statistic)	0.227422		

Source: own computations

Finally, by using our ARIMA(2,2,1) model, we will forecast the real gross written premiums of the marine insurance segment for the period 2012-2020. The following graphic highlights the dynamic forecast of gross written premiums values and their error margins.

Figure 2. Dynamic forecast of GWP

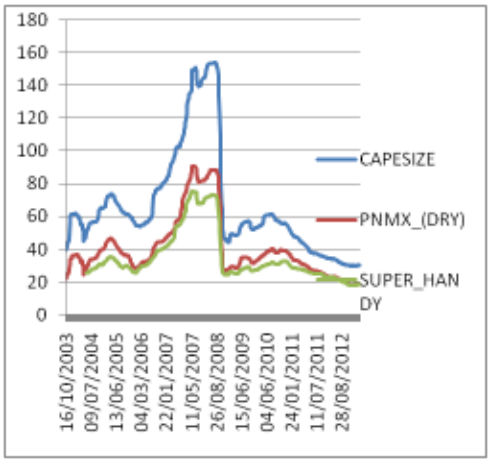


Source: own computations

5. Conclusions

We can notice that the marine insurance segment will record a slight decrease of gross written premiums during 2012-2020. These results are not astonishing, because starting from 2009 the value of ships has recorded a constant decline as we can notice from Figure 3. Furthermore, starting from next year, the number of ships will significantly decrease as a consequence of the increasing number of scrapped ships.

Figure 3. Evolution of ship prices



Source: own computations

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Literature Review Regarding the Determinants of Banking Profitability

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Abstract

The profitability of a bank is affected by numerous factors. These factors include elements internal to each bank and several important external elements shaping earnings performance. In order to withstand negative shocks and maintain financial stability, it is important to identify the determinants that mostly influence the overall performance of banks. This paper reviews the literature on bank performance studies and classifies the bank profitability determinants.

Keywords: banks, profitability, internal determinants, external determinants
J.E.L. Classification: G21, M20

1. Introduction

The banking system has undergone profound changes in the last years. Deregulation, technological change and the globalization of goods and financial markets have affected all aspects of the operation of banks, and accordingly have impacted on profitability. [10]

Because, as financial intermediaries, banks play an important role in the operation of most economies, literature attaches great importance to the analysis of their performance.

Perception of banking performance varies depending on the interests of users of financial information. For example, managers are oriented overall performance of the company, shareholders perceive performance in terms of profitability and profit, employees and customers are interested in the company's stability and solvency creditors. So, the first studies on banks' profitability examine regulation, ownership structure and the balance sheet structure.

More recent studies distinguish two sets of factors influencing profitability: bank specific and external determinants. On the other hand while some studies focus on the understanding bank profitability on a particular country [5], others concentrate their analysis on a panel of countries [13]; [9]; [1]; [15]. Also, a number of studies have analyze the profitability of banking sistem both in the developed and developing countries. In case of developed countries the attention has been focused on investigate the market structure and entry barriers, the degree of concentration, deregulation and their impacts on performance. [10] On developing countries the investigation was on impact of the bank reforms, the privatizations of the state banks, on entry foreign banks on market and their effects. [8]; [3]

The profitability of the banking system is a theme of interest both for the academic world, as well as for the authorities around the world. Therefore, further we make a review of the studies in the literature.

2. Literature review

In the literature, bank profitability, typically measured by the return on (average) assets and/or the return on (average) equity reported by a bank, is usually expressed as a function of internal and external determinants.

Internal determinants are factors that are mainly influenced by a bank's management decisions, which will definitely affect the operating results of banks. Among the internal factors are the bank specific financial ratios representing asset structure and asset quality, capital adequacy, size, efficiency and ownership structure.

External determinants contains macroeconomic and industry-specific factors which include tax rate, GDP growth, inflation rate, term structure of interest rate and stock

market capitalization. Although, they represent events outside the influence of bank, the management can anticipate changes in the external environment and try to position the institution to take advantage of anticipated developments.

2.1. Asset structure

Most researches agree that profitability is expected to increase as the loan portfolio grows. Usually a larger loan portfolio in a bank is associated with a higher risk of liquidity caused by the inability of banks to accommodate decreases in liabilities or to fund increases in assets side of the balance sheet. Therefore, a bank that has a lower proportion of liquid assets (with higher liquidity risk) is more likely to earn high profits.

Molyneux and Thornton [13], Goddard et al. [10], Iannotta et al. [11] and Pasiouras and Kosmidou [15] find a direct relationship between relative percentage of loans in bank assets and profitability and also, an inverse relationship between liquidity and profitability.

2.2. Asset quality

Poor asset quality resulting in non-performing loans. One would therefore anticipate that profitability is directly related to the quality of the assets on its balance sheet. This relation exists because an increase in doubtful assets involves an allocation of a significant part of the gross margin of provisions to cover expected credit losses, so profitability will be lower. Banks can therefore improve profitability by improving screening, monitoring and forecasting of credit risk facilities. Among studies showing a direct relationship between profitability and asset quality is that of Athanasoglou et al. [4].

2.3. Capital adequacy

In principle a bank's capacity to absorb unforeseen losses determines its level of risk. Several ratios are commonly used to proxy for risk, including the capital adequacy ratio and the liquidity ratio. High levels of capital imply that the bank is unlikely to earn high profits, but is also less liable to risk; therefore shareholders should be willing to accept a lower return on equity. [9]

In their study of the determinants of banks' performance for 18 European countries for the period 1986-1989, Molyneux and Thornton [13] find that the capital ratio impacts banks' performance positively although such relationship is confined to just the state-owned banks. Demirguc-Kunt and Huizinga [9] concluded, in their study conducted in 80 countries between 1988-1995 years, that foreign banks have higher profitability than national in developing countries, while the opposite holds in developed countries. Their overall results showes existence of the positive relationship between the capital ratio and financial performance. Also, Berger [6] examines the relationship between the return on equity and the capital asset ratio for a sample of US banks for the 1983-1992 time period. He shows that the return of equity and capital to asset ratio tend to be positively related.

2.4. Size

Bank size is generally used to capture potential economies or diseconomies of scale in the banking sector. This variable controls for cost differences and product and risk diversification according to the size of the financial institution. Size is a result of a bank strategy, but the variable alone does not guarantee the earning of excess returns. Thus, some studies assumes that there is a direct positive relationship between size and profitability of banks. [11]

On other hand, the growth regressions utilised from Goddard, et al. [9] suggest that, as banks become larger in relative terms, their growth performance tends to increase further, with little or no sign of mean reversion in growth.

2.5. Efficiency

The advances in information, communications and financial technologies have allowed banks to perform many of their traditional services more efficiently. As a consequence the cost-to-income ratio, a proxy for operational efficiency, recorded decrease since banks have lower costs in providing products and services. Previous

studies suggest a positive and highly significant effect of efficiency on profitability [13]; [15]; [4]. On the other hand, Berger [7] concludes that managerial ability in controlling costs (the so-called Xefficiency) is consistently associated with higher profits.

2.6. Ownership structure

A considerable amount of studies has investigated the influence of ownership structure on banks' profitability. Molyneux and Thornton [13] suggest that government-owned banks are more profitable than privately owned banks. Furthermore, Altunbas et al. [2] tested whether there are differences in bank performance and bank efficiency for private, public and mutual ownership forms, using data between 1989 and 1996 in a sample of German banks. They find little evidence that private banks performed more efficient than their mutual and public counterparts did. Research of Iannotta et al. [11] indicates that mutual and governmental-owned banks are less profitable than privately owned banks.

Laeven & Levine [12] have made the first research towards regulation by incorporating ownership structure issues. On a sample of all ten largest publicly listed banks in the world between 1996 and 2001, they analyze effects of regulation and find that regulation has different effects on bank risk taking depending on the ownership structure. Findings suggest that bank risk taking increase when the owners have more voting power than banks owned and governed by managers or debt holders. Moreover, they find that regulation has different effects on bank risk taking depending on the ownership structure.

2.7. Interest rates

Interest rate is an important macroeconomic determinant of bank performance. When interest rate rise or fall, it exerts an impact on banks' profits through adjustment to revenues.An increase in market rates raises the amount of income which a bank can earn. Another effect could come through impact on the bank's decisions about which loans and securities to purchase and how much to hold in cash reserves. Findings from Molyneux and Thornton [13] and Demirgüç-Kunt and Huizinga [9] indicate that high interest rate is positive associated with higher bank profitability. Demirgüç-Kunt and Huizinga [9] emphasize that this relationship is more so in developing countries.

2.8. Taxation

Corporate tax policy is government's policy on corporate taxes. Banks are subject to taxation by both direct tax and other taxes. Since consumers face an inelastic demand for banking services, most banks are able to pass the tax burden to the consumers. Demirguc-Kunt and Huizinga [9] have found that corporate income tax has a significantly positive impact on bank profitability in developing and developed countries alike. Their finding suggests that, all over the world, banks in high-tax environments have to earn higher pre-tax profits to pay these taxes. Furthermore, banks' tax bills are at least partly passed on to their customers.

2.9. Stock market capitalization

Researches of Rajan and Zingales [16], Demirgüç-Kunt and Huizinga [9] show that banks have greater profit opportunities in countries having well-developed stock markets. The larger equity markets in these countries give the banks operating there in greater opportunities to expand their profits. Stock market development leading to increased profitability for banks which indicates complementarities between bank and stock market finance, growth and development. Also, as stock markets develop, improved information availability on publicly traded firms makes it easier for banks to evaluate and monitor credit risks associated with them.

2.10. Economic activity

When bad economic conditions exist the quality of the loan portfolio can worsen causing credit losses and increasing the provisions banks need to hold. In consequence the bank profitability is reducing. In contrast, an improvement in economic conditions, in addition to improving the solvency of borrowers,

increases demand for credit by households and firms, with positive effects on the profitability of banks. [4]

Finally, the effect of inflation is also another important determinant of banking performance. If the inflation rate is fully anticipated by the bank's management, the bank can adjust interest rates appropriately to increase revenues faster than costs, which should have a positive impact on profitability. In general, high inflation rates are associated with high loan interest rates and thus high income. [9]

Pasiouras and Kosmidou [15], Athanasoglou et al. [4], use macroeconomic variables such as inflation and growth of gross domestic product (GDP). Their findings show that macroeconomic conditions are significant.

3. Conclusion

It is generally agreed that a strong and healthy banking system is necessary for sustainable economic growth. The banking sistem has undergone major challenges in the dynamic operating environment over the past decade. In order to withstand negative shocks and maintain financial stability, it is important to identify the determinants that mostly influence the overall performance of banks.

Banks that desire to survive and thrive should pay attention to these variables. Most of them can be controlled by the management and board directors. Staffing issues, decisions about lending policy and attracting resources, expansion policy are within the scope of managerial decisionmaking.

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Concepts and Principles of Performance Audit

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Abstract

The XXIst century is the century of performance revolution, will predominate the management and the performance audit, the visionary and innovative management, the paradoxes management etc.

The fundamental objective of management and managers is to create a competitive vision, viable, for the organization.

For a long time it was considered that the public sector cannot be about performance, arguing that by the content of the very fundamental objective of public management is removed the posibility to accept this concept.

Limits of such way of thinking have long been exceeded in the public management of developed countries, after a good number of years the subject has been debated by theorists and practitioners.

This starts from an initial premise that public managers thinking shall be within somewhere at the border between social logic and competitive logic.

Keywords: audit, performance, public institution
JEL classification: H11, H83, M48

1. Introduction

The right of public sector auditors in the UK to impose economy to governmental departments was stated in 1888 belonged to the Controller and Auditor General (C & A.G) has urged the War Office to explain why a contract under which it purchased boots laces for the price of 14 shillings was terminated and replaced by another shoelaces price was 20 shillings. War Office argued that this is administrative and not the C & A.G. Public Accounts Committee as a parliamentary committee at the time, claimed C & A.G and from then National Audit Office - similar institution of the Court of Accounts - extended horizon examination and the three Es (economy, efficiency, effectiveness) actually making a performance audit.

Public service „delivery" in terms of economy, efficiency and effectiveness and thus performance audit is also currently a major concern in the UK. In this context it is worth mentioning Thatcher government initiative in 1979 to establish a body attached to the Prime Minister called „Unit Efficiency" for the purpose of implementing and carrying out the audit module size reduction and achievement of government increased efficiency and effectiveness in public services. This was done partly by applying business management techniques from the private sector, by Sir Derek Rayner, First Counselor in the efficiency of Mrs. M. Thatcher, one of the largest retailers in the UK.

Enabling Efficiency Unit originally was to conduct „surveys Rayner" within departments, focusing on those with low efficacy oprațiuni. Most recently, the role of the Unit has expanded and now includes responsibility for coordinating government programs for „testing market", „efficiency development plans" for departments and agencies, multi-departmental review of the type of government program areas, the use of consultants in government and development

of improved financial management systems, inspired by experiences of best practices in public and private sectors. During 1979-1995, surveys and reviews Unity generated savings of 100 million pounds.

2. Contents

According to the Law on public internal audit nr.672/2002, measuring results against objectives are achieved in accordance with the three „E" that economy, efficiency and effectiveness.

Economics is a measure that provides for minimizing the cost of resources used in an activity without compromising the smooth implementation of its stated objectives (quality).

A public „econom" entity it purchases the appropriate quantity and quality at the lowest cost.

In the performance audit, a central issue is whether resources have been allocated, managed and used sparingly. The question refers to the means chosen such, that if it is the most economical use of resources.

For example, if the audited entity has made acquisitions will examine how to purchase, or if it is considered as „low cost relationship for a higher quality", respecting the legislation.

Economics and also refers to the proper management of public money, however the difference between good and waste management is a matter that finally it is about auditor's judgment.

Efficiency is defined as the relationship between the goods and services produced and resources used to achieve them. An efficient public entity made up of services or products of human and material resources entering or minimize inputs needed to achieve the same amount in terms of quality of products or services, for the management to increase productivity on lower unit costs. In other words, efficiency is the ratio between results „outputs" and resources used to produce them „inputs".

In an audit mission of efficiency, the focus is the examination of the resources used. Therefore, the main problem is the use of resources or, in other words, if the activity results, which correspond in terms of quantity and quality to our expectations, could be achieved with fewer resources.

The question which arises in the case of efficiency, namely: ″ following the actions undertaken to achieve the best result in terms of quality and quantity? ″ refers to the relationship between quality and quantity of goods and services, or the cost of resources used to obtain them.

Efficiency = Results (Outputs) / Resources used (Inputs).

So, if the ratio is equal to or greater than 1, the situation is favorable. An efficient activity maximizes the results obtained with the same amount of resources and minimizes the resources for a result set [8]. Jacques Renard calls for Anglo-Saxon terminology to illustrate the effectiveness of using the phrase meaning „doing the right things"

An efficiency audit can be undertaken by comparing similar activities conducted in different time periods.

The audit efficiency can be achieved by reference to specific standards and where problems are complex and there are no standards, examinations shall be based on the best available information and arguments, specifically based on best practice in this area.

For example, an audited entity who work with the public are examined that it had reduced the waiting time at no extra cost and without diminishing the quality of services offered, or to an audited entity which consists transport sector check that operating costs have been minimized and spare parts under the increased number of service vehicles and safety standards have been met in their operation.

Effectiveness express the degree of fulfillment of the stated objectives of a business and the relationship between the desired impact and the effect achieved. Effectiveness is presented in the format of the results of running a programmed activities and results.

Effectiveness = Results / Results Scheduled. This may be the real meaning of effectiveness and therefore it is necessary to obtain evidence showing that the achievements are really the result of actions taken by the audited entity towards its policy objectives (″doing the right things″).

For example, a public health entity shall examine whether the medical assistance program goals has succeeded in reducing waiting times for patients receiving care.

The effectiveness audit follow the extent to which the actions taken by the audited entity contributed to the objectives and can be approached from two perspectives: in a narrow sense, when are examinated only the management and internaloperations of the audited entity, or broadly when examining goes beyond hearing entity and the auditor assessment takes into account the impact of external variables (not connected with the audited entity).

An possible alternative to realize in practice is the evaluation of the responsibilities which the management policy is based on. [16]

The auditors could evaluate or appreciate the effectiveness, by comparing the results or the impacts, with the scopes provided through the management policy objectives

Also, in case of auditing the effectiveness, we could appreciate in what measure the management practices, contributed to the management policy realization.This approch assume the obtaining of samples which proves that the management policy objectives were achived through the management practices and were not influenced by other factors.

Otherwise, if the objective of the management policy for a governmental program, was reducing the number of the persons that pass the border illegally, the auditor must analyze if the reduced number of persons in this category was the result of that policy and was not influenced by the general improvement of the economic, social and political climate, which the audited entity had no contribution.

The measurment of the results, relative with the proposed objective, according to the „3E's", consist a necessity for the managers on all levels.

In general, the performance audit tries to respond at two basic questions:

- was the job done correctly?
- everything need to be done was done?

The first qestion refers, mainly, to the services supplier, and has the purpose of checking if the stategic decisions were properly implemented. In this case the audtor seeks to find if the general management had respected the regulations and demands of the established stategy, or operated according to the best practice in the field.

The auditors examination sphere, extends if continued with the second question, respectively „everything need to be done was done" in other words, if all the established measures were taken. This type of question refers to the effectiveness or the impact of the entity's conducted activities, to achieve the unit's objectives. The performance auditor can in fact, to note that one of his choosen measure is insufficient. So by making an audit of the performace, the auditor starts to question himself, if a public engagement is totally feasible. He will also has to be cautious and not to exceed his mandate and the objectives, established through extending the examination procedures.

Another essential part of the performance audit concept is represented by the „protagonists" of this process, namely: the audit officer, the audited manager and the auditor. It is useful to approach this concept, because these three parts are distinct, deeply interested in the audit process, but sometimes in a different way and antithetical especially regarding audit results.

The audited manager is the manager or the management team, whose performance on how the organization was run in the analyzed period is subject to audit. The auditor is the specialist, the expert, the multidisciplinary team who on an individual basis or collectively possess the necessary knowledge to assess, in terms of management performance. To be able to overcome the simple compliance audit, which is in fact an extension of the inspection in order to provide assurance to the audit ordinator that organization operates according to predetermined laws, the auditor should understand first the business in the sense of an organization seen as a system. This requires auditors with new skills and additional training different from that assumed when performing an audit of compliance. However, the compliance audit is absolutely necessary as a first step to establish that the legal regulations, internal or external to the organization, are respected an based on that to offer trust and fundament for an performant audit.

Returning to the auditors abilities involved in the performance audit, domain specialists, tries to analyze what differentiates the auditors conducting an audit of performance from others. This

approach attempts to determine those key features that should be subject to the training, and the methods used to demonstrate objective, coherent and globally, the fact that the desired level of competence was achieved. Thus, among the necessary features are found ability to provide a high level of information exchange, to formulate questions to clarify things and to summarize the findings. [16]

One of the main skills is to be able to form an overview of the functioning of the organization, and this requires a minimum level of managerial culture. Without this it is hard to suppose that it will appreciate the overall performance of the entity, as a matter to be evaluated in addition to the conformity audit because it is not enough to quote the rules, but you should know well what is the reasoning behind the rules. An important role in this case returns also to the auditing officer, who is the first interested to benefit of the results materialized in audit reports prepared by auditors with a high degree of competence.

To enable the auditor to express an opinion on the effectiveness and efficiency of programs and activities, the mandate given to explicitly cover all categories of entities involved in the programs and activities alleged by them, as well as the beneficiaries of such programs (if they are separate entities)[1].

In order to express an opinion and to make recommendations on efficiency and effectiveness, especially regarding sensitive issues strategically, it is necessary to have a legal framework requiring organizations associating clearly defined S.M.A.R.T. objectives - The internal audit objective design a program or activity should be: simple (S), measurable (M), current (A), achievable (R), temporal (T).

Performance audit does not question the goals set by each entity. It may be mentioned, however, the consequences resulting from the application of certain policies in setting goals, and also to identify and reveal shortcomings generated by the existence of some objectives that do not meet S.M.A.R.T. condition, contradictory and unclear.

- Freedom of choice in the areas of performance audit mandate. It is important that internal audit structure to maintain independence in the possibility of influencing the selection of areas within the mandate granted to have an impartial approach to responsibilities and duties.
- However, both national law and international standards state that the auditor is independent, in fulfilling its mandate as well as in form opinions. [17] The auditor should be free to examine all actions, programs, activities and entities managing public funds.In this respect, it is necessary that the internal audit structure pay attention to selecting audit, it is absolutely necessary to follow a process in clear, logical and transparent.
- Ex-post character of performance audit. Performance audit program / objective is performed usually after implementation. It can be said, however, that performance audit, auditors must focus on current issues examinations and reported. They do this, in especially to formulate conclusions and recommendations that will enhance the value of future audit reports.
- Ensuring reasonable. A performance audit made in accordance with applicable auditing standards offer the possibility to provide reasonable assurance, meaning that the information and data represents the basis for formulating conclusions and recommendations do not contain errors.

Generally „reasonable assurance" depends on the context in which the audit is conducted, the nature and availability of evidence, the principles of procurement, audit evidence collection and interdependence, respectively the formulation of the conclusions and the recommendations.

The main concern of the internal audit structure is the responsibility for authorizing and not ultimately responsibility towards the citizen. Audit structure must ensure oronatorul audit of how economically, efficiently and effectively use their resources subordinated public entities and to identify sensitive areas that pose potential risks in the management of public funds. The audit structure must provide authorizing audit of how economically, efficiently and effectively use their resources the subordinated public entities and to identify sensitive areas that pose potential risks in the management of public funds.

Auditors must fulfill responsibilities honestly, with integrity and professional without being corrupt [9].

In the collection of audit evidence, auditors should always be prepared to motivate, explain and justify their actions. Auditors' findings must be made with reference to the criteria, standards set and enforced regularly.

Auditors should not be influenced in any way during the engagement especially in selecting audit, analyzes or reports.

Auditors must also be cooperative and polite, but resolute in the activities they undertake and should not be influenced by the auditee.

Regarding the reports, they must be objective, balanced (in content and tone), accurate (trusty) clear and convincing.

3. Conclusions

In the context of economic efficiency, management effectiveness has special significance, given its essential role in achieving high economic effects of resources and efforts minimized. Efficiency is associated with economy and efficiency and the concurrent approach is necessary both in theory as well as in the practice.

There is no doubt that performance-based public management represent fundamental mutation in international public management.

This mutation should be implemented in any system of public management that aims concomitantly satisfy public interests by considering economic criteria in general and the management in particular.

This requires, of course, an adequate information system, organizational structure developed by these coordinates and not least, new methods and management techniques that ensure the link between goals and performance.

So, performance audit can be implemented in any system, and therefore in the public institutions in Romania, where at least the following aspects are taken into consideration and addressed the fundamental premises:

- the existence of a general reference framework containing a number of common definition of performance, performance indicators and methodology for their application, without which it would not be possible comparable measurements;
- customize the approach to each area of the public sector and identify general and specific indicators to measure performance;
- adapting the methods of analysis to the diversity of services and contextual features at central and local levels;
- continuity in the application system performance indicators;
- developing a unified system of performance indicators, and nationally diversified approach and customize it for each local public institution;
- developing a national and regional monitoring, assistance and advice regarding public management performance evaluation.

In conclusion, the purpose and objectives of performance audit are:

— Ensure top management information assurance and independent opinions about achieving desired results and management approach used to achieve these results in terms of the "3E";

— Identify measures to improve organization performance and resource optimization.

Their infringement may have consequences for the functioning and organization of the public sector, can lead to failure to conform to the law and thus to bad management implications throughout society.

But any change is made in time. For management this is very important because to make a change should be the time to become a fundamental variable of our model of thinking.

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Risk Management and Compliance as Main Topics within Nowadays' Romanian Internal Auditing

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Abstract

Today's business environment is characterized by a number of pressures for a more effective risk management. The present paper highlights the perspectives of internal audit which should be considered as an important progress factor for current Romanian organizations. Our findings suggest that Romania has created the premises for the future development of internal auditing as a main function within companies which could help them become more efficient and competitive.

As it is demonstrated during our research, internal audit has a great impact on the effectiveness of corporate governance. By controlling risk management, auditors will be able to maximize audit's positive results. Our findings propose some conclusions for improving internal auditing functions especially by effectively managing organizational and structural risks.

Key words: internal audit, risk management, compliance, risk based internal auditing
J.E.L. Classification: G34, M42, M49

Introduction

We consider that the current Romanian internal audit should be adapted to the changing expectations of market's participants and aligned with companies' new objectives and scopes. It is mandatory for internal audit to keep the balance into an effective equilibrium especially that between cost and value and also to show a great interest on risk management. In the current crisis and post-crisis context, internal audit is responsible for providing adequate support, for evaluating and measuring risks by giving solutions and recommendations in order to control faced risks. It becomes vital for the present accounting and auditing systems to furnish real and relevant information and to avoid previous fraudulent errors. Therefore, auditors should improve control effectiveness within the organizations. However, in order to build an effective risk management, enterprises need reliable audit information.

This paper contains the first results of a more extensive research performed with the aim to build a doctoral thesis. Internal audit does represent a constant in the research work. Through an extended literature review, we have come to highlight the importance of an effective internal audit for Romanian companies. Internal audit should provide accurate and relevant information concerning the analyzed fields and add value to the organizations by offering adequate solutions for managing risks. As an important finding of our research work, we have understood that "audit has developed itself from an exhaustive verification of the transactions in order to detect frauds, to an investigation in order to detect the main entities risks and to evaluate internal control which is organized and exercised at this level" (Morariu, Mitea, Stoian and Crecana, 2009). [1]

Internal audit and its functions

During our research work, we have realized a literature review in order to highlight the existent and even potential internal audit functions. In the given context, our purpose is to discover those functions able to increase audit's effectiveness.

According to the Institute of Internal

Auditors (IIA, 1991) [2], as well as according to Taylor and Glezen (1991) [3], internal audit is "an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization". Our findings prove that internal audit has developed constantly on the basis of social and economic evolution as well as of the newest needs of management (Wang, 1997). [4] However, in 2000, the IIA adopted a new definition of internal auditing function. According to it, this function "helps an organization to accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". [5] Because of risks' complexity, audit becomes commensurately complex. In the current economic risk landscape, internal audit should "adopt a strategic mindset that is responsive to risks and helps ready organizations for new threats and opportunities" (PWC, 2012). [6] In those circumstances, internal audit plays a vital role in monitoring companies' main risks. Therefore, internal auditors should improve constantly their knowledge and skills for being able "to increase their level of contribution in the overall risk management effort". [6] It is the moment for auditors to show a great focus on risks, identifying effective solutions without compromising objectivity. Meanwhile, other studies in the literature suggest that internal audit could influence also companies' performance (Gordon and Smith, 1992). [7]

According to laws and regulation, companies that have to be audited, must organize within the internal control. In such a point, we state that internal control becomes one of internal audit's functions. However, internal control risk could not be removed, although auditors are expected to find solutions for improving it. As Dumitraşcu and Săvulescu have recently proved (2012) [8], "determination of audit risk is fundamental to planning an audit properly". Moreover, as it was stated by Radu (2012), internal audit is "one of the most powerful means of monitoring and promoting good governance system in a company". [9] Our findings suggest that internal audit functions do have a valuable contribution to corporate governance. Some authors consider that these functions consist in: providing information, making assurances, advice and expertise. There are also authors considering that internal audit functions refer to: consulting and advising managers, building control plans, evaluating and measuring business' performances and losses, identifying risks. Botez (2012) has recently demonstrated that internal audit functions are supposed "to help the company in achieving its objectives and to add value and transparency, assisting at the same time the managers to enable it to better manage their activities". [10]

As it was shown before, internal audit functions have changed. In such circumstances, the role of internal auditor has expanded to evaluating and improving management activities. Tabără and Ungureanu (2012) highlight in their study that some authors take into consideration the following current internal audit functions: performance evaluation, effective internal control, review of financial reporting process, fraud prevention and risk detection. The researchers mentioned above focus on another IIA's definition concerning internal audit: it is "an objective activity certification and consultation which seeks streamlining the operations of an organization, but also processes of risk management, control and governance". [11] Nowadays, internal audit functions include also assurance of risk management processes, a risk correctly evaluation and risks reporting. In the opinion of Narvaez and Bugalla (2012), "collaboration of risk-management and internal audit functions is helping organizations improve efficiency, decision-making and results". [12] Both the Institute of Internal Auditors and the Risk and Insurance Management Society consider that collaboration between internal audit and risk management functions could lead to a stronger risk practice and could cover better the stakeholders' expectations.

Our conclusion for this section of the paper is that internal audit functions should be adapted to companies' risk management strategies in order to achieve positive audit results. Our findings suggest that internal auditors should be focused on risks, on their effective measurement and evaluation before creating appropriate risk management strategies. Therefore, we consider appropriate to study in the following section the

possibility of a close collaboration and even that of integration of the two functions: internal audit and risk management. We started from the perspective that those functions make a powerful team when they collaborate; they share skills, resources and experiences in order to cover risks.

Risk management and compliance

Internal audit functions have lately developed; they do not only identify existing economic, financial and managerial issues, but also anticipate and foresee risks. Auditors should focus audit resources on those activities that show companies' greatest risks. Risk management and compliance is the most misunderstood and misapplied concept but also the most vital for companies. At present, this is a critical component of managing and operating a business. Therefore, we consider that Romanian internal auditors should arrive to create the organization's overall risk profile in order to effectively manage it for better audit results.

In Northern Rock's operating and business review, the annual report for 2006 described organizations' risks as follows: credit risk, liquidity risk, operational risk and market risk. Within companies, internal audit could support managers in adopting a prudent stance in the management of risk. Although risk management frameworks could efficiently identify and measure different types of risks, there are not enough articles studying the specific duties that should be assigned and coordinated within the enterprises. Therefore our findings help us understand that companies need to review the effectiveness of internal control systems as well as to have an adapted process for identifying, measuring and managing the significant risks.

The issues determining accounting fraud risk are linked to the low distribution of internal audit functions together with an internal control system that does not completely meet the economic expectations of organizations and of market's participants. At this point, we consider that the most efficient tools customized in order to prevent fraud are the management of control as well as internal audit. The management of control represents the first line of defense in risk management, apart from the control risk and risk insurance. Each of those lines plays distinct roles in corporate governance.

The Financial Regulatory Reform dating from 2012 highlights regulators' rising interest in risk management combined with sanctions for compliance failures. Specialists do wonder whether it is time for internal audit and risk management to come closer if not merge completely. Our suggestion would be to integrate internal audit, risk management and compliance and to align them to some extent in order to avoid conflicts or gaps, as well as to minimize risks.

In IIA's Position Paper dating from January 2013, specialists show that management, supported by internal auditors, could be able to establish effectively different risk management and compliance functions. [13] In our opinion, Romanian internal auditors should be prepared nowadays to support management policies and practices to provide risk management frameworks, to identify emerging issues and especially to assist management in developing processes and controls. Moreover, they should provide assurance on the effectiveness of governance and risk management. As we have just proved, internal audit functions consist nowadays in safeguarding companies' assets, assuring reliability and integrity of reporting processes, as well as compliance with laws and regulations and especially, risk identification, risk assessment and risk communication. Historically, internal auditing has consisted of audit compliance with internal financial procedures and regulations. At present, its role increases permanently. Recent survey data sustain that risk management practices are continuing to develop in most organizations. However, our findings suggest that internal audit will come to get bright future prospects. Internal audit should rethink risk management processes and revise them periodically. In today's business environment, internal auditors are required "to identify and correlate risks across multiple lines of business and functions" (IIA, 2009). [14]

We believe that it is not enough for the control function to exist, it is necessary to assign roles and effectively coordinate different groups within companies in order to prevent gaps in control. Therefore, management and auditors' responsibilities

should be integrally defined in order to understand the limitation of their functions as well as their role in risk management. Hence a coherent approach, a distinctive function of risk management is needed in order to build effective management methods for managing risks.

RBIA is one of the adequate tools provided in corporate governance. It supports the risk bearers in finding the risk exposure target and effective reporting on risk information within companies. As it was shown by Griffiths (2006), "Risk based internal auditing is the methodology which provides assurance that risks is being managed to within the organizations risk appetite". [15] We sustain that an important management process is an internal control system reducing risks to a level that there are considered acceptable.

As a conclusion of this section, we sustain that it is very important for managers and auditors to evaluate and estimate effectively all kind of corporate risks. From a study conducted during 2011 by Ernst & Young, we have found that the information provided by internal auditors seems not to be able to truly gauge the health of organizations. We also assume that Romanian companies need a holistic view giving a balanced perspective of risks and control environment. Moreover, by taking a strategic approach to corporate governance, internal audit, risk management and compliance, companies could achieve competitive advantages. Our findings sustain that it is the moment for organizations to integrate all the above mentioned initiatives in order to add value to their activities.

Conclusions

The current business landscape is becoming more and more complex due to new structural changes and to the multitude of risks. All over the world, entities start to show a great interest to risk management. However our findings prove that implementing an effective risk management within Romanian companies, requires time, discipline, new skills and resources. We consider that it is the moment for internal auditors to play significant roles in risk management. Therefore, we think appropriate to mention that risk management appears as "some coordinated activities to direct and control an organization with regard to risk" (Dickinson, 2010). [16] Meanwhile, internal auditing is seen by the above mentioned author as "an independent, objective assurance and consulting actively designed to add value and improve organizations' operations".

The problem treated during the present paper has a strong impact within the organizations. We consider that it has become really interesting for Romanian entities to show a deep interest on the current internal audit functions and on risk management. Building a professional internal audit activity completely adapted to nowadays' needs and change's challenges, it could be seen as an effective governance requirement for companies all over the world as well as for Romanian enterprises. We consider that this solution in not only important for great companies but also for medium-sized and smaller entities as they are currently facing various organizational and structural risks. In such circumstances, internal audit does influence actively corporate governance, contributing to its effectiveness.

The results of our research indicate that internal audit is a vital factor for an effective risk management and consecutively for the future success of organizations. We hope that our findings will open the appetite of researchers to study more deeply in the future different approaches to risk identification and risk rating, especially with unfamiliar areas that have not been traditionally reviewed.

The main conclusion of our study sustains that an internal audit activity based on risk management could arrive to increase internal audit credibility among all market's participants. By leveraging a risk-based model, internal audit could also increase its own efficiency and could support effective risk coverage.

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Addressing the Concept of Performance and its Quantification in Romanian and French Vision

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Abstract

Optimization of entities' activity is subject to a continuous process of collecting and processing information, process considered so that it contributes to assist decision-making process.

Managers manage the future and regularly report entity's present to it. Adopting timely decisions, based on the information provided by some specific tools of managerial accounting is increasingly desired by the managers of entities in the current uncertainty.

This scientific approach aims in parallel, in Romanian and French specialized literature, the meanings given to performance concept and to the importance of its knowledge and quantification by using a current management and monitoring tool, namely the dashboard.

Keywords: performance, decision, dashboard, manager.
Clasificare J.E.L.: M40, M41.

1. Introduction

Global assessment of an entity's performance proved insufficient even for external users of financial statements. Currently, there is a real need for more detailed documents, more analytical, more segmented: this need notably treats the formation of companies' result, especially if a group of companies has different activities.

Decision making process takes place at all entity's levels, covering both short-term and long-term decisions. Plans are activated by the decisions, and to a substantial number of decisions it is necessary to have quantitative, qualitative and timely information block to enhance decision making. Ensuring optimal information needs of decision implies knowledge and performance measurement of an entity.

2. Performance and piloting performance

2.1. Ambiguity and clarity in performance concept

Modern management of today's entities is dominated by two concepts: value and performance. New weapons of modern management (total quality, value analysis and activity-based management) involve a total cost management [1].

Today, the term performance knows some imprecision in its use. Measuring performance is to assess the value knowing the value causes which means "to translate" performance [2].

Performance only makes sense in a specific context because it allows interpretations, but the term performance should be reserved for the description of results evolution on a period considered long enough for making the decision [3]. The performance takes the form of a comparison, and to be competitive means to reach or even exceed some proposed objectives.

The word performance is of Latin origin (*performare*, i.e. giving form to something), but its significance comes from English (*to perform*, or to do something regularly, and the noun *performance*, achieving a thing or an act in the same manner by which an organization achieves the objectives that have been set).

Performance concept refers to a judgment on a result and the manner in which this

result is achieved based on objectives and fulfillment conditions. Performance measurement is more than just finding it, it exceeds this limit and aims to decision making in order to improve performance conditions. Performance is the achievement of the objectives that are set by the company. It is defined not only by obtaining quantitative results, but by optimizing the means used by all its dimensions: economic, social, commercial, etc. [4]. In French literature, special attention is given to social performance concept, entities' managers being those who seek to use, in the most effective manner possible, depending on their skills and their costs, actors at all organizational levels [5] more precisely, entity human resources.

The concept of performance involves the following terms: **Performance = economy + efficiency + effectiveness**

Economy involves the procuring of resources at the lowest cost, efficiency requires maximizing the result and minimizing the amount of resources for a predetermined outcome, and effectiveness shows the ability of obtained results to meet the forecasts made.

Performance makes sense only in a specific context because it allows interpretations, however the term 'performance' should be reserved for the description of the evolution of results on a period considered long enough to make the decision [6] .The performance takes the form of a comparison and, to be powerful means to reach or even exceed some proposed targets.

In France there is a naturalized principle, i.e., performance is based on division of labor and its optimization, i.e. decomposition of the enterprise in units, grouping them by specialized skills, and optimizing the local performance to ensure overall performance, it involves implicitly an interrelation between weak and strong units, without any difficulty, for a superior standard [7].

2.2. Multiple meanings given to the concept of performance

The meanings given to performance, synthesized, can be identified as follows:

• depending on *the level of achievement of objectives*, the performance is not the result, but it is all that contributes to achieving strategic objectives, its content being dependent on setting and achieving goals;

• depending on the *productivity and effectiveness of the entity*, questionable approach, performance should not be substituted or reduced to these terms. Effectiveness means the extent to which the objective is achieved by the means at stake, and productivity compares the achieved results to the employed means;

• according to *value creation*, supported by P.Lorino, performance, for the enterprise, is what helps to improve the value-cost couple, and not just what contributes to reducing the cost or increasing the value [8]. Value-cost couple represents the two pilot elements which explains how an entity creates and will create value, not only for shareholders but also for the *customer*, the latter having a key role in ensuring, maintaining and developing performance;

• based on the entity's *richest resource*, i.e. *the man*, this being a determinant factor of performance. The manner in which people communicate and work together determines the performance of an entity. Performance is that which allows the entity its specific differentiation from competitors, through a strong organization members' motivation.

• based on *entity's commitment to environment*, which should not be seen as an option, but as an obligation of common sense for commercial, moral, economic reasons.

Therefore, performance is a competitive status of the entity, which ensures its sustainable presence on the market, but it is built in time, it is not a momentary event, but involves future results arising from meeting strategic objectives. An entity is competitive if it creates value for shareholders, satisfies customers, takes employees' opinion into account and respects natural environment.

Performance should not be confused with its describing indicators, namely: profitability, efficiency and effectiveness. These notions are a multitude of indicators used to assess performance.

3. Cost seen as an arbitrator in measuring performance by ABC method

Knowing costs is essential for making operational decisions, with major implications for achieving the desired performance. Relevant cost calculation

allows a finer control over costs and application of new piloting means such as Activity Based Costing. ABC method is however difficult to implement and maintain, its application requiring time and high cost at first. Nevertheless, the activity accounting allows to obtain relevant and reliable costs, a better understanding of how to create value added, but its primary objective remains to improving decisions.

By mastering costs, ABC method is a means of knowledge of the enterprise, strategic piloting means that improves performance and decision making. It is part of the new methods of calculating the cost which, giving priority to the concept of work and the relationship between activity cost and volume, before production cost calculation based on consumption of these activities [9].

ABC method focuses on two objectives: responds to a deficiency of traditional methods and proposes an effective control tool, but there are many opinions showing that, to achieve a competitive system of improving costs, throughout the product life cycle, it has to go beyond ABC, by exploring AMB (the management of improving the value received by the customer and increasing the profits achieved from this perceived value).

The application of this approach is closely related to identifying the chain of causes that correlate consumption and products. Approach is not yet possible in the long term when anticipation (evaluation) of the links between products and supporting activities is known[10].

In specialized French literature, the notion of performance is linked to the notion of *quality*.

Quality is a double source of costs in the enterprise: on the one hand, all the resources used to achieve production quality in accordance with identified specifications, and on the other hand, all non-quality management costs [11]. In the category of quality costing models, four categories of traditional costs are included: preventing costs, detection costs, non-quality internal costs, non-quality external costs. Today's cost accounting has as subject modeling the enterprise and encrypting its performance [12], but this is not easy to achieve.

4. Performance measurement - an attribute of management control

Management control has its source in strategic field, but its role varies considerably [13]. Performance is inextricably linked to achieving the strategic objectives of any entity. Performance measurement is an attribute of management control that cannot be addressed outside the objectives prefigured by each organization [14].

In specialized French literature, and not only, specific to management control, performance is defined as an association between efficiency and effectiveness. Overall the performance of an enterprise responds to two control objectives: overall productive efficiency of its activities and particularly of its operational production of goods and services, and improving its market position [15].

Performance requires a comprehensive vision of all the factors of influence: quantitative, qualitative, human, financial, physical, and its measurement requires the use of three types of indicators: financial, monetary (quantitative and qualitative), nonprofit.

Also in specialized French literature, we encounter the idea that management control is, in fact that dynamic process that provides a comprehensive approach of piloting performance process and piloting means to treat carefully the performance objectives, and therefore clearly define its terms [16].

Any entity must have an information system capable of measuring performance by organizing management control, using one of the following management techniques:

• organizing and operating an information system, at a minimum cost, adapted to entity's analysis and synthesis processes (*cost-volume-profit* method);

• detecting the deviations between forecasts and achievements, explaining them and taking corrective measures (*standard cost method*);

• planning the *budgets* and analyzing internal and external information necessary for planning.

Performance is also dependent on the *information* already owned. Management control enables achieving economic rationalism. Such a quality parameter cannot be achieved without conveying large

quantities of information. In a world where the resources decrease and the needs increase, we must always capitalize the only inexhaustible resource, namely information [17]. Not the amount of information provides its value, but to dispose of them before competitors, so that the entity to act in a rational and efficient manner.

5. Using the dashboard to measure performance

An existing tool for monitoring and managing performance of an entity is the dashboard. It is an tool for conducting operations, used to tracking and predicting the process, allowing flexible adaptation of the actions.

The dashboard enables the management to lead "communicate" with the managed ones and aims at optimizing each function of the entity, by optimizing the operation of each component service, and developing analysis useful for entity strategies. Regrouping all predictions, output and accounting irregularities is an information basis that contributes to building an enterprise dashboard enterprise [18]. This must be sufficiently clear, synthetic and enlightening for managers' information needs.

The more the management of an entity has useful, condensed and synthesized information, the better are the chances of exercising an effective entity management. The dashboard has become a modern management tool, designed to perform a systematic selection, concentration and centralization of information to support the decision making process. It is a working tool, indispensable to the operative management of the company, it is designed as a summary of information presented in a systematic, synoptic manner, related to the state and evolution of economic phenomena that characterize its fields [19].

With the dashboard help, a continuous informing of the decision makers is made, on how the phenomena specific to the conducted activity evolve, through which settling immediate objectives, aiming and validating predictions to be achieved, while accounting responsibility focuses on the extent to which, based on accounting and financial information, the objectives have been achieved.

The dashboard has a number of characteristics:

- it is a dynamic information tool designed to compare the results obtained in relation to the set objectives, or the results obtained in a previous period compared with the current period;
- it produces an operational information on all activities performed by the entity;
- provides comprehensive information on the state and evolution of the system, along with budget and management control tool.

At the basis of the dashboard elaboration, there is a number of principles such as:

- consistency, the dashboard is not identical for all of the hierarchical chain components, and to achieve a higher level aggregation, the dashboards of the departments with similar functions in the same hierarchical level must contain the same performance indicators;
- relevance, to be useful to the management, the dashboard should provide essential and timely information on key points in training performance, avoiding a rigid content of indicators and preferring an adaptive content to the hierarchical level;
- frequency depends on the life cycle of the decision, but takes into account the time limit for implementing the dashboards and their dissemination speed;
- efficiency takes into account its ability to lead to action, analyze deviations and to develop corrective actions;
- standardization refers to the set assumptions and performance, this being the basis for determination of deviations obtained at the departments level.

These principles can be completed with the following rules and basic principles in designing a dashboard: consistency with the information system, consistency with the objectives defined in the foreground and operational programs, hierarchical principle, synthetic principle, reactivity principle, the principle of systematic comparison to market criteria.

6. Conclusions

Performance measurement is currently done under risk and uncertainty conditions.

Risks, economic and financial, that affect the entity are also one of the key factors affecting the performance of the entity. Not all the risks are of negative nature, there are risks with positive effects on performance, all being influenced by risk management manner.

Consisting of a set of indicators presented in a synthetic manner at a correlated frequency, the dashboard allows the decision maker to know the need of information regarding the entity's performance and enables them to react quickly to the emergence of problems.

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The Effects of Corporate Governance on the Net Interest Margin and the Solvency Ratio - Evidence from Romania

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Abstract

This study examines, based on empirical analysis, the relationship between corporate governance expressed by corporate structure, the structure of committees, the risk management and the internal control framework and the institutional transparency on bank performance in the Romanian banking sector. The results reveal a positive influence of corporate governance variables over the bank performance. It means that the banks that adopt more corporate governance measures tend to have higher solvency ratio, and hence more protection against unexpected loss.

Key words: bank performance, corporate governance, Romanian banking system
J.E.L. classification: G21, G32, G34, G38

1. Introduction

Financial crisis has opened a series of discussions on corporate governance. It was pointed out that the institutions free internal governance, supported by deregulation, led to weakening of the financial system, the banks being unable to assess their own risks. It returned to attention the need to establish rules of conduct through regulations, or by establishing a foreign governance framework to enable the possibility to avoid future financial instability. The current study, conducted at the level of Romanian banking system, examines how different individual aspects of internal governance framework may influence bank performance, expressed by the net interest margin (NIM) and the solvency ratio (SLV), being thus the first study addressing the solvency ratio. The paper is a complement to the study of the influence of individual components of corporate structure [1] and the one regarding their aggregate influence [2] on ROA, ROE and distance to default.

The remainder of the paper is organized as follows. Section 2 reviews the literature and hypotheses' development. Section 3 describes the data and the variables. Section 4 describes the methodology and provides the empirical results. Section 5 concludes.

2. Literature review and the hypotheses' development

Corporative governance supports within an organization the achievement of the objectives and maintenance of financial stability. The concept of corporate governance (CG) is broad, the European Banking Authority (EBA) describing it as "the set of relationships between an institution, its management, its shareholders and other stakeholders" [3]. Banks operate under a unique system of public oversight in the form of bank supervisors and a comprehensive body of banking laws and regulations [4]. In pursuit of their own interests, this may induce the "agent problem" [5], [6] between shareholders and the regulator.

At the level of an institution a clear organizational structure with well defined responsibilities, risk management and efficient internal control should be in place, but also an informational transparency of governance mechanism should exist. Thus, for purposes of this study, we can distinguish the following components of corporate governance: corporate structure and organization (CSO), the risk management (RM) and internal control (IC) framework, specialized committees (Audit committee - AC, Risk committee – RC and Remuneration committee - RMC) and institutional transparency (T).

To express corporative governance, the previous studies used either the

caractheristics of the management body [7], [8], [9], [10], either the prudential regulatory framework [11], [12], some organizational aspects and measures adopted to mitigate risks being less considered. To express the bank performance it was also used the Tobin Q variable [8]; [10], ROA [10], [7], ROE [9] or NIM [11].

In case of CSO, before financial crisis, there was a strong expansion of the banking sector. This was accompanied by the dynamics of lending, privileged by decentralization of the credit approval competencies and by bonuses and incentives received for meeting the lending targets [1].

As regards *RM* and *IC* is in place the "theory of agent" [1], [2]. Laeven and Levine [13] found that the minimum capital requirements are in a positive relationship with risk taking, while other capital regulations and activity restrictions have a negative influence on the risk taking.

The existence of *committees and the independence of their members* (CS) is expected to improve activity "[1], [2]. In previous studies, Adams and Mehran [8], [14], found a negative influence of the number of committees on the Tobin Q variable, determined as the ratio of the entity' market value to book value of its assets. Aebi et al. [9], reported to ROE, found a negative influence of RC, or lack of statistically significant influence of independence of its members. Between capital requirements, and NIM, Barth et al. [11] have not found a strong association.

The *T* is expected to prevent the accumulation of risks as market discipline would limit the funding of imprudent banks "[1], [2]. Barth et al. [11] found that policies requiring disclosure of accurate information strengthen the control of private banks sector and encourage private agents to exert corporate control.

Corporate governance measures are expected to improve risk assessment and risk management, leading thus to a better net result from interests and a higher value of the solvency ratio.

Based on these arguments and exposures, is considered the following hypothesis:

CSO, RM, IC, CS and T influences positively NIM and SLV.

3. Data and the variables

3.1. Specification of data and variables

Data were collected quarterly from the websites of Romanian banking institutions listed at Bucharest Stock Exchange, for the period 2004-2011, from the financial statements, independent auditor's reports, annual reports, corporate governance codes and reports, reports on transparency and disclosure requirements. To measure the bank performance, it is calculated net interest margin (NIM) calculated as the difference between interest income and interest expenditures and solvency ratio (SLV), calculated as the ratio between capital and total assets. To express the corporate governance are used five variables. These are dummy variables whose value is 1 or 0, 1 indicating the presence of the analyzed attribute and 0 the absence of it respectively.

The first component is the *CSO*, its value being the sum of the scoring applying for the following three variables: (1) is the organizational structure clear and transparent?; (2) are loans approved at the centralized level?; (3) don't they perform non-standard or non-transparent activities, namely complex derivative activities or under jurisdictions that impede transparency of operations - *offshore* -?.

The second component is the *RM*, whose value is determined by summing the scores awarded to the following five variables: (1) are exposure limits on loans established?; (2) are capital requirements for credit risk established?; (3) are capital requirements according to the internal procedures for risk assessment established?; (4) are remuneration policies based on risks established?; (5) are tests for highlighting the extreme conditions (stress tests) performed?.

The third component is the *IC*, whose value is the sum of scores obtained by the following three variables: (1) is there an internal control function?; (2) is there a compliance function?; (3) is there an internal audit function?.

The fourth component is the *CS*, its value being the sum of the scoring applying for the next six variables: (1) is there an AC?; (2) the members of the AC are independent?; (3) is there a RMC?; (4) are members of the RMC independent?; (5) is there a RC?; (6) has

external auditor been replaced after a maximum of 5 years period?

The fifth component is the T, determined by summing up the scores awarded to the five dummy variables used to assess whether the public has access to: (1) the financial statements, (2) the capital structure and committees, (3) the structure of incentives/remuneration, (4) the risk management policies and (5) the internal governance policy.

To adjust the dependence between the variables of corporate governance and bank performance are also used a range of financial indicators and variable expressing the nominal gross domestic product (NGDP) [15]. The financial indicators are used to express the size (*total assets – A*), the profitability (*return on assets- NIM/A*, calculated as the ratio between NIM and total assets; *return on equity - NIM/K*, calculated as the ratio between NIM and equity; *return on deposits - NIM/DEP*, calculated as the ratio between NIM and total deposits), the activity (*share of total loans in total assets - CRD/A*, calculated as the ratio between total loans and total assets, *share of total loans in total deposits - CRD/DEP*, calculated as the ratio between total loans and total deposits) and the stability (*change in total assets* - ΔA, calculated as variation total assets between two consecutives periods, *change in share of total loans in total assets* - ΔCRD/A, calculated as variation of share of total loans in total assets between two consecutives periods).

3.2. Descriptive statistics

The descriptive statistics of the value of the variables used are presented in Table 1. The values of the performance variables indicate a good bank stability. The implementation of the governance requirements for CSO, CS and IC are situated above the average. Regarding the implementation of RM and T requirements, these are situated approximately at the average level. The standard deviation value of RM illustrates the implementation of a part of risk management measures within a short period and for a time range smaller than that observed (e.g. setting capital requirements according to internal procedures for risk assessment, establishing remuneration policies based on risks, conducting stress tests).

Table 1: Descriptive statistics

Indicators	Minimum	Maximum	Mean	Median	Standard deviation
NIM (billion)	0.010	3.789	0.701	0.429	0.812
SLV	0.012	0.191	0.047	0.037	0.036
CSO	2	3	2.448	2	0.497
RM	2	5	2.681	2	1.214
IC	2	3	2.241	2	0.428
CS	4	6	4.710	4	0.90
T	2	4	2.534	2	0.747
ΔCRD/A	-0.102	0.128	0.002	0.003	0.038
ΔA (billion)	-2.443	6.421	0.977	0.698	1.458
LnA	6.174	11.169	9.579	9.947	1.365
CRD/A	0.313	0.723	0.606	0.624	0.094
CRD/DEP	0.493	1.342	0.934	0.898	0.221
NIM/A	0.004	0.056	0.024	0.024	0.012
NIM/K	0.049	4.565	0.921	0.579	0.881
NIM/DEP	0.006	0.101	0.037	0.034	0.021
NGDP(billion)	52.290	183.943	110.384	111.035	33.277

Source: author's computation.

4. Methodology and results

For analysis of panel data, using the EViews software, is used the fixed effects regression model and the Pooled Least Squares method to estimation the influence. By including the fixed effects, we limit both the effect of the omitted variables, allowing

us to take into account the heterogeneity of the sample, and the effect of the potential extreme values caused by the small number of cross-sectional units [6].

To emphasize the dependence between the variables expressing BP (dependent variables) and those expressing the corporate governance, is used multiple regression models presented below:

$$Y_{ijt}=\alpha_j+\beta_k*CG_{kjt}+\theta_n*F_{njt}+m*\ln(NGDP)+a_j+u_{jt}$$

where t = is the time period; j is cross-sectional observation unit; i is dependent variable; Y_{ijt} is the vector of dependent variables, i being in turn NIM and SLV; α_j is the intercept term; k is independent variable of corporate governance; β_k is the coefficient of the independent variable of corporate governance; CG_{kjt} is the vector of the independent variables of corporate governance, k being in turn, CSO, RM, IC, CS and T; n is independent variable of financial indicator; θ_n is the coefficient of the independent variables of financial indicators; F_{njt} is the vector of the independent variables of financial indicators; m is the coefficient of the NGDP; a_j is the unnoticed effect of unit j; u_{jt} is the error term;

The results from regressions are synthetic reported in Table 2.

Table 2: Net interest margin (NIM) and solvency ratio (SLV) regressions.

Dependent variables	Independent variables					No. of obs.	R^2	Wald test, F stat
Ln(NIM)	CSO 0.285* (3.407)	Ln(PIBN) 1.673* (16.326)	ΔCRD/A -2.503** (-2.614)	ΔA -0.000 (-1.631)	CRD/DEP 0.879* 4.025	112	0.98	6.244**
	RM 0.083* (2.661)	Ln(PIBN) 1.678* (13.390)	ΔCRD/A -2.689* (-3.068)	ΔA -0.000** (-1.984)	CRD/DEP 0.969* (4.093)	112	0.98	8.374*
	IC 0.238* (2.814)	Ln(PIBN) 1.696* (15.173)	ΔCRD/A -2.658* (-3.0365)	ΔA -0.000** (-2.026)	CRD/DEP 0.939* (3.964)	112	0.98	7.785*
	STR 0.137* (2.672)	Ln(PIBN) 1.695* (14.301)	ΔCRD/A -2.956* (-3.414)	ΔA -0.000** (-2.496)	CRD/DEP 0.905* (3.972)	112	0.98	4.125**
	T 0.123* (2.683)	Ln(PIBN) 1.711* (15.425)	ΔCRD/A -2.786* (-3.476)	ΔA -0.000** (-2.248)	CRD/DEP 0.972* (4.065)	112	0.98	8.44*
SLV	CSO -0.008*** (-1.954)	Ln(PIBN) (-0.023)** (-2.182)	ΔCRD/A 0.181* (3.174)	NIM/A 0.942* (3.651)	CRD/A -0.037*** (-1.857)	111	0.75	17.317*
	RM (0.003)** (2.297)	ΔA 0.000** (2.088)	ΔCRD/A 0.171** (2.216)	NIM/K -0.011** (-2.058)	CRD/DEP 0.033 (1.505)	111	0.74	6.777**
	IC 0.016* (4.558)	LnA -0.034* (-7.505)	ΔCRD/A 0.118** (2.262)	NIM/DEP 0.144*** (1.673)		111	0.79	24.949*
	STR 0.005* (3.144)	LnA -0.029* (-6.372)	ΔCRD/A 0.118** (2.277)	NIM/DEP 0.172*** (1.839)		111	0.76	23.441*
	T 0.006* (3.069)	LnA -0.032* (-7.008)	ΔCRD/A 0.120** (2.267)	NIM/DEP 0.227** (2.612)		111	0.77	27.836*

Source: author's computation. In all the regressions, the estimation of the parameter was made by adjusting the errors for heteroskedasticity. To test the significance associated to the estimated coefficients is used the Wald test [16], whose results emphasize that F-statistic is statistically significant. *, ** and ***indicates statistical signification of estimated coefficients and Wald test at a level of 0%, 5% and respectively, 10%. Figures in parentheses present the t-statistics.

Regarding the influence of corporate structure components on NIM can see that

they have a positively effect, allowing better management of resources. The same influences, except for the CSO variable, have on the SLV variable, helping to solidify bank.

Therefore, adopting new corporative governance measures increase the banks performance expressed by NIM and SLV. Thereby, except the influence of CSO variable on SLV, the hypothesis that the corporate structure influences positively the performance of banks is verified.

5. Conclusions

The paper addresses the individual influence of components of corporative governance on NIM and SLV in the Romanian banking system.

The results indicate a positive relationship between corporative governance variables and the performance variables, meaning that corporative governance aids to improve solvency. However, to ensure financial stability, a good corporative governance should be accompanied by other measures, their identification and influence being the subject of future studies.

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The Budget Deficit – A Reflection of the General Economic Imbalance

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Abstract

The budget deficit is a problem with modern states are faced in our times. It is not dangerous because of the disbalance between revenues and expenses, but because of the complexity of the elements that have caused it, as well as the economic and financial consequences it brings about.

The efficient management of the budget deficit may also lead to fiscal relaxation, considering that there must be a correlation between the expenditures which sustain the public dept and the increase of the financial resources of the states in order to pay it.

Key words: economic deficit, budget deficit, financial management, implications of the budget deficit, public expenses
Clasification J.E.L:H61, H62

1. Introduction

The development of our society explains through itself the growth of expenses in a faster rythm than the raise of the internal brute product and of incomes which naturally leads to the appearance and maintaining of budget deficits.

In order to understand the concept of budget deficit, we have to take into account the two components which create budget deficits : economic incomes and economic expenses. As a consequence of the faster growth of expenses compared with the raise of public incomes, budgets are made and are more often concluded with a deficiency which is the opposing term of budget excess characterized by the predominance of incomes over public expenses.

Budget deficit may generally be financed either by raising the currency basis, or by making governmental loans on the financial market. These two ways are not used to the same degree. From its statute of „golden principle" of the budget, the rule of budgetary balance has gradually lost ground in favour of creating some deficits which could be used with the aim of raising economy. But above all these approaches, one must not neglect the fact that in general, budgetary imbalance is created based on some lack of balances in real economy, generating, perpetuating or deepening *economic imbalances*.

An efficient policy in the fiscal-budgetary domain should know and anticipate possible influences as way as their meaning in order to adopt on the run the measures of limitating and counteracting negative effects that may produce.

2. The typology of economic deficits

Determining factors which disturb economy in order to annihilate and prevent their further production, implies an in-depth analysis of the typology of economic deficits and of the criteria of classifying these.[3]

According to the report between the factual economic deficit and the planned economic deficit, we have:

- normal economic deficit – the deficit which is achieved in the limits planned for normal situations;
- super-economic deficit – the one which surpasses the normal economic deficit;
- under-economic deficit – the deficit which is lower than the normal established one.

According to the level of economic relevance on which it is produced, we have:

- macroeconomic deficit – the deficit which is produced at the level of national economy where there are taken into account both the private macroeconomic deficit and the public one because between these there are some interaction relations;
- mezoeconomic deficit – the deficit recorded in a certain domain of the

national economy or in a certain geographical area;
- microeconomic deficit – the deficit which is produced at the level of a company or of a natural person.

Another criterion of classifying economic deficits is represented by the cause of their production:
- economic deficit recorded as a result of the drop of public incomes compared with the level which was expected;
- economic deficit produced as a result of the raise of public expenses compared with the level which was expected.

Another classification can be made according to the depth of the level on which economic deficit is recorded:
- circumstantial economic deficit (cyclic) – deficit generated by the cyclicity of some economic processes such as the quarterly collection of some tax income which are adjusted when the cycle ends;
- structural economic deficit – this deficit can be adjusted only after elliminating the causes which produced it because, it is due to some basical problems of the system and they maintain and even deepen as time goes by, being at the same time an inflation generator too;
- casual economic deficit – it has an unique character as a result of the production of some unexpected phenomena which at a certain moment affect the gathering or spending of budget resources and it has negative effects on economy.

According to the economic signification of the deficit, this can be of three types:
- conventional economic deficit – resulted as a difference between the total nominal expenses of the public budget and its total nominal incomes;
- primary economic deficit – it represents the deficit obtained after the drop of expenses with the payment of interests from the conventional economic deficit;
- operational deficit – it comes from the conventional deficit from which the effect of inflation over net interests was substracted.

This classification is valid especially for the budget deficits, but it can also be made in the case of commercial deficits, payment deficits and private deficits.

According to the concrete economic object that the economic deficit refers to, we have:
- budget deficit – it comes from the difference between public expenses and the amount of public incomes and it is the deficit which the most frequently analyzed;
- commercial deficits – it is a result of the difference between the expenses which are made after an economic process and the incomes resulted from that activity;
- payment deficit – the deficit which results from the positive difference between the payment made by an unit and the collection from the existing claims of that unit.

Another criterion of classification is that of the direct or indirect character of economic deficit:
- direct or properly economic deficit – the fiscal deficit resulted from direct operations of collections and payments at the level of a public budget;
- indirect economic deficit – quasifiscal deficit obtained from indirect operations of collections and payments at the level of that public budget.

A final classification of economic deficits is that made after the nature of assets – liabilities:
- economic deficits regarding public assets – liabilities;
- economic deficits regarding private assets – liabilities.

3. Budget deficit and its implications

The unrolling in optimal conditions of the fiscal-budgetary activity may be influenced by the existence of some disturbing factors which may appear both at the entrances and at the exits from the fiscal-budgetary circuit which have as a base real economy and which can be influenced by political or social decisions that lead to the production of side effects.

There are various types of imbalances and disfunctions such as: *budget deficit*, tax evasion, overgrowth of tax pressure, giving subventions – phenomena which are common to countries that are in different stages of development. At the same time, there are also imbalances and disfunctions which are

typical to some transitional periods under the terms of some regulations less fundamental and in the case of a free market which is still developing: the arrears (including fiscal arrears), special funds, the low degree of collecting taxes (because of the deterioration of financial discipline).

In the last years, the definitory characteristic of public finances for many countries is that of imbalance, so we cannot state that Romania is an exception. The budget deficits recorded in our country in the periods after the revolution have a character of chronicity, proving the lack of financial means to normally develop the state's activity, but the situation is even more complicated and difficult because, the complexity of the factors which generated and maintain them, but also because of the economic and financial implications which result. The perpetuation of the public financial deficit represents one of the modalities of manifestation of the general economic imbalance, because the balance between the incomes and the public expenses was affected by the imbalance between the request and offer of goods, services and manpower, by the discrepancies between the population's incomes (eroded by inflation) and the population's needs in order to live, by the differences between the necessity of currency resources and the possibilities of raising them. Alongside all these, we can also talk about the influences caused by the companies which produce goods and services where in most cases, there were recorded insignificant profits and even losses. Not in few cases, some economic units are late or even refuse to pay duties, taxes and contributions, they postpone payments to providers generating chain duties among economic agents or they do not respect their obligations of refunding loans even creating difficulties to the banks which credited them. All these behaviours, in a direct or indirect way, sooner or later, negatively affect the balance of public budget and the negative effects which in time spread in an indirect way, bring to the budget balance some prejudices which are more severe than those that are manifested in a direct way. Thus, the obtaining of some reduced profits by economic agents entails the decreasing of tax basis and the reduction of public incomes which have as a source the profit tax. But, on the other hand, the effects which reverberate over the budget, in a direct or indirect way, are difficult to be foreseen and they cannot be taken into account. Also, the manifestations of some chain reactions reduce the possiblity of an unilateral intervention from the budgetary authorities, being in need of long-term actions of the budgetary system, corroborated with those of the fiscal system in real economy. We must not neglect the fact that the economic agents which have losses, besides the fact that they are in impossiblity of paying their fiscal liabilities to the public budget, they are also consumers of public financial funds through subventions which lose their quality of actioning like a lever causing disturbances by not carrying out the economic policies in those periods. Beside this, being in impossibility of paying debts to their providers (the so-called arrears), the economic agents create them difficulties in the financial and economic domains. At the same time, the refusal or just the delays of paying debts to banking institutions negatively reverberate over their activities; finding their way out can take place by taking over credits which have no performance on public dept also, affecting the subsequent budgetary exercises. We can add to all these the behaviour of some correct economic agents which suffocated by the fiscal liabilities that they have to pay and demobilized by the discretionary attitude of the public authorities, they start avoiding the payment of fiscal liabilities. If some indirect effects which are chain transmitted can be anticipated, they can no account be quantified. The budget deficit represents the public expenses made on the account of internal and external public loans. Any debt must be paid on term also, including additional expenses related to launching and refunding the credit. If through the budget deficit we cover the expenses meant for the maintenance of an administrative device inappropriate to the economic and social situation of that period or illegitimate expenses from an economic or social point of view, then the budget deficit represents a waste of social effort which will press without any benefits upon the task of the subsequent budget exercises.[4]

4. The efficient management of the budget deficit

The budget deficit is a factor with which modern states confront themselves. So this is dangerous not through its imbalance incomes-expenses but through, the complexity of the elements which generated it and throug, the economic and financial implications which result from the deficit. The financial management must not approach the financial balance like a purpose itself because, in certain situations, a justified budgetary imbalance may be more efficient and thus, preferred to an inert budget which reduces the role of the budget to a passive reflection of the report of public incomes-expenses from a certain period. Taking into account this situation, there appears the problem of reorienting the objective from the reduction of budget deficit towards how efficiently the government spends public money and with what effects in the economic and social domains. The efficient management of the budget deficit would lead to a fiscal relaxation taking into account that there should be a connection between the expenses which sustain the public debt and the growth of the financial means of the states in order to pay it. So, the rate of interest at the public debt must have a relative constant weight towards the raise of the global incomes from which it is paid. "Always taking into account a certain overall efficiency of public administration and an intelligent establishing of the state's atributions, the deficit and the rate of interest should grow in time directly proportional to the general economic development. If the deficit and the rate of interest grow faster, we have to ask if in some way they includ certain expenses which do not contribute as they were expected to the economic growth".

For this, we should take into account the grouping of public expenses made by John K. Galbraith, according to which they are divided into three categories:

- expenses which do not use to a "visible purpose neither in the present no in the future". In this category there are the expenses made with the excess of personnel which raise in an unjustified way the expenses of the organisational structure and they must be covered from current fiscal incomes. Here there are included too, the expenses which sustain political and economic interests of some small groups and which do not sustain the needs and aspirations of the broad masses. The role of the financial management is that of controlling and analyzing as objectively as possible this type of expenses in order to rationalize and elliminate those which only reduced segments can benefit of and, which should be covered from current incomes and not from loans which would be paid by the generations of our children; [2]
- expenses which are made in order to sustain current economic and social necessities; in this category there are included public expenses directed towards current activities which support the maintenance of the state, of the government, of the national defence forces, of the justice as well as the expenses made by the government in order to support industry and agriculture. From a financial point of view, these expenses should be carried out only from fiscal incomes and other current incomes, too. Even though, they are useful because they sustain the policy of the state and they are part of the economy; these should be made with consideration and loans should not be got to pay them;
- expenses which serve to future development: the raise of incomes, of production, of future wellness (they represent the growth of future general wellness and of the technical and economic progress). These expenses refer to long-term investments to develop the perspective of economy, for public works which will improve the transport conditions, the public post services, the investments from the public health domain, education, sports; they need high funds which fully motivate loans because their beneficiaries will be the next generations and in the conditions of a stable and functional economy, it is normal to be paid from future fiscal incomes, especially because, the degree of technicity and qualification will grow and so, the future generations will dispose of higher level of wellness and of bigger incomes due to the expenses made nowadays.

If for the last category it is difficult to save money, for the other two categories it is really desirable taking into account that, these costs do no support productive expenses with positive influences in the future. The financial management should preoccupy itself of rationalizing these according to a real policy of savings without affecting the good course of the activity in the public domain.

According to the keynesian theory (demand-side economics), the public expense may represent a factor of encouraging economic relaunching through the multiplier of budgetary expenses. In this situation, the budget deficit may represent an important source of direct economic growth and stimulation of economic growth in general, in certain economic and financial circumstances. It has been observed that the relaunching policies through budget deficits or through the raise of public expenses have a limited impact sometimes, even contrary to the growth and occupation of labour force. Thus, in order to finance expenses, the state makes loans on the capital market, raising the request of funds which grow the rate of interest. Moreover, it is also produced the phenomenon of eviction of particular investments, which counteract or compensate the impact of public expenses over the global request of goods and services and by creating of money, the monetary system is destabilized and prices grow. Also, if at the same time as the inflation a salary growth takes place, not only that the desired effect of creating emplyment places is obtained but also, a contrary effect may be produced.

The effect of economic relaunching due to the raise of public expenses may even be cancelled through the amplitude of the effect of eviction of particular expenses by the public ones, irrespective of the source chosen for financing: the growth of taxes, loans or currency issue. Also, even if the public expense is productive as it offers future services and it increases national wealth, the supply of productive assets belonging to the state is continously degrading.

According to the keynesian economists, the relaunching through budgetary expenses accelerates the economic activity intensifying the speed of currency circulation and at the same time, the saving; so that, the budget deficit encourages particular expenses. This reasoning functions in the conditions of the existence of some (important) financial resources which are not used and of some limited instruments of hoarding which clear the way of issuance of government securities through which to finance the budget deficit. In the case of limited financial resources in economy (and a reduced degree of saving), the financing of the budget deficit through treasury securities will reduce the financing means available for the activity of the particular agents. The eviction effect is more emphasized in the periods of rapid growth and more attenuated in the periods of slowing down the economic activity.

Milton Friedman-considered by some economists as being "an Adam Smith of our century"-observed the impact of anticipations in the functioning of economy and especially in the case of the appearance of inflation. In contradiction with the keynesian vision, he explained that the economic agents do not react in a passive way to the relaunching policies, they modify their behaviours according to the previsions they make in terms of prices and incomes, learning from mistakes. Through the collocation "on the short-term, we are all keynesian", M. Friedman admitted the fact that budgetary and fiscal policies may influence on a short-term the economic growth and creating new employment places. The reasoning of M. Friedman was continued by the sustainers of rational anticipations, who sustain that people cannot be cheated in a systematic manner, they obtain very fast and use any information about economic conditions; consequently, they quickly adapt their behaviour to the new information which leads to the situation in which the macro-economic policies to be inoperative on the way of the budget, fiscality and money. The keynesian orientations had a period of glory when objective factors - reduced inflation, high degree of saving, developed financial market, capacity and reduced speed of information compared with the present period - but also, subjective factors permitted their success and the influence of the relaunching policies over the economic activity and creating new employment places, on short periods of time.[1]

5. Conclusions

It exists the recommendations : to set, to announce and to respect credible objective on a medium and long-term regarding the evolution of the money stock, of fiscality, of public expenses and other market reforms.

A possible success depends on the concrete conditions of the market, on the type of measures and their intensity, on the analyzed country and its economic structures. Also, if the anticipated positive results - economic growth and occupying labour force - have a reduced expansion in time, the negative results - especially inflation - manifest themselves and last on much longer periods.

In other words, it is necessary the limitation of short-term policies as they cannot influence, in a sustainable way, the economic activity and the creation of employment places in the benefit of those on medium-term and long-term, which are stable and predictable.

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The Politics of Budgetary Expenses - Essential Element within the Macroeconomic Politics

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Abstract

The budgetary politics, regarded as an assembly of state intervention instruments, generated by the forming processes, by taxes and duties, of the budgetary incomes, of budgetary expenses allotment, as well as on ensuring the budgetary equilibriums represent the budgetary politics of the state, directed towards the goals accomplishment, more or less delimited. In this way, the budgetary politics has been dissociated on more components where one of them, meaning the allotment politics or the budgetary politics in the limitary way, generated by the measuring instrument on elements of budgetary expenses, concisely emphasized in this paper. Simultaneously, the allotments of budgetary expenses during 2012-214, as well as the coordination of economic politics on this time universe and macroeconomic level are illustrated in this paper.

Keywords: politics of budgetary expenses, macroeconomic politics, efficiency, budgetary politics;
JEL Classification: E60, H60, H61, H83

Introduction

The budgetary politics has been defined from many points of view, considering that more acceptances were more often met. Regarded from a limitative vision, the budgetary politics [4] is defined as having specific problems related to the budgetary expenses. It is materialized in the options as concerns the size and structure of the budgetary expenses, and respectively the assembly of techniques and tools that can be used on establishing the size and financing the doings, carried out into the budgetary expenses. In this limitative approach [2], the budgetary politics seems to be complementary to the fiscal politics, defined in a restrictive way, and which refers to only taxes and duties, since the appertaining to the sphere of public expenses is not in accordance to the budget content that is situated upon basis of the budgetary options.

Regarded from another point of view, the budgetary politics [5] represent the expression of budgetary preferences carried out by a public decision center: local, central or over-national, owning exclusively economic and social finalities, and thus involving the use of public expenses. It is materialized by the decisions as regards the formation, distribution and use of budgetary fund resources, using as main instrument the public budget, the GDP redistribution, as well as in the aim of a lasting influence over the society.

If such politics is regarded as "the budgetary politics of the state", [8] one might think that this is dissociated on three essential elements, strongly interconnected [7]:

a. The fiscal politics, generated by the measuring instruments of taxes and duties elements;
b. The allotment politics, generated by the measuring instruments on budgetary expenses;
c. The politics of budgetary balance on current account, which aims towards the

financing of deficits and capitalization of budgetary over-plus;

As regards the budgetary politics functions, R. Musgrave affirmed that the public budget carries out some functions, of which significance varies as related to the progress of economic politics in its entire assembly, meaning [1]:

1. The function of macroeconomic conjuncture steadiness;
2. The function of budgetary resources allotment;
3. The function of distribution or redistribution of incomes, with part on maintaining an equilibrated growth under the macroeconomic report.

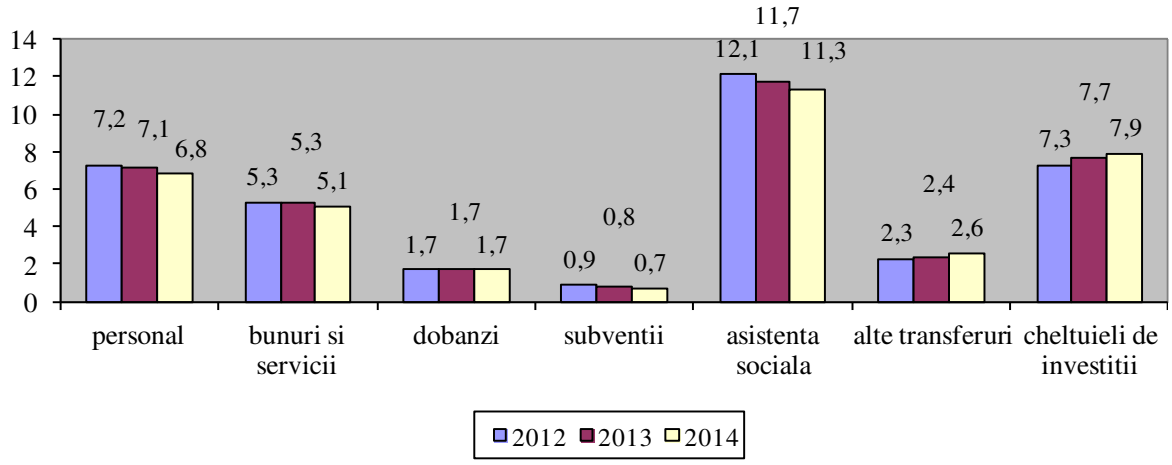
Concerning the mechanisms of budgetary politics [9], one considers that the budget signifies a mean of vivification or deliberate deceleration over the economy, and simultaneously a factor over the economic conjunctures steadiness. The main mechanisms are the following:

a. The fundaments of the budgetary actions;
b. The internal obstacles, amongst which the effect of budgetary politics over the inflation;
c. The external mechanisms, for instance the internal incidence of the budgetary politics;

By means of combining the mechanism of the budgetary politics, the budgetary functions, the equilibrated allotment and use of the budgetary resources, one can illustrate concisely the expenses politics, as this has been debated and published within "The fiscal budgetary strategy of Romania during 2012-2014", issued in 2011.

The politics of expenses promoted [10] for 2012-2014 signifies a restrictive, cautious and equilibrated budgetary politics, which was built upon the principle of solid financial management, and which takes into account the turbulences and uncertainties on the international markets, as well as the internal constraints.

Table 1: The progress of main expenses of the general budget established during 2012-2014 – percentages of GDP



Source: The Fiscal-Budgetary Strategy, 2012-2014, 2013-2015
http://discutii.mfinante.ro/static/10/Mfp/strategbug/STRATEGIA_2013_2015revizuita.pdf

The coordination of economic politics is essential for the macroeconomic equilibrium renewal. The correlation of economic politics is necessary [2] for the adhesion objective towards the Economic and Monetary Union, but this should be maintained hereinafter, in conditions where Romania [3] should find the rhythm and resources of development. The public expenses politics should be established in accordance to the development aim, and the strategy of development should be assumed by all segments of the Romanian society.

The politics of expenses proposed for the interval 2012-2014 signifies a restricted, equilibrated and cautious politics, as this has been formulated by underlying on the principle public money sobriety.

The main challenge [10] consists in ensuring the adjustments continuity, but these will not be as significant and tough as in 2010, taking into account that the economy's

progress foreshadows a sustainable trajectory.

The objectives of budgetary politics:

- Gradual reduction of budgetary deficit to 4.4% of GDP in 2011, 3.0% of GDP in 2011, 3.0% of GDP in 2012 and 2.5% of GDP in 2013, 2.2% of GDP in 2014, being compatible to the elimination of excessive deficit until the end of 2012.

This objective depends upon:

- The elimination of backwards;
- The efforts on maintaining under control the budgetary expenses.

Ensuring an accurate financing of the budgetary deficit on the reference horizon is emphasized by:

- Continuation of adjustments and the restructuring of public expenses system, meaning:
  1. framing of expenses with salaries in 7.2% of GDP for 2012, 7.1% of GDP in 2013 and 6.8% of GDP in 2014;
  2. non-conferment of prizes, bonuses and holiday tickets, launch tickets and compensation of activity carried out outside the normal period of time, exclusively by free hours;
  3. continuation of reducing the number of employees in the public sector, by maintaining the politics of replacement to a single employee out of seven, which leave the system;
- Directing of expenses towards investment projects with part in the economic development:
  1. During 2012 -2014, the expenses with investments represent 7.3– 7.9% of GDP;
  2. The efforts on improving and ranking the capital expenses will be continued depending upon priorities, in order to increase the absorption of European funds, by using the supplementary resources allotted to investments in the first quarter.
  3. In case absorption is increased enough, a higher fiscal space will be created for the investments, starting with the half of 2011.
- The accelerated absorption of structural funds:
  1. Modernization and strengthening of legislative frame, as well as regulation in the public investments field, and in other fields relevant for the EU funds absorption;
  2. Prioritization of investments, in order to ensure the funds necessary for the essential projects;
  3. Strengthening of projects evaluation process.

Reform of social insurances labor conscriptions

- Making efficient the social protection will forwards signify a priority, especially in the field of social inspection;
- A new Law of Social Insurances was issued, which will strengthen the categories of labor social conscriptions already existing in a number of nine, and that will get worst the criteria of eligibility;
- The efforts within the sphere of social inspections have had significant results, the number of persons that benefit from heating-up helping being significantly reduced. In total, the measures of reform related to the social labor conscriptions will generate almost 0.8% of the GDP, within the interval 2010-2013.
- The expenses carried out with the social insurances will represent during 2012-2014, 12.1-11.3% of GDP, as result of the measures carried out in this direction.
- The adoption of legislation in order to establish the co-payment system of the medical services is estimated to be carried out in the near future.
- The revision with assistance from the World Bank of the basic services package ensured by the Government, in order to exclude the not-essential medical services, will also be taken into account.

The implementation of laws already approved in the Parliament, which will generate budgetary economies to reach the fiscal sustainability on mean term to fields, such as fiscal budgetary, employment of budgetary staff, of retiring pensions systems or in the education will be highly illustrated within the public politics included in the strategy. The New Code of Labor, which entered into force on 30th of April 2011, proposed to make flexible the labor market, by promoting the labor contracts on fix and

temporary term, by prolongation of the probationary times, and by increasing the flexibility of work schedules.

As regards the Law of social dialogue no. 62/2011, the key elements include [9]:

- majoring the representation limit, for both the syndicates and patronages;
- eliminating the collective contract on national level;
- removing the automatic *erga-omnes* extensions on sectorial level;
- The new legislation will have to respect the European directives and the main EU and OIM conventions.

The effects of expenses politics on the reference horizon 2012-2014

The main effects of the expenses politics are the following [10]:

- Reducing the staff expenses, in collaboration to the decline of assets and services expenses, that will contribute on territory entrance, but negative to the governmental consumption dynamics. In this way, the weight of budgetary expenses will be comprised within 36.9%-36.1% of GDP on the horizon 2012-2014, as comparing to the 38.9%-37.6% of GDP, on the 2009-2011 horizon;
- These adjustments will create the fiscal space on the investments expenses.
- If is integrally implemented, the strengthening reform in the public expenses field will contribute on the sustainability of strengthening effort, that Romania is currently taking, and where the studies indicated that episodes of supported adjustments are especially underlying on the expenses reductions.

Conclusions

Drawing some conclusions, one might confirm that the budgetary politics should ensure the maximum efficiency use of the state financial potential, and should allow the correlation on optimal criteria, as regards the public utilities offer and in relationship to the private utilities offer. In this way, the objectives that should be achieved in the near future consist in the following: ensuring the social equity and social protection, increasing the level of citizens' culture and civilization, re-launching the stagnant economy being in crisis, restructuring and modernization of the national economy, as well as the growth of living standards.

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Implementation of Modern Concepts of Control and Internal Audit in the Banking System

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Abstract

The interest in internal control and its continuous nature is the consequence of the causes which led to the recording of significant losses by some banks.

Therefore, an effective internal control system is a critical component of the management of the banks, which can support the achievement of the objectives of the Bank and to achieve its profitability targets.

Cuvinte cheie: financial crisis, Board of Directors, banking system, corporate governance, Basel.
ClasificareJ.E.L: G21, G32

1. Introduction

The negative impact that the risks they have on the performance of entities from the banking system and the risk management process, have led to major concerns about prudence. Thus, it has become increasingly necessary to introduce a function of measurement, management and control of risks in the system.

In the process of banking risk management involved with internal audit and the other actors: banking prudential supervision, internal controls, management of the credit institution's, statutory audit.

2. Internal control: objectives and elements

For the purposes of the regulations of the Central Bank, internal control is designed as a continuous process involving the Board of Directors, managers and staff of the Bank, to provide reasonable assurance on the achievement of the objectives of internal control[1]:

- conduct all activities of the Bank, in terms of efficiency and effectiveness;
- the provision of reliable, relevant information, and timely complete structures involved in decision-making within the Bank and external users of information;
- ensuring compliance of the Bank's activities with the legal framework, with its own policies and procedures.

Objectives of internal control within the banks are in full agreement with the recommendations of the Basel Committee on banking supervision.

In accordance with the Basel Committee, the main objectives of the internal control process can be broken down as follows (Figure no.1):

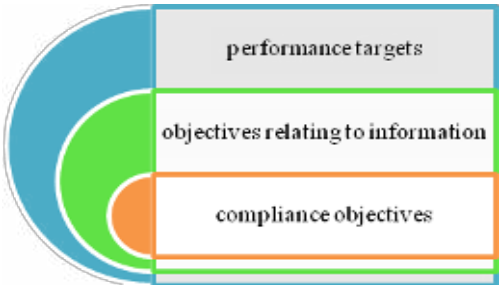


Figure no. 1,,The objectives of internal control"

The **performance targets** of internal control refers to the efficiency of the institution through the use of its assets and other resources at its disposal and its protection against losses. Through the process of internal control aims to ensure that the staff of the institution shall work with efficiency and integrity for the achievement of the objectives of the institution, without excessive cost and without placing other interests before those of the Bank.

The **objectives relating to information** is linked to the operational preparation of relevant and credible reports that would provide the basis for decision-making processes within the credit institution. At the same time, these goals concern financial information, annual financial statements and others, which are intended for members of the Board of Directors, the shareholders, the supervisory bodies, information that requires quality and absolute integrity for the decision-making process.

The **compliance objectives** of ensuring the protection of the reputation and the authorization running through the entire staff of the legal regulations concerning the activity of credit institutions, the requirements of the supervisory authority, the rules and policies

To achieve these objectives, the banks are obliged to organize a system of internal control, which is composed of the following elements in close correlation (figure no. 2):

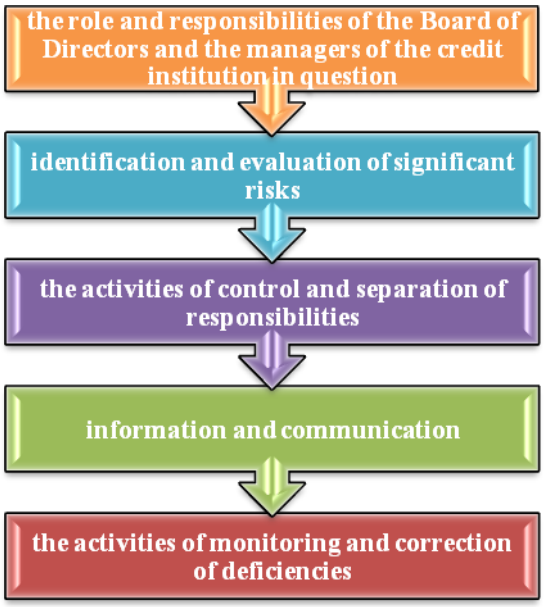


Figure no. 2, „The elements of the system of internal control"

In accordance with the principles of good corporate governance, but also with the legal regulations in force, the responsibility of organizing and maintaining an adequate internal control system and effectively within a Bank, lies with its Board of Directors.

In this regulatory responsibility of the Board of Directors of each of the banks, and its powers are derived relating to internal control.

Thus, the main tasks incumbent upon the Board of Directors of a Bank, in relation to the organisation of internal control are (figure no.3):

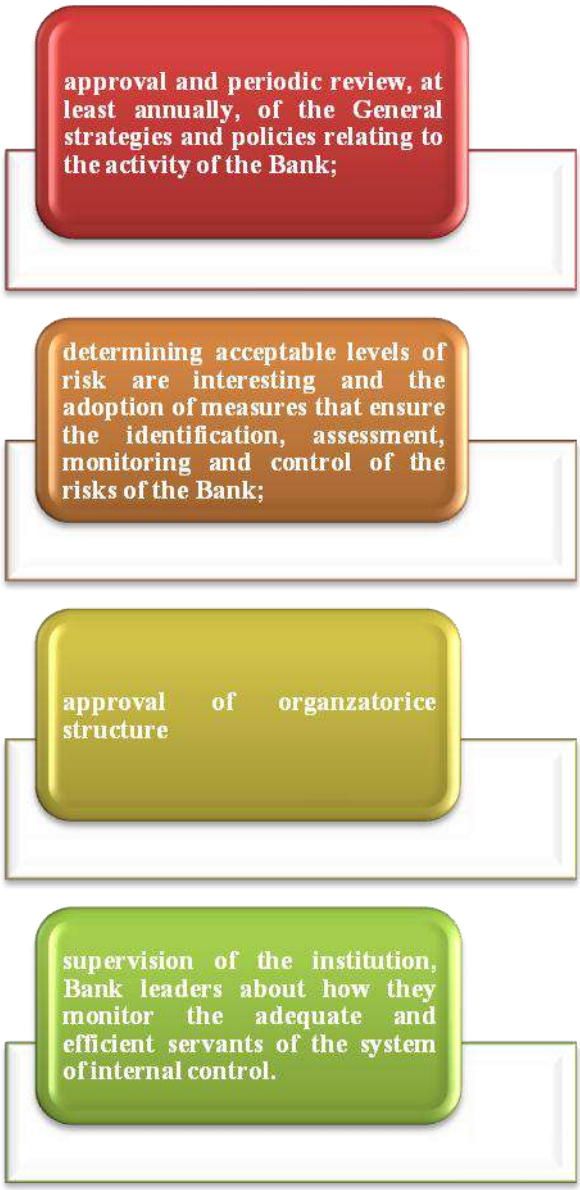


Figure no. 3 „Powers of the Board of Directors in banks relating to internal control "

In carrying out these duties, the members of the Board of Directors must hold talks with operatively on the effectiveness of the internal control system, periodic assessments of the internal control system of the financial auditor and the National Bank of Romania and to ensure the implementation of the management of the stock recommendations of internal audit, financial auditor and by the Central Bank.

For the performance of its duties relating to the system of internal control, the Board of Directors of the credit institution shall be assisted by a Committee called the Committee on specialized auditing.

The *Audit Committee* established within each of the banks, in line with the recommendations of the Basel Committee on banking supervision, international practices and regulatory requirements, is defined by:

- set up by each credit institution;
- is a Standing Committee;
- it is independent of the management of the institution;
- it is directly subordinated to the Board of Directors;
- it has advisory function;
- it works on the basis of regulations issued by the Central Bank and its own rules approved by the Board of Directors;
- it is made up of members of the Board of Directors of the credit institution are not and neither had the quality of its leaders;
- at least the following duties:

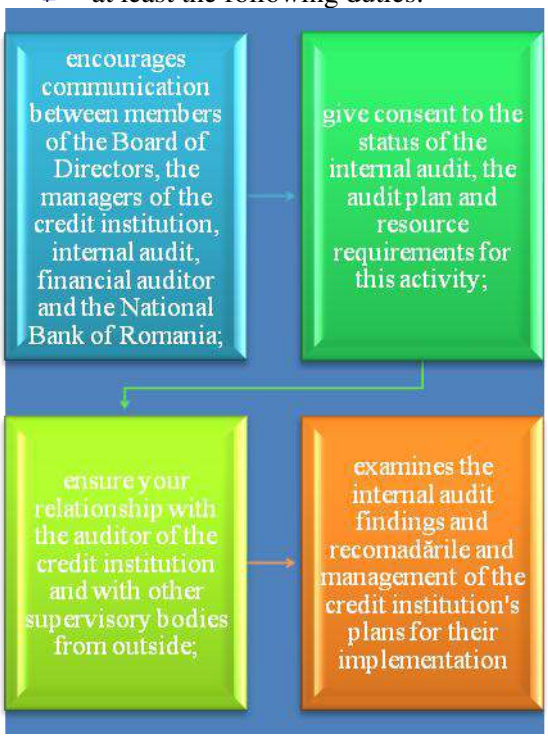


Figure no. 4 ,,The Audit Committee's duties"

- access to data or records necessary for carrying out its duties;
- shall be drawn up regularly;
- formulated with advice to the Board of Directors relating to the strategy and the Bank's policy in the field of internal control.

3. Functions of the system of internal control

Within the system of internal control of the Bank are [2]:

- the function of risk management,
- the compliance function and
- the internal audit function.

The function of risk management has in the composition of the risk control function on each line.

These functions are independent from the organizational point of view, both each other and towards business lines which it monitors and controls.

Internal control functions are under the control of a manager of the Bank without responsibility on the management of the activities monitored and controlled by them and reporting lines works directly from these three functions, the management structure of the Bank.

The risk management function within the Bank is an important component of the system of internal control. It is organized independently and is under the direct supervision of the management structure of the Bank. Risk control function is part of the risk management function and ensures compliance with the risk policies.

The compliance function**:** compliance activities within the Bank is assured through Compliance Department, which is responsible for implementing the policy of the Bank. The Line also has the role to track the effectiveness of compliance, to monitor that regulatory requirements are being applied and to report any deviations from them. She is responsible for the communication and representation of the Bank in relation to the competent authorities, supervisory role on issues that fall under its responsibility and cooperate with these authorities to ensure the implementation and interpretation of the Bank of the regulatory framework.

The internal audit function: the internal audit activity's mission is to ensure that the Bank's objectives are being met successfully. In this regard, the Audit Department:

- performing audit assignments for the purpose of forming an opinion on the adequacy and effectiveness of the system of internal control, and the procedures and principles that have been established for risk management and corporate governance;

- evaluate the organisation and functioning of the systems and mechanisms in order to provide the financial and managerial information reliable, complete and timely;
- examine in detail the cases which may affect the interests of the Bank;
- submit proposals to correct any deficiencies identified during the audit missions and improving processes and control mechanisms;
- monitor the implementation and effectiveness of the actions taken to correct deficiencies;
- advise management and the Board of Directors with respect to the fulfilment of the objectives of the internal control system.

4. Corporate governance

For the implementation of an effective corporate governance for managing banking risks, structures of the credit institution, the main tasks the following [3]:

- IRB approach implementation plan provision (based on internal rating models) the most important categories of exposure;
- elaboration of methodology for the process of internal risk rating;
- identifying and assessing events that give rise to risks;
- monitoring and managing potential sources of conflict of interest;
- determination of the responsibilities of the unit of risk control and assessment personnel from professional point of view.

5.Conclusion:

The current crisis can be seen as an opportunity for the theory and practice of corporate governance in the banking sector.

Banking corporate governance effective, depending on the business model and the corresponding risk profile is the first step towards successful implementation of Basel III. Internal Auditors also have a very important role because you have to analyze the critical operations and recommend improvements to the internal control framework.

The basic concept of an efficient management is based on the idea that managing risk is for each employee of the credit institution, on each level and functional line. Bank risk management should become a fundamental part of the culture of the institution, in addition to compliance with the system of values and compliance information.

Recognition and awareness of the necessity of the existence of the corporate governance rules of unitar is a requirement for credit institutions.

The supervisory authority must first evaluate each credit institution depending on the size, structure, complexity and business risk profile, then to resort to corporate governance implementation binding validation.

In terms of internal control, risk assessment involves the identification and evaluation of all external and internal factors that could adversely affect the attainment of the objectives of the information and performance of compliance of the credit institution.

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Characteristics of Health-Care Systems

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Abstract

The legislative developments at EU level can have a significant direct or indirect impact on private health insurers, although in the EU, member states are responsible for the organisation of their health systems

Insurance Europe supports fair conditions of competition between all health insurance market participants, on the basis of the principle of "same business, same rules".

This paper is structured as follows: conceptual aspects concerning the health care systems in section 1, section 2 showing the characteristics of private health insurance and estimates the evolution of private health care insurance during the crisis.

Key words: health-care insurance, health-care system.
J.E.L. classification: I1.

1. Introduction

Health systems in the world today are under the sign of diversity – in terms of organization, operation and financing – but are at the same time, seeking to optimize the relationship between the efficacy of the services provided by the system, their fairness and the freedom of the involved stakeholders, amid increasing concerns for financing the system. The main concern is the timing of the pace of the increase in public spending aimed at this sector and the identification of alternative solutions that would support the operation of the system. Developed countries have addressed the issue of the sustainability of financing health expenditures in stages.

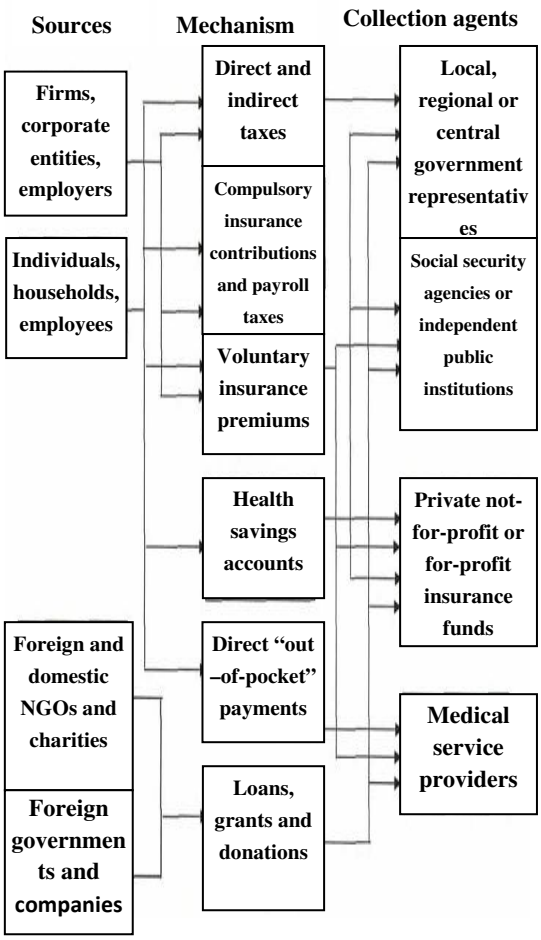
In the period 1970-1990 macroeconomic solutions were predominant and through them the funds allocated to the system increased and led to its consolidation and conservation. Under the pressure of the limitation of the possibility to support this growth due to the negative impact on the competitiveness of goods in a strongly internationalised and competitive business environment there was a shift towards preponderantly microeconomic trends by which to limit and control the increase in the public expenditure oriented towards health. For this purpose a number of procedures were promoted in order to encourage the change of the behaviour of stakeholders in the health area.

In a simplified presentation, the defining elements of health financing systems are: 1. the parties between which funds are transferred (which usually are: the government, the health insurance funds, the personnel, the medical units, the beneficiaries) and 2. the payment mechanism (the most used are: the payment per service, the payment per capita and the wages). In the flow of payments, the relationship between the providers and the recipients of health services may be direct or mediated by a third party, such as the Health Insurance Fund. As can be seen in the figure shown below, the healthcare system can be represented in terms of its functional parts: who provides the funding sources, which are the collection mechanisms, and who are the resource collection agents?

The funds come mainly from the public (individuals or corporations), while the collection mechanisms include taxes, social security contributions, private insurance premiums, population savings, payments made directly by patients ("out-of-pocket"), donations, loans, *grants.* The collection agents can be public or private (*for-profit* or

non-for-profit agents), and taxes can be direct (paid individually, by households, firms) or indirect (transactions). Taxes are collected by the government, while the compulsory insurance contributions are collected by an independent or semi-independent agent.

Figure 1.Examples of funding sources, contribution mechanisms and collection agents



Source: Elias Mosialos, Anna Dixon, Joseph Figueras, Joe Kutzin, 2002, pg. 5. http://www.euro.who.int/__data/assets/pdf_file/0003/98310/E74485.pdf

The contributions to health social security contributions are paid both by the employer and the employee, and their level usually depends, on the income. Private health insurance premiums are paid either by the insurance holders, by the employer and the employee together or only by the employer. Insurance premiums can be calculated according to the individual risk of disease based on an individual health assessment, or depending on the conditions related to the community or the group to which the individual belongs. Collection agencies, in this case, are private organizations, *for-profit* or *not-for—profit* insurance companies.

Individual savings for health are accounts where people save money; this money is intended for health-related expenses, for the payment of costs requested to patients for certain types of services. These payments can also be charged as co-payments, additional insurances etc., and the collector agent is the one who provides the service: the doctor, the hospital pharmacist [3].

There are two basic alternatives for the allocation of funds: oriented towards those who provide medical services (in this case the money goes to them, but not necessarily to the beneficiaries too; for example, in rural areas the number of those who provide medical services is low) and oriented towards the beneficiaries (the payment is, in this case, made for the beneficiary himself, so that those who provide the service receive the money if they treated the respective patient, regardless of where the healthcare took place).

If there is an intermediary who is responsible for funding services for a certain population category, it is necessary to develop certain rules on the allocation of funds. Usually, in the European countries such rules are set taking into account both the free market principles and the technocratic principles; the latter are meant to reduce the unwanted consequences generated by the market or by social or regional inequalities. It is also important to avoid losing control of the expenses in the private space, caused by market imperfections (limiting the information given to patients, incentives, moral hazard, etc.). The financial support may depend on whether the health system provides value for the (public and private) money spent and whether the financing system does not generate budget deficits and/or becomes a burden on household budgets. Resource allocation oriented towards beneficiaries can be done taking into account several factors, according to which we obtain the following typology [5]:

a.Financial allocation based on the population needs.

b.Financial allocation based on efficiency.

c.Financial allocation based on public priorities.

No state funds its health services exclusively through a single mechanism, but

one of the mechanisms is predominant at a certain time namely: government funding based on taxes, whether national or local, private health insurance and social security insurance or direct payments by the patients. There are differences in almost all European countries concerning the organization of public health services and how the insurance system is managed. Public health services in Belgium, France, Germany and Sweden are similar to those in the UK.

Table 1. Public health system in several countries in Europe

Country	P1	P2	P3
Belgium	10,2%	3,55	3,8
France	11%	between 22 and 25% of the gross salary goes to social security	
Germany	10,4%	14.5% split between employee and employer	
Italy	8,7%	The national health system is financed from the income tax	
Spain	8,5%	The health insurance is included in the health insurance contributions	
Sweden	9,1%	0	8,78
Great Britain	8,4%	The national health service is funded from the income tax	

Key: P1-The percentage allocated to health from the GDP; P2- The percentage paid for health by the employee; P3 - The percentage paid for health by the employer.
Source: Kaiser Permanente International 2010 (American health organization).

From the perspective of the expense financing source, there is a revival of the financing through private or mutual insurance, which process is more obvious in countries such as the Netherlands, Poland, the Czech Republic, but less significant for France, Denmark, USA. OECD countries have acted to limit public expenditure by applying the co-payment system in parallel with the operation of structural changes in the healthcare system. The increase in the health expenses preponderantly supported from public sources raises concern because it can lead to a loss of growth potential from the perspective of the tax theory or of the optimal increase. The increase in the private finance contribution with the purpose of covering health expenses creates problems from the perspective of the fairness criterion and can generate exclusion and discrimination. If the private contribution comes from business entities, by means of various types of insurance, then the risk concerning the loss of economic growth potential occurs again.

The direct participation of the patient in health financing system is discussed in contradictory terms: on the basis of the effectiveness principle the patient must contribute to the covering of the healthcare service cost; on the contrary, as a consequence of the right of access to these services the patient must be exempt from paying any financial benefit. The patient's direct financial contribution is viewed as a tool through which the patient is forced not to abuse the facilities of the system and thus to have a responsible attitude towards his own health.

The gratuity or the quasi-gratuity provided by health insurance are the consequence of the fact that there is a solidarity system. The possibilities of this system to cover an increasingly rich offer of medical services that is combined and sometimes even feeds a growing demand for medical supplies are becoming more limited. This led to the idea of establishing a set of procedures to that should act like a filter to the patients' and healthcare professionals' financing applications.

The orientation towards solutions combining free access to some types of medical services with the direct payment system for others is also justified by the perverse effects of a system based exclusively on gratuity. The studies conducted under the aegis of the World Bank highlighted the risk that the low-income population benefit less from these services, because it is more difficult for it to express its demand and to be acknowledged by the health system.

In the EU, each country is responsible for defining its health policy and for the management of its medical services. The Lisbon Treaty calls on the European Union to complement the actions undertaken by Member States, encouraging the cooperation among them and giving them the support they need. In fact, in recent years, the EU has

supported increasingly the actions of the Member States meant to provide the sustainability and efficiency of the medical systems. Health systems in Europe have a number of characteristics (Table 2).

Table 2. Characteristics of health systems in Europe

Type of insurance
Providing health services is the responsibility of the government at various levels
Health services are a social right
The distribution of medical services is integrated (the prevention and the therapy, emphasizing the former)
The general plan of the entire economic and social order plans medical services and resources centrally
The central health and policy authorities make final decisions on the major characteristics of the national healthcare system, the local groups of citizens having the possibility to contribute to the development of the health policy
When the resources are limited, the health system priorities are directed towards children's and industrial workers' needs
The major authority represented by the Ministry of Health and its subdivisions, integrating and managing all the parts composing the health system
Strict regulations are provided to the medical practice and to the ancillary activities
The healthcare activities are based on scientific principles, and non-scientific practices are not allowed
The dissatisfaction related to the quality, the access to healthcare, the lack of freedom to choose the medical act, the dissatisfaction of the staff and of the healthcare service managers are the last point.

Sources: WHO (World Health Organization)

EU is working closely with countries like Portugal and Greece that due to the difficult economic situation they are facing, participate in economic assistance programs. In these programs, the European Commission helps to identify and implement measures to streamline their healthcare systems and bring them to economic recovery. The objectives of the health systems are presented in Table 3.

Table 3. Objectives of the health systems

Objectives
Allowing citizens' easy access to public healthcare
Improving social justice
Adapting the production of the health services to the changes in the demand and supply of health resources
Introduction of improved or medical technology
Implementing new programs to improve the health of the population
Adjusting the volume and time of health services based on epidemiological and demographic changes
Eliminating factors that adversely affect health
Transforming the health system in order to implement the objectives of the national health policy

Sources: WHO (World Health Organization)

According to WHO, any health system must have 28 functions that include 4 categories (Table 4). The functions of a national health system must be set, coordinated and controlled.

Table 4. Functions of national health systems

Development of health resources	- training health staff and manpower - organizing the health service facilities - pharmaceutical production: support, provision, distribution - production of health equipment and supplies - scientific research - technology
Delivery of health care	- environmental health - health preventive and promotion services worldwide - primary healthcare - secondary healthcare - tertiary healthcare - individual healthcare (populations with special needs) - healthcare for people with special health problems - organizing personal healthcare

Developing the economic support mechanisms	- allocating funds for health - mobilizing financial resources
Activity management	- Healthcare problem management - Health policy formulation and planning - Information flow - Coordination within health systems - Community involvement - Adjustment of human resources - Adjustment of material resources - Regulation of health services - International cooperation

Sources: WHO (World Health Organization)

Despite the financial crisis and the alarm signals, the performance of the European health systems continues to improve, with few exceptions. Public health gradually begins to bring higher quality and wider access for patients in Europe (Health Consumer Powerhouse - Euro Health Consumer Index (EHCI) is a standard indicator on health systems in Europe, including 34 countries, based on 42 indicators, on five fields of activity, very important for the population's health: patients' rights and their information, accessibility to treatments (waiting time), medical results, availability of the supplied services and pharmaceutical products. The index includes a combination of public statistics, patient surveys and independent research conducted by the foundation.). The first place is held by Holland, with 872 points out of the possible 1,000. The Netherlands is followed by Denmark, Iceland, Luxembourg and Belgium, at the top. From the previous report (2009) scores have increased, but there are also warning signs, authors say. There is a growing gap between the countries at the top and at the bottom of the deck, the economically "strong" and the "weak" ones. The Netherlands should be the standard aimed by the European Countries, in terms of health system reform, being is an example worth following. Patients' rights are improving in many countries, a lot of information meant to help the patients in their choices, to prevent certain diseases and for correct choices in the healthcare system is increasing, and the access to it is becoming easier, for example, e-prescriptions and online schedules for examinations are implemented. From this point of view, health systems improved their performance.

Moreover, the "power" gap between doctors/nurses and patients is reduced, for the first time we can see new tools being used effectively: requesting a second professional opinion, recording and keeping medical records, and making informed decisions, together with the patient in most countries.

Europe is divided concerning the health system: un a highly developed group, influenced by consumers in the countries in North-West Europe (the Netherlands, Belgium and the Nordic countries); another group of countries making big progress (Czech Republic, Slovakia, Croatia, Lithuania and Estonia); o another category of developed countries that have clear problems in keeping up with others (Germany, Austria, Italy and Spain); and, finally, a group of always under-performing states (for economic, cultural or political reasons), with no real impediment. The countries with the best systems have shown openness to the private insurance system. Romania received 489 points, which placed it on the 32nd position among the 34 countries the position has not changed from the EHCI 2009), while the last places were occupied by Bulgaria and Serbia respectively.

2. The evolution of private health insurance

Today, and especially because of the global crisis, the optional health insurance system, the private insurance, are gaining more ground and that is not because Romanians can afford private insurance, but simply because they felt the negative effects of the budgetary crisis at the level of the insured patients who could no longer benefit from the discounts made by insurance funds due to the lack of public funds.

Private health insurance is a niche market, their development depending on the reform of the social health system and on the implementation of fiscal incentives. After a decrease in 2009 by 16.4%, the first signs of recovery appeared in 2010, accompanied by an increase in the in gross written premiums

(GWP) by 3.7% (Insurance Supervisory Commission, 2010). However, this market remains small and continues to be based on retail and to be dependent on the corporate sector. Even though health insurance seems to have experienced a slowdown in growth in 2011, it remains the second largest non-life business line in Europe, accounting for a quarter of the total. After a 6% upturn in 2010, a modest rise of 2% (at constant exchange rates) is expected in 2011, with health premiums amounting to €111bn.

The health insurance sector in Europe is mainly driven by the Netherlands and Germany, which respectively represent 36% and 31% of the market. Early estimates show that both markets reported a slowdown in growth in 2011, whereas France, the third largest market (9% market share), experienced a 1% decline, owing to a change in its tax regime on 1 January 2011.

European health insurance and growth — 2009 – 2011 (€bn)

1. Total gross written premiums		
2009		101
2010		108
2011		111
2. Nominal growth (at current exchange rates)	2009/10	7%
	2010/11	3%
3. Nominal growth (at current exchange rates) (at constant exchange rates)	2009/10	6%
	2010/11	2%

Sources: CEA, Annual Report 2011, p.7

3. Conclusion

Private medical insurance improves consumers' access to healthcare either directly or by filling the ever growing gaps in coverage left by public systems [1]:

- Consumers are free to choose their private medical insurer according to their needs, unlike a public healthcare system.
- Each PMI product is tailored, ie, it offers cover that is highly adapted to the needs of individual consumers.
- Through PMI, consumers can choose the healthcare providers they want, as well as the time and place of treatment (eg, hospital or private clinic). They have quicker access to healthcare (PMI reduces waiting lists) and receive better quality care. The sooner treatment is provided, the faster the patient recovers, reducing healthcare costs. PMI therefore offers a healthier outcome for the patient.
- PMI offers financial security to patients through a wider scope of reimbursement (eg, co-payments1 of public healthcare insurance schemes can be at least partially covered).
- PMI can insure against the costs of new and better medical treatments, as well as more efficient drugs.
- Private medical insurers operate in a competitive market, which results in lower medical costs and improved quality and efficiency of healthcare, to the advantage of all consumers.
- Private medical insurers aim for greater efficiency and quality through network management, patient mobility (PMI has, in most cases, pan-European cover within the frame of the EU's Third Non-life Directive) and cost control. PMI manages the risks of medical costs over time and between policyholders.
- New EU member states that are transforming their national healthcare systems (eg, Slovakia) use PMI as an element of their reform to ease the pressure on the public healthcare system.

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On Some Determinants of Demand or Renunciation for Renewal of CASCO (Motor Hull) Insurance Policies for Individuals

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Abstract

This paper intends to investigate determinants of demand for renewal or not renewal of CASCO insurance policies for a class of individuals. Using a logistic regression model, we estimated the probability a certain person will not buy a new voluntary insurance policy providing full protection against damages, with data from a non-life insurance from Romania. Also we analyzed the direction in which covariates like the age of the policy holder, the insured amount, gender, auto use age, engine capacity influence the probability of not renewing a CASCO insurance. Due to data availability and confidentiality specified by law, we analyzed separately the dependency between the amount of compensations and the gross written premiums and the number of claims.

Keywords: automobile insurance policies, CASCO, logistic regression.
JEL Classification: G22, C14.

1. Introduction

CASCO (Casualty and Collision) insurance is a facultative vehicle insurance policy whereby car owners can protect themselves against financial consequences arising from the occurrence of insured events. CASCO covers losses caused by: traffic accidents, low-quality road surfacing, vehicle theft or burglary, deliberate damage by a third party, fire, natural disasters, glass breakage, damage caused by falling objects, damage caused by animals.

In Romania, according to the latest published annual report for 2011 [7] of the Insurance Supervisory Commission, for general insurance, the structure of classes of insurance gross written premiums, the largest share, i.e. 84.48%, was cumulatively held by: Class III - Insurance for land vehicles other than railway class (CASCO) for 32.72%, class X - third party liability insurance for vehicles for 32.39%, and Class VIII - Insurance against fire and other natural disasters for 19.36%.

For CASCO policies, the subscribed gross premiums amounted for a volume of 1,990,961,515 lei, which represents a decrease by 28% in real terms with respect to the previous year, 2010. Subscriptions on this class of insurance developed (entered on) a downward trend since 2008, with the financial and economic crisis, the decline in leasing, significant reduction of car loans granted by commercial banks, and the declining purchasing power of the population.

In [4], it is examined the effect of price, income, and perceived risk on the demand for automobile insurance. In [6] proposed the use of the multinomial logit and nested logit models to identify variables related to the selection of bundled automobile insurance policies, for a database of a non-life insurance company in Taiwan. Another paper [5] focused on the new car owners' behaviors on physical damage coverage (high-premium non-compulsory auto insurance policies in Taiwan. The regression model estimates revealed that owner's age, vehicle brand and engine capacity are significant factors for the new car owners' repurchase behaviors on physical damage coverage policies in the

subsequent years.

This paper intends to investigate determinants of not renewing CASCO insurance policies for a class of individuals in Romania. Using a logistic regression model, we estimate the probality a certain person will not buy a new voluntary insurance policy providing full protection against damages. Also we analyze the direction in which covariates like the age of the policy holder, the insured amount, gender, auto use age, engine capacity influence the probability of renewal a CASCO insurance.

2. Data and methodology

The empirical data consists of 8118 insured records from a non-life insurance company in Romania in 2011. Due to data availability and confidentiality specified by law, the characteristics we could use for the purpose of this paper were: the age of the car user, gender, insured amount (Eur) of the vehicle, engine capacity, the use age of the automobile, the distribution channel of purchasing an insurance policy, renewal status of a policy. Table 1 presents the sample distribution of some of the variables.

Table 1. Distribution of the policy holders according to some characteristics.

Characteristics		Share of the insured people
Gender	male	66.6%
	female	33.4%
Age group	18-23	1.07%
	24-28	9.41%
	29-30	6.63%
	31-40	31.29%
	41-58	39.56%
	59-70	12.05%
Insured value (amount), in Eur	≤4000	10.4%
	4001-8000	35.1%
	8001-10000	16.1%
	10001-15000	21.3%
	15001-20000	8.3%
	≥20001	8.8%
Auto use age, years	0-1	15.4%
	2-3	27.7%
	4-6	43%
	>=7	13.9%
Renewal status	Yes	34%
	No	66%
Distribution chanel	Brokers	78.5%
	Direct sales	11.8%
	Other	9.7%

The dependent variable is a binary variable, denoted *Y*. The two outcomes are: a casco policy holder buys a new insurance policy or not. The outcome that he does not renews the insurance policy is the outcome of interest.

$$y_i = \begin{cases} 0, \textit{policy holder i renews} \\ 1, \textit{policy holder i doesn't renew} \end{cases}$$

Let us denote by p_i the probability that the policy holder i does not renew that insurance, $p_i = P(y_i = 1|x_i)$, where x_i is the vector of the policy holder's characteristics or the predictors of the probability:

$$p_i = P(y_i = 1|x_i) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 x_{i1} + ... + b_k x_{ik})}}.$$

If we define $\log it(p) = \frac{p}{1-p}$, we will use a logistic regression model, [2]:

$$\log it(p_i) = \beta_0 + \beta_1 x_{i1} + ... + b_k x_{ik}.$$

The *k* explanatory variables dichotomous and continous, were chosen such that the model fits the data in a better way.

Table 2. presents the distribution of the dependent variable on some of the characteristics presented previously.

Table 2. Renewal status of an insurance policy, in %, on some characteristics

Characteristics		Renewal status(%) within the class characteristic	
		Yes	No
Gender	male	33.2%	66.8%
	female	35.5%	64.5%
Age group	18-23	15.2%	84.8%
	24-28	20.9%	79.1%
	29-30	30.4%	69.6%
	31-40	34.6%	65.4%
	41-58	35.8%	64.2%
	59-70	39.9%	60.1%
Insured value (amount), in Eur	≤4000	51.1%	48.9%
	4001-8000	40.9%	59.1%
	8001-10000	31.4%	68.6%
	10001-15000	26.4%	73.6%

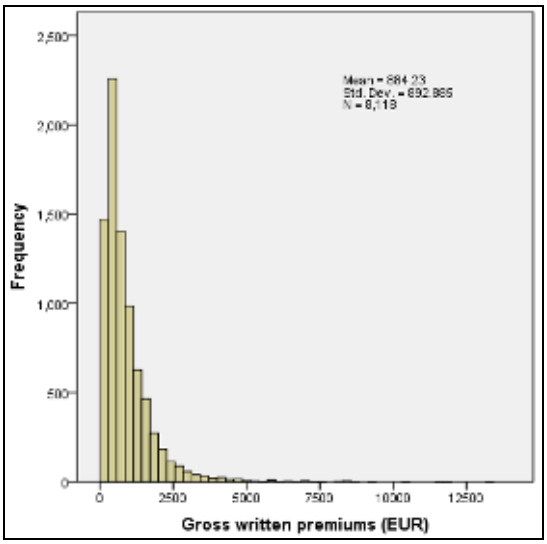
	15001-20000	20.9%	79.1%
	≥20001	21.2%	78.8%
Auto use age, years	0-1	16.0%	84.0%
	2-3	32.8%	67.2%
	4-6	39.1%	60.9%
	>=7	40.1%	59.9%

In the data the insurance company first offered to us there was no information on the premiums chashed, the number of claims or the amount of the paid claims for each policy holder. However, this information was provided to us in another file, but we could not merge the two files, so these data will be analyzed usig a linear multuple regression model.

Table 3. Descriptive statistics for the variables in the linear regression model: X_1 - Gross written premiums, in Eur, X_2 - number of claims, and *DV* – the dependent variable represents the amount of the compensation, in Eur.

		X_1	*DV*	X_2
Mean		884.2	700.8	.79
Median		629.7	.00	.00
Mode		400	0	0
Std. Deviation		892.9	1575.9	1.249
Skewness		3.7	4.5	2.441
Kurtosis		25.2	28.5	11.480
Range		13371	18896	18
Minimum		3	0	0
Maximum		13374	18896	18
Percentiles	10	184	.00	.00
	20	305.0	.00	.00
	25	351	.00	.00
	30	397	.00	.00
	40	500	.00	.00
	50	629.7	.00	.00
	60	792	142.9	1.00
	70	1004.3	518.2	1.00
	75	1131.3	760.8	1.00
	80	1292	1056.2	2.00
	90	1815.1	2116.4	2.00

Figure 1. The distribution of insurance policies on the gross written premiums (Eur).



3. Results and comments

The estimated linear regression model is:

Predicted Compensation=−33.12+
+714.96x*Number of claims*+0.19x*Premium*,

both explanatory variables having statistically significant coeficients (*p-value*<0.05) and overall the model is correcly specified, as *Significance F*<0.05. The value of the Multiple R coefficient, 0.610, shows a coderately strong relation between the dependent and the predictor variables; only 37.2% of the total variation of the amount of compensations is explained by the variation of the gross written premiums and the number of claims.

Table 4 presents the estimates of the logistic regression model, as well as the p-vales and the odds ratios, for the different sets of predictors.

Table 4. Estimates of the logistic regression model.

	B	Sig.	Exp(B)
Step 1[a]			
Auto use age	-.144	.000	.866
Constant	1.258	.000	3.518
Step 2[b]			
Auto use age	-.157	.000	.854
Engine capacity	.001	.000	1.001
Constant	.386	.000	1.472
Step 3[c]			
Auto use age	-.172	.000	.842
Engine capacity	.001	.000	1.001
Insured value	.000	.000	1.000

Constant	.361	.000	1.434
Step 4[d]			
User age	-.012	.000	.989
Auto use age	-.168	.000	.845
Engine capacity	.001	.000	1.001
Insured value	.000	.000	1.000
Constant	.881	.000	2.414
Step 5[e]			
User age	-.012	.000	.988
Auto use age	-.168	.000	.845
Gender(1)	.079	.035	1.083
Engine capacity	.001	.000	1.001
Insured value	.001	.000	1.000
Constant	.871	.000	2.389

a. Variable entered on step 1: Auto use age.
b. Variable entered on step 2: Engine capacity.
c. Variable entered on step 3: Insured value.
d. Variable entered on step 4: User age.
e. Variable entered on step 5: Gender.

The final estimated model is

$$\textit{Predicted logit of (no renew)} = 0.871 - 0.012 \times \textit{User age} - 0.168 \times \textit{Auto use age} + 0.079 \times \textit{Gender} + 0.001 \times \textit{Engine capacity} + 0.000 \times \textit{Insured value}.$$

The variables 'User age' and 'Auto use age' are negatively correlated to 'Renewal statusof a casco insurance policy', while the other variables ('Gender', 'Engine capacity', 'Insured value') are positively correlated the dependent variable. If the policy holder is one year older, the odds ratio (OR) of achieving 'not renewing' decreased with 1.2% (= 100x(1 – 0.988)%), keeping constant all the other variables. For each year increase in the auto use age, the odds ratio of 'not renewing' declined with 15.5% (=100x(1–−0.845)%). Women are more likely not to buy a new insurance, the odds of this group being 1.083 times greater than the odds of men, one possible explanation being the fact that women drive carefully with respect to men, so they can spend the money needed to buy insurance on another direction of consumption. If the insured value of the automobile becomes 1000 Eur higher, then odds of 'not purchasing' the casco insurance policy will increase by 2.71 times, mainly due to the corresponding augmented premium.

The statistical significance of individual regression coefficients is tested using the Wald chi-square statistic. According to Table 4, all independent variables were significant predictors of 'not renewing the Motor Hull insurance'. However, the estimated value of the parameter associated to 'Insured value' is quite close to 0, making its interpretation difficult. Nagelkerke R square coefficient of 0.35 indicated a moderately relationship between predictors and the prediction of grouping policy holder in the two classes of possible outcomes.

In this study, 94.7% insured were correctly classified for 'not renewing' and 9.8% for 'renewing' the voluntary vehicle insurance policy. Overall 65.9% of the policy holder were correctly classified. This is an improvement on the 55% correct classification with the constant model, so the proposed model with predictors is a significantly better model. Overall, the logistic model fits the data.

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The Impact of the Global Financial Crisis on the Romanian Banking System

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Abstract

Starting the year of 2007, global economies had to face a large financial crisis with direct effects on economic growth and welfare. The underestimating of risk caused large imbalances and at a later date a sovereigh debt crisis.

The Romanian financial system and its component, the banking system, was as well affected. The economic recovery is directly linked to the revaluation of risk and ensuring a stable banking system. Macropudential policies have to consider the conections between the financial system and real economy.

An efficient supervision and regulation are eminent. Ensuring comfortable prudential levels of capital and liquidity may result in a more stable banking system, capable of facing external shocks and efficiently performing financial intermadiation, conducting to a healther financial system that will sustain economic growth.

Key-words: financial crisis, banking system, regulation, economy, subprime crediting
JEL classification: G21

1. Introduction

The economic and financial crisis with origins in the United States subprime lending along with sovereign debt crisis had a significant effect on economies worldwide. An interdependent global economy caused concerns about the financial crisis impact on the Romanian banking system. During 2012 the economic environment and international finance have become more tense, marked by the sovereign debt crisis and concerns about the quality of balance sheets and (re)financing banking systems, especially in the euro area and representing a source of growing challenges and concerns for the financial stability Romania.

2. The definition of a financial crisis

Laeven and Valencia [1] characterise a systemic banking crisis as events in which a country's corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may be accompanied by depressed asset prices … sharp increases in real interest rates, and a slowdown or reversal in capital flows. In some cases, the crisis is triggered by depositor runs on banks, though in most cases it is a general realization that systematically important financial institutions are in distress.

Bordo et. al. [2] define a banking crisis as a period of "financial stress resulting in the erosion of most or all of aggregate banking system capital".

Reinhart and Rogoff [3] define a crisis to be "one of two types of events: (i) bank runs that lead to closure, merger or takeover by the public sector of one or more financial institutions, (ii) in the absence of runs, closure, merger, takeover or large scale government assistance of an important financial institution (or group of institutions) that marks the start of a string of similar outcomes for other financial institutions".

Georgescu [4] consideres that the current economic crisis has no single cause but is the result of a set of factors acting simultaneously, the perfect storm. Two important factors mentioned by the author are the accumulation of balance of payments imbalances in many countries and an increased volume of loans that were

excessive in relation to the dynamics of the real economy.

3. Review of causes

The *subprime* crediting was named after the debtor's risk profile and took off in the United States following the 2000 year but its origin can be found in the particularities of the banking system of about 15 – 20 years ago. A *subprime* credit is a type of mortgage that is normally made out to borrowers with lower credit ratings. The higher risk associated with the debtor will determine lending institutions to charge a higher interest rate on this type of mortgages than it does on conventional mortgages in order to compensate themselves for carrying more risk. Many of the *subprime* mortgages have had adjustable interest rates that increase at a certain period. The increase in demand of mortgages from clients with high risk profile was superior to the increase in the demand of mortgages from standard clients, as a result of specific demographic evolution, aggressive marketing and consumer orientation mainly towards crediting and consumption to the detriment of saving, as identified by Danila et. al. [5]. During the 2000 – 2005 years the real estate prices grew at an average of 9% per annum. Starting with 2006, the prices growth rate decreased and on some segments prices reduced but in the same time the interest rates on *subprime* mortgages increased. Many of the clients couldn't take another loan at a low interest rate to refinance the old one with an associated increased interest rate as the accepted loan warranty had reduced in value.

An important aspect of the *subprime* crediting is that the main concern of the lending institutions was not the level of risk but the way it could be transferred to other financial institutions through sophisticated financial instruments and a cost surcharge. The transfer of risk was facilitated by the fact that the financial institutions that first accepted high risk debtors had high ratings due to increased performance and high profits, their counterparties that were buying financial instruments derived from *subprime* mortgages couldn't ever directly evaluate the performance of the debtors of these loans and therefore the credit risk to which they were exposed.

These sophisticated financial instruments have been exported to Europe which had a high level of saving. Financial institutions throughout Europe started investing their surplus of financial resources into *subprime* derived instruments but with the highest rating. As documented by Acharya and Schnabl [6] and Bernanke et al. [7] European banks were major purchasers of these instruments. Mostly, these financial institutions also obtained dollar funding in the United States money markets as mentioned by Shin [8]. For this reason, the role of European banks in enabling the expansion of the United States *subprime* derived instruments did not jump out of the balance of payments data, although the implicit risk exposure of European parent banks grew in line with these United States activities.

4. The financial crisis effects on the Romanian banking crisis

The increased availability of liquidity in the international market was attracted by the high yields offered within the Romanian financial system (as an interest rate differential, while the central bank was required to maintain a relatively high interest rate to counter inflation).

The inflows from abroad were reflected in a stronger appreciation of the leu. This appreciation has become stronger after the full liberalization of the capital account in 2006. Thus, the course has reached levels that did not reflect economic fundamentals and inducted the illusion of wealth.

The access of the large financial groups have subsidiaries in Romania to money market cheap funds in the euro area has reduced tightening credit conditions applied by banks in Romania. This led to the duplication of government credit as a percentage of GDP between 2004 and 2007, 17% in 2004 compared to 36% in 2007 [9].

The financial intermediation in Romania was low and its development was predictable, but its increase between 2004 and 2007 was much faster than economic fundamentals allowed it. This became evident when the access to liquidity and low credit risk became transparent. The rapid lending growth resulted in external imbalances. The easy and rapid access to

these sources of income has increased the domestic demand that had to be met by imports, thereby increasing to unsustainable levels of current account deficit. Although inflation would have to notify the imbalance between supply and demand, this was not visible to the exchange rate appreciation has helped to keep inflation at a low level.

The net wealth of population grew rapidly until 2007, mainly due to tripling the value of non-financial assets [9]. This was spent on the rise in incomes and easy access to credit and also increased the risk in Romanian economy.

The loss of credibility in the Romanian economy due to unsustainable current account deficit made it necessary to resort on external financing. Adjusting economy dimensions financing possible to obtain led to economic contraction and therefore reduction of imports, and hence bringing the current account deficit to its normal limits. The economic downturn meant first the decline in consumption, which led to a decreasing demand for credit. Moreover, it led to lower domestic asset prices. The two developments were reflected in the decline in households' net wealth.

In combining the micro-and macro-prudential policies should be taken into account the so-called concept "fallacy of composition" it is considered that the financial system and within it the banking system is secure and stable in its entirety if each component, each bank, is safe and stable.

When adopting macro-prudential policies it is required to take into account the actual links between the financial system and the real economy. Any inconsistencies between the two major elements can be reconciled through a mix of policies to include on one hand the changes in the regulation and supervision of the financial sector and macroeconomic changes and to address imbalances in the financial sector.

The main risk that a commercial bank might incur is a credit default of its debtors.The significant increase in doubtful and outstanding loans from 2007 to 2010 shows that banks failed performing a fair estimation of credit risk.

Nonperforming loans, the dominant risk to financial stability, have continued to grow both both in volume and in rate (from 14.3 % in December 2011 to 16.8% in the June 2012), but in with significantly lower growth rate compared to previous years (in 2011 the increase was 2.5% compared to 4% growth rate in 2010 and 5% growth rate in 2009). The sustainable evolution of the last year reflects, in part, the adjustments required by IFRS (recognition in the balance sheet of non-performing loans previously recorded in off-balance sheet accounts) and assessment of restructured loans in previous years.

Danila [10] identifies that the behavior of banks, as revealed by an non-performing loans analysis, seems to have been driven by the idea of economies of scale, meaning that the expansive growth of the volume of lending would have allowed the acceptance of losses from bad loans. Romanian financial institutions have expanded their activity taking a higher risk, not fully taking account of the particularities of the Romanian economy and with strategies and targets ranging mainly by volume (loans growth, number of customers, value of assets) and less on qualitative aspects (customer solvency, cash flow projection analysis, domestic and international economic environment).

Given the 81.2% share in total banking assets of foreign capital it is important to pay attention to the specific conditions faced by parent banks in their country of origin, requiring a careful risk assessment. In spite of the international financial pressure, the financing from parent-banks increased by 2% in June 2012 compared to June 2011 and as a result did not great liquidity problems for the Romanian financial institutions. The maturity structure of the resources received from parent-entities, shows that approximately 70% of them are long-term resources.

In the context of deleveraging measures adopted by major European banks, which are yet to be implemented, the parent banks' exposures in subsidiaries in Romania had a comfortable evolution, without affecting significantly crediting conditions. Assuming a mass withdrawal of foreign aid, analyzes and stress tests indicates good resistance of the Romanian banking system with challenges related to transforming resources from RON to EUR, sale of some assets and ensure lending to the real sector.

Regarding the situation of the Greek-owned banks, these credit institutions can

withstand a liquidity shock relatively well due to appropriate capital and liquidity ratios that meet prudential risk requirements [9].

Despite the positive developments observed at the macroeconomic level, the Romanian banking sector recorded a deterioration in financial results as at 31 December 2011, considered to be negative negative as in the previous year. The aggregated financial result recorded a loss of RON 777.3 million in 2011 and RON 192 million in the first half of 2012. In general, positive financial results were obtained by large financial institutions that have costs associated with relatively low credit risk and improved operational profitability. Operating income showed a negative dynamic throughout 2011 and the first half of 2012, driven by adverse developments net interest income. Provisioning costs have continued to be in 2011 and the first part of 2012 the largest expenditure category of credit institutions.

At an aggregated level, financial institutions are capable to withstand the macro level shocks. However, there are a small number of credit institutions with increasing vulnerabilities shown in reduced net interest income as a result of higher financing costs (increase capital requirements that made long-term financing more expensive) and increased lower provisioning as a result of the deterioration of the market value of collaterals and an overall loan portfolio quality deterioration. In an adverse scenario characterized by a strong depreciation of the national currency and recession, the decrease of the solvency ratio of the Romanian banking system is estimated to be about 2.4% giving a solvency ratio of 12.3% [9]. This is a comfortable level, still above the required solvency ratio of 8% according to the implemented banking regulation.

As the Romanian banking system is well capitalized and it proved being capable to respond to external shocks, a stable evolution could be expected, yet it is needed to carefully monitor international and domestic developments and ensure the maintenance of adequate liquidity levels in the system, aiming at the same time at maintaining adequate levels of provisioning and solvency.

5. Conclusions

The 2007 economic and financial crisis with origins along with sovereign debt crisis had a significant effect on economies worldwide. The current economic crisis has no single cause but is the result of a set of factors: the overall volume of loans that was is excessive in relation to the dynamics of the real economy - massive phenomenon achieved by relaxing the standards of creditworthiness of borrowers, the appearance of some imbalances of the balance of payments – the increasing level of wages was not caused by an increase in the productivity of labor.

The financial crisis had its trigger in the subprime crediting in the United States. Derivative financial instruments based on subprime morgages were sold to largest financial institutions worldwide as susch facilitating the propagation of a credit risk that the owners of these sophisticated instruments could not evaluate or measure. The Romanian fianacial system did not have such exposures but had been affected by the 2007 global crisis through the channel of real economy. The main characteristics of our financial system before the start of the crisis was the easy loans given to population and high consumption. As a result one of the main concern of the banking supervision authority was to monitor the quality of the financial institutions loan portfolios. Another concern was the foreign capital exposure that could result in massive withdrawals from parent-entities from the Romanian subsidiaries to their home countries in order to solve eventual capital and liquidity problems in their home countries.

Although the volume of doubtfull and outstanding loans has increased during the past years, the level of provisions is comfortable due to the implementation of increased requirements. The parent-entities continue to maintain their exposures on the Romanian banking system, foreign financing consisting mostly of long term resources. Due to increased capital and liquidity requirements, the Romanian banking system continues to have an adequate level of the prudential indicators.

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Accounting Normalisation Instruments and Sources

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Abstract:

The current economic crisis that troubles the world economy makes the harmonisation of the accounting rules more necessary than ever before. Therefore, in our approach we have attempted to capture the main aspects of accounting normalisation instruments, as well as the main sources of accounting normalisation.

Keywords: normalisation, harmonisation, accounting rule, normalisation instruments, normalisation sources
J.E.L. classification: M41

1. Introduction

Nowadays accounting is more or less the universal language of business. For this to have the same meaning all over the world it is necessary for accounting normalisation to use similar accounting rules worldwide.

Accounting normalisation is the process which has at its core the elaboration of accounting rules. The accounting rule is a rule or a set of rules that constitute themselves as a reference system for drafting the financial statements.

To meet the goal of becoming the universal language of business widely accepted, accounting must go through an extensive and difficult process of harmonising the accounting rules and the normalisation instruments. In this respect, an important role is played by the sources and instruments of accounting normalisation, but also by the accounting normalisation bodies.

International accounting harmonisation is the process aimed at improving and reducing the differences between the national accounting practices and regulations. The harmonisation process aims at developing general principles and accounting rules, leading to the comparability of the information drawn from the financial statements. In other words, harmonisation aims at reducing the disparities between the accounting regulations of various states.

The source of accounting normalisation represents the set of terms and instruments that an accounting normalisation or regulatory body recommends to or requires from those exercising the accounting profession and who may be familiar with their beneficiaries.

The accounting normalisation instruments are the object of accounting hamonisation and they are known as regulatory instruments.

2. Accounting normalisation instruments

An important issue of accounting normalisation is the normalising concept. Depending on it, the normalisation object is defined. From this point of view we distinguish two concepts: one based on the general accounting plan, the other based on the conceptual accounting framework.

The concept based on the general accounting plan is particular to a part of continental European countries, its promoter being France. The beginning of this concept was based on the absence or diversity of rules and regulations for registration and submission of financial statements and its purpose is the adoption of accounting principles and rules, general chart of accounts, registration procedures, as well as the form and format of financial statements.

Although in a more modern view, the general accounting plan, as a whole, is in itself a rule, there have been pros and cons regarding a normalisation based on a normative theory that will include the objectives of accounting and of accounting normalisation, as well as the accounting information users and their needs.

The general accounting plan, as a means of accounting normalisation, may be recommended

or required, depending on the type of accounting normalisation. This differentiates regarding the characteristics and components from one country to another depending on the concept adopted for the accounting organisation (monist or dualist), on the objectives of normalisation, determined in their turn by the supply and demand of accounting information, by the culture and accounting traditions of the respective country and by other factors.

Regardless of the characteristics, in order for a general accounting plan to meet its goals of accounting theory or doctrine, it must have an appropriate content, which is essentially given by the following components [1]:

- a set of accounting principles and rules;
- a list of accounts and rules for their use;
- an accounting vocabulary (accounting terminology);
- methods and procedures for organising accounting;
- components of the annual financial statements, including their form and format;

In a twofold analysis, of conceptual framework and instrument of national accounting normalisation, the question arises regarding to what extent it has a correspondent within the conceptual accounting framework, on the one hand, and in the international accounting standards, on the other hand.

Seen in terms of a country's economy, we believe that the general accounting plan can be regarded as a national accounting conceptual framework.

The general conceptual framework, and here we refer only to the one developed by the IASB, is an instrument of accounting normalisation including fundamental concepts and principles underlying the preparation and presentation of financial statements for external users. The general conceptual framework is a reference system for the elaboration of accounting standards and a consistency instrument of the accounting standards, regulations and procedures.

The general conceptual framework developed by the IASB is not an international accounting standard; it does not define the standards on the assessment or presentation of the information in the financial statements and it does not prevail over the specific international accounting standards.

In the situation in which there are cases of conflicts between the provisions of the General conceptual framework and the provisions of IFRS, the requirements within the Standard prevail over those from the General conceptual framework.

The general conceptual framework elaborated by the IASB addresses the following [2]:

- the objective of the financial reporting;
- the qualitative characteristics of the useful financial information;
- definition, recognition and assessment of the structures based on which the financial statements are prepared;
- The concepts of capital and of capital maintenance.

The aim of the General conceptual framework is:

- to assist the Board in developing new IFRSs and review the existing IFRSs;
- to assist the Board in promoting harmonisation of regulations, of accounting standards and of procedures for the representation of the financial statements by providing a basis for reducing the number of the alternatives of accounting treatments allowed by the IFRSs;
- to assist the normalisation bodies in developing national standards;
- to assist those who prepare the financial statements in applying the IFRSs and in dealing with issues that are not yet the object of an IFRS;
- to assist auditors in forming an opinion on the compliance of the financial statements with the IFRS;
- to assist the users of the financial statements in interpreting the information contained in the financial statements prepared in compliance with the IFRSs;
- to provide those interested in the IASB activity information on the approach related to formulating the IFRSs;

3. Accounting normalisation sources

Regarded in terms of scope, the accounting normalisation sources can be analysed on three levels: international, regional and national.

At international level, accounting normalisation is required by a number of factors of which the most important ones are represented by the phenomena of globalization and financialisation of savings.

The instrument for performing the accounting normalisation at this level is represented by the International Financial Reporting Standards issued by the International Accounting Standards Board.

The International Accounting Standards Board has developed a body of international accounting rules that can be structured as follows:

- General Conceptual Framework;
- Proper rules which are currently differentiated into:
    - International Accounting Standards (IAS)
    - International Financial Reporting Standards (IFRS)
- Interpretations of the rules and namely
    - Interpretations of the International Accounting Standards (IAS)
    - Interpretations given by the International Financial Reporting Committee (IFRIC)

The International Accounting Standards Board (IASB) is a body specialised in developing accounting rules, but which does not have any attribution regarding the enforcement of the rules elaborated by it and it neither has coercive means to enforce these rules.

Regionally, normalisation is a development of the accounting normalisation dimension at the level of groups of countries, driven by their economic, financial and social objectives. The most illustrative case is the one of accounting normalisation at EU level performed through the European accounting directives.

At EU level accounting normalisation is performed by the European Commission which has developed and changed over time the accounting directives, but also other regulations in the field of accounting. Accounting normalisation in the European Union is mainly represented by the two accounting directives:

- Fourth Directive, which refers to the structure, content and presentation of the financial statements;
- Seventh Directive which refers to the consolidated accounts.

The European Commission performs accounting normalisation at EU level through the following two organisations: Accounting Regulatory Committee (ARC) and the European Financial Reporting Advisory Group (EFRAG).

Besides the European Union accounting normalisation has to be analysed also at the U.S. level because the regulatory setter in this country has a strong influence on the international accounting standards elaborated by the international regulatory setter.

In the U.S. there are three bodies which contribute to setting the means for establishing and publishing the financial statements:

- Securities and Exchange Commission (SEC): represents the committee that regulates the stock market;
- Financial Accounting Standards Board (FASB): represents the independent body making accounting rules, which is the main source and authority of the accounting doctrine, being recognised as such by the SEC. FASB publishes Statements of Financial Accounting Standards (FAS) and their interpretations.
- American Institute of Chartered Public Accountants (AICPA): represents the highest American authority in the accounting field. AICPA publishes General Accepted Accounting Principles (GAAP), which represent the generally accepted standards in accounting, as well as a professional code of ethics. The accounting standards are developed under FASB, in cooperation with SEC and the AICPA members, within a laborious process, after which they are promulgated as GAAPs.

The main dimension of accounting normalisation is manifested nationally. In Romania it is performed, for the time being, through the normalisation instrument represented by the general accounting plan.

Accounting normalisation in Romania is state-like and it is administered by the government through the Ministry of Finance.

4. Conclusions

International accounting normalisation and harmonisation represent a necessary and complex process, but hard to accomplish. It is likely that when the standards developed by the IASB gain supremacy in the battle between them and those developed by the FASB, in particular, but also with those developed by national regulatory setters, the general conceptual framework remains the main instrument of accounting normalisation or even the only one. In such a sense, IASB would practically produce the accounting rules, and the other regulatory setters would implement them.

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Measurement and Evaluation in Financial Accounting

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Abstract:

The paper aims to identify and analyze the fundamentals, the principles, the criteria and the evaluation bases used in preparing the financial statements. The paper also captures moments of evaluation and the evaluation of the structures in the financial statements according to their origin.

The approach is important because the accuracy of the information in the financial statements largely depends on the evaluation of the elements contained in the structure of the financial statements.

Keywords: evaluation, historical cost, fair value, utility value, realizable value.
J.E.L. classification: M41

1. Introduction

In contemporary society accounting can not be conceived without evaluation. The term of value is a very subjective one which, generally, is the result of a monetary expression applicable to a specific asset, to a group of assets, to some rendered services or to an entity.

In economics the term comes from the depths of their historical value, but in accounting the term has a later and shy appearance. The term should not be confused with the cost, although, frequently, it is measured by it.

In accounting, the value is expressed in monetary units to conduct current records and centralize and generate data, which requires evaluation as a process of the accounting method.

Evaluation consists in quantifying and measuring the value expression of the material means, claims, liabilities, costs, revenues, financial results and of each economic operation using the monetary units to express value.

In terms of accounting, the term of value is closely related to the cost and price. One can say this on the assumption that the price observed during a transaction in a market is an expression of value or, conversely, that the value of an asset is based on its price.

In terms of cost, this is the financial effort measured by the price paid to acquire or produce goods and services.

2. Principles of evaluation in accounting

If the evaluation needs to provide a picture closer to the reality of the entity's financial position and performance, the elements presented in the annual financial statements are evaluated, as a rule, based on the cost of acquisition or production cost.

The evaluation of the elements in the structures of the statements is subject to the principles of evaluation:

- the principle of historical cost: requires registration in accounting of the elements at the cost of input recorded in the documents;
- the principle of prudence: envisages that the evaluation of the elements should always be made on a prudent basis, meaning that:
  - only the profit registered at the date of the balance sheet may be included in the result of the exercise;
  - one must take into account all debts incurred during the current financial year or a previous year, even if they become apparent only between the date of the balance sheet and the date when it was set up;
  - one must take into account all foreseeable debts and potential losses arising in the current financial year or of a previous financial year, even if they become obvious only between the date of

the balance sheet and the date when it was set up;
- one must take into account all depreciation, whether the result of the financial year is a loss or profit.

- the principle of continuity: states that it must presume that the entity operates on the principle of continuity. This principle implies that the entity normally continues its operation, without going into liquidation or significant reduction of activity. If the administrators of an entity are aware of some elements of uncertainty related to certain events that can lead to inability to continue its activity, these elements should be presented in the explaining notes. If the annual financial statements are not prepared on the principle of continuity, this information must be submitted together with an explanation of how to prepare them and the reasons behind the decision that the entity can no longer continue its activity.
- the principle of consistency: takes into consideration the fact that the methods of evaluation must be consistently applied from one financial year to another;
- the principle of separate evaluation of the elements of assets and liabilities: according to its components of the assets and liabilities must be valued separately.

Starting from the evaluation principles, in the theory and the practice of accounting the following criteria have emerged regarding the evaluation of assets, liabilities, expenses and income [1]:

- utility value;
- fair value;
- market value;
- time.

The utility value represents the "cost" or "sacrifice" agreed to acquire a certain asset or what it could bring it if it was used in the entity or sold on the market. In the case of debts, the utility value represents the amounts accepted to be paid in the account of the obligations.

The fair value is the amount at which an asset can be traded or a liability can be settled between the parties concerned in a transaction developed in objective conditions.

The market value is the estimated amount for which an asset could be exchanged between a seller and a buyer, both committed and knowledgeable when none of them works by force.

In terms of time, it regards the moment of placing the evaluation in the past, present or future.

3. Evaluation bases

Starting from the evaluation criteria, the literature and empirical research have found the following measurement bases:

- historical cost;
- current cost;
- realizable value (of settlement);
- updated value.

The historical cost represents the real value of the entry of assets and debts, a value recorded in the documents. The elements of the assets are recorded at the amount of cash or paid cash equivalents or the fair value of the service provided to acquire them at the time of the purchase. The liabilities are recorded at the value of the cash obtained in exchange of the obligation or the amount expected to be paid in cash or the cash equivalents to end liabilities during the normal course of the business.

The current cost is the cost or the sacrifice that the entity agrees to acquire, at the level of the actual value, an asset similar to the defined one as an object of evaluation.

In the case of assets, it represents the cash or the cash equivalents that should be paid for the same asset or for a similar product if it was purchased or produced in the present. The current cost of debts is the outdated sum of cash or cash equivalents currently required to end the obligation.

The realizable value (of settlement) represents the amount that the entity would currently receive if they sell an asset or would give it in case of paying the debts. The assets are recorded at the amount of cash or cash equivalents that could currently be obtained by normally selling them. Debts are registered at their settlement value, i.e. the outdated amounts of cash or cash equivalents expected to be paid to settle liabilities in the normal course of the business.

The updated value can be presented, in a plastic way, as a present value determined by the future. Thus, the assets are recorded at the present value of the future net cash inflows to be generated in the normal course of the business and the liabilities are recorded at the present value of the future net cash outflows to be required to settle the liabilities in the normal course of the activity.

The most common evaluation basis used by entities in preparing the financial statements is the historical cost.

4. General evaluation rules

Depending on its timing and purpose we can identify the following moments of evaluation:

- evaluation at the entry in the entity;
- evaluation during the inventory;
- evaluation at the end of the financial year;
- evaluation on leaving the entity.

At the date of the entry into entity, the assets are evaluated and recorded in accounting at their input value, also known as accounting entry value, which can be represented:

- for the goods purchased against payment, the cost of acquisition;
- for the goods produced within the entity, the cost of production;
- for the assets contributed to the share capital, the share value;
- for the assets obtained free of charge, the fair value.

The acquisition cost of the goods purchased against payment includes the purchase price, the import duties and other taxes that can not be recuperated, transportation and other costs directly attributable to the acquisition of the respective goods, of which commercial discounts granted by the provider should be deducted.

The production cost of an asset comprises the purchase cost of raw materials and consumables, the other direct production costs and a reasonable proportion of indirect costs that are attributable to the asset, to the extent that they relate to achieving the asset and the period in which it is accomplished. A number of such expenses like the ones of general administration, sales and financial costs usually are not usually included in the cost of production.

The input value of the assets contributing to the social capital is determined after the evaluation by licensed evaluators and it represents their value registered in accounting.

In the case of the goods obtained for free, the fair value is the amount for which that asset could be exchanged freely between the parties involved in a transaction with the price objectively determined on an active market.

Inventory evaluation is made at present value also called the value of inventory.

The present value is determined by the utility of the asset in the entity's economy and by the market price. The utility value of the assets and the liabilities is determined by their expected value, receivable or payable, determined according to the terms of the contract. The need to evaluate the assets and liabilities at their inventory value is based on the reality that the input value based on the original cost has only historical value. Any significant change, after the entry, of the real value of goods tends to make the original cost become misleading in the decision making process.

At the end of the financial year, the assets and the debts are evaluated and reflected in the annual financial statements at the input value reconciled with the inventory results.

In these conditions, for the asset elements, the differences going upwards between the inventory value and the accounting value is not registered in accounting, and the differences going downwards on account of additional depreciation, in the case of depreciable assets for which depreciation is irreversible or an adjustment for depreciation or loss of value is reversible, these elements maintaining also their input value.

For elements of liabilities, the minus differences between the inventory value and the accounting value are not registered in accounting, and the surplus differences are registered in accounting based on the corresponding elements of debts.

At the time of leaving the entity or going for consumption, the goods are evaluated and deducted from the inventory at their input value.

From another approach, the forms of evaluation presented above may be grouped as follows [2]:

- the current evaluation, it includes the evaluation at the input and the output of the entity;
- the periodic evaluation, it includes the evaluation at inventory and evaluation at the end of the financial year, as well as revaluations.

5. Conclusions

The evaluation of the elements in the structures of the financial statements has a significant importance so that the image generated by the financial statements can be true and accurate.

However, none of the evaluation bases has general applicability and is not absolutely satisfying, hence a matter of choice. You also need mention that, although fair value is not among the bases of evaluation, it began to be used more frequently and on a larger scale in recent years as an alternative evaluation for the historical cost.

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Innovative Financial Instruments-Cause and Solution for Financial Crisis?

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Abstract

Nowadays, even if financial instruments have a bad reputation in the context of financial crisis, they represented a way to control risks. So, we can't ignore it especially because now, attention is played on innovative signals. Advantage for derivatives is the value changes in response to changes in a underlying, little or no initial investment is required, and settlement takes place at a future date. Weather derivatives can be used by organizations or individuals as part of a risk management risk management strategy to reduce risk associated with adverse or unexpected weather conditions. This paper explains the mechanism of such a derivatives use to the hedging of weather risks. The research methodology is the past experience and case study research cause its importance in the field of business and risk management. Results would be useful to managers in agriculture, tourism or assurance industry, and also to finance programs students.

Cuvinte cheie: financial instruments, derivatives, hedging, weather derivatives,
Clasificare J.E.L.: G32

Introduction

After years of intense economic downturn, we still find ourselves in a world of a relative uncertainty where most of our corporate leaders are focused on measures to alleviate the effects of crisis and to ensure the survival entities. Nowadays, attention is played on innovative signals and financial instruments have a good and in the same time, a bad reputation in this field, so, we can't ignore it. A major early pioneer in weather derivatives was Enron Corporation, through its Enron Online unit. Nevertheless, financial instruments economic utility was proved. Financial instruments generally denote any form of funding medium - mostly those used for borrowing in money markets, e. g. bills of exchange, bonds, stock exchange, etc. Advantage for derivatives is the value changes in response to changes in a underlying, little or no initial investment is required, and settlement takes place at a future date. For this reasons, we believe that a new approach utilization of financial instrument would be useful for Romanian economic and financial environment. This new approach may be knowledge of past experience and adapting at specific local conditions. In this sense, we find an adequate research methodology the past experience and case study research. The case study research is too important in the field of business and management studies to be left to the hazard approaches [6]. The interim and final results of this study would be useful to managers in agriculture, tourism or assurance industry, and also we really hope to finance programs students.

Financial Instruments and Risk Management

In economics, as an problem is uncovered, financial solutions appear. So, in finance we have always changes and challenges. Rightfully, they are called *innovative*. For example, as firms trade more and more internationally, the need to protect sales against undesirable currency fluctuations becomes increasingly important. To deal this problem, currency options were developed [5]. In response to the volatile interest rates, commodity prices, and exchanges rates of the late of the late of

1970s and early 1980s financial managers turned to the futures and options markets for relief. This new financial instruments provided corporations with a low-cost means of hedging away many types of risks associated with possible price fluctuations [5]. Using derivatives like hedging financial instrument are based on managers risks concerning [3]. The cross border companies face risks day by day operating in different economic environments. By result, they should ensure the market risks and maximize cash-flows and stock market value [3]. The point is determing investment goals. To develop own road map for financial success, we need to know what our assets and liabilities are: how much money available to work? how much risk can take with how much money? what debts or moral obligations we have?[4]. Financial instruments can be a very risky good invesment. We can categorize them by form: cash instruments or derivative. Cash instruments are financial instruments whose value is determined directly by markets. They can be divided into securities, which are readily transferable, and other *cash* instruments such as loans and deposits, where both borrower and lender have to agree on a transfer. Derivatives instruments are financial instruments which derive their value from some other financial instrument or variable. They can be divided into exchange-traded derivatives and over the counter derivatives. Alternatively, financial instruments can be categorized by "asset class" depending on whether they are equity based (reflecting ownership of the issuing entity) or debt based (reflecting a loan the investor has made to the issuing entity). If it is debt, it can be further categorized into short term (less than one year) or long term. Foreign Exchange instruments and transactions are neither debt nor equity based and belong in their own category. In accordance with International Financial Reporting Standards -IAS 32, IAS 39, IFRS 7 and IFRS 9 [10], a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset is cash, a contractual right to receive cash or another financial asset from another entity, a contractual right to exchange financial instruments with another entity on term that are potentially favourable, or an equity instrument of another entity. A financial liability is an obligation to deliver cash or another financial asset or obligation to exchange financial instruments with another entity on terms that are potentially unfavourable. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. According IAS 39 the categories of financial assets are follows: (i) Originated Loans and Receivables; (ii) Held-to-maturity investments; (iii) Available for sale financial assets; (iv) Financial assets held for trading. A derivative is a financial instrument or other contract, for which: (i) The value changes in response to changes in a underlying interest rate, exchange rate, commodity price, security price or credit rating, and so on; (ii) Little or no initial investment is required; (iv)Settlement takes place at a future date. Common examples of financial instruments include: a) Cash. b) Commercial paper; c) Demand and time deposits; d) Accounts, notes, and loans receivable and payable; e) Debt and equity securities. These are financial instruments from the perspectives of both the holder and the issuer. This category includes investments in subsidiaries, associate and joint ventures; f) Asset backed securities such as collateralized mortgage obligation, repurchase agreements, and securities packages of receivables; g) Derivatives financial instruments, including options, rights, warrants, futures contracts, futures and forward, interest rate swaps and currency swaps; h) Leases; i) Rights and obligations with insurance risk under insurance contract; j) Employers' rights and obligations under pension contracts. Hedge accounting rules include fair value hedge, cash-flow hedge and hedge of net investment in foreign entity [7]. Hedging relations, hedging items and hedged items makes the content of hedging accounting [2]. There are many types of hedging and many patterns of hedging accounting in American firms experience: rolling hedging, imperfect hedging, economics hedging, portfolios hedging [2]. Hedging efficiency recommended is between 80-125% (according paragraph 146 IAS 39) but the assessment method it's up to risk management strategy of each firm. However,

firms risks to be in a under hedged or in a over hedged situation.

How Works the Hedging by a Derivative?

Hedging, insuring and diversifying is an real concerning in corporate finance. These are tree ways of transferring risk to others. We hedge a risk when reducing one's exposure to a loss entails giving up the possibility of a gain [1]. Thus, farmers who sell their future crops at a fixed price in order to eliminate the risk of a low price at the harvest time give up the possibility of profiting from higher prices is option and below we present their basics [at the harvest time. A financial instrument used in hedging 12]. *Buying a put option* means the payoffs and profits are generated by a *put* option as seen by the *buyer* of the option. A lower stock price means a higher profit. Eventually, the price of the underlying security will be low enough to fully compensate for the price of the option. *Writing a put option* means the payoffs and profits are generated by a *put* option as seen by the *writer* of the option. Profit is maximized when the price of the underlying security exceeds the strike price, because the option expires worthless and the writer keeps the premium. To bay a Put means the buyer thinks price of a stock will decrease. Pay a premium which buyer will never get back. The buyer has the right to sell the stock at strike price. To write a Put means the writer receives a premium. If buyer exercises the option, writer will buy the stock at strike price. If buyer does not exercise the option, writer's profit is premium. A *put option* is a financial contract between two parties, the seller and the writer (buyer) of the option. The put allows the seller the *right but not the obligation* to sell a commodity or financial instrument (the underlying instrument) to the writer (buyer) of the option at a certain time for a certain price (the strike price). The writer (buyer) has the obligation to purchase the underlying asset at that strike price, if the seller exercises the option. In the case of weather derivatives, the underlying instrument is weather with heating degrees or cooling degrees. *Buying a call option* means the payoffs and profits generated by a *call* option from the *buyer* 's perspective. The higher the stock price the higher the profit. Eventually, the price of the underlying security would become high enough to fully compensate for the price of the option. *Writing a call option* means the payoffs and profits generated by a *call* option from the *writer* 's perspective of the option. Profit is maximized when the strike price exceeds the price of the underlying security, because the option expires worthless and the writer keeps the premium. To buy a Call means the buyer expects that the price may go up. The buyer pays a premium that he will never get back. He has the right to exercise the option at the strike price. To write a Call means the writer receives the premium. If the buyer decides to exercise the option, then the writer has to sell the stock at the strike price. If the buyer does not exercise the option, then the writer profits the premium. A *call option* is a financial contract between two parties, the buyer and the seller of this type of option. The buyer of the option has the *right, but not the obligation* to buy an agreed quantity of a particular commodity or financial instrument (the underlying instrument) from the seller of the option at a certain time (the expiration date) for a certain price (the strike price). The seller (or "writer") is obligated to sell the commodity or financial instrument should the buyer so decide. The buyer pays a fee (called a premium) for this right. In the case of weather derivatives, the underlying instrument is weather with heating degrees or cooling degrees.

Innovative Financial Instruments- Weather Derivatives

Weather derivatives are financial instruments that can be used by organizations or individuals as part of a risk management strategy to reduce risk associated with adverse or unexpected weather conditions [12]. The difference from other derivatives is that the underlying asset (rain, temperature, snow) has no direct value to price the weather derivative. Farmers can use weather derivatives to hedge against poor harvests caused by drought or frost; theme parks may want to insure against rainy weekends during peak summer seasons; and gas and power companies may use *heating degree days* (HDD) or *cooling degree days* (CDD) contracts to smooth earnings.

The term *hedge* is derived from the phrase "*hedging your bets*" used in gambling games such as roulette. The term gradually moved into common usage within English-speaking cultures and today covers a broad range of risk-reduction activities or conditions. For such activities, weather is the most important because their specific elements or because many locations are in open space, in plain air. For example, *amusement park* is the generic term for entertainment attractions assembled for the purpose of entertaining a large group of people. An amusement park is more elaborate than a simple city park or playground, usually providing attractions meant to cater to adults and teenagers. A theme park is a type of amusement park which has been built around one or more themes, such as an American West theme, or Atlantis. Amusement parks evolved in Europe from fairs and pleasure gardens which were created for people's recreations. The oldest amusement park of the world (opened 1583) is Bakken, at Klampenborg, north of Copenhagen, Denmark [11]. Heating degree days (HDD) are one of the most innovative types of weather derivative in United States of America experience. Typical terms for an HDD contract could be: for the November to March period, for each day where the temperature falls below 18 degrees Celsius keep a cumulative count of the difference between 18 degrees and the average daily temperature. Depending upon whether the option is a put option or a call option, pay out a set amount per heating degree day that the actual count differs from the strike.

Heating degree day (HDD) and cooling degree day (CDD) are quantitative indices designed to reflect the demand for energy needed to heat or cool a home or business. These indices are derived from daily temperature observations, and the heating (or cooling) requirements for a given structure at a specific location are considered to be directly proportional to the number of heating degree days at that location. More specifically, the number of heating degrees in a day is defined as the difference between a reference value of 65°F (18°C) and the average outside temperature for that day. The value of 65°F is taken as a reference point because experience shows that if the outside temperature is this value then no heating or cooling is normally required. Occupants and equipment within a building usually add enough heat to bring the temperature up to a more comfortable level. Suppose, for example, that the average temperature for a given day is 55°F. Since this value is ten degrees lower than the reference point of 65 °F then one would say this is a ten degree-day. The outside temperature is not always constant, so one needs a method to determine the average temperature. Heating and cooling degree days can be added over periods of time to provide a rough estimate of seasonal heating and cooling requirements. In the course of a year, for example, the number of heating degree-days for New York City is around 5000 whereas that for Barrow, Alaska is over 20,000. Thus, one can say that, for a given home of similar structure and insulation, four times the energy would be required to heat that home in Barrow than in New York. The degree-day system has several problems. Heat requirements are not linear with temperature, and heavily insulated buildings have a lower "balance point". Some will need heating in temperatures above 65°F, but others will not need any heating until the temperature is much lower. Solar gain reduces the need for heating on sunny days (but not cloudy days), and wind increases it (by an amount that depends on how tightly the building is constructed). People also differ in their opinions about what constitutes a comfortable indoor temperature.

Weather Derivatives Utilization

The first weather derivative deal was in July 1996 in United States of America [11], when Aquila Energy structured a dual-commodity hedge for Consolidated Edison Co. The transaction involved Consolidated Edison's purchase of electric power from Aquila for the month of August. The price of the power was agreed to, but a weather clause was embedded into the contract. This clause stipulated that Aquila would pay to Consolidated Edison a rebate if August turned out to be cooler than expected. The measurement of this was referenced to Cooling Degree Days (CDD) measured at New York City's Central Park weather station. If total CDDs were from 0 to 10% below the expected 320, the company

received no discount to the power price, but if total CDDs were 11 to 20% below normal, Consolidated Edison would receive a $16,000 discount. Other discounted levels were worked in for even greater departures from normal. After that humble beginning, weather derivatives slowly began trading over-the-counter in 1997. As the market for these products grew, the Chicago Mercantile Exchange (CME) introduced the first exchange-traded weather futures contracts (and corresponding options), in 1999 [11]. The CME currently trades weather derivative contracts for 18 cities in the United States, nine in Europe, six in Canada and two in Japan. A major early pioneer in weather derivatives was Enron Corporation, through its Enron Online unit [11]. Investment bank UBS-AG, a financial services company, headquartered in Switzerland, was trying (before actual financial crisis) to change weather investing by launching the first Global Warming Index (GWI), which provides a simple way to take a view on a wide range of weather variables [13]. While initially linked to the temperature of several US cities, there were plans to add European and Asian ones soon. In fact, as UBS notes, there is no limit in principle to the number of cities to be included as references. In this sense, the UBS index would truly capture global phenomena in one stroke. Thanks to this pioneering development, it is now possible to bet on whether Global Warming is true or false. If people believe the direst predictions will hold true and a persistent upward trend in global (or, at least for now, US) temperatures will become the norm, an investor would buy the Index (which goes up with the underlying temperature). If people think that is an alarmist sensationalist roomer, the same investor would sell the Index. Another innovative securities based on weather is *weather bill-* an electronic commerce website launched in January 2007 [8] that allows companies to buy contracts based on future weather events as a hedge against weather-based business risks.

The data information disclosures by the company are follows:

Table 1. Characteristics of company WeatherBill, Inc

Type of capital company	Private
Founded	2006
Founder	David Friedberg
Headquarters	San Francisco, California, USA
Key people	David Friedberg, Founder; Siraj Khaliq, Founder
Industry	Financial services
Slogan	Weather is unpredictable. Your bottom line doesn't have to be.

Source: www.weatherbill.com

Another example, Tech Crunch [9] mentions golf course owners may buy a contract by which they will receive $1,000 per day of rain, thereby shielding the course against losses due to bad weather. Tech Crunch sells image advertisements for US $ 10,000 per month with a minimum purchase of 2 months. The company also markets contracts to commodity traders, who may use them to hedge investments they have made in future crops or other goods whose value is affected by the weather. Weather Bill's pricing is based on weather statistics and computer modeling of future weather forecasts and trends. One of the company's early clients is an Arizona ski resort that uses Weather Bill to hedge against losses from a refund it offers season ticket holders should there be inadequate snowfall during the season. According to the company's website, United States contracts are legal and regulated by the Commodity Futures Trading Commission. Due to limitations imposed by the Commodity Exchange Act, contracts in the United States are only sold to buyers who meet certain eligibility requirements. As of October 17, 2007 the company also offered contracts in the United Kingdom, Germany, Netherlands, Spain, and Norway [8].

Conclusions

In finance we have always changes and challenges. The inventive capacity in the field of financial instruments was more and more increasing before actual crisis. At the moment of downturn, we need to turn of the risk in opportunity. But for this, every investor and every company using these new derivatives would know the general concepts and mechanisms of financial instruments, and particularly, concepts and mechanisms of derivatives. Nowadays, these new derivatives

may become a real instrument for companies or individuals to hedge against the physical risks (temperature, rain, snow, tornados or earthquakes) or financial risks (price, liquidity or counterparty). On the other hand, everybody knows that securities took a bad reputation after 2007 when financial crisis arise. Now, the optimistic scenario is to use newer and newer hedging financial instruments to save and create new opportunities. For Romanian economy, such sensitive hedging instruments would be use in agriculture, tourism and assurance industry. Anyway, financial instruments remain ever innovative in a risk environment.

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Financial Reporting under XBRL and the Impact on the Financial Audit

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Abstract

The purpose of this paper is to present the perspectives of using XBRL (eXtensible Business Reporting Language) as a tool for financial auditors considering the increasing coverage of this language for financial reporting.

We performed an extensive literature review concerning XBRL utilisation in Europe and in the US and identified several key areas where this technology may be extended in order to facilitate the planning phase of a financial audit. We propose adding several XML tags to the standard taxonomies that would include information which is usefull for auditors. This information may be account-specific (such as significant risks affecting an account or classes of transactions affecting the account) or may relate to the audied entity as a whole.

Our conclusion is that XBRL may be successfully extended in order to contain data that may aid auditors in the planning phase of their engagements.

Key words: XBRL, financial audit, risk based approach.
J.E.L Clasification: M41, M40

1. Introduction

XBRL (eXtensible Business Reporting Language) is an extension of XML (eXtensible Markup Language) which was developed with the purpose of providing a common method for presenting, transferring and analysing financial reporting data on the internet. [1]

Its history starts in 1998 when Charles Hoffman proposed to the AICPA (American Institute of Certified Public Accountants) to create a team that would study the possibility of using XML for structuring financial reporting information [2]. The first version of XBRL was launched in 2000, containing around 1900 financial reporting items as per the US GAAP (Generally Accepted Accounting Principles). Since then, several milestones in the development of XBRL were reached, including [3]:

- fully aligning the XBRL standard to the format recommended by W3C (World Wide Web Consortium), which is the organisation in charge of supervising the evolution of XML - 2001;
- the Shanghai Stock Exchange adopted the XBRL format for financial reporting for all listed companies (the first official utilisation of XBRL) - 2004;
- the US SEC (Securities and Exchange Commission) started a pilot program for financial reporting using XBRL (listed companies were encouraged to adopt the new standard) - 2006;
- starting with 2009 listed companies which were supervised by US SEC were required to present their financial statements using XBRL;
- in 2011 the European Commission proposed replacing the two Accounting Directives (78/660/EEC and 83/349/EEC) with a single Directive that would harmonize the financial reporting process starting with 2018 [4].

XBRL is promoted worldwide by XBRL

International, Inc. (more commonly referred to as "XII"), which is a non-profit consortium of around 600 companies, professional associations and governement institutions with the purpose of developing a harmonized financial reporting language over the internet [5].

Versatility and large use of XML language led to it adoption as a start point for developing the XBRL standard. XML was created to transfer, process and store data from internet (with focus on defining data) opposed to HTML which was developed for displaying data.(with focus on aspect).[6]

The idea behind XBRL was to add to the financial information XML labels (tags) that contain details on the interpretation and processing by software.

Classic presentation of financial statements on the internet in HTML or PDF formats do not allow automated analysis of that information by the software. The software programs do not know how to interpret values and concepts included in the financial statements analyzed.

If a user need to obtain a particularly information from financial statements, will have to go through the entire file and manually extract that information. In situations such as comparing the information obtained from other companies of a similar nature, obtaining average values for a particular industry or trend analyzes financial indicators of a company for a certain period, manual data processing is not feasible, because the time required to obtain information is too large.

If this is added the complexity of the information presented (many financial reporting standards, presentation of financial statements and specific terms of certain economic sectors or industries) can understand why simple sequence of elements of financial statements in text or in a table does not ensure comparability of information when you want automatic processing or transfer them from one application to another, given that most of the times, applications store data in incompatible formats.

The main objectives of XBRL are to [7]:

- Automatically obtain quick and well-defined certain information in the financial statements available on the Internet by ordinary users (those for which the only source of information about a company's financial statements is from the Internet);
- Development of complex financial analysis tools, such as those used by financial analysts and professionals in auditing and consulting companies that process financial statements presented on the Internet in XBRL format and are accessible to regular users of financial information;

Improving financial reporting for companies who choose the standard (for example, financial statements presented in XBRL format can automatically perform complex processing such consolidation group or other restatement under financial reporting standards).

2. XBRL basics

Eliminate manual processing of financial information when they are transferred from one application to another established the need to standardize the names of items in the financial statements, and the relationship between them so that the information to be singers in the same manner by any application can process data in XML format.[8]

This objective was achieved with the following standards recommended by the W3C (World Wide Web Consortium), an organization which has among its duties and supervision of XML development:

- XML Schema – files containing specifications of the structure and content of the XML files that are used to verify that items are properly defined XML [9]
- XML Namespaces – used to ensure uniqueness of name elements in XML files [10]
- XLink – standard for creating hyperlinks in XML [11]
- XPath – standard used to traverse the elements and attributes of an XML file [12]

Using these standards, XBRL International has begun the process of performing electronic dictionaries (called taxonomy) of elements that define financial information as well as specified relationships between these various financial reporting standards (e.g. IFRS or U.S. GAAP).

Information in the financial statements are divided into two components: XBRL instances and taxonomies. Instances contain data that is reported and taxonomies contain information on how to interpret the data. [13]

Taxonomies can provide semantic modeling XBRL elements presented in court, which is expandable. Thus, an item can be added to information on what kind of value can take (money, fraction, percentage, etc.) on how to calculate it or on how to present this information in the financial statements.

3. Presentation of the risk based approach in financial audits

This approach has been promoted by large audit companies (the so called "Big 6/5/4") since the beginning of the 1990s with the declared purpose of improving audit quality. This objective would be achieved by focusing on the business risks that might cause material misstatements in the financial statements being audited [14].

At the same time, audit standards such as ISA 315 or SAS 109 required auditors to understand how business risk may lead to material misstatements in the financial statements that are being audited.

According to ISA 200 [15], the risk of material misstatement (RMM) as the risk that financial statements are materially misstated prior to audit. This consists of two components, described as follows:

- Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

According to ISA 315 [16] business risks result from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

According to ISA 315 and ISA 320 [16], [17], the risk based approach requires auditors to perform several key steps during the planning of their audits:

- perform risk assessment procedures in order to determine business risks which are relevant to the financial reporting process and other significant risks (risks of material misstatements that require special audit consideration)
- determine significant accounts and disclosures and the classes of transactions that generate them
- consider the relevant assertion (e.g. existance, completeness, valuation, etc.) for each significant class of transactions
- identify the applications that are relevant to significant classes of transactions
- grouping all the potential errors ("what could go wrongs") at the assertion level for classes of transactions, account balances and disclosures

Based on the assessment of the risk of material misstatement, auditors determine what is the acceptable level for the detection risk at assertion level for classes of transactions, account balances and disclosures

Depending on the determined value for detection risk, auditors choose the audit strategy (substantive procedures or control based approach) at assertion level for classes of transactions, account balances and disclosures

It is important to notice the iterative nature of the risk assessement process. Following the execution of tests of controls and substantive procedures, the entire audit strategy may be revaluated..

4. Extending XBRL for financial audit using a risk based approach

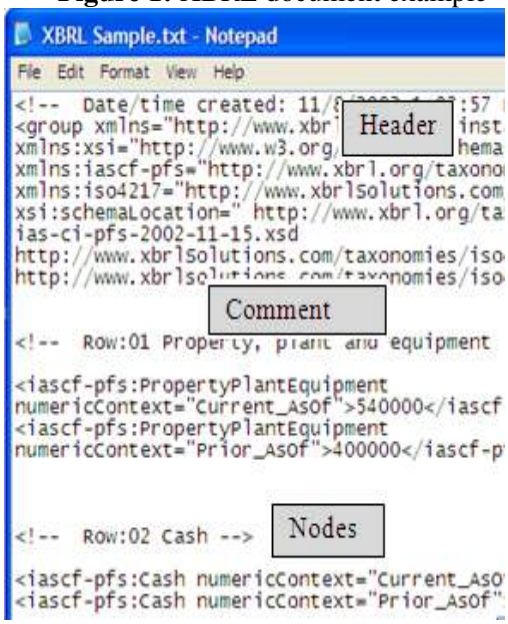
A typical XBRL document looks like the one in Figure 1.

Please notice there are two main sections of the document:

- The header contains general technical data regarding XML namespaces, schemas and taxonomies
- The body of the document contains XML nodes for each item in the financial

statements. Each node may have several attirbutes containing account specific information.

Figure 1: XBRL document example



Source: http://www.xbrl.org/taxonomy [18] modified by authors

The example from Figure 1 contains information for two accounts: Property, plant and equipment and Cash (for both the current period and the previous period).

Considering the increased usage of XBRL in the past dacade and the potential this technology has for growth, the authors propose expanding XBRL documents containing financial statements data in order to include information that can be used by auditors in the planning phase of their audits. This information can be related to the audited entity (e.g. Inherent Risks, Specific Business Environment Conditions, etc.) or to certain accounts (e.g. relevant assertions, classess of transactions, applications). The authors also consider that such information should be included in XBRL instances of financial statements due to the fact that it can be used from one audit period to another, independent on who performs the audit or on what audit methodology is applied (e.g. the Completeness of the Cash account will always be a relevant assertion and the Cash account will always be linked to the Purchase to pay class of transactions).

Please refer to Figure 2 for an example of XBRL extension that might be used for helping auditors in the planning phase.

Figure 2: Extended XBRL document example



Source: http://www.xbrl.org/taxonomy [18] - modified by authors

The following Entity-specific information was added:

- Fraud risk evaluation - this indicates whether the management of the audited company created a working environment that descourages fraud;
- Business risk evaluation - this indicator may is helpful for assessing the audited entity's ability of meeting its objectives;

The Entity-specific information can be used for assessing risk for all accounts in the financial statements.

The following Account-specific information was added:

- Classes of transactions that impact the account
- Relevant assertions for the account
- Applications used for processing information reflected in the account
- Type of operations included in the account (routine / judgemental)

Please refer to Figure 2 for the extended example of the XBRL document..

5. Conclusion

Using XBRL can enhance quality audit and decrease execution time of the audit. Besides these issues, XBRL can enable researchers to analyze information in financial statements without the need for a

data collection time high. As up to this point, the company's privacy policy may impose restrictions on the disclosure of such information. That limit research to identify lack of access to financial information reported applying XBRL. We intend in the future to contribute to develop some research on XBRL to determine opportunities, and limits imposed by the implementation of this standard. The economic crisis has generated numerous complaints of how current financial reporting. The main reason is the lack of transparency, which can be improved by using standard XBRL.

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Briefing in History of Audit and Financial Reporting

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Abstract

The rapid development of financial audit and its applicability can be an important factor for the development of a company. The explication is that the financial auditors are not require to account for the company's transactions, but they have to check the elements from their financial statements taking into account principles, postulates and the criteria for reporting and recording them. Considering that the checking process is based on financial information analysis, we can conclude that presenting some consideration about the development of audit is necessary in order to reveal the audit evolution. Moreover, some recommendations were pointed out in order to improve the credibility of the audit process.

Key words: history, audit, accounting, financial reporting.
J.E.L. Classification.: M41, M40

1. Introduction

The diversity and complexity of financial audit can be found from the idea that there are not general accepted techniques for carrying it. The explication comes from the fact that no universal rules could be applied in order to encounter all the situations that an auditor has to consider. The assumptions used by auditors are based on standard rules, but the decisions that the auditors are taken belongs to them as they have to adapt to extremely different situations.

As a fact, we consider that the professional judgment should prevail, when an audit operation is realized.

Even though in the past, the audit was based on checking the accounting information, not it means not only checking it, but also to assure the disclosure presented in the financial statements.

As a fact, considering the audit evolution, five significant periods can be identified: the period before 1840, the period between 1840 - 1920, the period between 1920 - 1960, the period from 1960 to 1990, and the period from 1990 till now.

2. The period before 1840

The audit evolution is strong correlated with the development of accounting and the principles on which it is drawn up. As a fact, we have to consider the accounting on-going process due to economic and social development needs. The establish of rules and of the accounting principles was influenced by the evolution of the accounting and audit practices from the past (Previts, G,J, Parker, L, D, Coffan, E, N – 2000[1]).

Lee, T(1994)[2], points out that a history of audit in this period cannot be properly realized.

It is considered that ancient civilizations had realized audit processes even before the appearance of writing. Some authors (Capron, M. [3], Baxter. W. T -1989 [4]) consider that evidence of the accounting existence was detected 20000 ago.

Same idea is pointed out by Power, M. (1997) [5] who consider that the oldest types of writing were in fact the accounting

documents discovered around 8500 B.C. We believe that as human needs have widened, the accounting development was realise in order to meet the current need with the existing resources.

The archaeological proves reveal that the first accounting system was discovered in 8000-7500 B.C, when accounting records were made in order to count and to check the goods from agriculture and form the accumulated production. Mattessich, R. (1998) [6], reveals that the development of accounting techniques was achieved by adapting to the needs of conservation, management and wealth management through clever accounting techniques.

In ancient Egypt, each element was immediately recorded and no element could have been used without the prior existence of a written order. [7]

In ancient Greece, was carried out a full transaction accounting, while in ancient Rome, accounts stands as bilateral and a single currency is used for the accounting operations

Other proves were discovered in Italian tows like Genoa, Florence and Venice, issues that generated the summarizing of the accounting Knowledge by Luca Pacioli in 1494.

Porter, B & all (2005) [8] reveal that before the industrial time, the audit upon companies had no relevance as their activity had not important dimensions. In this period, the audit duties were designed primarily to check the honesty of people who had tasks regarding fiscal responsibility ar who were charged with tax colleting. [9].

3. Period from 1840 to 1920

Until the Industrial Revolution, the practice of audit was not properly implemented. The operations that lead to significant industrial revolution were due to the legal form of the companies [10]. The increase of companies dimension and the development of technology have generated the development of the middle class. In order to protect small investors, the development of audit was performed.

As a fact, in 1844, The Great Britain adopted the "Joint Stock Companies Act", through which the auditors had to check the accounting recorded of companies. The audit has received a mandatory character only from 1900.

After that, some certified bodied were reviled that looked at the activities realised by the accounting profession. As a fact, the Chartered Accountants, the Chartered Accountants of Ontario, the Canadian Institute of Chartered Accountants and the Certified General Accountants Association of Canada can be mention.

Once these bodies were formed, the mandatory of the audit transactions could not be postponed.

As a fact, the Canadian Law imposed the need for audit report through the Ontario Corporations Act (1907) and trough Federal reserved act (1917). We consider that the Ontario Corporations Act from 1907 laid the modern financial reporting foundations, and thus the basis of the modern audit. Through this, it was request for the public companies to present an audited balance sheet at the end of the year. Moreover, the law stipulates that realising a simple comparison of the vales from the balance sheet with the vales from accounting records, is not enough to ensure the quality of audit

Even though the audit was based on exhaustive checking, starting with 1910, an audit techniques commonly used in the UK has become the use of survey [11]. We consider that placing the identifying of financial fraud into the background, was due to the fact that as companies became larger, the costs and the time allocated for achieving a comprehensive check became higher. Some attributions correlated with financial fraud detection were placed within the manager's duties and through the act from 1929; the financial fraud detection was not any more a request for the auditors.

The use of the sample validation was done considering the tendency for uniformity and standardization of audit practices which were implemented in 1917. As a fact, the chattered accounts from America recommended what were the elements that an audit mission should focus on.

Generally, the auditors from this period were shareholders of a company which generated less credibility for audit activities as the auditors should prepare financial statements and should achieve total transaction checking.

The auditors' duties were also influenced by the court decisions [2]. The auditor functions were to identify the elements that can contribute to financial fraud or to technical or financial errors.

As a fact, we consider that the auditor activity was mainly based in revealing the elements necessary for company sustainability.

4. Period from 1920 to 1960

In this period, it is considered that a migration of audit from UK to USA had been realised. As a fact, at the beginning there was a high development of companies, that was followed they the great Depression in 1929. After the great Depression, the investments in companies increased a lot. As a fact, the development of the capital market was realised. Due to this, it was impossible to divide the management attribution by the administration's one. As a fact, in order to ensure further development of the companies, granting of guarantees of financial statements has become increasingly necessary. We consider that the audit represented the operation though with the credibility of financial statements reported by managers to shareholders was ensured. As a fact, the auditors attributions were defined from another point of view: it was considered that they should focus upon financial statements, and not upon the detection of financial fraud..

Moreover, the concept based on the evidence collection and the use of sampling units was used. Due to the increasing of the number of transaction, these techniques developed quickly.

Not only was the adoption of these elements essential, but also the information provided by the internal control was taken into consideration. As a fact, this information contributes to the development and research in the audit field.

The principles through which the audit focuses on were the observation and the evaluation of physical assets, of inventories and of the amount of the available funds and the external use of them. Realizing the audit operation at some companies (e.g. Royal Mail) pointed out that the auditing process to the profit and loss account was also necessary. These elements were only made mandatory in 1934 in USA when the Securities and Exchange Commission Act was adopted and in 1948, in UK when Companies Act was implemented.

In 1933, the SEC Act was adopted through which the companies listed at New York stock Exchange were obligated to submit their financial statements certified by an independent accounting and were forced to attach an independent audit report . In 1946, were issued the accounting standards by Chartered Certified Account from Canada.

As a summary, it can be said that economic and social development has had a significant influence upon the audit practices. We believe that the audit focused on the information provided by the internal control and used the sample unit technique, the audit opinion being underlined both by internal and external information.

Not only the evolution of the balance sheet has been realised, but also the evolution of the profit and loss account, even though the first element was still the benchmark by which the auditor's opinion was based on. Moreover, it has to be reviled that for pointing out a high quality audit opinion, physical items or goods of foreign origin and items that were not in the accounting data recorders were analysed. Due to this, we consider that the credibility of audit has increased a lot compared to the period before 1920.

5. Period from 1960 to 1990

Economic development begun in the previous period continued to expand after 1960. Present period is characterized not only by increasing the size of the company, but also by improving the technological elements and the increasing complexity of operations carried out by companies.

Therefore, auditors contributed to the credibility and truthfulness of financial statements, something that was essential for the development of the capital market operations.

In the literature it is mentioned that the audit has experienced some setbacks and that he treated some criticism during the analysis, although in 1965 it adopted Ontario Securities Act and the Canadian Business Corporations Act.

Thus, there has been progress in transition and analyse transactions recorded in the

application system. This was due to the increase in the number of transactions as a result of the increased size and complexity of corporate activity and the auditor's role is not only to verify transactions. Therefore, in our opinion, within this period, the auditors focused more on internal control. Also, auditors are required to establish and document accounting system with a focus on identifying information flows and internal controls. With the internal control was effective, auditors no longer were centred on thorough presentation of details.

Around 1980, it was found that the costs of internal control are extremely high, so they have shifted to analysing the analytical procedure as Salehi, M (2007) [12] states. During 1985, were developed auditing standard that accepts the existence of risk. This element requires that auditors will focus more on items that have a higher risk. Thus, the approach to risk based audit, we believe that it was necessary for auditors to understand the customer's accounting system, key personnel, the industry in which it operates and the policies adopted by the company. Therefore, risk-based audit involves analysing information from various sources, both internal order and external order given by the audited company. A correlation of these practices can be achieved by way of implementation of modern audit. We can say that modern audit focuses on identifying the risks and the proper analysis of information in the financial statements. In this regard, we recommend that the financial auditor to try to assimilate accounting policies and development company premises, but on the other hand, it must report any ambiguities discovered.

Also during this period, many companies began to use computer systems for financial statements for processing and controlling the operational and administrative processes. In this case, the auditors have given more confidence these elements, while the audit procedure was much easier. In terms of services, not only audit services were performed, and the nature of consultancy services. Thus, it can be stated that in addition to the role that audit we have to verify and validate the financial statements in the period 1960-1990, has formed a new dimension to the audit. From now on, we consider that the audit had financial advisory role and the role of conferring a degree of assurance as to the reliability of financial statements.

6. Period from 1990 to present

The audit itself underwent major changes since 1990. Nowadays, audit focuses on the company's financial statements, the aim being not only to highlight discrepancies between observed and specified elements, but also to highlight any items which may affect the credibility of provided opinion and may contribute to the worsening of the financial situation of the company. In our opinion, currently, the audit is oriented towards risk disclosure to customers being subject to audit. In this respect, we focus on the idea that the auditor will present a more credible opinion given that it focuses its attention on understanding the risks that an entity is subject to.

Since 1990, the audit began to identify and report elements that may constitute financial fraud. Furthermore it should be noted that doubts and uncertainties arose as to whether an auditor give credibility to audited financial statements, given that corporate governance issues and existing increasingly transparent reports, have become more pronounced.

The credibility of the audit was much affected since the 2002 scandal of Enron and Arthur Anderson, the decrease also being emphasized by the economic crisis of 2007 effects.

Under these circumstances, we believe that the audit should be primarily aimed at providing credibility of financial statements, as well as of financial and non-financial items that managers provided in the annual reports. However, audit firms focused primarily on providing consultancy, reducing therefore the importance of audits.

Due to a sharp criticism of auditors and of the risks to which companies are subject to, the consulting firms were declared independent. Companies adopted more severe auditing standards to ensure the independence and a higher quality of the audit services.

Certain reforms were made at governmental level of the accounting bodies, in the level of the fees charged on the stock exchanges in order to increase confidence in

audit practices. We believe that the independence auditor from the audit client is a key element for ensuring the credibility of the audit opinion and to improve the quality of services provided by the auditors.

Following the collapse of Enron recorded, the U.S. adopted "Sarbanes-Oxley Act". This law provides precise rules on auditor independence, quality control performed by auditors, and on changing the main auditors. In reality, the "Sarbanes-Oxley Act" law extended the attributions the auditors have in the sense that they must emphasize that the results of internal controls are in line with the elements of the financial statements.

In Australia, the "Ramsay report" was adopted. The auditor independence is ensured by means of a statement in the audit process and must be maintained to the board of the audited company. We believe that auditors' independence is strongly correlated with the independence of the Supervisory Committee, while the existence of an audit committee for the non-financial services, for determining fees for the audit operation, is required in order to avoid the occurrence of disagreements between the auditor and the client.

Many reforms were made on audit practices in different countries during this period. In our opinion, we believe that the future role of auditors will converge towards one objective only: it will focus on the pursuit of public interest in redefining the audit relationship, on ensuring the integrity of financial statements and on the separation of non-audit services and consulting ones from the audit ones.

We also believe that the audit methods will return to the basic elements: a focus on the risk to which the company is subject to, detection and identification of the items generating financial fraud, ensuring independence and objectivity of audits.

Currently, auditors are focused not only on the expression of an opinion that the reports should provide financial credibility, but also it is expect from them to provide services that add value to the company by identifying the irregularities, the risks which the company is subject to, as well as by offering tips on how to carry out internal control.

The problems auditors currently face are closely related to loss of credibility of the users interested in the financial information of the company. As a result, important measures were adopted nationally and internationally, aiming to boost confidence in the financial audit activity.

At European Union level, certain measures that provide strict regulations of the audit were adopted. Thus, improving the quality of audit has been imposed by the European Commission by the adoption of a document entitled "Green Paper" [13]. The implementation of its provisions is based on the social and economic role the audit plays in a society, given that auditors should present a credible opinion on the accuracy of audited financial statements. The document also specifies that the failure of the one "Big 4" company would contribute to a severe distortion of the auditor's credibility. Therefore, large companies should allocate more time to the audit process. The auditor's opinion should be substantiated taking into account the risk that the audited company is subject to, industry or development risks.

We believe that risk avoidance can be achieved by implementing a better communication between internal and external audit.

The European Commission also proposed successive rotations of auditors in order to maintain the independence between them.

As regards the non audit services, they should not be made by the same company since the relationship between the audit committee and the audit client may be distorted. We feel that credibility may be higher or lower depending on restrictions that may arise from legislation.

The developed document focuses mainly on the principles of transparency, which the company performing the audit should follow. Transparency refers to the elements from the financial statements, which are reported by the audited company to the auditors. In this sense, the reduction of the conflict of interest is aimed on one hand, and the presentation of a more detailed report for the audited financial statements that may improve the credibility of the audit, on the other hand. We recommend therefore, a correlation with the development of capital markets given that any information can have a significant influence.

It is considered that there should be no entry barriers and the auditor rotation should

be frequent. Also, international cooperation between states is essential. In this respect, we believe that the development of international auditing reporting means would generate greater confidence in the services provided by auditors, and, in the same time, would ensure the sustainability of the audit profession.

7. Conclusions

We consider that, in order to ensure objectivity, auditors should necessarily be independent of management bodies or of the management of the audit client. We also focus on the idea that auditors should orient towards a more detailed presentation of the financial statements of the audited company. Therefore, we recommend the issuance of a more detailed audit report for both shareholders and other users of financial information. For highlighting a quality report, auditors should consider all elements that affect profitability such as the exchange rate, the industry risk or the evolution of macroeconomic indicators.

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Electronic Public Procurement - A New Reality On Public Administration

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Abstract

This article aims to highlight the need for implementation in the European Union Member States of new ways of achieving specific procurement, namely computerization of the public procurement system. The European Union has promoted directives regarding the need to establish electronic platforms in order to promote public administrations acquisition activity having as the final goal the transition from traditional paper acquisitions to electronic acquisition. A first step in this direction is the decision taken by Portugal where public procurement using electronic means became mandatory. In this paper, we aim to identify and analyze the electronic procurement system's specific index's dynamics.

Keywords: public procurement, public administration, electronic procurement system
J.E.L. Classification: H77, H83

1.Introduction

A key component of e-procurement is the use of media and transaction processing for the assignment of public works contracts for the purchase of goods and public services. The ultimate goal is that all phases of public procurement, starting from the notices publication until the billing and payment to be in an electronic version.

The gradual introduction of electronic procurement is part of the ambitious reform initiated by the European Union regarding the public procurement system. Legislative basis for achieving this goal had been made when the Action Plan for Procurement in was implemented in 2004, and in 2005 when the European Union ministers have drawn Manchester Ministerial Declaration of 2005 where an important point brought in discussion was the use of ICT in the public procurement. The conclusions were based taking into consideration statistics that showed that public procurement represents 15-20% of European GDP and that computerization would lead to a more efficient expenditure reducing costs by 20%.

Therefore, both in the European Union and Romania in particular, the public sector performance will depend "of how government will find motivation and appropriate control mechanisms in the production of goods and services without strict procedures implemented at the level of each public entity" [7].

2. Theoretical background

Electronic public procurement requires connection to a number of sciences starting with the administrative approach, computer science, interfering with economic and ending with European legislative framework in which it finds it is germs and substance, so the concept is defined in Article 1.7 of Dir. 2004/18/EC and Art. 1.6 of Dir. 2004/17/EC as "a repetitive process involving an electronic device for the presentation of new prices, revised downwards, and / or new values concerning certain elements of tenders".

European Union should establish a framework for implementing linear concept for the development in some countries at a faster electronic public procurement could lead to the birth of unnecessary barriers to cross-border participation of economic operators from other Member States. Major problems faced by traditional systems in the contracting of public goods and services such as the human factor associated with corruption in the public sector, reducing administrative costs, lack of transparency, limited access of economic operators to procurement documentation will find a solution in computerized acquisition public.

The European Union was built starting from the idea that a conglomeration of peoples with different cultures and practices will create a compact structure governed by European authorities, just as the public procurement system will create a common market acquisitions. Still we currently find the major problem in the way of this project, e-auction, is represented by public authorities and economic operators who believe that classical solution are better alternative than the electronic solutions.

To meet this goal the governments of the Member States of the European Union should attract diverse sources of funding, including partnerships with firms, partners who are willing to fund research and perform simulations on the implementation of a unique procurement system for all Member States. Romania in particular, should benefit from EU Structural and Cohesion Funds for 2014 - 2020 to try to implement the e-auction at national level for all procurement. The main obstacle Romania is confronting in this aspect is the absorption of these funds, registering delays in all the phases of the absorption process of European funds, mostly because of the requirement to assure finances before having the approval for the projects. (Milena Messori's declaration, Head of European Investment Bank Office– Romania). In order to increase the absorption of the Structural and Cohesion Funds it is required not only a strategy adopted by UE but also an adequate strategy adopted nationally that is based on the needs of the potential beneficiaries.

3. Public electronic procurement stage

To achieve the final phase of this plan of computerization of public procurement metaphorically defined as the possibility that any company in the European Union that has a computer and an internet connection can participate to an electronic public procurement, the European Commission financed and sustained several initiatives and practical tools by which to overcome administrative obstacles. Among these, a major importance consists in:

- Pan-European Public Procurement Online (PEPPOL) - development of a system in which EU countries can exchange the documents, billing and order online;
- Open e-PRIOR - development of infrastructure in order for the European Commission to facilitate documentation transfer for a public procurement: electronic catalogs, invoices, electronic bills;
- E-CERTIS - is a platform through which suppliers receive more information about the various certifications required for participation in public procurement;

European Union Member States have supported and implemented more and more electronic platform for public procurement phases conducting some for the entire process and others only for certain phases of acquisition. Despite efforts taken by the European Commission, the level of electronic procurement does not exceed 5% of the total as there are countries that have moved to electronic acquisition exclusive mandatory, like Portugal, others made only certain phases of the procedure such as Cyprus, Belgium and the Netherlands.

There are also countries that have achieved significant savings by using various electronic platform for public procurement implementation in all its phases: publishing ads, providing documentation, submission, evaluation, assignment, order, billing and payment – the best example in this case is the Austrian federal agency that reported savings of 178 million euros for a volume of 830 million euros.

Romania benefits from one of the most commended electronic public procurement (Electronic System for Public Procurement). This system publish notices and tender

documents, thus ensuring of transparency and public procedures that exceed the threshold value provided by GEO no. 34/2006.

Table no.1 The dynamics of specific indicators of the National Public Procurement in 2007-2011

	2007	2008	2009	2010	2011
Number of contracting authorities and economic operators enrolled in the ESPP Procurement market players					
Number of contracting authorities enrolled in the ESPP	9.256	11.187	11.551	12.272	12.903
Number of economic operators enrolled in the ESPP	9.433	13.140	21.978	30.751	37.892

Source: Activity Report for 2011 of the National Authority for Regulating and Monitoring Public Procurement

From this table, we can observe that although Romania is an EU member since 2007 it had understood the opportunities and offers of the ESPP, by facing with a multitude of Structural and Cohesion Funds absorbed between 2007-2013.

3.1. Advantages and disadvantages of implementing electronic procurement system

Implementing and developing the concept of electronic procurement for the entire European area has some advantages in the operation of public administration:

- Easier access to suppliers interested in accessing it;
- Lack of transparency can be outgunned by openness of this electronic system;
- Reducing administrative costs related to the crisis facing the European Union;
- Creating a single European market to increase competition and where the demand showed by the authorities will meet the suppliers offer the national barriers will have broken;
- Improvement of human resources involved in developing various phases of public procurement;

Transition to electronic public procurement is not an easy process, and it faces some problems as follows:

- High level of technical costs to support various electronic platforms may become true financial obstacles for some state facing economic problems;
- Introduction of electronic signatures for economic providers could lead to a fraud acquisition processes if a standard certification is not required;
- Equality offered to economic actors on the unique public procurement market should not be directly proportional to the differences between Member States;

Institutional framework, economic stability and legal-system are directly impacting factors in the evolution of the concept of electronic procurement.

3.2. European objectives regarding the justification of european acquisition

The analysis of European electronic procurement system should be viewed in light of the objectives proposed by the European Commission and their implementation status. The point of departure in this approach is the way they set up the proper functioning of the internal market procurement. To achieve this goal there have been established the limits within the legislative framework, the reforming of the legal instruments by removing barriers that could negatively influence the development of electronic acquisition

Although the procurement system is an institutional system, the approach should be taken in magnitude of the process by standardizing the documentation and the evolution phases of the acquisition in all Member States. In this respect, there have been promoted a series of measures to support achieving the final goal, achieving a single market for public procurement that is moving from paper to electronic purchasing procurement: an european legislation, electronic platform to support electronic signatures for economic operators, introducing a common procurement vocabulary. Therefore, the core set of measures taken by the European Commission

is interdependent by the variable factors starting from the social and political context of Europe and ending with the present economic reality in the Euro Zone.

4. Conclusions

Procurement should no longer be seen in terms as project, or as an alternative to the classic paper, they must be understood as necessities for achieving a common market in application of public procurement to meet multiple offer coming from a variety of economic operators. Common practice in many states that have implemented electronic solution has demonstrated an spending decline in terms of economic crisis.

It requires leadership at all levels of government (including the European Union) to maintain and accelerate the transition to e-procurement. If they are given freedom of choice, contracting authorities will be satisfied with tried and trusted procedures (paper) instead to invest in these promising new options and use them.

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From the Accounting Treatment Required by the Accounting Regulations Corresponding with European Directives to the Accounting Treatment Required by IFRS - Legislative Steps Taken by Romanian Credit Institutions

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Abstract

Legislative stages in accordance with IFRS accounting treatment began to OMF no. 907/2005- approving categories of entities applying accounting rules in accordance with International Financial Reporting Standards, accounting regulations that comply with European directives, as amended, continued with NBR Order no. 13/2008, NBR Order no. 15/2009, NBR Order no. 9/2010 and ends with NBR Order No. 27/16.12.2010 - for approval of Accounting Regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

Keywords: Accounting; Financial; IFRS; Normalization; Harmonization
J.E.L. Clasification: M 41

1. Introducing

Due to globalization, and the global spreading of economical phenomena, of the countiuous development of in between states economico-political relations, of the complexity of relation between investors, of the harmonization of legislations on regional and international level, we are assisting at a considerable increase of the importance of accounting information.

In our country the financial statements of credit institutions come together in a document synthesis made by the Ministry of Public Finances, approved by the National Bank of Romania, and contains the following elements:

- the statement of financial position;
- the statement of profit and loss;
- the statement of changes in equity;
- the statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information [3].

The accounting of credit institutions in Romania has witnessed, in the last two decades, multiple transformations. In this context, the process of normalization and harmonization of accounting credit institutions, has come a long way, with numerous legislative changes and adaptations to the directives of the European Community, first, continuing the harmonization and compliance with IFRS accounting regulations.

2. Legislative steps taken by Romanian credit institutions

Current accounting regulations corresponding with international financial reporting standards, accounting regulations that comply with European directives define as credit institutions in our country, the following entities [1]:

- banks, Romanian legal persons
- credit cooperative organisations;
- savings and loans banks for housing;
- mortgage loan banks;
- branches in Romania of foreign credit institutions;
- foreign branches of credit institutions Romanian legal persons.

In 2005 the Ministry of Public Finance issued an Order of the Minister of Public Finance no. 907/2005, approving the categories of legal persons applying accounting rules in accordance with International Financial Reporting Standards,

accounting regulations [7] that comply with European directives.

Through the Government Emergency Ordinance no. 99/2006 - on credit institutions and capital adequacy [6], approved with amendments by Law no. 227/2007, as amended and supplemented, shall be regulated:

- conditions of access to banking services in Romania;
- prudential supervision of credit
- institutions and investment services firms;
- oversight of payment and discount
- systems for financial instruments
- operations.

Considering the Accounting Law no. 82/1991 [4], republished, the M.F.O. nr.907/2005 - approving the categories of entities to apply accounting rules in accordance with International Financial Reporting Standards, accounting regulations that comply with European directives, as amended, the Government Emergency Ordinance no. 99/2006 - on credit institutions and capital adequacy, approved with amendments by Law no. 227/2007, as amended and supplemented and the Law 312/2004 [5] - the National Bank of Romania, NBR issues:

Order no. 15/22.12.2009 – regarding the drawing up by credit institutions, for information, of individual annual financial statements in accordance with IFRS come into force on 24.dec.2009, which in Article 1, paragraph (1) stipulated the following "for the financial years 2009, 2010 and 2011, credit institutions shall prepare, for information, a set of individual annual financial statements in accordance with adopted IFRS stipulated in Art. 6, paragraph 2 of Regulation (EC) no. 1.606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards (IFRS), obtained by restating the information presented in annual financial statements prepared under the accounting records kept under accounting regulations in accordance with European directives applicable to credit institutions, on-bank financial institutions and the Deposit Guarantee Fund in the banking system, approved by the NBR order no. 13/2008 [8], further on called Accounting Regulations in accordance with European directives." [9]

One can notice that the start of Regulations in accordance with International Financial Reporting Standards (IFRS) is given by EC Regulation nr.1.606/2002 the European Parliament and ruled by the NBR by Order nr. 15/2009.

By this Order, NBR asks for information purposes only "a single set of annual financial statements" [9] in accordance with IFRS for financial years 2009, 2010 and 2011 of credit institutions in our country.

In order to stress the differences between the accounting treatment in accordance with the accounting regulations harmonized with European directives and the treatment required by IFRS, the NBR Order no. 15/2009 specified in Art. 3. Paragraph (1) that "Credit institutions shall prepare a statement to reflect differences between the accounting regulations harmonized with European directives and treatment stipulated by IFRS for each item in the format of the statement of financial position and the statement of profit and loss.

Order no. 9/16.iul.2010 - "on the application of International Financial Reporting Standards by credit institutions ..." [10], applicable since July 30, 2010, stipulates in Article 1, paragraph (1) that "as of January 1, 2012, credit institutions shall keep records in accordance with the treatment under International Financial Reporting Standards adopted according to the procedure stipulated in Art. 6, paragraph 2 of Regulation (EC) no. 1.606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards, further on referred to as IFRS."

Credit institutions in Romania were advised, since the end of July 2010, about the applicability of IFRSs, with express mention in Article 1, paragraph (2) that accounting organization and lead shall "follow the Accounting Law no. 82/1991, republished, of IFRS, of the regulations issued by the National Bank of Romania for the implementation of this Order, as well as other applicable legal provisions."[2]

One can clearly observe Romanian accounting normalizer's care to make available to credit institutions in our country, accounting procedural rules, both in accordance with International Financial Reporting Standards (IFRS) and for their

better understanding, comparability and applicability.

Order No. 27/16.12.2010 - for approval of Accounting Regulations in accordance with International Financial Reporting Standards applicable to credit institutions [11], published in the Official Gazette, Part I - nr. 890 of 30 December 2010.

This Order approves the Regulations in accordance with International Financial Reporting Standards applicable to credit institutions in our country, as of January 1, 2012. To ensure a high degree of transparency and comparability of financial statements, the regulations in Article 1, paragraph (1) of Order No. 27/16.12.2010 apply with:

- Accounting Law no. 82/1991 republished;
- International Financial Reporting Standards;
- Other legislation applicable to credit institutions.
- NBR Order No. 27/16.12.2010 includes two Annexes, namely:
- Appendix 1 - Settlement of 16/2010 entitled " Accounting Regulation in accordance with International Financial Reporting Standards applicable to credit institutions";
- Appendix 2 - Annex since 16/2010 on consistencies between accounts in the chart of accounts prescribed by regulations in accordance with International Financial Reporting Standards applicable to credit institutions and appropriate accounts under the regulations in accordance with European Directives".

Legislative stages in accordance with IFRS accounting treatment [1], began to OMF no. 907/2005- approving categories of entities applying accounting rules in accordance with International Financial Reporting Standards, accounting regulations that comply with European directives, as amended, continued with NBR Order no. 13/2008, NBR Order no. 15/2009, NBR Order no. 9/2010 and ends with NBR Order no. 27/16.12.2010 - for approval of Accounting Regulations in accordance with International Financial Reporting Standards.

3. The impact of legislative changes in accordance with IFRS on the accounting of the Romanian credit institutions

The main changes brought by NBR Order no. 27 / 16.12.2010 - Accounting Regulations for approval in accordance with International Financial Reporting Standards applicable to credit institutions, refers specifically to the General Accounting Plan used by credit institutions.

Accounts under the Plan accounts are ranked according to asset liquidity, liability for debt and equity nature in conjunction with the rules underlying the financial statements in accordance with International Financial Reporting Standards.

In the Annex of the NBR Order No. 27/16.12.2010 - on consistencies between accounts in the chart of accounts prescribed by regulations in accordance with International Financial Reporting Standards applicable to credit institutions and appropriate accounts under the regulations in accordance with European directives, there are significant changes made in the General Accounting Plan. [2]

4. Conclusion

Romanian credit institutions have aligned to the International Financial Reporting Standards (IFRS)'s requirements after a long process of harmonization but the beginnings of Accounting Regulations in accordance with International Financial Reporting Standards (IFRS) is given by EC Regulation No. 1.606/2002 of the European Parliament and stated by NBR Order nr.15/2009.

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[8] ***NBR Order no. 13/2008 on regulations harmonized with European directives.
[9] ***NBR Order no. 15/22.12.2009 – on drawing up of credit institutions, for information, the individual annual financial statements that comply with International Financial Reporting Standards.
[10] ***NBR Order no. 9/2010 on the application of International Financial Reporting Standards by credit institutions, as the accounting basis and for the preparation of individual annual financial statements since the fiscal year 2012.
[11] ***NBR Order no. 27/16.12.2010 Accounting Regulations for approval in accordance with International Financial Reporting Standards applicable to credit institutions.

Operational Techniques and Methods Used in the Internal Control Process

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Abstract

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The existence of a wide range of actual or potential threats with effective impact on the business entities is a certainty, as well as their influence on the results of the entity (often negative). In this context, increasing economic performance and conducting effective activities are strictly related to implementing a system of internal control. With the possessed tools and techniques, internal control evaluates the activities accomplished by the entity and identifies the risks that it faces.

Therefore, presenting a fair view of the entity requires the implementation and development of internal control processes.

Key words: internal control, instruments, composing elements, entity, performance.
Classification J.E.L.: M4

1. Introduction

In Romania, the legal basis regarding the organization and conduct of internal control is contained in Section 11 of the Accounting Regulations in accordance with Directive IV of the EEC, part of the Accounting Regulations of the European Directives, approved by OMPF 3055/2009. According to them, internal control is "an activity designed, implemented and maintained by the entity management and staff in order to provide reasonable assurance related to the increase of efficiency and effectiveness of its operations, achievement of objectives, credibility of financial statements and providing a true and fair view".

Moreover, the internal control is a dynamic process that constantly needs to be adapted to the changes that occur within the economic and social environment by adapting specific tools and techniques, it is designed to eliminate or minimize the risks of the business and the specific activities conducted by staff from all entity's departments and at all hierarchical levels.

To achieve a more detailed exposure of the internal control process, it is necessary to present the elements of internal control, i.e. the tools used by it, all reflected in its functionality.

2. Elements of internal control

The main elements of internal control are:

a) The control environment includes all actions, policies and procedures elaborated by the responsible persons within the entity (directors, board of administration, directorate members) regarding the need to conduct internal control and the awareness of the importance of the entity's objectives.

The detailed elements that contribute to the understanding and the evaluation of the control environment are:

- the ethical values and competence criteria promoted by the entity in the process of employment, promotion and motivation;
- the importance given by administrators, board members, members of the audit committees regarding the evaluation of the efficient operation of internal control and the clear signals that the executive management give to the entity's employees related to the categorical attitude to apply the internal procedures and their own adopted policies;
- the permanent monitoring of the way in which the functional, operational and managerial aspects of the entity are achieved through its organizational structure, respectively ensuring that the organization clearly defines each entity hierarchical levels of authority and responsibility;
- establishing clear responsibilities in job descriptions for all employees of the entity

and the existence of policies and procedures regarding the activities in which they engage;

- understanding and assuming that the most important aspect to be considered in their expectations related to the solidity of the internal control within an entity regards the staff professionalism, competence, honesty and its proper motivation.

Therefore, the control environment represents the means by which the employees of the entity are evaluated, trained, promoted and rewarded so that the objectives of the entity could be carried out successfully

The proper functioning of the internal control environment is influenced by several factors, such as [1]: "functioning of the management structures, management policy and its operating style, organizational structure of the entity, the way to determine responsibilities, management control system which includes the internal audit function; personnel procedures and policies, segregation of duties".

The control environment is considered to be one of the important and necessary elements in organizing the internal control system. An appropriate control environment is an environment in which employees comply tasks, policies, procedures, regulations, and existing laws precisely because the activities in the entity need to be mastered and performed efficiently.

b) The risk evaluation procedure aims to identify and analyze risks for a correct financial reporting without significant distortion.

Responsibility for risk evaluation lies with both those charged with corporate governance (directors, directorate members) and executive management according to the field of activity (accounting, marketing, etc.).

For a correct evaluation, it is necessary to start with the analysis of the organization and the internal control, the accounting strategies, procedures and policies and then to continue to evaluate other risks arising from a series of internal or external sources with which the entity gets in contact.

Today, an increased attention is paid to risks, their evaluation is both for internal and external auditors during the auditing mission.

The main objectives of the internal control process are:

- operational objectives, considering the efficient use of the economic assets held by the entity, and reducing losses;

- informational objectives, regarding the accuracy of the information held in pursuit of relevant reports and implement the most appropriate decisions;

- compliance objectives, which ensure the coordination between internal policies/ internal procedures and the applicable law.

In order to ensure a reasonable level of internal control the following types of verifications are carried out [2]:

- "prevention controls: effectuated to avoid unwanted events;

- detection controls: performed to detect and correct unpleasant events that occurred;

- directive controls: made to produce a desired event;

- administrative controls: aiming the following activities: patrimony inventory, control of cash values etc;

- accounting controls: made by experts while performing the duties of the job;

- physical controls: aim at controlling staff."

c) The internal control activities generally concern the entity's policies and procedures relating to:

- the separation of duties to prevent fraud and errors. This separation is intended to ensure the separation of the responsibilities of asset management from those of accounting; the separation of the approval process of an associated operation of asset management; the separation of the operational (operating) activities of an entity from their accounting tasks; the separation of the main functions related to the information technology from the functions of the departments which are the key users of these technologies (in conjunction with the size of the entity);

- the approval for the operations and activities of the entity. In each entity it is required to have clear rules related to the approval of general and specific character for its operations;

- preparation and use of the accounting documents in accordance with the legal requirements;

- protection of the entity's assets by storing, managing and securing appropriate and adequate physical controls;

- verification made by persons who apply verification procedures that ensure the independence of those responsible from the outside of the entities. For example: the observations regarding the account balances from the bank statements to those of internal records should be made by persons who are not involved in the maintenance of the accounting records; the information systems should include automated and system-integrated internal verification procedures; options for internal and external auditing regard most of the entities as a result of their insurance and independent action

d) The information and communication system refers to: receiving, recording, processing and analysis of all information about the entity. These systems contribute to achieving some reports containing operational, financial and compliance information.

The implementation of the policies and procedures for the proper functioning of the entity is based on relevant, pertinent and reliable information.

e) The process of supervision and monitoring requires a permanent and regular evaluation by those responsible of the correct application of internal controls in order to determine their consistency and to intervene with necessary changes, where this is required. This means that:

- each responsible person must be organized in order to conduct his business as efficiently as possible;
- establish and assign specific and correct tasks to the entity personnel;
- develop and implement methods and work procedures;
- implement a coherent information system of coordinated activities;
- achieve staff supervision of the work covered by the liability of each charge. Each responsible person is required to establish a system of internal control. Directing this task to another person leads to a failure of the control in the entity. But those responsible can turn to specialists to advise and assist them in the design, development and improvement of the internal control mechanism specific to the coordinated field.

3. Internal control specific instruments

The internal control system has its own toolbox with specific procedures used in achieving its objectives and specific actions as it follows:

a) Tools that regard human resources.

The existence of competent personnel will lead to the increase of effectiveness of internal control. Therefore, internal controls aim at both recruiting and selection, and continuing professional education.

In the process of recruitment and selection, a series of procedures are developed:

- to identify recruitment needs over a period of time;
- to develop and use an interview guide;
- to communicate policies and procedures for recruitment and selection;
- to create a checklist for legal compliance recruitment and selection procedures applicable in the entity.

Professional training is both a compensation of any possible weaknesses in the recruitment and development of staff knowledge.

Until the actual realization of this process, a series of activities need to be carried out, subordinated to the internal control related to:

- the development of a questionnaire to identify staff training needs;
- data analysis related to the training needs among employees;
- prioritizing the identified training needs;
- elaboration of some training policies;
- their clear communication to the workforce;
- setting the checklist for the control of planning and staff training;
- development of procedures for initiating new staff.

Knowing and obeying the rules of the entity's code of ethics by the staff is the prerequisite for the good functioning of internal control.

b) Tools that regard financial resources.

Coordination of the entity's objectives and financial resources available to achieve them requires a lot of internal control activities, as it follows:

- verifying the correctness of setting up the budget of income and expenses;
- performing update operations of the cost of the objectives to be achieved;
- carry out some verification of the documents regarding the expenses incurred by the entity;

- verification of the documents the show a clear record of the entity's earnings;
- diagnostic analyses related to the economic and financial entity.

c) Tools that regard material resources.

These include: products, services and works held by the entity. As internal control processes, we include:

- analysis of the ways to cover the real needs of the entity with the existing material;
- analysis of the need to procure material resources for the entity;
- application of the checklist to monitor compliance of the procedures regarding the acquisition by the entity of a good or service.

d) Tools that regard information resources.

It represents the totality of procedures, methods, processes used by the entity for the collection, processing, transmission and use of the information within the entity.

The information resources consist of: data, information, databases, information flows, means of information treatment information, information flows and make up the entity's information system.

Analyzing all the activities, the information system should be established to permit a control over them in order to achieve the objectives. Thus, internal control conducted in this area should focus on:

- the accuracy of the information used;
- the continuous improvement of the system by: technical improvement and diagnostic analysis;
- the system supervision for each domain.

Therefore, the tools used for internal control and the procedures undertaken on each instrument represent effective means contributing to the work of the entity.

The documents used in internal control include:

- the internal control questionnaires elaborated to evaluate the internal control instruments;
- the analytical records that record the conclusions regarding the activities of the persons engaged in internal control activities;
- the synthetic documents elaborated to inform the entity's management on the actions taken by the persons responsible for internal control;
- the list of risks identified and evaluated for a given activity, aimed at presenting risks as a result of the activities carried out;
- the synthetic evaluation document is made by those responsible for internal control on each of these activities.

4. Conclusions

The internal control is perceived as a process engaged in: monitoring, verifying, developing procedures, recruiting personnel, improving it, production of documents, identifying risks in order to provide reasonable assurance that the assets are safeguarded and transactions are made in the best conditions.

This is not just a means to implement procedures/internal policies to ensure the achievement of objectives, but also a way of achieving performance for the identification and elimination of risks/hazards which the entity must face.

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The Financial and Economic Crisis in Romania and the Possibilities of Recovery

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Abstract

The world economy is currently still facing one of the worst economic and financial crisis since the Second World War. In fact, this crisis has spread worldwide with maximum speed, the economies of all Member States of the European Union encountering serious difficulties, both in the banking system and the real economy.

The purpose of this paper is to highlight what triggered the crisis in the global economy today, why not follow a particular thread and another, all with reference to the area where Romania is that the European Union, hoping to find a cure to the current problems of economic, social and political that we must face.

Keywords: economic crisis financial, economic recession, countercyclical policies, economic recovery
JEL Clasification: F15, F41, F62

1. Introduction

If current economic and financial crisis has spread rapidly worldwide, EU Member States economies facing serious difficulties, both within the banking system and the real economy [3].

In fact, the speed and depth of the crisis shows how interconnected our world is. As the crisis unfolded, the importance of the community has become increasingly evident. The single market was the foundation of the EU economic growth over the past 15 years, creating millions of jobs, making Europe more competitive and efficient.

The overall impact of the financial crisis on the real economy is strongly felt, and the economy as a whole is affected by a slowdown in the development of enterprise and employment.

In late 2012, the number of unemployed in the EU reached 21 million, and in 2013 will reach 25 million.

2. The evolution of the global crisis

To know where they will turn this global financial and economic crisis is carried out an analysis of events. So first there were some news about the U.S. housing market, which suffered a strong devaluation. There was shock at hearing the news that some banks and insurance companies in America went bankrupt and the state had to pay several hundred billion dollars to save them.

Then waves of the financial crisis were spread rapidly and in Europe. Spanish property market has collapsed. Major automobile companies in Germany breathe harder and Opel even suffocated.

Britain facing historic unemployment, with over 3 million people unemployed, Italy fall into recession and Hungary and Ukraine asking for help and emergency financial assistance from the IMF. Alone, France has maintained balance and not yet officially in recession [1].

The Moscow government is struggling to keep the ruble stable and throw billions of dollars in the market. Japan, one of the world's advanced economies symbols, and she surrenders to the recession.

After American banks, carmakers are great crisis overseas. Once the engine of the U.S. economy, three of the largest car manufacturers in the U.S. have sought help from Washington [5].

The crisis in the United States of America is worse than the most pessimistic expectations, even if the public expects of the best news. Thus, if at the end of 2011, optimism had made the U.S. economists to

forecast GDP growth for the last quarter of 2012 by 2.7%, then in May of 2012, for example, growth forecasts economic for the last quarter of 2012 reached only 1.5%.

Measures to stabilize the financial market, the easing of monetary policies and economic recovery plans will allow us to stop damage to the economy and create the conditions for a gradual recovery in the second half of the year. Priority is the effective implementation of those measures: improving credit flow at reasonable prices and timely implementation of fiscal stimulus packages to encourage investment and private consumption.

To increase reliability, it is essential also for Member States to commit explicitly to reverse the deterioration of public finances as soon as you get back to a normal economic situation, to ensure thus, medium and long term sustainability of public finances ", said Joaquín Almunia, Commissioner for economic and Monetary Affairs.

According to the latest projections by the European Commission in 2012 expected a decrease of 4% growth after, in 2011, there was an increase of 0.8%. Almost all EU countries are severely affected by the economic crisis, falling global economic growth and ongoing housing market corrections in some economies [2].

However, it is estimated that fiscal and monetary measures to be implemented will lead to the resumption of growth in 2013 (although the projections for 2013 show an increase of 0.1%). These figures - largely identical throughout the euro area and the EU - are lower than those presented in autumn 2011 and the forecast of January 2012.

In response to the economic crisis more acute facing the EU, the European Commission proposes measures worth 200 billion euros, aimed at increasing purchasing power, generate economic growth and create new jobs. This package of measures, short and long term, is 1.5% of EU GDP. Most of the money 170 billion, come from national budgets. The remaining 30 billion is allocated from the EU budget and the European Investment Bank funds.

The plan aims to protect the population, workers and entrepreneurs who may be affected by the financial crisis as it spreads throughout the economy. Proposes more support for these vulnerable groups, including investment to boost job skills and help people to remain as long as jobs or find new ones.

EU will accelerate the distribution of social and regional funds - worth 6.3 billion euros - and intends to provide incentives for the hard-hit construction and auto industries to build greener cars and buildings energy efficient.

European Investment Bank, which provides long-term loans could play a greater role in financing major projects. B.E.I. has already prepared a package of loans worth 30 billion euros for small businesses struggling to obtain financing. Plan flexibility allowed under EU rules on national budget deficits, which give governments to temporarily borrow more in times of crisis.

The package is "big enough and bold enough to short-term results, but at the same time it is sufficiently reliable to turn the crisis into an opportunity in the long term," said President Barroso.

Jumpstarting the economy through investments in infrastructure, green technology, energy efficiency and innovation, the package proposed by the Commission plans to accelerate the transition to a knowledge-based society with low carbon. The plan also encourages partnerships between government and business.

Several European countries (including the United Kingdom, France and Germany) have already announced their own stimulus packages. The Commission calls on all nations to follow suit and act under EU auspices. Governments spend money in a way best suited to their own economy as challenges vary from country to country. The Commission will monitor national efforts to ensure that businesses do not confer competitive advantages in their country.

3. Libra financial crisis lean toward recovery

Since the first signs of positive exit for the Member States of Central and Eastern Europe can not speak alike, an economic and financial recovery.

As stated chief economist of the European Bank for Reconstruction and Development (EBRD), Erik Berglof: "In terms of growth, Eastern Europe will lag behind the rest of the world."

On the other hand, Western European countries, more powerful economically, will have to support the countries of Central and Eastern Europe, other countries, with remarkable economic and financial potential.

This leads to the idea of involvement of all member countries for economic recovery of the entire Europe, or, as Barroso said "Europe will become irrelevant."

The worst recession since the Second World War ended in the third quarter of 2012, when it registered a growth of 0.4% in the euro area, after five consecutive quarters of decline, the all the 27 EU countries, GDP growth was 0.2%, but between Member States continue to be significant discrepancies.

So, in Poland there have been considerable economic growth, but it is still concerned about the state of its public finances. The budget deficit this year would be 6% of GDP, peaking up to 7% in 2014.

In Slovakia, which joined the euro in 2012, GDP grew by 1.6% in the third quarter compared to previous three months.

Lithuania has achieved a quarterly increase of 5.1%, but compared with the third quarter of 2011, GDP fell 14.3%. But Latvia is in an even worse situation, with a decrease of 18.3 percent of GDP in one year. Estonia has had in the interval from July to September a negative economic growth of -2.8% compared to the previous quarter.

"Poland, Czech Republic and Slovakia, who have committed fewer mistakes, can look to the future with more optimism" believes Witold Orlowski, expert at PricewaterhouseCoopers.

In Hungary, the economy contracted by 1.8% from the second quarter and 7.2% annual rate, but with relatively low budget deficit in comparison with other EU countries, from 3.9% of GDP. Romania recorded in the third quarter of 2012 GDP decreased by 0.7% compared with the previous three months and 7.1% over the same period of 2008. Bulgaria reported in the third quarter of 2012 decreased by 5.8% of GDP annual growth rate, which is the worst result of the onset of the economic crisis, and analysts expect a recovery in economic growth in 2013

Optimistic signs of recovery were supported by a banking system that, in addition to the reduction in cases of bankruptcy of financial institutions, leading to lending to the real economy.

Improving economy but takes place in a fast, given unemployment: Unemployment in the European Union (EU) rose in the last year and a half, reaching 9.2% (2.5% more), which is an increase of 6.1% in the number of jobs lost, totaling 22.1 million people.

EU countries most seriously affected are Ireland and Spain, where the unemployment rate has doubled in the past year, and in the Baltic countries even tripled, while Dutch and Austrian unemployment remained visibly decreased.

By applying adjustment measures such as reduced working hours, short-term tasks and temporary closure of jobs, reduce wages instead of firing them, seems to lead to an increase in unemployment. In this mode, Austria, Belgium, Germany, Italy and the Netherlands have focused, reducing productivity rather than downsizing. But an increase in unemployment longer durations of time could have a significant impact, given the reduced possibility of finding a job.

In this way, cyclical unemployment could turn into a structural problem. For example, in the EU, about 45% of the unemployed are left without a job within a year, while in the United States, the number is 10%. For the elderly, the average unemployment extends up to 14.7 months, while for skilled workers, time to find a new job is "only" 8.1 months.

The new strategy of the European Commission in 2020, seen as an exit strategy requires that every head of state and government to "establish a small number of objectives and policies to define appropriate action, to be pursued at EU level and Member States, in partnership ". document defines four priorities for 2020: Innovation and knowledge, the fight against exclusion, green growth and digital Europe.

C.E. adopt formulas to adapt to the crisis by reducing redundant ceiling half, including redundancies due to causes other than world trade.

It has shaped an unprecedented interdependence. All Member States conduct more trade with each other than with the rest of the world. The best way to stimulate the economy is to build on this interdependence. Will intensify partnerships to overcome the crisis in a way that protects all citizens of the European Union.

Itself begins to rewrite the economic underpinnings that markets are not self-regulating, but reborn state theory interventionism launched after World War by John Maynard Keynes and implemented and the Great Depression of the '30s.

Contrary to economic theory, the current situation has shown that prices have fallen so much that it took government intervention to direct artificial economy.

On the other hand, the market can not self-regulate, because of the mistakes they committed companies to earn huge mistakes that lead to harm to society.

When we talk about geopolitical state we mean primarily the state, in turn, involves man as the fundamental unit, more complex words, institutionalized political man.

Geopolitics is directed towards expansion states, their relationships, which may be conflicting or congruent. Asymmetries between countries can lead to instability interstate, when the cartel is a first step towards stabilization, states tend to forums and intergovernmental organizations, are clear examples IMF, WTO or the EU.

States qua states to choose between increasing internal operation, external expansion or A combination of them. Revolution is internal limit, the limit is external world.

When are liberal, they are not ontological states, enter into productive logic, societal, edifying, and not subject to geopolitics [4].

4. The ways out of the crisis of Romania

Here are 10 things that Romania could do to stimulate the economy by encouraging consumption and export policy review:

1.Export orientation to markets that had good behavior in crisis, such as China (up 8.7% of GDP in 2012) and India (7.2% GDP growth forecast for 2012), the Asiatic continent, and even Brazil, in South America, would be a solution that might appeal Romania. Some of exports which, traditionally, they headed for the European market could be directed to these markets. Of course, export production should be reformed to be adapted as the standard of living there, much lower than that in Europe.

2. To benefit from the great crisis. If large markets not out of the crisis, then postponed until such time as government financial support will be withdrawn savings.

3. Avoiding all forms of taxation that can lead to limiting consumption. So I think professionals should avoid increasing the value added tax, entry tax and fast - food, turned into a tax on foods containing additives, so most foods.

4. Further granting certain subsidies. Although they were often blamed by experts, state subsidies for utilities or other products and services managed in 2012 to maintain a high level of consumption in these sectors, as recently mentioned NBR representatives .

5. Additional programs stimulate domestic consumption guarantees. Experience has shown that they are the cheapest ways the public sector can encourage consumption. They do not involve giving money to the state, but only providing guarantees to encourage banks to issue loans. Also proved highly effective programs. Currently, the program provides guarantees to banks in the first house and first silo. Launching new or expanding old ones to new categories of customers, could encourage even more local market consumption, analysts say.

6. Appropriate monetary policy. Further lowering of key interest and maintain the course at a level that would not discourage exports, but let it not be dangerous to the financial stability of Romanians indebted in foreign currency, is the task of the central bank should pay to support consumption growth.

7. Negotiation with the EU agricultural subsidy extension periods, in order to encourage production in the field, may be another solution, even suggested local farmers.

8. Decrease public spending. "If you reduce the budget deficit from 7.3% in 2012 to 5.9% this year (targets negotiated with the IMF) will be made by cutting public spending, the state would not be pressured to substantially increase revenues, raising taxes and thus affecting the economy, "said representatives of ING Bank Romania.

9. Public sector financing from foreign markets. Unlike 2012, when the state does not allow outsiders to access loans because of the high costs this year costs have fallen more credits to Romania. The state could thus choose to provide the necessary funding,

especially foreign markets, not local banks (as happened last year). Such banks would have the necessary liquidity for lending to the economy.

10. Encouraging foreign investments, which are one of the main engines of economic growth. Low cost of labor, well qualified is the main advantage enjoyed by Romania in relation to markets in the area, when it comes to attracting foreign investment. To make Romania attractive to investors, but the state must contribute, in turn, the budget deficit to an acceptable level so that investors have confidence that the public sector will not reach raising taxes to get the money

5. **Conclusions**

After a year 2011 absolutely spectacular in terms of profits, 2012 was a decent year for banks, if one takes into account that demand for loans on the retail side was absolutely anemic, but last year was the perfect client state, providing banking a profit of about 185 million euros according to calculations by Business Standard.

Stands and increased operating profits, which means that if in 2013, provisions that banks will have to make up will be lower than in 2012, profits can increase significantly.

This year there is still profit targets, but provided that the banking system will be less profitable than last year, even if the banks will not ensure a profit as high as 2011. In this regard, there is increasing interest margins between active and passive, which means that this year, banks will earn more in interest differential.

If Romania would export more to China and India, countries that have successfully withstood the crisis and encourage domestic consumption by whatever method, then the economy would be likely to get by, even if major European markets remain in lethargy, experts say.

European foreign markets, with which Romania carried about 70% of trade, not out of the crisis, as was thought. German economy declined in the last quarter of 2012, compared to the previous quarter. France surprised, in turn, caused by excessive deficit last year, indicating that make great efforts to overcome the crisis country.

Therefore, the only solution for Romania to recover seems to be trying to stimulate rather domestic consumption and open trade with other markets more stable than European could make out of the crisis.

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The Relation between Economic Growth and Capital Flows in the Context of Financial Liberalization

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Abstract

Starting with the 20th century practitioners and academics have tried to correctly identify the dependency relations between the capital inflows and the macroeconomic equilibrium of an open economy and the intensity of them in order to create better macroeconomic policies capable to ensure the perfect capital mobility. The present paper aims to present and analyse the main contributions to the international capital flows theory focused on the economic growth in an open economy and the financial liberalisation.

Keywords: capital flows, open economy, financial liberalisation, economic growth
JEL Classification: G23

1. Introduction

Economists have, during the last decades, been constantly preoccupied with developing economic growth models, initially for closed economies, and later for open ones. The subject of economic growth in an open economy was approached starting with the relations between two or more countries: international trade and capital, human and technology flows.

After the 1940's, economic growth was traditionally approached through neo-classical models. These models try to explain economic growth as the general trend of the long term growth rate of per capita income.

2. The economic growth models in an open economy

The Harrod-Domar model – during the 40's, economists Row Harrod and Evsey Domar independently developed economic growth models based on the assumption that a constant ratio is maintained between the factors of production used in obtaining a finished good. This model focuses on two essential aspects of the growth process: savings and the efficiency of capital use in investments. This model can supply correct short term forecasts, and was widely used in developing countries to determine the required investment rate for a desired growth rate.

The Harrod-Domar model synthetises several equations in order to obtain the equation showing the calculation of the growth rate of income:

The model therefore shows that a higher savings rate will result in a higher growth rate, as more savings result in more investments and faster income growth. Its limitation consists in the fact that it maintains equilibrium only for a 100% employment rate and full capital utilization, leading to erroneous long term predictions. Additionally, the model disregards technological changes and productivity differences in using the factors of production, which are considered essential for long term economic growth.

Solow's growth model (the neoclassical growth model).

In 1956, Robert Solow created a new growth model, attempting to eliminate the

limitations of the Harrod-Domer model. Solow replaced the fixed coefficients in the production function with a neoclassical production function. The model allows the substitution of factors of production. The neoclassical production function takes the graphical shape of a curve, unlike the L-shaped previous model, as it allows flexibility in using various combinations of the labour and capital factors of production. Solow considers technological change as a cause of productivity growth. The neoclassical production function demonstrates that a capital increase or improved labour skills result in income growth. Solow assumes technological growth to be exogenous to the model, and that it can be accomplished in two ways: physical (in the case of capital assets) and human (improvements in education, health, labourer skills). Thus, the model identifies population growth and technological change as the determinants of economic growth, and these factors drive the incomes of rich and poor countries towards convergent long term trends. "The surprising implication of the Solow model was that the savings rate is not as significant to growth rate as under the Harrod-Domar model".

The Solow-Swan economic growth model was the inspiration for the first generation of growth models associated with exogenous factors of economic growth, also known as exogenous growth models. The focus on these models diminished after the 70's, when the issue of economic growth in open economies directed researchers toward other aspects: inflation, unemployment, petrol crises, increasing volatility of financial markets resulting from widespread use of variable exchange rates. Economists were thus preoccupied with creating macroeconomic policies that would tackle these new problems [1].

The second generation of economic growth models, dubbed endogenous models, appeared in the 80's – 90's with Romer's work.

Paul Romer's (1990) paper "Endogenous Technological Change"[2] signalled the birth of a new theory of economic growth. One of Romer's important contributions to economic theory is that on technological change. Of this, he says it is an economic good unlike any other and the driving force behind economic growth, a result of the reaction of the human factor to market challenges.

The new generation of economic growth models targets several issues: deeper explanations of differences in international economic growth rates, more important roles for the accumulation of knowledge and monetary policy instruments in explaining the economic growth process [1].

An important characteristic of this new generation of economic growth models is the international perspective. The contributions for the past 20 years to economic growth theory have shown that an economy's openness has a positive effect on economic growth, when it is considered not only as international transactions of goods and services, but also as capital mobility[3], [4],[5], [6],. In reality, in some countries economic growth is possible only when they receive capital inputs that partly finance productive investments [7].

Bailliu (2000)[8] investigated the link between economic growth and private capital flows, concluding that three economic growth stimulation channels exist: capital flows can promote economic growth by raising the domestic investment rate, by investments with indirect positive effects on the economy, and/or by increasing domestic financial brokerage.

Most studies researching open economies growth models also identified proofs of a convergence process, by which poor countries tend to achieve faster economic growth, compared to rich countries ([5], p 103).

Reviewing economic growth models, we can conclude that the neoclassical theory assumes that capital flows will move from rich countries toward poor countries, since it states that investment yields are higher in developing countries, stimulating north-south flows. Starting with the assumption that different countries produce the same goods, generating the same income by using capital and labour as factors of production, and then per capita income differences will reflect per capita capital differences. Thus, if free capital flows were allowed, new investments would only be made in poorer countries, which would remain true until investment yields are equalized across all countries [9].

3. Modern approaches to the international capital flows theory

As we have shown earlier, the economic theory, whether it relates to the macroeconomic equilibrium whether brings into discussion the economic growth has developed models proving that achieving the economic growth is easier in the context of an open economy to international flows of capital, labour and goods.

This situation will increase the complexity of the issue of macroeconomic equilibrium because only theoretically the markets are efficient and guided only by supply and demand, in reality there are only imperfect markets that will not allow a perfect capital mobility so that both the actors in financial markets and goods and services markets and the macroeconomic policy decision makers will be force to take into account that the information in the real markets is asymmetric which leads to the presence of phenomena such as moral hazard, adverse selection, market manipulation.

These phenomena adversely affect the efficiency of the resource allocation through the free movement of capital leading to inefficiency at best and in some cases triggering regional or global crises.

However, in the 60s 70s, while phasing out the regime of fixed exchange rates, the emerging economies have decided the liberalization of the national financial markets by opening the capital account in the hope of achieving an economic development driven by the efficient allocation of resources between economies.

According to the neoclassical theory of economic growth the liberalisation would have had to have the effect of an increase in the capital flows from the developed economies to developing economies.

In the literature, one of the theories coming to question the neoclassical theory is the so-called "paradox of Lucas". Lucas (1990) proves in "Why Does not Capital Flow from Rich to Poor Countries"[10] that, contrary to the predictions made by the neoclassical theory, the capital flows have no general direction from the developed countries to developing countries.

Lucas demonstrates this fact by comparing the U.S. with India at the level of 1988 and showing that, if the assumptions of the neoclassical theory were true then India would have a marginal rate of capital of about 58 times higher than the U.S. and therefore the capital flows would be fully oriented in the direction of India which did not happen in practice.

Therefore Lucas questions the neoclassical theory conditions and also puts the issue that would be correct assumptions to support the direction of capital flows existing in reality.

Alfaro şi Volosovych Kalemli-Ozcan ([9] p2) realise a synthesis of the literature and finds that the Lucas paradox triggered a lively debate, several researchers including Lucas showing that changes in the standard the neoclassical theory makes this so-called paradox disappears.

The theoretical explanations for this paradox can be grouped into two categories: one category includes the differences between the fundamental features of the economies that affect the structure of the production - technological differences, lack of inputs, government policies and institutional structure and a second category that focuses on the international capital market imperfections mainly the sovereign risk and the asymmetric information.

Another so-called enigma of the international capital flows is the "Feldstein-Horioka puzzle" and is considered one of the 6 puzzles of the international macroeconomic theory as it summarizes Obstfeld and Rogo in 2000. The intertemporal theory of the current account if we consider the possibility that an investor can invest in any economy (perfect mobility of the capital), then he chooses to invest in those countries where the yield per unit of investment is higher leading to the prices increase until the yield per unit of investment in different countries become identical showing no relationship between savings and investments in the sense that the determinants of investments and savings are different.

Therefore the countries should borrow or lend out when they want to invest or disinvest regardless of the saving decisions taken internally. Feldstein and Horioka (1980)[11] prove that this assumption is not valid for the OCDE countries where the rates of the domestic savings and the investment rates are highly correlated.

In the years in which the savings are high

so are the investments. They believe that the results show a low mobility of capital among OCDE countries. In the years that followed the publication of the results of Feldstein Horioka study the capital mobility among OECD countries continued to grow but the correlation between savings and investments has decreased very little [12].

The capital account liberalization in the developing countries in South America and Asia and the transition to the variable exchange rates in the 60s-70s has created a wave of enthusiasm in terms of the capital mobility as a catalyst for development and economic growth. Unfortunately, the crises that have affected the economies at regional or even global level resulted in an aberrant evolution in the dynamics of the capital flows.

Phenomena such as: the capital flows reversal, the sudden stop of the capital inflows, the abundant capital inflows followed by large capital outflows are studied by the recent literature under the imperative of seeking solutions to the risks and the disadvantages of a national financial system liberalization, subject to the financial contagion as the factor that determined the entry of most national economies into a deep contraction in the 2008-2012 period.

4. Conclusions

Practitioners and academics alike have tried to correctly identify the dependency relations between the capital inflows and the macroeconomic equilibrium of an open economy and the intensity of them and to create models, as noted above, but the practical utility of these models has proved limited or non-existent.

The enthusiasm that marked the decades 70-80 with regard of the globalization process and the liberalization of financial markets has moderated significantly in the early 90s when the former communist bloc economies have experienced major macroeconomic imbalances at the time of opening borders to the foreign investors and proved that the expected benefits than can be quickly cancelled by the risks that arise in an economy ruled by hyperinflation, with markets where supply and demand are disproportionate and with a weak external competitiveness.

The modern economies, open to the capital inflows, are put in front of a complex reality: the capital inflows due to the capital account liberalization and a high interest rate differential poses a challenge for the monetary policy and equally for the management of the capital outflows that, amid internal and international crisis, can generate imbalances affecting the financial market and the economy as a whole.

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Ethical Dilemmas: Are the Accountants Doing Something Good or Something Bad?

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Abstract

The question of title is about the ethical dilemmas which are involved into the accountancy profession. There are millions of accountants, who must do their jobs well each day and don't break the law, who have to rigorously apply accounting standards and professional principles in their work and who generally have to do something good, not something bad.

Society needs to have confidence in the quality of the services provided by professional accountants; their services should be highly competent, reliable, and objective. Therefore accountants must not only be well qualified but must also possess a high degree of professional reputation which is one of the most important possessions.

This paper realizes an evaluation of various libraries and electronic data bases, in order to provide radiography for these dilemmas ethically and in order to be able to talk about them.

Key words: ethics, accountant, ethical principles

J.E.L. classification: M 41

1. Introduction

In the past, has been pressure from various business and professional accounting bodies to place greater emphasis on ethics education and this is obvious in academic research and curriculum development.

There are many researches which are done in accounting ethics field. Thinking about the kinds of ethical competencies that should be the objective of ethical education is quite a complicated and widely debated topic. It is difficult to develop a list of objectives for a course about professional ethics in accountancy.

The paper aims to identify the broad range of ethical issues associated with accounting, issues which are related to a fundamental set of values for accountancy profession.

2. The importance of ethics for accountants

Post Enron, WorldCom and Parmalat, there has been quite a lot of discussion of the ethics of accountants and professional ethics more generally, because the accounting profession is no stranger to these scandals, and also there are many others historical examples of individual accountants who have acted unethically in some particular circumstances. However, despite the massive scale of these debacles, it is surprising how quickly they have been forgotten and how little substantive change they really engendered. These historical and empirical cases present a series of quite fundamental ethical questions, such as: Why people do bad things, in spite to do good things?

In response to this crisis, the primary agenda of professional bodies has been to try to re-establish their credibility and legitimacy. The magnitude of the scandals, combined with the other major social shifts may just have disorientated professional bodies enough to cause them to reflect on

whether the task is simply a matter of re-establishing a relationship of trust, or more fundamentally re-conceptualizing it and making it work within a different cultural context. [1]

Accountants are confronted with broader ethical dilemmas.[4] Unlike the legal profession the obligation of which is primarily to an individual client, accountants, particularly auditors, can be regarded as having the public itself as the ultimate client. Because of the continuing globalization of business and accounting activity, the public will also become more global. Furthermore, the globalization of business activity is seeing a parallel process with accounting firms. Accountants participate in these developments either as employees of multinational firms or through international affiliated accounting firms, thus bringing accounting graduates increasingly into contact with different cultural and ethical values.

The level of political interest in the accounting profession immediately following the Enron scandal indicates that accounting performs a hugely important function within a market-based economic system. Perhaps it is because accounting is perceived to be a technical and fairly specialized subject that it is not exposed to more public debate and discussion. The lack of political debate and public discussion surrounding the role of accounting within contemporary society, however, does not reflect views from within the discipline. Over the past few decades a substantive body of research has given rise to a major school of critical accounting thought that challenges the conventional, technical view of accounting as a politically neutral and amoral practice. Influenced by this alternative perspective on accounting, this more critical school has begun to explore the ethics of accountants, the function and purpose of the accounting profession and the ethics of accounting.

3. Accounting ethics education

Because all mature professions have a well-developed code of ethics it is important for the future professional accountants to find these aspects into the education and training programs.

Research indicates that students themselves strongly believe that ethics is an important issue in business and accounting, and that a lack of ethics hurts the accounting profession.

The academic community has also made calls for a greater emphasis on ethics education both in course content and accounting text books and various pedagogical techniques for teaching ethics have been put forward together with curriculum recommendations.

The most important problem is how ethics education can be increased or improved within the accounting curriculum.

In the past accounting education tended to be technical in nature and focused on the preparation of students for professional examinations. Coverage of ethics was generally restricted to discussion of professional codes in auditing courses and was not otherwise formalized or systematic.

In contrast, other professions such as law and medicine have had a long tradition of requiring ethics courses as part of their education. In present, the situation with accounting has changed, because ethics education is required as part of an accredited curriculum or professional program in most countries.

Many academics have expressed concern over the ethical predispositions of both accounting students and practitioners. Some studies suggest that accountants seem to exhibit lower levels of moral reasoning than other professional groups, and this possibility has led to a debate about the extent to which accounting education (at both the undergraduate and professional levels) either contributes towards or stultifies accountants' ethical development. Taken in its entirety, the literature presents the somewhat disturbing possibility that conventional accounting education has a more negative than positive impact on students' ethical predispositions.

The current research literature show that accountants appear to exhibit lower levels of moral reasoning than other professional groups and the accounting students become less ethical as they progress through their accounting education. Also, accounting students are less ethically aware than other students and they don't recognize the broader social responsibility issues associated with professionalism. Most accounting students think that accounting is an amoral and

technical activity. [7]

4. Accounting ethics in the new business context

Globalization, financial engineering, cross-cultural issues, the knowledge economy, information technology and cyber-ethics are just some of the characteristics of the new business context against which public concern is emerging. Intangibles, complex financial instruments and pensions are just a few of the associated ethical problems that the accounting profession is struggling to resolve. However, while this increased technical complexity has focused attention on the competence of accountants and the profession's requisite body of knowledge, these issues also problematize the profession's public interest claims. For example, while resolving the issue of how companies account for pensions requires a fairly advanced level of technical competence; the emotive and very civic nature of the issue also problematizes the profession's claim to be acting in the public interest. [1]

However, the increasingly complex and important role that accounting plays within contemporary society extends beyond the comparatively 'developed' economies of the West. The accounting profession is also playing an increasingly important role in development policy in relation to emerging economies through the influence of the likes of the World Bank and the International Monetary Fund.

Business, the traditional site of accounting, is becoming increasingly more complex but there seems to be a lack of public and political engagement with the ethics of accounting. At a time when societal expectations are increasing and business is becoming more complex, the traditional resources that may have provided the grounds for addressing these problems in the past has diminished and there is growing concern that we lack the ethical capacity within the accounting profession to engage seriously with these challenges. Despite its professional claims and its hugely important current socio-political function, many accounting students and practitioners seem to lack not only the competencies in relation to understanding the principles behind a particular professional code, but more importantly they also seem to lack the ethical skills that would enable them to articulate the current set of rights and values which accounting promotes, critically evaluate this practice in the light of contemporary discourses, for example on corporate social responsibility, human rights and deliberative democracy, and generally participate in a dialogue about the function and the future of accounting.

Studies indicate some level of concern over the ethical maturity of accountants in particular, there appears to be similar unease within other professional bodies over the level of ethical competence of their members, like lawyers or doctors. Also studies show that an accountant as individuals lacks the capacity to recognize what is good behavior and do it and the ability to analyze accounting ethically within its broader organizational and political/economic context.

People are not willing simply to accept what those in authority say anymore. The trend here seems to be a shift away from a reverence for and deference towards the professions, to viewing professionals in some partnership role, a shift that is also part of a broader socio-political movement for greater deliberative democracy.

Accounting ethics education, therefore, should aim to equip students with moral expertise, which may be later evidenced by their ability to make ethical judgments. [5]

A study of ethics could increase their skills for systematic analysis of moral beliefs and attitudes, and their capacity to handle the conflicts in values that can arise between practitioners, clients, and society in actual business settings. More specifically, seven possible goals of teaching ethics in the accounting curriculum have been identified. [8]

They include:

- to relate accounting education to moral issues;
- to recognize issues in accounting that have ethical implication;
- to develop a sense of moral obligation or responsibility;
- to develop the ability to deal with ethical conflicts;
- to learn to deal with uncertainties of the accounting profession;

- to set the stage for a change in ethical behavior; and
- to appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics.

5. What factors influence the way accountants respond to ethical dilemmas?

There are studies which discussed above how could determine whether one person or profession is more or less ethical than another. It is necessary to imply some objective scale of morality. A considerable number of the comparative studies draw on the work of Lawrence Kohlberg and his model of Cognitive Moral Development (CMD). Kohlberg's model is routinely used to gauge an individual's moral maturity based on their responses to a series of hypothetical dilemmas. [1]

In general, personal characteritics which have impact on ethical bahaviour are:

- *Gender* (females are more ethical than males, show the studies, and have diffrent kinds of attitudes towards ethics and codes of ethics, so a good way to resolve ethical problems in large accounting firms is to employ more woman);
- *Age;*
- *Moral maturity;*
- *National culture* (accountants of different nationalities have disparate perceptions of what is and is not ethical, so international differences in ethical values could impede the effectiveness of the IFAC Code of Ethics for Professional Accountants);
- *Organizational culture* (the chracteristics and dinamics of the groups to which accountants belong may affect the way in which individual accountants encounter and resolve ethical dilemmas. Individual ethics depend, also, on the position and level an individual ocuppies within an organization: increase as they attain supervisory levels, but decrease among managers and partners).

Both individual attributes (moral maturity, age, gender, nationality) and structural or contextual characteristics (national and organizational culture, group and role) influence individual ethics.

6. Conclusion

As evidenced by so many accounting scandals, many of the goals of accounting ethics education have become extremely important today and it is necessary to convey to accounting students the importance of professional responsibility.

Attempts must be made in accounting curriculums to either address ethics issues at the course level similar to the professional responsibility course described in this paper or at the curriculum level throughout the accounting program and an increased exposure to ethical situations is needed in the accounting curriculum.

The future of the accounting profession depends on ethical leadership by accounting professionals and accounting educators. Accounting profession and academics should focus on calling individuals to excellence. By presenting the importance of high ethical standards, by teaching the importance of personal integrity, will be assured current and future of accountants like professionals.

Ethics is apparently a critical issue in accounting practice and, consequently, to accounting education. Colleges and universities have no choice but to take up initiatives to improve ethical standards among future accounting professionals.

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Some Considerations on the Fiscal Fraud Resulted from the Assignment of Social Shares

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Abstract

In our paper we shall try to present two mechanisms of fiscal fraud used when assigning the social shares held by natural persons at limited corporations. The first mechanism of fiscal fraud will refer to the assignment of social shares belonging to a corporation that registers commercial obligations to creditors and suppliers or fiscal obligations to the state institutions. The second mechanism will refer to the assignment of the social shares held by a coporation that has obtained a profit for several years and whose net asset is positive when the sale occurs. The fiscal fraud, empirically researched, will be presented through certain figures in which we will present in detail the operations which appear in both cases. We have to mention that the cash payments from the assignor to the cessionary, in the first case, and from the cessionary to the assignor, in the second case, usually „slip through the fingers" of the fiscal organs as they are not fiscalised although in both cases we identified incomes that sholud be imposed with a 16% taxation representing the share of income tax.

Keywords: fraud, social shares, assignor, cessionary, assignment
JEL classification: H 26

Introduction

It is well known that there are firms which „manage" to accumulate important debts towards creditors, suppliers and the consolitaded state budget along their activity. There are also other firms which are created in order to „participate" to schemes of frauding the fiscal obligations owed by other economic agents. In both cases in order to „get away" with a huge number of accumulated debts or in order to restrict the research performed by the fiscal organs, the associates assign the social shares held by them in the social capital of the firms. The strategy is quite simple because the persons who are involved in such operations are usually foreign citizens, sick persons, persons with a reduced level of education or people who don't have any income or possess any goods. The reason for involving such people in the operations is easy to understand because it is practically impossible to collect in any way the obligations owed by that particular economic agent. In other cases the purspose is to make it impossible to check the reality and legalty of the operations performed in the frauding schemes which have as a consequence the diminution of the fiscal obligations. We have to mention that in the presented cases we will refer to the assignment of the social shares in a general sense and we shall refer to Law no. 31/1990, with further modifications, regarding the commercial societies. It is necesarry to mention this because in some situations (see here the warehouse owners who are authorised for operations with excissable products) it is obligatory to inform the fiscal organ with at least 60 days before performing the assignment of social shares. It is required to inform the fiscal organ, in order to perform the fiscal inspection, for the warehouse owners whose authorisations have been canceled, revoked or suspended. In the case of the authorised warehouse owners the operations of assigning the social shares

without informing the fiscal organs can be canceled.[1]

Fiscal fraud resulted from the assignment of the social shares to a commercial society with debts

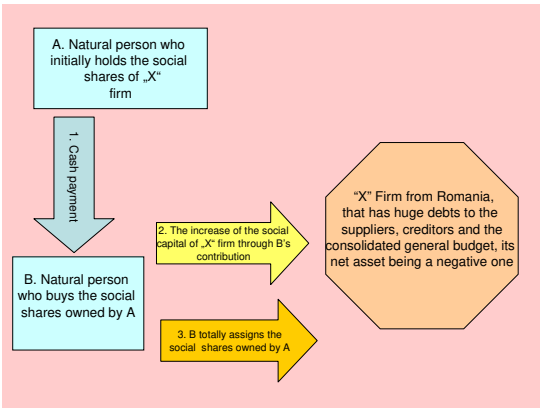
Most of the times the frauds are based on certain strategies performed by the participants to such operations, strategies which take into account the risks to which the participants are exposed to in case they get caught. In the case of fiscal fraud, some „ artificial steps" are introduced to avoid the payment of the owed taxes or the reduction of these obligations. The British lawyer Lord Templeman (2001) stated that: „A tax avoidance scheme includes one or more interlinked steps which have no commercial purpose except for the avoidance of tax otherwise payable, and can conveniently be described as artificial steps. A tax avoidance scheme does not leave the taxpayer any better or worse off but leaves the Revenue worse off".[2]

To better understand the phenomenon of avoiding the payment of obligations, in the case of assigning the social shares to a commercial society we have to consider some legislative aspects. If we consider the assignment of the social shares in the case of a limited corporation certain conditions need to be respected: [3]:

- the social shares can be assigned between associates without any restriction;
- if the assignment takes place between persons which do not belong to the commercial society this can be performed only if it has the approval of ¾ from the shareholders or the associates who owned social capital;
- if the approval is obtained, the decision of assigning the social shares is to be registered within 15 days to the Office Trade Register in order to be published in the Official Monitor; the same decision has to be communicated through an electronic system by the Office Trade Register to the Finance Ministry and its county representatives;
- starting from the moment when the decision has been published in the Official Monitor any interested person can appeal to Court within 30 days.
- if there is no appeal the assignment of the social shares is to be operated within 30 days from the moment of publishing the decision in the Official Monitor; if there is an appeal, the assignment takes place in the moment when the rejection decision is communicated.

In order to avoid the appeal (done by any person interested in the assignment of the social shares to other persons who are not associates) there are to be undergone some "intermediate steps" which are to presented in Figure nr. 1 "The avoidance of opposing the assignment of the social shares"

Figure nr. 1-Avoiding the opposition to the assignment of the social shares



Source: personal interpretation

Here are the intermediate steps undergone to avoid the opposition:

- taking into account that „X" firm registers significant debts to supllier, creditors and the consolidated general budget, A (the person who initially owns the social shares) tries „to get rid" of them; A decides to perform a cash payment „in black" toward a new B associate who accepts to take over a firm that has losses and debts too; B associate is usually a poor person, or a foreign citizen who is difficult to identify or if he/she is identified it results that he/she doesn't possess any assets. In this case the supplier, creditor or any fiscal institution can't recuperate the claims regarding „X" firm.
- Immediately after the B associate has been paid „in black" we identify an increase in the social capital justifying the contribution of the B associate at the social capital of „X" firm (even if this contribution appears just in the documents); after this operation has been performed A associate owns a share of the social capital of the firm

while B associate owns another share according to the papers;

- a few days after the increase of the social capital, we can observe the total assignment of the social shares held by A natural person, so that after the operation, B natural person becomes the only associate in the firm.

We observe that „the increase" of the social capital reduces very much the period in which the social shares of a firm can be assigned so that within a few days the suppliers, creditors and the fiscal organs can't recuperate the claims held by that particular commercial society.

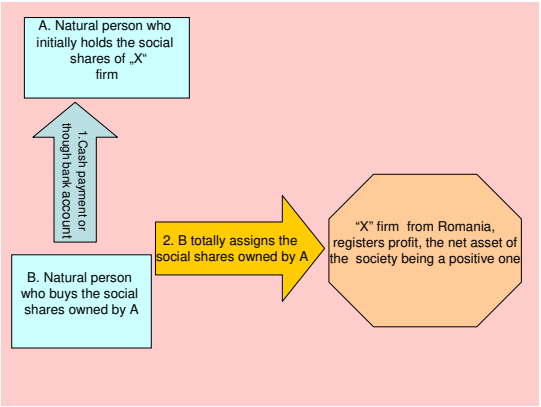
In some situations there are also other „operations" taking place when the assignment of the social shares occurs. Here are some of them:

- „the production of documents" to attest the fact that the initial associate A transfers everything to the new associate B; everything includes here the archives with all the accountant/bookeeping documents of the X firm for the entire period of time when it has performed an activity, i.e. from the moment when it was founded up to the assignment moment. We can also identify situations when A declares the archives with all the firm's documents as being lost; this happens before the assignment of the social shares from A to B;
- in the above mentioned situations the fiscal organs can't prove the reality or legalty of the commercial operations performed by the economic agent in the period when the firm was owned by A natural person;
- if A natural person is the some person who was responsable with the bookeeping of X firm he will also „declare" as being lost the electronic accountant evidence; This electronic evidence consist of: balance sheet, trial balance, sales journal, purchases journal, register journal, analitical charts for suppliers and clients. We have to mention that according to accountancy Law [4], all the firms that keep their accountancy in an electronic format are oblieged to store the data for a period of ten years and to allow the fiscal authorites access them.
- in the given situations the control organs can only rely on few information such as: cross checkings for all the natural and juridical persons who had commercial relations with X firm, the accountant reports and declarations delivered by X, the declarations performed by other persons in regard with the commercial relations performed with X and other types of documents provided by the banks where X firm opened its bank accountants.

The fiscal fraud resulted from the assignment of the social shares of a commercial society with a positive net asset

The second case we have chosen to analyze will be presented from the perspective of the fiscal organ and it refers to the assignment of the social shares belonging to a limited corporation that doesn't registrer significant debts to suppliers, creditors or any fiscal obligations to the state general consolidated budget. The net asset at the moment of the assignment is positive what shows us that the economic agent holds assets such as: fixed means, claims, cash in lei or other foreign currency. We mention that these assets exced the accumulated debts for suppliers, creditors or the fiscal organs up to the assignment moment.

Figure nr. 2 The avoidance of paying the tax on income resulted from investements



Source: personal interpretation

Unlike the Figure nr. 1 "Avoiding the opposition to the assignment of the social shares", when the person who assigned the firm paid "in black" another person to receive the social shares, in Figure nr. 2 "The avoidance of paying the tax on income resulted from investments" we observe that the person who purchases the social shares directly pays the sum of money to the person

who decided to give up his social shares. In order to avoid a 16 % tax, stipulated by the Fiscal Code [5], the tax applied to the difference resulted from the selling value of the social shares and their nominal value there are used different methods:

- in the contract signed on the occassion of assigning the social shares, the selling value for a social share is its nominal value obtained from the rate between the firms social capital and the number of social shares issued. Because the selling price for a social share mentioned in the assignment document is equivalent to its nominal value and the tax on the investment income is applied as a percentage on the difference resulted from the selling value and the nominal value of the social shares, we easily deduce that the owed tax is 0. In order to cover the difference between the net value of the social shares at the assignment moment and their nominal value, a cash payment takes place but „in black" from the person who buys the social shares to the one who sells them. The payment from the cessionary to the assignor of the difference resulted from the selling price and the nominal value of the social shares can be performed through bank transfer as an operation between natural persons- for example: loan approval, loan return, cash advance acceptance, cash advance return;
- in the assignment contract the selling price of the social share is not mentioned, the only reference being made to the nominal value so that the contract doesn't cleary specify the selling price of the social share.

In the above mention conditions although the fiscal organs are entitled to impose a tax on the difference resulted from the selling value of the social share and its nominal value, they can not do that because they lack the fiscal resources [6].

We consider that right now the Law of the commercial societies is very permissive when it refers to the assignment of social shares and social capital increases.

In order to remedy such deficiencies we suggest the folowing:

- the social capital increases performed by other persons than previous associates or shareholders should by based on evaluation reports drawn up by accountant experts, finnacial auditors or evaluators, who are credited by the profesional organisms they belon to. Their evaluation reports should reflect the net asset at the moment when the social capital increased. If the net asset, mentioned in the report, is negative the sum of money brought to increase the social capital should be at least similar to the net asset value so that the assignment of the social share could be registered at the National Office of Trade Register. If this condition is not carried out, the social capital increase must be communicated by the National Office of Trade Register to the fiscal organ and the assignment can be performed just by having the fiscal organ's approval.
- the total assignment of social shares or other shares to other persons than previous associates or shareholders should be based on evaluation reports out of which we should cleary indentify the asset at the asignment moment. If the net asset is positive the selling value of the social shares or other shares enrolled in the assignment contract should be different from the nominal value. The difference between the selling value and the nominal one is to be taxed when considering the tax for income resulted from investments. [6].

Conclusions

In the case of the first presented fiscal fraud mechanism, its effect will be perceived by the creditors and supliers for the commercial obligations and by the fiscal organ for the fiscal obligations owed by the assigned commercial society. In the second case of fiscal fraud, the assignment of the social shares will affect the fiscal organ because the person who sells the social shares tries to avoid the payment of the 16 % tax on investment income. The phenomenon of tax avoidance should be regarded from two perspectives:

- the perspective of the one who has to pay his fiscal obligations to the state;
- the perspective of the fiscal organs who have the obligation to watch if the fiscal regulations are obeyed by the tax payers.

From the tax payer's perpective, the fiscal obligation is seen as an act of „giving up your work" in another person's favour, in this case the other person being the state. If the tax payer identifies „the flaws" of the legislative framework and doesn't feel that

the state offers him something in return to his fiscal obligation, in this case the taxpayer takes the risk of using different means to reduce the owed fiscal obligations.

From the perspective of the fiscal organ, the obligation owed by a taxpayer is seen as a vital resource for an appropiate functioning of the state institutions. In this case the state should find the right solutions to reduce the posibilities the taxpayer can use in order to avoid the payment of taxes.

The state has also the obligation to make the mechanisms of fiscal equity work, so that the tax should be perceived by the taxpayer as a part of his work while the state should ensure the proper conditions for the right functioning of his activity [7].

We appreciated that in order to have a solid social and fiscal equity there shold be a system to check the correlation between the goods, assets and obligations of a natural person and the income obtained by the same person, the income that has been declared to the fiscal organs by the person itself or by others.

We also mention that according to the last legislative changes, stipulated in the Code of Fiscale Procedure in January 2013[8], any natural person who is under investigation for income tax has the obligation to present a declaration of patrimony and income, as requested by the fiscal organ. The sums enrolled in the income declaration should justify the source for the goods which are mentioned in the patrimony declaration.

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Using the Information Technologies for the Human Resources Reporting

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Abstract

In this article we aim to present a side of the nonfinancial reporting, which is more and more presented by the companies all over the world: the social reporting. In order to do this, we present a review of the requests included in the Romanian regulations in force regarding this aspect and the way these requests are solved by an ERP system, named here MF ERP, as we consider that the ERP is a strong IT tool which can be used by the accountants for reporting purposes as well.

Key words: nonfinancial reporting, human resources, management control, ERP, regulation
JEL classification: M41

1. Introduction

In the last years, because of the impact of the environmental changes on the quality of the human beings' life the companies involved in more aspects. Their responsibility grew from a financial responsibility to a broader one called "societal." This new type of responsibility was amplified after 2000 because of the profound changes affecting the world in general (the terrorist attacks, the war in the Middle-East, the world economic crisis) and the business world in particular (the corporate collapses of Enron, Parmalat, Worldcom etc.).

In front of these social changes, a new type of reporting appeared: the "non-financial" one. Thus, more and more companies disclose voluntarily information concerning the social and environmental impact of their activities in order to limit the negative impacts and their performances in this area.

The human being is the most important resource of the company. The profitability of the company is born out of the coordination of the human resources elements. The relationship between the economical performance and human performance at the level of a company is very tight [2]. Even if this relationship cannot be measured directly, there is a range of indicators that can do this.

Our study is conducted in order to present an aspect of the societal disclosure: the social disclosure. The target of this research is to surprise the managerial HR reports presented by a Romanian ERP in the hypothesis of a better understanding of these reports and the reasons of the companies presenting them.

2. Previous studies concerning the HR disclosure

HR is an element of the intellectual capital, intangible in nature that creates substantial value for the company because of its individual and collective

competences developed. Starting from 1960 [10] in USA the concept of Human Resources Accounting was developed. The first company interested in applying it was RG. Barry Corporation. It included the HR as assets items in the company's statement of financial position.

In France at the end of the years 1970 [5] appears the idea of a Social Statement of Financial Position.

Another author [6] presented in his work the objectives and the range of the social management control; the main social indicators, classified in economical and financial, structural, training, payment, attitude and professional risk indicators; the "human" dimensions of the French "tableau de bord", balanced scorecard and skandia navigator and their recent developments. He concludes that the disclosure of the human management dimension in the performance reports needs an improvement of the existing tools.

Other authors [3] prepared a study supported by an empirical survey performed within 79 companies concerning the level of development of the social responsibility indicators as management control tools. The study showed that the indicators connected to the social responsibility have a low presence among the driving instruments of the company. They are also little connected to the strategical objectives, when they exist. They also show that mainly the companies quoted on the SEC and the industrial companies present the most developed practices for driving the social responsibility.

Another author [9] tried to synthesize the methods of assessment and recognition of the intellectual capital in the financial statements. She presents various opinions regarding the possibility of the recognition of the intellectual capital and the extent to which there is a need to recognize it. The conclusion of the paper is that, the traditional accounting system needs to be extended to capture the company's value creation potential and to be based on the effectiveness of its response to the stockholder's expectations as well.

Other authors [7] asked themselves which are the axes of intellectual capital disclosure in the annual reports of a recently privatized company and what would be the challenges, risks and benefits involved of such disclosure. They analyzed the financial statements of Petrom Company on a three years period. The study is interesting, as the foreign company that took over the Romanian company brought an important intellectual capital. Their conclusion is that this company presents most detailed information concerning the structural capital and less detailed information concerning the human capital.

In Romania, The National Statistics Institute asks from the companies that fulfill some conditions to present the following items regarding the human resources disclosures: the number of employees at the end of the year, the average number of employees at the end of the month, the time worked in normal time and supplementary hours, the gross amounts paid out of the wages fund; the gross amounts paid out of the net profit; the gross amounts paid out of the other funds; the gross amounts paid out of the social insurances; employees contribution to the health budget; employees contribution to the social insurances budget; employees contribution to the unemployment fund; the wages tax; the average gross wages; employees structure on sexes, occupations and income categories.

Some researchers consider that there is an impact of the information technologies on the management accounting [1], while other studies cannot offer such a certainty and consider that the impact is indirect, through the control system [8]; [4]. In this paper we focus on the impact of the introduction of an ERP as a form of information technology.

3. Research methodology

In order to explore real-world implementation of a management control model, we used the fundamental research (for the literature review). We also aim to present the situation of the Romanian companies concerning the indicators and reports requested by the management regarding HRMC. In order to do this we will present a set of indicators included in the Manager Financiar ERP (**MF ERP**).

4. Indicators provided by MF ERP

Indicators and reports prepared by controllers for managers are in direct relation with the activities that have to be identified by MC. HRMC must be directed towards eight activities:

i) economical and financial indicators;
ii) structural indicators;
iii) planning and recruitment;
iv) compensation;
v) training and development;
vi) performance appraisal;
vii) climate indicators;
viii) professional risk indicators.

We will use this classification in order to present the indicators included in ***MFERP***.

i) Economical and financial indicators

The indicators that we can suggest and the way the ***MFERP*** computes them can be presented as follows:

- Productivity: turnover/number of employees; added value/number of employees or gross wages etc.

The program computes these productivity rates because the user can introduce all the elements required, when computing the wages.

- HR expenses: personnel expenses/number of employees; gross wages/turnover etc.

All the components of the HR expenses are presented in ***MFERP*** because it computes the wages so that it can compute more than the rates on the left (for instance, average net wages, total value of the taxes paid by the company and by the employee etc.).

- Financial rates: human economic value added; human capital value added; human capital return on investment; human capital market value.

All these indicators can be computed in ***MFERP***, because all the preliminary data is included in the database. The program can compute any rate because it has a generator, where the user himself can define the rates.

ii) Structural indicators

The structures that we can consider are: productive, administrative or distribution employees; professional equality between women or men; percentage of employees belonging to national minorities; percentage of handicap employees; employees distribution on ages; distribution on average wages.

MFERP includes a set of graphics, among which the structure of the employees by the function of the company. In Production module it also computes the expenses (gross wages and company's taxes) on each function.

iii) Planning and recruitment

Indicators concerning the planning and recruitment activity are: activity total cost; number of employees; employees' salaries; number of interviews; number of recruitments; average cost for recruitment; the degree of the coverage of the necessary personnel; candidates rejection rate etc.

We couldn't find a special function for planning and recruitment activity in ***MFERP***. However, some of the reports can be encountered in the software. Among these, we can mention: expenses

concerning the Planning and Recruitment Department, number of persons working in this department, and employee's history – that presents the activity of the employee within the company and before being hired by the company.

iv) HR compensation

HR compensation indicators considered include: total employees number; employees' salaries; average salary; average salary for men and women, hierarchical level and geographic area; the evolution of the wages on geographic areas and hierarchical level; average cost per hour; total productive workers expenses; total administrative employees expenses; total distribution employees expenses; degree of the yield/work productivity; supplementary hours/medium cost per supplementary hour.

MFERP includes plenty of indicators concerning the remuneration: gross wages, presenting separately the basic wages and each type of bonus for special conditions, medical leave wages, rest wages, contributions to social security, health, unemployment funds, wages for each department, number of normal and supplementary hours worked, average cost per hour etc. It also presents the way it computes the bonuses, for instance, for the sales agents. Usually, the employees are introduced per department. In this case, indicators concerning the activity of Wages department, for instance, can be selected. However, the program doesn't compute automatically the rate of the increase in the purchase power, for instance. We consider that the ERP shouldn't for instance compare the wages within the company with the wages in other companies in the same activity sector.

v) Training and development (T & D)

To realize training and development targets companies often devote ample resources presented in budgets. These resources are allocated to the employees that have the motivation to stay within the organization. This is why we split the report in two parts:

- Maintenance and motivation of the employees (adapted from [6]): fluctuation rate/ fluctuation costs; cost-benefit-motivation analysis; the time spent by the employees within the organization; the reasons of the personnel for leaving the company etc.

In ***MF*** the user can compute the time spent by the employees within the organization and can introduce the reasons of the personnel for leaving the company. Yet, more "qualitative" analysis like cost-benefit-motivation analysis cannot be made automatically.

- T & D activity (adapted from [6]): total resources amount; T & D effort: total resources amount/number of employees; actual amounts/budgeted amounts etc.

In order to prepare the budgets or the indicators regarding the T & D actions, the user can introduce into the database the following information: total number of employees, total number of trained employees, number of training programs, number of training days, cost of training, name of the training program, quality obtained at the end of the training program, the time spent by the employees in the organization, the jobs performed by the employees in the organization etc. The software has no special function for assessing the impact of the T & D in saving the resources within the company or the degree of jobs coverage and strategic competences. ***MFERP*** includes functions for preparing the budgets. The items presented in the budget can be introduced by the users. They can be either quantitative or qualitative indicators.

vi) Performance appraisal

Performance appraisal is a way to evaluate how well employees have met expected levels of accomplishment compared to some standards or goals. Performance appraisal influences HR decisions on such issues as pay, promotion, training and development. The appraisal may focus on outcome measures such as levels of quality, productivity or financial performance. Values and methods in performance appraisal may be presented as follows: direct individuals or direction to the work force; control people and processes; feedback used for ratings, rewards and sanctions; feedback useful for improvement; motivating or de-motivating employees.

Indicators concerning the performance appraisal can be found in the previous sections, both as suggested indicators and as indicators encountered in *MF ERP*.

vii) Climate indicators

These indicators can be classified as follows (adapted from [6]):

- Rotation: Number of persons leaving the company during the year/number of employees (this rate can be presented per reason for leaving);

The rate can be presented in ***MF***, but not for reasons of leaving.

- Stability rates: Number of persons employed after N months/number of persons recruited N months ago; Time spent by the employees in the company;

The indicators concerning the stability in the left side of this table can be extracted from ***MF***'s database.

- Absenteeism: Hours of absents/Theoretical hours; Hours of absents/Number of employees*Theoretical hours etc.

The information regarding the number of absents per person is introduced in *MF* when introducing the working hours of the employees. However, the absents reasons are not included in the database.

- Conflicts: Frequency; Range: number of persons adopting an attitude; Intensity: number of hours or days of work lost; number of hours or days lost for the strike; Range: number of persons on strike/number of employees during the period.

The indicators regarding the conflicts are not included in the ***MF***.

- Other crisis indicators: Number of production incidents (errors etc.); The increase in the number of working accidents; The increase in the documents of complaints.

For example, the number of working accidents is included in the database along with the medical leaves and the all the documents are registered in the software accompanied with a short presentation of their content.

- Personnel satisfaction: Study concerning the personnel satisfaction performed by an independent person.

This is an external report and shouldn't be included in the ERP.

- Personnel involvement: Survey regarding the organizational involvement.

This is an external report and shouldn't be included in the ERP.

- Strategic alignment: Survey concerning the knowledge and acceptance of the strategically focus of the company by the employees.

This is an external report and shouldn't be included in the ERP.

- Suggestions of the employees: number of suggestions taken into consideration by the management etc.

The suggestions of the employees are introduced in the system, as well as the answers received, just like all the other documents.

viii) Professional risk indicators

The professional risk indicators include: frequency rate regarding the permanent working incapacity and importance of the temporary working incapacity.

In this case all the necessary information is presented in ***MFERP*** in the section concerning the medical leaves: the reason of the medical leave, the nature of the working incapacity, the payer of the medical leave (the company, the social security fund, the health security fund), the duration of the medical leave etc.

Conclusions

The management of the HR is more and more complex. We started this research by presenting human capital concept, because this notion is used to calculate sustainable development indicators. For all the countries it is necessary to value the human capital, but this is a difficult action. The value of human capital is determined based on human resource components for each company.

The economic environment along the social system has to suggest a strategy at the HR level, taking into account the demographic evolution, but also the professional qualification.

The preparation of different reports for managers needs information about expenses, costs, number of employees, types of jobs, types of activities etc. Some information is obtained from HR department (employees, jobs, activities) and often from accounting department (costs, turnover etc). We could see that a part of the information is included in the database of a Romanian ERP that we analyzed in order to see the offer of HR indicators and reports for the Romanian managers.

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Aspects Regarding the Influence of the Governance Structure on the Company's Performace

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Abstract

The corporate governance is one of the key elements for improving economic efficiency, particularly in the current context of financial global crises. This paper discusses the relationship between corporate governance and firm performance. We intend to present the classic and new comings of scientific literature on the topic. Beside the theoretical approaches we also intend to present the practice poin of view, in order to give a complex image over the topic and suggest new progress on the matter.

Key Words: Corporate governance; company's performance; performance measurement.
JEL Classification: G32, D 23.

1. Introduction

In this era of globalization, competitiveness growth and salience of financial flow mobility, corporate governance has become one of the key elements that have a high impact on companies' performance and implicitly on national companies. Due to its implications with the efficient allocation of resources on a national scale and economical performances growth, corporate governance has proven to be an essential factor economies.

Corporate Governance is an increasingly complex concept ranging over many fields from business administration, economics, accounting, law and more recently ethics and social sciences.

Corporate governance has managed to attract strong public interest, due to its obvious importance to the economic health of corporations and of the society in general. However, the corporate governance concept is not clearly defined, due to the fact that there is an array of different phenomena and economic operations encompassed within its scope.

2. The connection between corporate governance and the company's performance

Performance is situated at the center of the contemporary problem of company governance [7]. The main idea of this issue is rather simple: well elaborated and articulated structure and governance mechanisms that operate in an efficient manner, must lead to a high level of profitability for the entity, generating significant economical performances, which can guarantee a high level of financial performance and an estimable stock value of securities for shareholders.

The connection between the company governance and performance is complex and may, sometimes, even be troublesome. The main leverages for solving the agency and governance issues are monitoring and performance measurement. As regarding monitoring, the basic occurring issues are related to the external and internal bodies that can provide it, as well as their independence. As for performance measurement, it is conditioned by the information entered into the measurement system and the instruments used [14].

3. The company performance concept

In the economic theory there is a variety of opinions concerning the definition of the company performance concept, thereby, there isn't a generally accepted definition of the company performance term. Therefore, some economists approach performance through the outlook of the company's target objectives, making reference to the degree of achieving them, others regard it as the

measure of the value created by the company, while a third category see performance in terms of the productivity and efficiency of the company's activity. Consequently, we will carry on by presenting the various acceptations of the performance term, as they have been set out throughout the previous century, leading up to the modern performance approaches.

Starting with the vision of the company as a "group of people carrying out common activities oriented towards the accomplishment of one or several objectives" [12], performance represents „*the degree by which an organization, as a social system, with certain resources and means, accomplishes its objectives*" [16]. By this acceptation, performance involves its analysis in relation to the set out goal, requiring the existence of certain (internal or external) references, to which the reference will be made. This first assessment of performance is, however, heavy with subjectivity, being that it completely depends on the objectives set out by the company. Hence, the companies that have established modest objectives may assess performance as being high, if the degree of objective achievement is high, while other companies might consider the same level of performance as low, in relation to the low level of fulfilling more ambitious objectives. As a result, the same level of performance may be appreciated differently.

Tannenbaum and Shimdt [16] have studied organizational performance by using quantitative measurements. They have described performance of an economical organization by means of its level of reaching objectives and by focusing on " work productivity, net profit, the degree by which the company fulfills its mission and its success lies in maintaining or growing".

Lavalette and Niculescu [10] suggest a similar definition, by showing that a company's performance follows „the achievement of organizational objectives, regardless to their nature or diversity". As such, in their opinion, performance only depends on the degree of fulfilling objectives, without taking into account the specialty of each company. However, coming back to the meaning of the notion of performance, the same authors describe it as being „*a company's state of competitiveness, reached through a level of efficiency that ensures its long-term presence on the market*" [13]. Thusly, according to this last definition, a company's performance is the result of the efficient and effective activities carried out by said company. It is, however, in this context, necessary to point out what the notions of efficiency and effectiveness mean. Efficiency, as defined by Drucker [6] means "doing things right", while effectiveness means "doing the right things". Hence, in economical terms, efficiency implies either maximizing the obtained results, while having a certain quantity of resources (maximizing value), or minimizing the quantity of resources used with the purpose of obtaining a certain result (minimizing cost).

From this perspective, in the eyes of Philippe Lorino [11], the performance represents „all, and only all, that contributes to the accomplishment of the strategic objectives" of the company, as well as „*all, and only all, that contributes to the improvement of the cost-value pair*". That is to say, that defining performance is no longer amounts to obtaining the results wanted by the company, but is now viewed in terms of the cost-value pair. This definition of performance reveals a new approach, respectively, as a measure of the value created by the company. In this context, the cost-value pair may be improved by diminishing costs, on the one hand, and raising the company's value, on the other, both actions being needed to be executed simultaneously.

The new performance approach, in term of creating value, is based on a generally applicable truth, namely, that companies create value only in the extent in which the capital is remunerated with a profitability rate superior to its cost.

Similarly, Stern, Shiely and Ross [15] show that performance is „*an unstable level of a company's potential, obtained as a result of optimizing the cost-value relation and that makes the company be competitive on certain strategic sectors*."

In the modern economic theory, „performance is multi-dimensional, covering aspects related to profitability, innovation, product design, quality and growth". Performance is thus the reflection of a

company's entire activity, with multiple implications and valence.

4. The impact of governance on performance

An implicit supposition of corporate governance, of the relations formed between the members of the strategic leadership of a corporation, is that performance depends on the choice of the leaders, on the contractor's options concerning the structure of the governance. A key question being asked refers to the degree by which the leading bodies can implement strategic corrections in order to raise performance. We must not lose sight of the complexity of an organization, which, together with the variety of invested interests, constitutes significant restraints, opposing to change [4].

An important thesis states that the leaders of organizations exert an important influence on processes and results, mainly when the company is faced with a financial crisis [3]. In this kind of situations, the necessity of an efficient leadership can be felt more than ever; here is where the leaders' competence should be tested.

The specialized literature almost entirely agrees on the fact that the most powerful executive position is that of general manager/director (CEO). It exerts a unique influence on processes and results, as several studies indicate. Begley and Boyd [1] show that small company general managers occupy a privileged position, being the control center and decision making bodies.

The contractor/founder is by definition the individual (or one of the individuals) who founded the business. A part of the researchers in this field have concentrated on the direct impact of the founder's status on the company's performance. Comparisons were made between the performances of companies lead by founders and the performances of companies lead by non-founding professionals. For example, Begley [2] found that companies personally managed by the contractors have a return on assets (ROA) higher than the rest of the companies. No significant difference was recorded for the other variables of the performance: the growth rate, the leverage and liquidity.

Relating to the innovation capacity, a study done by Walsh and Anderson [18], based on a test sample of 113 small enterprises from Ireland, showed that founding members (as compared to other people in the management) are, evidently better innovators and use more efficient methods of solving arising issues. However, no relations were identified between the effectiveness of these methods and the degree of employment, or the company's growth, regardless of the founders' involvement.

Some researchers consider that the *duality* of a CEO (manifested when the general manager occupies the position of president of the board of directors in parallel) significantly disparages the independence of the company's management, offering us a George Patton type model of corporate governance [5]. The principles of the agency theory would suggest that such a centralized management structure, by which the management might "dominate" and control the board of directors, will determine a lower company performance. Alternatively, the organization thereby states that the centralization of authority, as is the case with dual CEO structures, will be accompanied by a higher level of company performance.

By using a test sample of contracting companies, Daily and Dalton [3] have analyzed this phenomenon and could not assess the existence of any statistically valid connection between CEO duality and the financial performance. Authors have measured performance though accounting methods (e.g. ROA, ROE), and used stock methods (e.g. PER) as well. By using the same tools, other authors have not identified any relation between the dual quality of general managers and the under-evaluation of the initial public offers.

Furthermore, considerable efforts were directed toward analyzing the impact of the top management teams' structure, on the financial results of the companies. The comment made by West and Meyer [19] is notable: for a company with a huge potential of growth there is a rather high probability that de disagreements between the members of the top management teams will have a negative impact on performances [19].

Haniffa and Hudaib [8] did an analysis of the relation between the structure of corporate governance and performance, based on a test sample of businesses listed in the stock exchange. Specifically, the authors

have analyzed a number of 347 companies listen in the stock exchange in Malaysia, respectively the Kuala Lumpur Stock Exchange (KLSE), between 1996 and 2000. The results show that the size of the board of directors and the first five shareholdings, of a substantial percentage, are significantly associated with stock and accounting performance.

Corporate governance may reduce agency issues, by adopting mechanisms for monitoring the managers' activity. This should, on the one hand, lead to a higher operational performance, as long as managers are stimulated to invest in projects with a positive current value, and, on the other hand, to a growth of the company's value, as the investors realize that the larger part of the company's cash flows go back to them. In countries where the shareholding structure is traditionally dispersed, as is the case with the United States of America, Great Britain or Japan, the concentration of capital has a positive or negative effect on performance. In contrast, in countries with a predominant, stakeholder-type culture, such as Germany, Italy, France, the concentration of capital seems to have a negative effect on performance [7].

The specialized literature presents an impressive number of studies, lately investigating the relation between corporate governance and the value of the companies or their performance, by identifying mixed results:

- for *emerging countries*, the results indicate that corporate governance lies in a positive and significant correlation with the company's value, but the results are not conclusive for assessing the relation with profitability;
- for *developed countries,* the results are even more controversial. Some authors have identified a poor proof of the correlation between corporate governance and the value of American companies, while other authors argue a strong correlation between governance and the companies' performances.

An essential issue in studying the relation between corporate governance and a company's performance is the causal connection. This connection is not clearly defined as being ex-ante.

5. Conclusions

Performance reflects the company's entire activity, as the sum of the activities of all parties involved, being also influenced by external factors of the company, such as preferences and the clients' expectations, competitiveness, access to information.

We consider that a proper performance measurement system is made up of three interconnected elements: individual indicators that measure the efficiency and effectiveness of the company's actions, a set of indicators combined to measure the global performance of the company, an infrastructure through which information are collected, sorted, analyzed, interpreted and disseminated.

The connection between corporate governance and performance is complex and may sometimes even prove problematic. But, a structure and well elaborated and articulate governance mechanisms that operate effectively, must lead to a higher profitability for the entity, generating significant economic performances, which can guarantee a high level of financial efficiency and a stock value of securities that is estimable for shareholders.

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Relevant Performance Indicators in the Analysis of Corporate Governance

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Abstract

Corporate governance covers all systems and processes in place to manage and control the company, in order to increase performance and value. Organizations must adhere to all the concepts, principles, standards and corporate governance regulations to be assessed and achieve relevant policies and expected performance and corporate governance codes and policies come to be a balance between compliance and performance. This paper presents company performance concept and the main indicators used for measuring the company's performances. We intend to present the classic and new comings of scientific literature on the topic. Beside the theoretical approaches we also intend to present the practice poin of view, in order to give a complex image over the topic and suggest new progress on the matter.

Key Words: Economic governance; performance; financial indicator; non-financial indicator.
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.

2. The concept of economic governance

Economic governance concerns the processes that support the economic activity and transactions, by protecting property rights, enforcing contracts and invoking the collective action, with the purpose of offering a proper organizational infrastructure. These processes are realized within the framework of formal and informal institutions. As a research field, economic governance studies and compares the performance of different institutions under various conditions, the evolution of such institutions and the passage from one set of institutions to another.

Specialized literature suggests the need for achieving a conceptual differentiation between "governance" and "governing". The two concepts are not synonymous, although both terms make reference to intentional behavior, purpose-oriented activities and legal systems. Thus, the idea of governance suggests the fact that activities are supported by a formal authority that ensures the implementation of policies, when and where there is need. On the other hand, the idea of governance refers to activities sustained by a common goal, which may or may not result from legally or formally statuate responsibilities and are not necessarily based on some coercive authority.

Governance targets a device that simultaneously involves institutions, relations, regulations and behaviors, that is to say, more than the structure that the word governance represents.

The term "governance" was first used in Ronald Coase's article, published in 1937, called *The Nature of the Firm,* and means authority rather and governance [1].

The company's governance, generally speaking, may be defined as an entity's coherent ensemble of devices and institutional practices that legitimize the authority functions directly enforced by the leaders and hierarchical delegates. Is a company's governance system is improper, it may prove inefficient.

3. The company performance concept

In the economic theory there is a variety of opinions concerning the definition of the company performance concept, thereby, there isn't a generally accepted definition of the company performance term. Therefore, some economists approach performance through the outlook of the company's target objectives, making reference to the degree of achieving them, others regard it as the measure of the value created by the company, while a third category see performance in terms of the productivity and efficiency of the company's activity. Consequently, we will carry on by presenting the various acceptations of the performance term, as they have been set out throughout the previous century, leading up to the modern performance approaches.

Starting with the vision of the company as a "group of people carrying out common activities oriented towards the accomplishment of one or several objectives" [7], performance represents „*the degree by which an organization, as a social system, with certain resources and means, accomplishes its objectives*" [10]. By this acceptation, performance involves its analysis in relation to the set out goal, requiring the existence of certain (internal or external) references, to which the reference will be made. This first assessment of performance is, however, heavy with subjectivity, being that it completely depends on the objectives set out by the company. Hence, the companies that have established modest objectives may assess performance as being high, if the degree of objective achievement is high, while other companies might consider the same level of performance as low, in relation to the low level of fulfilling more ambitious objectives. As a result, the same level of performance may be appreciated differently.

Tannenbaum and Shimdt [10] have studied organizational performance by using quantitative measurements. They have described performance of an economical organization by means of its level of reaching objectives and by focusing on " work productivity, net profit, the degree by which the company fulfills its mission and its success lies in maintaining or growing".

Lavalette and Niculescu [5] suggest a similar definition, by showing that a company's performance follows „the achievement of organizational objectives, regardless to their nature or diversity". As such, in their opinion, performance only depends on the degree of fulfilling objectives, without taking into account the specialty of each company. However, coming back to the meaning of the notion of performance, the same authors describe it as being „*a company's state of competitiveness, reached through a level of efficiency that ensures its long-term presence on the market*" [8]. Thusly, according to this last definition, a company's performance is the result of the efficient and effective activities carried out by said company. It is, however, in this context, necessary to point out what the notions of efficiency and effectiveness mean. Efficiency, as defined by Drucker [2] means "doing things right", while effectiveness means "doing the right things". Hence, in economical terms, efficiency implies either maximizing the obtained results, while having a certain quantity of resources (maximizing value), or minimizing the quantity of resources used with the purpose of obtaining a certain result (minimizing cost).

From this perspective, in the eyes of Philippe Lorino [6], the performance represents „all, and only all, that contributes to the accomplishment of the strategic objectives" of the company, as well as „*all, and only all, that contributes to the improvement of the cost-value pair*". That is to say, that defining performance is no longer amounts to obtaining the results wanted by the company, but is now viewed in terms of the cost-value pair. This definition of performance reveals a new approach, respectively, as a measure of the value

created by the company. In this context, the cost-value pair may be improved by diminishing costs, on the one hand, and raising the company's value, on the other, both actions being needed to be executed simultaneously.

The new performance approach, in term of creating value, is based on a generally applicable truth, namely, that companies create value only in the extent in which the capital is remunerated with a profitability rate superior to its cost.

Similarly, Stern, Shiely and Ross [9] show that performance is „*an unstable level of a company's potential, obtained as a result of optimizing the cost-value relation and that makes the company be competitive on certain strategic sectors*."

In the modern economic theory, „performance is multi-dimensional, covering aspects related to profitability, innovation, product design, quality and growth". Performance is thus the reflection of a company's entire activity, with multiple implications and valence.

4. Performance indicators in the analysis of corporate governance

In order to appraise a company's performance and its ability to continue producing wealth and value, instruments that require orientation towards the value creating sources and origins must be used. From the shareholder's point of view, a company is efficient if it creates value. Hereinafter, we will try to review the main indicators that can be used to this extent.

4.1. The financial indicators

The financial indicators used for measuring the company's performances are highly diversified. Traditionally, the measurement of the company's performance is achieved through classic indicators. However, throughout the last two decades a more heightened attention was paid to the development and use of modern performance measurement indicators, whereof, at present, special significance is given to value creating indicators, which can contribute to a more real reflection of the company's performances and that can also offer possibilities of improving the respective performances.

The most representative indicators used in financial diagnosis are financial rates. Specialized literature identifies over 150 financial rates.

Aside from these rates, considered to be classics in financial analysis, practice has developed certain modern indicators, the most important of which being: the economic value added (EVA), market value added (MVA), cash value added (CVA), cash flow return on investment (CFROI), total shareholders return (TSR) etc. EVA is an instrument for measuring the value created by the company for its shareholders, calculated subsequently based on the determined data, considered to be an indicator of the company's internal performance. MVA, which represents an indicator for external performance, reflects the additional value brought by managers for the funds entrusted to them by investors, are easy to measure for listed companies, but do not particularly indicate the moment, place or manner in which the company created value or not. EVA may be chosen for the performance analysis of a company, because it is less sensitive to the evolution of stock quotations, as opposed to MVA, and answers to the principle according to which value creation exists only if an investment brings, not only, a positive result to its investors, but also a superior result to that envisioned by investors [4].

By using these indicators for the measurement of the company's performance, the primordial orientation of the company's strategy is value creation for shareholders, the impact on the company's management being crucial, through the development of certain administration and leadership methods, directed towards creating value for shareholders [11].

4.2. The non-financial indicators

The critics brought to the information capacity of the financial indicators are increasing in number and diversity, starting with the quality of the source information and also invoking the lack of practical use for decision making. Thus, a larger number of analysts started using a new type of indicators, respectively non-financial indicators that better characterize the companies' performances seeing as how they directly touch blind spots within the

organization, such as: the quality of the management and of intellectual capital. Of course, those non-financial indicators will not substitute the position held by financial indicators, which continue to keep their privileged spot in substantiating an investment decision. It is, however, considered that non-financial indicators, used by investors for appraising the performances of groups of companies, are strongly linked to corporate governance practices and mechanisms.

According to the study realized by Ernst & Young Center for Business and Innovation (*Measures that matter*, 1997) regarding the use of non-financial indicators, the variables related to the corporate governance system are considered as being among the most important non-financial performance criteria used by investors while evaluating listed companies. In this study, each non-financial criterion was given a score, varying between 1, being the maximum, and 3, being the minimum [3].

Hence, amongst the eight non-financial performance criteria, relevant for investors, half refer to the means of administration and governing of companies: quality of management, corporate culture, the effectiveness of the policies for the remuneration of the executive management and the quality of the system for communicating with shareholders.

1) The quality of the management is defined with the help of variables: the degree of the company's execution strategy (score 1), the quality of the company's strategy (score 3), management experience (score 7), the quality of the organizational vision (score 16), the managers' style of administration (score 24).

2) Corporate culture is assessed with the help of several non-financial variables, such as: the ability to attract and keep talented people (score 5), the quality of the manpower (score 18), the quality of the stimulant assignment system (score 23), the quality of the personnel training programs (score 28), social and environment policies (score 37), the use of team work (score 38).

3) The effectiveness of the policies for the remuneration of the executive management are expressed at the factors concerning the harmonization of the management stimulation policy with the shareholders interests (score 8), the remuneration policies, based on adequate performance criteria (score 12), the report between the remuneration of the executive management and the remuneration of the manpower (score 39), etc.

4) The fourth non-financial performance criteria referring to the corporate governance system, the quality of the system for communicating with shareholders, is highlighted with the help of certain variables, such as management credibility (score 2), management accessibility (score 26), the efficiency of the shareholders relations department (score 31), the quality of the materials published (score 34) etc.

By analyzing the cores given to the non-financial performance criteria, they may be classified in ascending order, thusly: the degree of the company's execution strategy, management credibility, the quality of the company's strategy, innovation potential, the ability to attract and keep talented people, market quotation, management experience, the harmonization of the management stimulation policy with the shareholders' interests, the quality of the production processes and the research advantage.

The level of the scores given by investors to these non-financial performance criteria prove that most criteria placed by investors among the first ten are related to the quality of the corporate governance system.

The final conclusion of this empirical study by Ernst & Young Center for Business and Innovation, realized in 1997, concerning the use of non-financial indicators, reflects the fact that, on average, 35% of the information used by investors in the process of placing their capital is non-financial. Moreover, the structure and score given to this information demonstrates that half of them refer directly to different aspects of the companies' corporate governance systems.

5. Conclusions

Performance reflects the company's entire activity, as the sum of the activities of all parties involved, being also influenced by external factors of the company, such as preferences and the clients' expectations, competitiveness, access to information. Thus, a correct evaluation of a company's global

performance implies taking into consideration financial indicators, as well as non-financial indicators. However, as we have observed, most of the times, performance is measured through financial indicators, as they are unquestionably necessary in the analysis of the company's performances. By presenting, however, that drawbacks do not offer possibilities of anticipating future performances, but only executes an analysis of past ones, financial indicators have proven insufficient for a pertinent evaluation of performance, by neglecting aspects of the company's activity that cannot be quantified in monetary terms. Non-financial indicators, on the other hand, can supply useful information for the future performance of the company, but they may never be used separately for appraising performances.

A new question nevertheless arises: which are the most proper indicators, specifically non-financial, that must be included in an optimum company performance evaluation system? The sphere of each activity, especially the objectives of each company, enforces various proportions of the indicators within the performance evaluation system, and even the election of different indicators, for each company in particular. Hence, the quality of the indicators used is very important in determining performance. Notwithstanding, the number of indicators taken into consideration should be limited, in order to ensure a clear general image on past and future performances.

This is why, as studies for the identification of an optimum performance evaluation system show, it is necessary to establish a set of indicators, financial, as well as non-financial, which will reflect the company's true performance.

For a pertinent assessment of the companies' performance the existence of a balanced multi-dimensional system is therefore necessary, which would include financial and non-financial indicators, with the purpose of diminishing the limits between the two sets of indicators.

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Transfer Pricing: Alibi for Cross-Border Tax Evasion

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Abstract

In order to maximise profit and to reduce the burden of tax in the jurisdictions with high tax, many of the multinational companies abuse transfer pricing by directing the profit towards subsidiaries which are localised in more favourable jurisdictions from this point of view. The cross-border transactions effectuated, more exactly the mechanisms used to establish the transfer pricing involved in them, vary from the perfectly legal to the illegal ones and very often it is almost impossible for the tax authorities to contest them. The purpose of this paper is to analyse the mechanisms and practices of determining transfer pricing and their effects on the financial flows at the international level. The conclusions emphasize both the role played by transfer pricing in tax optimization and in cross-border tax evasion.

Key words: transfer pricing, tax optimization, tax evasion, multinational companies
J.E.L. classification: F23, H21, H26, M4, O16.

1. Introduction

In the present global context, more and more managers of multinational companies are focusing on transfer pricing because it plays a very important role by having significant influences over the cash flow of the enterprise and its tax debts [3].

Raymond W. Baker [5], the director of Global Financial Integrity and a specialist in analysing international money laundering, describes the illegal financial flows that are circulated across the border from one country to another instead of being used to develop the economy as being „the ugliest chapter in global economic affairs since slavery".

The greatest companies in the United States of America as well as others from similarly well-developed countries have subsidiaries in other countries from economic reasons such as sale opportunities, the existence of natural resources, qualified personnel and favourable work conditions as well as tax benefits [21]. These companies always proved to be able to adapt to the continuous changes in the business environment, they constantly developed their mechanisms and they discovered new challenges and opportunities in other tax jurisdictions when they needed to [20]. An important factor which lead to the elimination of barriers in international trade is the rapid development of the internet and e-commerce. Nowadays, enterprises have the possibility to perform trades outside the national borders with providers as well as with clients very easily through the internet. As a consequence, the number of assets, especially the intangible ones, traded through e-commerce or simply through the internet, has faced a huge increase every year and the reaction of the tax authorities in many countries was to issue regulations for determining transfer pricing for the e-commerce area and intangible assets [1].

2. The characteristics of transfer pricing

The notion of transfer pricing refers to the prices used in transactions in which the

parties are affiliated entities, from different tax jurisdictions [12]. Two entities from distinct tax jurisdictions are considered to be affiliated by the Organisation of Economic Co-operation and Development (OECD) [17] when one of them "participates directly or indirectly to the management, control or capital" of the other one. The entities are also considered to be affiliated when the transactions effectuated between them are different from the ones that would have taken place if the entities were independent.

For the groups of enterprises that perform their activity in one country, the function of transfer pricing is that of allocating costs for several activities and of following the intra-group transactions. However, for transnational companies that own subsidiaries in several tax jurisdictions, transfer pricing has more than an internal control and managerial role [6].

Transfer pricing represents a tool utilised on a large scale by multinational companies to maximise their profit through its distribution towards subsidiaries which are localised in a more favourable place from the perspective of tax rates [20], [22]. Most of the time, transfer pricing is established relative to the central headquarters level and it is not based on the economic context or on the needs of the subsidiaries implicated in these transactions [14]. In order to diminish the revenues of the enterprises from countries with high tax and to divert them towards subsidiaries from low tax jurisdictions, the transnational companies perform an incorrect evaluation of transfer pricing by over-invoicing imported goods and services and under-invoicing exported ones [9]. However, in spite of the nature of the effects, the authors David Ledure and Mourad Chatar [12] affirm that "transfer pricing may not be automatically assimilated to tax optimisation" because usually, the affiliated entities that belong to the same group must cooperate and carry out transactions between them.

Transfer pricing can determine the outcome of the activities performed by an affiliated entity which can be obtaining profit or having losses, but the issue is more complex and has moral and ethical implications [19]. In this way, the development of cross-border trade and the opportunity for multinational companies to get rich rapidly by manipulating transfer pricing triggers moral dilemmas for the subsidiaries' managers because they are asked to choose between being ethical in business and orders from the main headquarters [14]. Also, Hansen, Crosser and Laufer [8] emphasize the ethical perspective of the conflicts that appear between tax reducing mechanisms and the interest of multinational companies for the welfare of the citizens. To solve this dilemma, the authors suggest that the methods of establishing transfer pricing must correspond to the ethical behaviour that should be adopted by the managers of the multinational companies and that the methods of diminishing tax should be in harmony with the ethical conduit of the accounting experts. Kenji Matsui [13] states that the tax authorities must compromise between tax revenues and the welfare of the consumers, while Aid [2] criticizes the companies that adopt an incorrect evaluation of transfer pricing and still consider themselves to be socially responsible.

3. The problem of transfer pricing at a global level

Undoubtedly, transfer pricing have become a major problem at the international level because of the fraud and tax evasion practices which resulted in a fierce battle of the tax authorities against the companies that manipulate transfer pricing in order to distort financial statements and to artificially increase their profit [14]. Baker [5] underlines three main ways of acquiring illicit money which are circulated across borders in the world which are: the acquisition of revenues through criminal activities (such as drug trading, financing terrorism, contraband, blackmail), the acquisition of sums of money by acts of corruption and funds diversion undergone by government officials and the acquisition of funds from commercial transactions carried out through money laundering and tax avoidance procedures. The same author states that the manipulation of transfer pricing constitutes a component of the illicit financial structure, along with tax havens, off-shore secrecy jurisdictions, disguised corporations, anonymous trust accounts and fake foundations.

In the opinion of the authors Nor, Ahmad and Saleh [16], transfer pricing constitute a tool for fraudulent financial reporting, as well as over-evaluating acquisitions, under-evaluating sales, including fake expenditures, or adjusting the incomes. Moreover, Aid [2] emphasizes the problem of manipulating transfer pricing in the case of loans granted between affiliated entities, by over-evaluating or under-evaluating, according to the situation, of interest rates. However, Paz-Vega [19] affirms that the frequent usage of unfair policies regarding transfer pricing is not always beneficial for multinational companies because they may have a negative effect, i.e. the strategic alignment is distorted and is not respected anymore in the relation between the parent company and its subsidiaries. The tax authorities consider an intra-group transaction to be legal if it respects the arm's-length principle but they face a series of problems in developing countries. Because of the relatively low level expertise in the area, and because of the incomplete information regarding the parent company and the local subsidiary, and by taking into account the extremely complex techniques of diverting the profits used by multinational companies, it is rather difficult for the tax authorities to contest the establishment of transfer pricing [2].

Multinational companies are forced to practice mispricing because of the differences between tax rates from different jurisdictions, in order to reduce tax debts which produces a greater tax loss at the global level [4]. A recent study undergone by Global Financial Integrity [11] estimates that the illicit financial flows from developing countries reach the amount of 5860 billion dollars in the 2001-2010 period, out of which 858.8 billion dollars are just from the year 2010. The countries with the largest number of illicit financial flows in the analysed period are China (2740 billion dollars), Mexic (476 billion dollars), Malaysia (285 billion dollars), Saudi Arabia (210 billion dollars), Russia (152 billion dollars), Philippines (138 billion dollars), Nigeria (129 billion dollars), India (123 billion dollars) and Indonesia (109 billion dollars). Romania is among the analysed countries and it is situated on the 55th position in the ranking (8.84 billion dollars) along with Hungary which is on the 42nd position (14.42 billion dollars) and Bulgaria which is on the 38th position (15.85 billion dollars). The Price of Offshore Revisited, a study made by Tax Justice Network [9] on 139 countries and lead by the researcher James Henry, estimates that the virtual investments made through offshore financial centres in 2010 are between 21,000 and 32,000 billion dollars. These estimations take into account only financial assets which include transactions effectuated both by companies and individuals.

In the case of the United States of America, a report from June 2010 of the Government Accountability Office states that the estimations regarding the total value of international fraud and tax evasion in which American multinational companies are involved is between 10 and 60 billion dollars [7]. For the United Kingdom, Richard Murphy [15] estimates that the tax losses from the offshore operations reach the annual sum of 18.5 billions of pounds, out of which only 7 billion pounds are strictly from tax evasion activities. From this, 8.5 billion pounds represent the losses from individuals, and 3 billion pounds from the big companies, both situations being considered by the author as "legal" tax evasion actions. The results of a study undergone by Kar and Freitas for the Global Financial Integrity [10] show that in Russia, in the period 1994-2011, the financial flows had the value of 782.5 billion dollars, out of which only 211.5 billion dollars constitute just the illicit capital obtained through tax evasion, crime or corruption. A controversial aspect present in this study is the fact that Cyprus, a small country with around 800 thousand citizens and with a Gross Domestic Product of just 23 billion dollars [23], has made foreign direct investments (FDI) between 2009 and 2011 of about 128.8 billion dollars, a fact which makes the legality and legitimacy of the operations developed between these two countries questionable.

4. The OECD methods of establishing transfer pricing

The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations [18] classify the methods of establishing transfer pricing as: the traditional transaction methods (comparable

uncontrolled price method, the cost plus method and the resale price method) and the methods regarding the transactional profit (the net margin method and the profit split method).

4.1. The comparable uncontrolled price method

The comparable uncontrolled price method requires that the price of goods and services sold by the multinational companies to the affiliated entities to be established by comparing it to those used in other similar transactions carried out on the market, but between entities which are not controlled [1]. Determining the market price is not a simple procedure, because there is always the possibility of facing several difficulties. The market price can have distinct values from a country to another, can vary in time or it could be distorted by the subtraction of transport costs [3]. Especially, difficulties may appear in the case of intangible assets because open markets rarely exist and the differences regarding the functionality and performance of those assets make this process even more laborious [1].

4.2. The cost plus method

In the event of not being able to identify the market price or of encountering difficulties in identifying it, one could use the cost plus method [3] which is considered to be probably the most efficient method when the subject of the transaction between affiliated entities is service provision or selling semi finished goods as well as when supply agreements exist and they have been settled for long-term [18]. This method is based on incrementing the costs paid by the goods and services supplier in a transaction controlled with a margin of profit [18].

4.3. The resale price method

According to paragraph 2.21 from the OECD Guidelines [18], the resale price method requires decreasing the price for a product bought from an affiliated entity and then resold to an independent entity with an appropriate profit margin. This margin is called "resale price margin" and it represents the value that a reseller would use in his attempt to cover his sale expenses and to obtain an appropriate profit. In this way, after reducing the gross margin and the other costs of acquiring the product, the value one is left with can be treated as a price at arm's length for the initial transfer between the affiliated entities.

4.4. The net margin method

The net margin method of transaction, as it is called by the OECD [18], is used to analyse the net profit margin relative to an appropriate basis which is realised by a taxpayer in a transaction where the parties are affiliated and it is somehow similar from this perspective with the resale price method and the cost plus method. In this way, the net profit indicator of the tax payer in a controlled transaction must be established by comparing it with the same indicator but from comparable uncontrolled transactions carried out by the taxpayer mentioned. If this is not possible, it must be used as a reference base for the net margin which would have been obtained by an independent company in a comparable transaction [18].

4.5. The split profit method

The split profit method is used in order to eliminate the effect of „special conditions made or imposed" on the profit in a transaction where the parties are affiliated. This method first identifies the split profit between the affiliated entities in a controlled transaction and then splits the profit between the two parties, using as a reference the way the profit has been split in agreements settled between independent entities [18].

5. Conclusions

The problem posed by transfer pricing is a current controversial one. Ethical behaviour in business, social responsibility and the loyal tax competition are aspects which are often not taken into account in the process of achieving the goals set.

Ever since the commercial barriers have been eliminated, the labour market has become more liberal and the internet has become more versatile, multinational companies have the possibility to encounter favourable conditions for trading in other

jurisdictions than the one they are resident in. This allows them to become certain that their profit will be maximized and their tax debts will be minimized. In this respect, transfer pricing constitute the best weapon in the battle with tax. This led to the existence of an upward trend from year to year in the number of transactions effectuated between affiliated enterprises.

In order to reduce tax debt, some multinational companies decide to manipulate transfer pricing by over-evaluating acquisitions, under-evaluating sales and granting virtual loans between affiliated entities, although transfer pricing must be established according to the arm's length principle. In this way, the financial statements are being distorted and companies manage to avoid paying high taxes. Because of the complexity of determining transfer pricing, tax authorities are often unable to contest the prices set by some companies, especially when the effectuated transactions contain intangible assets, such as intellectual property, for which there is no basis of comparison on the open market.

A solution used in the fight against this world-wide phenomenon would be intensifying the controls effectuated in the transfer pricing area but in order to take this action, tax authorities must possess a high level of expertise because multinational companies seem to always be one step ahead.

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The Contracts for Difference – Elements of Financial Innovation on the Romanian Capital Market

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Abstract

The financial derivatives market in Romania is still at an early stage of development. However, the oldest and, in our opinion, the most important market operator, the Sibiu Stock Exchange (Sibex) always tried to include in its portfolio new types of instruments, providing new opportunities for investors for hedging and arbitrage operations. Among the elements of financial innovation that the investors from the Romanian capital market can benefit we can include and Contracts for Difference (CFDs), introduced in 2009 in the Sibex portfolio.

This paper aims to analyze CFDs in a theoretical manner and their evolution on the capital market in Romania, trying to identify possible motivations of the poor development of this segment of the market.

Key words: contract for difference (CFD), financial derivatives, Sibiu Stock Exchange
J.E.L. classification: G23

1. Introduction

The Romanian derivatives market will soon celebrate 16 years of existence. In this period of time the structure of the products traded at the Sibiu Stock Exchange (the most important derivative market in Romania, in our opinion) evolved and enriched continuously as the market operator tried to respond to the demands of the investors. Thus, if in 1997 the transactions were limited to futures contracts, and a year later options contracts were added, now investors can benefit from the use of two new, more "exotic" types of instruments: contracts for difference (CFDs) and binary options.

In the following we will try to analyze the impact that the introduction of the Contracts for Difference had on the derivatives market of Romania.

2. A brief presentation and history of CFDs

A contract for difference (or CFD) is a contract between two parties, typically described as "buyer" and "seller", stipulating that the seller will pay to the buyer the difference between the current value of an asset and its value at contract time. If the difference is negative, then the buyer pays instead to the seller. In effect CFDs are financial derivatives that allow traders to take advantage of prices moving up (long positions) or prices moving down (short positions) on underlying financial instruments and are often used to speculate on those markets.

CFDs were developed in the 1990s in London, their invention being widely credited to Brian Keelan and Jon Wood. [1] The original purpose of the CFDs was to allow hedge funds and institutional traders to hedge their stocks exposure on the London Stock Exchange at a low cost.

In the late 1990s and early 2000, CFDs raised the attention of the retail traders who realized that the real benefit of trading CFDs was, apart from the tax exemption, the ability to leverage any underlying instrument. This was the starting point of a new era for CFDs. Soon the range of underlying instruments expanded to include indices, commodities, bonds and currencies. The index CFDs became the most popular type of CFD traded.

In July 2002 CFDs crossed the UK

borders and were introduced on the Australian capital market. Since then many other national capital markets such as Hong Kong, Poland, Portugal, Germany, The Netherlands, Switzerland, Italy, Canada, France, Ireland, Spain, Japan started using CFDs. The U.S. Securities and Exchange Commission restricted the use of CFDs on the over-the-counter market.

Until 2007 CFDs were traded only on the OTC market. After November 2007 the Australian Securities Exchange listed exchange-traded CFDs on the top 50 Australian stocks, eight currency pairs, key global indices and some commodities.

Since CFDs are traded between individual traders and CFD providers there are no standard contract terms for CFDs, each CFD provider being able to specify their own terms.

Unlike a futures contract a CFD does not have an expiry date or a settlement date so the position is closed when a second reverse trade is done. However, since CFDs are traded on margin and the trader must maintain the minimum margin level at all times, any positions that are not covered will be liquidated by the CFD provider.

For the Romanian market the interest is charged at the end of each day into the account of the buyer by the Romanian Clearing House and it is deposited into the seller's account. The interest rate is established by the Romanian National Bank.

3. Reasons for and against using CFDs in hedging and arbitrage operations

There are many reasons why an investor can be interested in using CFDs as hedging or arbitrage tools. The most important one is, in our opinion, the possibility to have full exposure for the underlying asset by paying only a fraction of its price.

Also, CFDs are more flexible than futures contracts since there is no settlement date and the contract size is smaller making it more accessible to the small investors and pricing is more transparent. The ability to open "short" positions and profit from falling prices and the possibility to gain profit both when the market increases and decreases are other two important advantages of CFDs.

If we add to those said above the reduced counterparty risk due to the fact that all settlement obligations are cleared and guaranteed by the Romanian Clearing House, we can say that CFDs are an important element of financial innovation that can prove useful for the Romanian capital market.

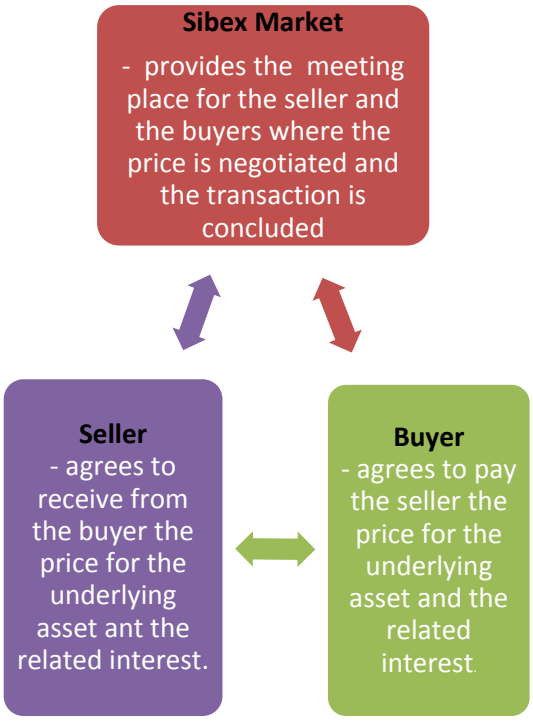
However, there are some disadvantages to be taken under consideration, mainly the leverage effect of CFDs. Some financial commentators argued that trading CFDs is riskier than gambling on horses or going to a casino. [2]

There has also been concern amongst the specialists worldwide that CFDs are little more than gambling implying that most traders lose money trading CFDs [3]. This affirmation is however difficult to prove since most of the CFD traders do not publish information on the average returns from trading.

4. How does a CFD work?

In order to understand how an investor can profit from the use of a CFD we first have to take a look at the mechanism of a CFD transaction:

Figure 1 The mechanism of a CFD transaction at Sibex



Source: adapted after Sibex website

Let's assume that one wishes to speculate the increase in the price of BRD Groupe

Societe Generale shares. Instead of buying 100 shares at the price of 7 lei/share and immobilize 700 lei, the investor can buy one CFD at a margin of between 105 and 140 lei (the margins at Sibex are between 15-20% of the transaction's value) and take advantage of the increase in share price.

On a daily basis, the Romanian Clearing House will charge the account of the buyer with a sum calculated by multiplying the value of the contract with the Romanian National Bank interest rate and will deposit the money in the sellers account.

The position can be maintained as long as the investors wants and can be liquidated by taking a contrary position.

If at liquidation time the price of the BRD shares is 7.5 lei/share the CFD buyer will gain 50 lei, while the seller will lose 50 lei. Therefore a 7% increase in the shares' price leads to a profit of between 35 – 47% of the original investment.

Compared to the spot market, the investors can get the same profit from the fluctuation of the shares' price, but with significantly lower costs, which means that they can get a better net result.

Compared to the futures market, the mechanism of the transactions is the same, but the lack of o settlement date gives the opportunity to maintain an open position for a longer period of time, even for years, without having to pay the costs and to take the risks of "rolling over" a position from one settlement date to another. This is an advantage from which both buyers and sellers can benefit, since CFDs allow the opportunity to open a "short" position (to sell the underlying asset without owning it or without previously assuming a buying position).

Another major resemblance between CFDs and the spot shares market is the possibility for the buyers to cash in dividends for the underlying shares. The sums representing dividends are transferred from the seller's account to the buyer's account in maximum 5 days since the registration date.

However, the CFDs buyers do not have the right to vote in the General Shareholders Assembly as they do not actually own the shares. But there is an upside to not owning the shares: the CFD buyer can get an unlimited exposure to a company's shares without having to disclose information about this ownership.

Compared to an option contract, a CFD has a much simple way to establish its price and a smaller range of underlying assets. While for an option the pricing process is complex and the price tends to decrease near the end of the maturity period, for a CFD the price represents the price of the underlying asset.

We can conclude that the CFD market resembles more with the futures and options market, but there are some major differences:

- The lack of an expiry date, which means that the price doesn't decay near the settlement date;
- The minimum contract size is small so the margins are lower;
- CFDs are not available in the USA;
- The contract's price usually mirrors the price of the underlying asset.

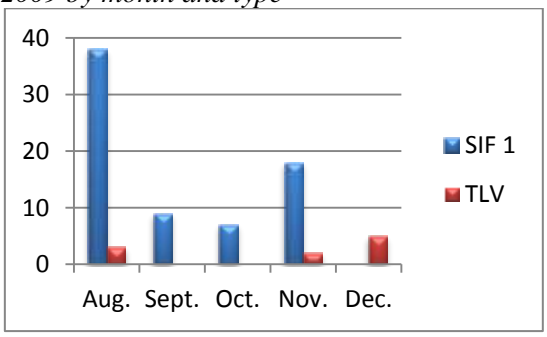
This is, in a brief overview, how a CFD works and the main advantages of buying such a contract. In the next chapter we will try to analyze how the Romanian capital market responded to the introduction of these contracts.

5. The evolution of CFDs on the Romanian market

In Romania, the first CFDs were introduced at SIBEX in August 2009 and had six types of shares as underlying instruments.

Even though the investors seemed interested in this new form of hedging and arbitrage only 82 transactions were carried out in 2009: 72 with the SIF1 CFD and 10 with the Transilvania Bank CFD.

Figure 2 The number of CFDs traded in 2009 by month and type



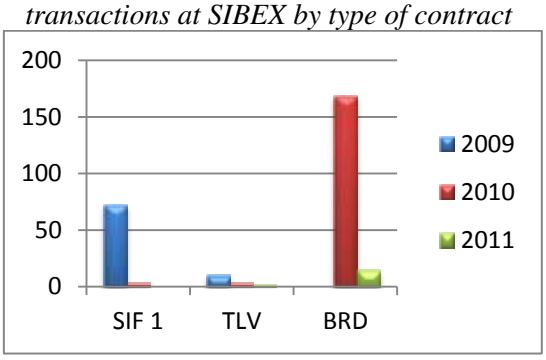
Data source: Sibex annual report

The largest number of contracts traded was reached in the first month of implementation, August, afterwards the

number of traded contracts plummeted.

In 2010 the number of CFDs transactions rose to 175, representing an insignificant fraction of the total transactions of the futures market. While the contracts preferred by the investors in the previous year, SIF 1 and TLV decreased to only 3 trades each, the contract with the shares of the Romanian Development Bank (BRD) as underlying asset totaled 169 transactions.

Figure 3. The evolution of CFDs transactions at SIBEX by type of contract



Data source: Sibex annual reports

In 2011 only 17 contracts were traded, 15 with the BRD shares and 2 with the Transilvania Bank shares. Compared to the previous year, BRD CFD plunged by 91% representing 88% of the market share, while TLV CFD volume decreased by 33%. All 17 contracts were traded in January and September.

In 2012 and the first quarter of 2013 no transactions with CFDs were recorded at SIBEX.

After the review of the evolution of CFDs trades on the capital market in Romania we conclude that despite the benefits of these tools, the illiquidity of the market in general and the lack of investment culture of market participants make this niche area of the Romanian capital market not exploited to its true value.

6. Conclusions

The introduction of CFDs on the Romanian capital market almost 4 years ago was a big step ahead for the market's taxonomy. For the first time, the investors had the opportunity to use an instrument that offered higher advantages than futures contracts or the spot market, but at lower costs.

Although the moment was right from the point of view of the market operator (Sibex) as CFDs offer bigger gains in a time of market rebound, the investors did not react as expected.

The Romanian capital market in general is still struggling with a major lack of liquidity and, more important, with a lack of financial culture from the investors' side.

Therefore, it is our opinion that these instruments will not be used at a bigger scale in the near future unless the entire climate of the capital market changes.

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Considerations on Consolidated Financial Statements of the Group

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Abstract

The consolidated financial statements concern the financial statement presentation and the results of a set of companies as if they form only one company, composed of different departments, divisions or branches. The recognition of the informative role does not allow its reduction to a simple accessory of the annual accounts of the dominant company. The group of companies, by its consolidated synthesis documents, shall provide accounting information that corresponds, in every respect, to its qualitative characteristics.

Key words: the theory of property, the entity theory, the extended theory of the parent company.
JEL Classification: G3; G32; G34

1. Introduction

The consolidated financial statements are the financial statements of a group, presented as those of an independent business. The parent company should introduce consolidated financial statements, which will include statements of all enterprises in the consolidated perimeter established. The parent company will also include in the consolidated financial statements the interests of minorities. In order to prepare the consolidated financial statements, the financial statements of the parent company and those of its subsidiaries, they are combined, one element at a time, adding similar active items, liabilities, equity, income and expenses. In order for the consolidated financial statements to present financial information about the group as a single enterprise, they should follow the following steps:

→the determination of the accounting value of the investment of the main enterprise in each branch and its share of capital;

→ the identification and adjustment, in relation to the group's profit, of the minority's interests in the net income of the consolidated subsidiaries, for the reporting period, for the purpose of reaching the net profit attributable to the owners of the main company;

→ the minority's interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet, separate from the liabilities and the shareholders' equity of the parent company;

2. Considerations on consolidated financial statements of the group

Minority's interest is that part of the net results of the operations and of the net asset of a branch, attributable to the participants, which is not owned, directly or indirectly through subsidiaries, by the parent society. The users of financial statements of the main company are usually concerned and should be informed on the financial situation, on the result of the exercise and the changes in the financial situation of the group as a whole. This requirement is satisfied by the consolidated financial statements, which present financial information about the group as a single enterprise.

The parent society, that presents consolidated financial statements, will enhance all subsidiaries, in the country and abroad, that are in the consolidation perimeter. The consolidated financial statements include all enterprises controlled by the parent company, other than the subsidiaries excluded from consolidation.

It is assumed that there is control if the main company owns, directly or indirectly, through subsidiaries, more than half of the votes of an enterprise. There is control, even

if the main company owns half or less than half of the votes if:

▪ there is an agreement with other investors so that all together they hold more than half of the voting rights;

▪ it is established by law or by contract that he has the authority to conduct the financial and operational policies of the enterprise;

▪ he has the authority to appoint or replace the majority of the governing body of the enterprise;

▪ has the authority to pass on the majority of votes in general meetings or in the decisions of the Board [4].

A subsidiary cannot be excluded from consolidation because its business activities are different from those of the other companies in the group. On the contrary, by consolidating such subsidiaries, additional information is brought in the consolidated financial statements on the diverse activity of such subsidiaries. A subsidiary may be excluded from consolidation if its inclusion is not significant in giving a true and correct image by the consolidated financial statements; several companies may be excluded only if, taken together, their importance is not significant. The consolidated financial statements should provide information about the financial position, performance and cash flows of a group of enterprises, which is useful to a wide range of users in taking their economic decisions. In order to achieve this goal, the consolidated financial statements should provide information that enables users to make predictions on future cash flows, especially regarding their maturity and probability.

The objective of consolidated financial statements is to provide a structured financial representation of the financial position and the transactions performed by the group. So the information in the consolidated financial statements shall relate to:

• The assets controlled by the group, meaning the resources generating future cash flows;

• The group's debt, foreign liabilities that should be at the basis of payments;

• Equity as residual interest of the properties in the assets controlled by the group, including minority's interests;

• the group's result and its economic performance, played by the reflection of the development in equity (net assets);

• the past cash flows, which can constitute the basis for determining future cash flows.

Based on these data, the users of financial information will be able to assess the ability of the group of companies to pay dividends, interests, rates and, in general, to honor the debts of the due dates stipulated. The financial statements should be clearly identified and separated, both as a whole as well as on each component, by other information presented in the annual report or by any other document, even if these are useful to users, not being customary to standards [1].

The consolidated financial statements include: the consolidated balance sheet, the consolidated profit and loss account and the annexes to these. They form a whole and they are presented comparatively on two financial exercises: previous and current.

It is recommended for these documents to be accompanied by:

→ a situation that reflects all changes in equity, as well as those arising from capital transactions with owners and distribution of capital to owners;

→ the cash flow statement or the financing panel;

→ accounting policies and explanatory notes;

The financial statements should be presented at least annually. In the event that, for some exceptional reasons, the annual financial statements are presented for a period longer or shorter than one year, the management should submit, in addition to the period covered by the financial statements, both the reason for using a different period of the year and the fact that the amounts corresponding to similar elements of the profit and loss account, of the changes in equity statement, of the cash flow table and of the corresponding notes, are not compatible. The usefulness of the financial statements is impaired if they are not available to users in a reasonable period of time, after the balance sheet date. Specific deadlines are presented by law and by the capital market regulations [3]..

Regarding the technique of consolidating the accounts, the ownership theory is based on the percentage of interest exercised by the

main company over his branches, as it starts from the premise that the parent company acquires only a part of a subsidiary company and, therefore, only that part should be presented in the consolidated financial statements. Thus, the parent company strictly consolidates its percentage of ownership of the assets and liabilities of the subsidiary company. The commercial fund related to the acquisition, determined as the difference between the acquisition cost and the net fair value of the net assets of the subsidiary company, is entirely attributed to the parent company. Any amendment in the capital of the subsidiary company, of the participation structure that generates, from the parent company's perspective, a purchase or sale of assets and liabilities, leads to an initial consolidation and respectively a deconsolidation. As a result of this consolidation, the consolidated financial statements do not present any information regarding the interests of the minority shareholders in the group, whereas in the balance sheet and in the profit and loss accounts, positions have been taken over only at the level of interest percentage of the group, individually for each subsidiary company.

Regarding the entity theory, the focus is on the group as dominant economic entity, taken as a whole. Therefore, the consolidated financial statements are drawn from a group's perspective. These consolidated financial statements become individual cases at the upper level of the group as an economic entity, its subsidiaries being assimilated to dependent subdivisions. According to the same theory, both parent and daughter companies lose their individuality, the participants' structure in the group being considered irrelevant, not making any difference between the parent company shareholders (the majority) and the minority shareholders [5].

The individual financial statements of subsidiary companies are entirely taken over in the financial statements of the group, being performed the valuation of assets and liabilities at fair value, regardless of the percentage of the majority interest. The reference period to determine the fair value is the moment of acquiring control on the subsidiary. The treatment of the commercial fund is the major difference compared to other theories. Thus, in entity's theory the recognition of the commercial fund occurs, being related to the acquisition of the subsidiary, not only that acquired by the parent company but also its distribution between the interest of the majority and the minority. In contrast to other theories, some changes in the ownership structure in a subsidiary do not lead to making a first consolidation or deconsolidation. These occur only when a company joins, or leaves the area of consolidation, which usually coincides with the moment when the parent company acquires, respectively loses control over a company's assets and liabilities. Transactions in the same group are entirely eliminated[4].

The financial statements of the group, according to the parent company's theory are drawn from the perspective of the parent company's shareholders. The consolidated financial statements represent, in this case, an extension of the individual financial statements of the parent company. The central idea of this theory would be that the parent company's interest in the subsidiary is of a purely financial nature, the consolidated information being complementary to the information provided by individual financial statements of the parent company.

Contrasting with the theory of property, the financial statements of the subsidiaries are fully taken over in the consolidated financial statements, as it is intended in applying this theory, the presentation in the group's situations, of the entire patrimony under the economic dominant influence of the shareholders, of the parent company and not only of the owned percentage. In the consolidation process, all assets and liabilities of subsidiaries are taken over, valued at the net book value, adding the percentage of interest of the parent company in the difference between the fair value and the net book value. The commercial reported fund is allotted only to the majority's interest of the parent company, being represented only by the commercial fund acquired. Any amending in the participation structure, in the capital of subsidiary companies, that from the perspective of the parent company, generates a purchase or a sale of assets and liabilities, leads to an initial consolidation or deconsolidation.

According to this theory, minority's interests are allotted their share of the assets and liabilities of the subsidiaries in question, valued at net accounting value. Minorities are not assigned the difference in value at the level of percentage of interest between the fair value and the net book value of the net assets and they are not allotted any part of the commercial fund. The reporting of minority interests in the balance sheet is done in the debt's group, as from the perspective of the parent company's shareholders, minority shareholders are considered creditors. The part related to minority's interests as a result is deduced from the result of the group in the consolidated profit and loss account so that it only reports the result corresponding to the majority's interest.

The extensive theory of the parent company - in the case of this theory, the perspective from which, the consolidated financial statements are prepared is still that of the shareholders of the parent company. This aims to reflect, helped by the financial statements of the group, of the entire patrimony under the control of the parent company's shareholders, being taken over within the consolidation, as a whole, the assets and liabilities of the subsidiaries. The first difference from the parent company's theory is the assessment of the net assets of a subsidiary entirely at fair value. Similarly to the theories presented, the reported commercial fund is not measured at its fair value, referring only to the commercial fund acquired, allotted entirely to the parent company. Another difference from the parent company conception, aims the total elimination of intra-group transactions, not only at the level of the majority percentage. The application of this theory assumes for the interests of the minority to get their share of the assets and liabilities of subsidiaries, valued at fair value. Because the commercial fund reported is limited to the purchased one, minorities are not allotted any part of it. The reporting of minority's interests in the balance sheet is carried out, in view of this theory, always between debt and equity. In the consolidated profit and loss account, the part corresponding to minority's interests as a result is deduced from the results of the group so that it only reports the result to corresponding interest shareholders of the parent company[2].

In accordance with IAS 1 "The Presentation of Financial Statements" a complete set of financial statements includes the following components:

- The balance sheet;
- The profit and loss accounts;
- The situation of variation or changes in equity;
- The cash flow panel;
-The accounting policies and explanatory notes;

The enterprises are encouraged to present additional statements such as: environmental reports, statements on the added value, additional information on employees etc.

The presentation of the consolidated balance sheet or the consolidated financial position - traditionally, the financial position of an individual or group entity, finds its representation via the balance sheet which is renamed in the latest version of IAS 1 "the statement of financial position". IASB considers that the new denomination reflects better the function of this situation and it is consistent with the terminology adopted in the Framework of preparation and presentation of financial statements. Some important aspects of the presentation of the balance sheet of an individual entity or group refer to the format, the classification of assets and liabilities and the order of presentation of assets, liabilities and equity.

The structure and content of the balance sheet should realize the distinction between current and non-current items. Each group applying the international referential has to decide, depending on the nature of its business, if it is useful to make the distinction between current and non-current items of its balance sheet, both for debt and for assets. When such a distinction is not performed, the assets and liabilities are classified, basically, depending on the liquidity, respectively on their enforceability [3].

The presentation of the consolidated profit and loss account or of group performance – companies should provide either in the income statement or in the notes thereto, an analysis of expenses using a classification based either on the nature of expenses or on their function within the enterprise. The expense items continue to be classified in order to highlight the area of components of the financial results, which may differ in terms of stability, the potential for gain or

loss and the predictability. This information is classified according to the nature of expenditure, and it is not reassigned on the various functions of the company, or after the expenses function as part of the immobilization cost, distribution or administrative activities.

An enterprise should disclose, either in the profit and loss account, either in the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

The presentation of the consolidated cash flow statement – the cash flow panel presents the streams of receipts and payments during the period. It shows the origin of liquidities and how these have been spent explaining the causes of their variation. Such a picture provides information that allows the users to evaluate the changes of the net assets of an enterprise, its financial structure and the ability to change values and the cash flows schedules in order to accommodate changed circumstances and opportunities. In terms of presenting the consolidated cash flow statement, the central issue aims the presentation method of cash flows for exploitation activities, differing in international accounting theory and practice, two methods firmly established, namely the direct method and the indirect method.

The presentation of the situation's variation in equity, consolidated - in accordance with IAS 1, such a situation should include the following elements:

• the profit or loss of the period;

• profits and losses, expenses and revenues that have been directly affected in equity as well as the total of these elements;

• the total of incomes and expenses of the period, calculating separately the total amounts attributable to the parent company and to minority's interest;

• for each component of the equity, the effect of changes in accounting policies and the corrections of errors, recognized in accordance with IAS 8.

In terms of submitting this document, the set out format at international level is the matrix, where the lines represent the sources of changes in equity and the columns represent the equity elements, and the totals of related amendments of the owners of the parent company related to minority's interests and to the whole group[4].

The disclosure of accounting policies and of the consolidated explanatory notes - the information contained in the notes, drawn up at the consolidated financial statements, is particularly important because it allows completing the accounting information presented in the balance sheet and income statement, which sometimes are insufficient. Qualitative information that cannot be captured in the two other synthesis documents allows stating the terms and conditions in which there were carried out the consolidation works. The Explanatory Notes highlight the accounting options retained from a wide range of possibilities, offered by international accounting practices. Whatever the source, the information in the notes meets the principle of good information, which allows a fair assessment of assets, of financial position and of the overall result, consolidated. The Explanatory Notes should include any significant information that allows users of consolidated accounts to make a fair assessment of assets, of the financial position and of the result of an ensemble of companies chosen for consolidation.

3.Conclusions

The financial statements are a structured representation of the financial position and of transactions carried out by an enterprise or group of enterprises that operate as a single enterprise. In this sense, financial statements provide information about the assets, liabilities, equity, income and expenses, including profit and loss as well as cash flows of the company. The financial statements shall fairly present the financial position, the financial performance and cash flows of an enterprise or of the group. In order to prepare consolidated financial statements, the management has to evaluate the business activity of the companies in the consolidation perimeter in terms of the predictable continuity of the activity.

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The Role of Corporate Governance within Groups of Companies

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Abstract

The corporate governance is a new concept in the international economic life. There is no unitary definition of the concept. Some economists consider that corporate governance envisages the mechanisms that assure the investors they will get the expected results of investments in companies others ensure the responsibility of those who take decisions, thereof the owners. The corporate governance specific to the way of distribution of rights and responsibilities among different participants in company's activities, such as The Board of Directors, the managers, shareholders and other persons directly interested, establishes the rules and procedures for taking decisions.

Key Words: the theory of the agency, the theory of administration, the theory of the stakeholder.
JEL Classification: G3; G32; G34

1. Introduction

The concept of corporate governance has emerged in the 70s in the United States amid the Watergate scandal when it was revealed the involvement of American companies in politics by contributions to various political parties. The concept was first used in national institutions, commercial organizations, but also in the management of colonies and occupied territories. Subsequently, the concept of corporate governance has been developed in the private sector and it was taken over and applied in most of the areas of activity, expanding rapidly in recent years, especially in the public sector organizations. Nowadays, all organizations and most countries are concerned about the implementation of corporate governance principles. The governance is a very broad concept that includes a robust and effective supervision of the way in which something is achieved, managed, controlled or administered, in order to protect the interests of the components of a respective field, organization or institution. According to some authors the concept of corporate governance must be addressed together with the risk management throughout the organization and with the evolution of the financial management system and internal control.

2. The role of corporate governance within Groups of companies

The corporate governance should be seen as a process in which the organization is involved in general and it refers to all internal components working together, that will eventually be integrated into a single recognized management structure. On the other hand, in the 1992 Cadbury Report, Sir Adrian Cadbury defined the corporate governance as the system that guides and controls companies. The Cadbury Code established for the first time the basic rules of running a campaign to achieve efficiency, concomitant with a nondiscriminatory behavior towards shareholders. The Cadbury report series that began in 1992, admitted the need to establish some audit committees, the widespread use of non-executive directors that do not have managerial responsibility within the company[2].

The organizations should adhere to all the concepts, principles, standards and corporate governance regulations in order to be evaluated and achieve expected relevant policies and performance. The corporate governance codes and policies have become a balance between compliance and performance.

There are known to two sides of the corporate governance concept:

• the behavioral one, referring to the way in which interact the managers of a company,

the shareholders, the employees, the creditors, the customers and suppliers, the state and other interest groups within the overall strategy of the company;

• the normative one, referring to the set of regulations that fits these relationships and behaviors, respectively the companies' law, the securities' law and the capital markets, the bankruptcy law, the competition law, the stock exchange listing requirements etc.

The corporate governance regards the interests of both the company's internal components, and the external ones, defined as follows:

→ the internal components are represented by shareholders / partners, board members, directives committee members, managers, employees, creditors, investors and customers;

→ the external components are represented by the legal provisions that govern the relations between the internal components as well as the decision-making activity in the company;

The corporate governance objectives are:

• The effective and continuous communication between the internal components;

• Financial discipline through the internal and external audit of the company;

• The efficiency, the Board of Directors taking optimal decisions;

• The continuous communication to the public of the financial condition and of the company's objectives;

• Ensuring that the company, through its actions, demonstrates responsibility towards community and environment[4].

The corporate governance does not represent a concept applicable only to the individual enterprise level, it also extends to the group of companies, where the complexity of the links between companies and of the activities performed, involves a high degree of responsibility of the managers towards the owners. The corporate governance has its roots in the corporate mechanisms and in the bankruptcy laws in each country, and in the judicial enforcement mechanisms that establish basic rules of the internal relations between various participants in a corporation. The implementation method of the corporate governance varies significantly from country to country and from company to company. An efficient implementation of the governance allows companies an easy access on the capital markets, access that is required in order to obtain financing, given that growth opportunities can be financed domestically.

The concept of corporate governance has drawn the attention on the business environment, first of all in the main countries, with market economy, on one hand, as a recognition of the fact that large financial institutions have an increasing influence on the companies they finance and, on the other hand in response to notorious financial failures. Moreover, the major financial and bankruptcy scandals have determined the European Union to develop a corporate governance code, which however is not mandatory. There are also two international and two European codes, applicable to European Union companies that come to provide transparency, quality, consistency and comparability of information. The attention for the concept of governance is now focusing on the developing economies because the stock listing crosses borders more intensively. There is a growing preference of investors to seek new markets to place their funds. In these countries, most companies consider adopting corporate governance rules as being complicated, as it involves the modification of the constitutive document of the company.

The changes would aim, among other things, to a sufficient and transparent communication. Last, but not least, the corporate governance assumes a well established control system. The investors become more and more demanding, in terms of data quality and governance standards that they require from the companies and markets where they intend to invest capital[1].

Regarding the consolidated financial statements of the company, they are audited by one or more individuals or legal entities authorized by law. The person or persons responsible for auditing the consolidated annual financial statements, referred to as statutory auditors, also express an opinion on the level of compliance of the consolidated report of the administrators with the consolidated annual financial statements for the same financial exercise.

In recent decades, the corporate governance is the concept that has affected

most of the already developed and developing countries. OECD published in 1999, as an argument, "The Corporate Governance Principles", including the principles referring to the issues where the administrators have a key role: the rights of shareholders, the fair treatment of the shareholders, the role of the shareholders in the corporate governance, the communication of financial information and its transparency, the responsibility of the Board of Directors.

The global corporate governance principles developed by the OECD, are:

◦ to promote transparency and market efficiency, compliance with rules and laws and the division of responsibilities between different managements, regulations and authorities;

◦ to protect and facilitate the rights of shareholders;

◦ to ensure the fair treatment of all shareholders, including the minority and foreign ones, so all shareholders have the opportunity to obtain effective compensation for violation of their rights;

◦ to recognize the rights of the shareholders, established by law or by approved commitments and to encourage cooperation between organizations and shareholders in creating value, employment and in supporting entities that are financially healthy;

◦ to ensure a timely and reliable disclosure of information concerning all the aspects of the materials relating to the corporation, including the financial situation, the performance, the ownership and the management of the company;

◦ to ensure the strategic direction of the company, the effective monitoring of the management by the Board of Directors, as well as the Board of Directors' responsibility towards the shareholders and the company.

The overall objective of any government is to ensure the balance of power between different actors participating, and commissioning these control tools for both shareholders participating in intangible capital and for other participants to this equity. The corporate governance nowadays, assumes treating complex contemporary issues by teamwork where everyone contributes. A strong governance assumes the establishment of some fundamental principles that define the relationships between different actors, clearly outlines the responsibilities and guarantees the correct function of the decision-making processes. The governance systems actually have two main objectives: ensuring the integrity of management and its orientation to maximize the value created for shareholders or stakeholders[3].

The specific objectives of the corporate governance at the entity level refer to:

▪ the effective and continuous communication between the internal components (the shareholders, the Board of Directors, the Steering Committee members, the executives);

▪ financial discipline via internal and external audit in the company;

▪ ensuring effective protection of shareholders' rights;

▪ the effectiveness and efficiency of the activities of the organization in achieving management objectives through optimal decisions taken by the Board of Directors;

▪ continuously informing the public on the company's financial condition and objectives, while respecting commercial confidentiality;

▪ ensuring that the entity, by means of its actions, demonstrates responsibility towards the community and the environment;

In the Western world, especially in the developed countries, there are faced two patterns of corporate governance: the shareholder and stakeholder pattern.

- The shareholder pattern type is the one found in the Anglo-Saxon countries. The objective to be achieved is the maximization of value for shareholders, namely the profit and the stock market. In these countries, the financial markets are highly developed, and the capital of the enterprises is relatively atomized, in these circumstances the managers are controlled by the general meetings of shareholders.

- The stakeholder pattern type is present in most European countries, except for certain countries in northern Europe and UK. For this pattern, the objective to be achieved is not so much the maximization of the shareholders wealth, but defending the interest of all parties involved, one way or another, within the company (the employees, the business partners, the shareholders, the managers and so on). In the stakeholder pattern type the financial markets are not very developed and the capital of the

enterprises is often controlled by powerful shareholders, that hold a significant part, alone or through several control blocks. France and Germany are examples of this type of governance. It appears clearly the fact that in terms of corporate governance our country should choose a stakeholder pattern type[5].

The different corporate governance practices and structures reflect the interest to reduce the agent's costs and to minimize the conflict between shareholders and managers or principals and agents. Typically, the effectiveness of different systems of corporate governance appreciates based on their capacity to solve various inevitable conflicts that arise between social partners of the enterprise. The ability of the managers and of other decision factors such as the shareholders, the Board of Directors, the auditors, to harmonize and prioritize these interests directly influences the risk and the income generated from the investment in the shares of the company. Thus, the quality and the operational efficiency of corporate governance form, determine the control of variables that have a significant impact on the company's performance. However, the impact of corporate governance is not only about the micro economic sphere, but it has profound and lasting implications at macroeconomic level as well.

At the microeconomic level:

▪ the managers get a better understanding of the real aspects of the business in their society, with a positive impact on the ability of organizations to form alliances and partnerships and on the transparency in providing information;

▪ the investors become more concerned, more interested in finding information and more aggressive; a study shows that in Western Europe 56% of investors give equal or additional importance to the information on corporate governance and to the financial one. Therefore increasing the entity's ability to finance rapidly and inexpensively its development;

▪ the management boards become stronger, more influent. As the councils' responsibility increases, the pursuit for the highest competent managers becomes fierce. The good administrators are more expensive and more difficult to find;

At the macroeconomic level:

▪ increasing the national economic efficiency by a better allocation of resources;

▪ increasing the transparency, diminishing the level of corruption and tax evasion;

▪ developing the capital markets and increasing the attractiveness for investors with financial power;

▪ mobilizing public savings by organizing an alternative investment - the capital market;

▪ positive influences are also noticed on the living standards of the population;

Applying the principles of corporate governance has visible benefits on the companies that adopt them, generating competitive economic advantages. Corporate governance is often considered difficult because it involves changing the constitutive document of the company. The governance should also be supported by a well established control system.

Taking into consideration those rules, the corporate governance norms that constitute the theoretical and legal framework of carrying out the mechanism that directs and controls entities, it is worth noting that in the European Union there have been adopted a number of 35 corporate governance codes, each country having at least one code. Most of these codes were issued after 1997, after financial scandals and bankruptcies of British companies listed on the stock market. Approximately one third of the codes, applicable in EU countries, have been elaborated by groups or associations of investors. These codes applicable in the EU are different, due to the purpose they have been issued for and their detailing degree. They address the following issues: fair treatment of all shareholders, whose interests should be a priority; the clear responsibility of the Board of Directors and management; the company's transparency or the accuracy of the financial and non-financial reporting; the responsibility for the minority shareholders' interests and of other social partners, as well as the compliance with the law[4].

The corporate governance codes provide flexibility and they are not compulsory, even in the case when the principle "comply or explain" applies, the companies are free not to follow the recommendations of the codes provided they report and explain their failure. However, the fact that they are not compulsory raises the question of their

effectiveness in practice.

3. Conclusions

The corporate governance may reduce the agency problems by adopting mechanisms to monitor the activity of managers. This should result, on one hand into a higher operational performance, as long as the managers are encouraged to invest in projects with positive current value, and on the other hand, to increase the company's value, as the investors realize that most of the company's cash flows return to them. In the countries where the traditional ownership structure is dispersed, as in the USA, UK or Japan, the concentration of capital has an either positive or negative effect on the performance.

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Dynamics and Structure of Domestic Credit in Romania

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Abstract

The crisis that affected the Romanian economy from the last months of 2008 was not without consequences for the banking system of our country. One of its effects was the Romanian banks' lending policies. Changes in lending policy content of Romanian credit institutions can be seen by analyzing the structure and dynamics of domestic credit.

Keywords: Romania, banks, credit, dynamics, structure.
J.E.L. Classification: G21

1. Introduction

One of the functions of banks in a market economy is that of intermediary in the relationship economy - investments, in other words it temporarily collects the amounts available in the economy in the form of deposits and redistributes them to the economy, to those that need financial resources, in the form of loans [1].

This second aspect, granting of loans, is the objective of this work. More specifically, the analysis of the impact of the economic and financial crisis had, which made its presence felt in Romania in the second half of 2008, on the domestic credit in terms of its dynamic and structure.

2. The research method

The research methods used are: classification, synthesis, static and dynamic comparative analysis, methods of induction and deduction, the graphical representation of events and phenomena investigated. Partly were also used a series of mathematical and statistical tools, accompanied by deductive analytical analysis. However, the work is of a qualitative nature, rather it aims for an overview of the instrument and its results not to validate or criticize the dashboard. Statistic data used are for official nature, being taken from documents or databases of the National Bank of Romania.

3. Dynamics of total domestic credit

Total domestic credit in lei, at the current value, continued to increase during the four years of crisis, increasing its value with about 60 billion lei. However, its dynamic was more modest compared to the period up to 2008, when there were years in which only the annual growth meant doubling it, perfectly understandable situation given that our country had gone from relatively low lending.

Table 1. Domestic credit in Romania.

Year	GDP (billion lei current price)	Average exchange rate (lei/euro)	GDP (billion euro current price)	Total domestic credit (billion lei)	Total domestic credit (billion euro)	GDP rate(%)
2008	514,7	3,68	139,9	224,2	60,9	44
2009	501,2	4,24	118,2	271,1	63,9	54
2010	523,7	4,21	124,4	271,1	64,4	52
2011	556,7	4,24	131,3	265,6	62,6	48
2012	587,5	4,46	131,7	284,7	63,8	48

Source: Authors' calculations based on data from the Monthly Bulletin no. 1/2013, the National Bank of Romania and the information from the database interactive NBR http://www.bnr.ro/Statistica-87.aspx

However, for correct assessment of domestic credit growth in the period after 2012 is required to follow its share in gross domestic product (GDP), the latter recorded in comparable values decreases during the first years of crisis and subsequently registered modest or negligible growths. Thus, domestic credit, as rate to GDP experienced a contraction of about 4%, after recording a maximum of 52% in 2009. Domestic credit contraction is a very negative phenomenon for

the Romanian economy, while its value is less than half of the EU average and, on the other hand is about 8% of the maximum value that the indicator reached [2].

Another appreciation can be done converting the whole domestic credit in euro using the average exchange rates for each year. Thus, although higher than the value at the beginning of the crisis, total domestic credit converted into euro, shows at the end of the interval an increase of much less than 5%, while the maximum was reached in 2010.

The conclusion drawn is that in the four years of crisis the intermediary role of banks experienced an acute erosion, their lending capacity maintaining at the values near the beginning of the recession.

4. Domestic credit structure

The main structural change in the total domestic credit is localized at the level of domestic credit. Thus, as absolute value in lei, it has increased of about 5 billion lei, from 99 to 104 billion lei in the four years analyzed, but declined both as a share of GDP by about 1.5%, and as value converted into euro, a decrease of 3.6 billion euro and as a percentage of total credit. In the latter case, the contraction most consistent was of 7.5% [3].

Reasons for the decline must be sought into: (1) the reluctance of banks to to invest in loans to people, given that it currently brings most of the bad loans in the banking system, (2) uncertainties of the population in regarding future revenues of this group, (3) and the tightening of granting credit, making few people to still qualify for new loans.

In contrast with lower credits for population in crisis years we have seen a consolidation of loans to the business segment, growth being of about 25 billion lei. However, credit to businesses increases are much lower if you convert the euro and analyze it as a share of GDP and as a share of total credit, has even a slight decrease.

Regardless of previous evolution to note that lending to businesses during the crisis has become the main form of credit, showing a change in their banking policies and a boost in their involvement in the economy. In the four years of crisis we have witnessed: (1) a slight disengagement of banks towards the financial sector, lending to them decreased to negligible values; (2) an increase in government lending in the early state of crisis, given its ample financial needs and consistent budget deficits. But in recent years government lending fell slightly, the state borrowing cheaper in foreign markets and budgetary pressures and the budget deficit getting smaller; (3) an increase in credit to non-residents.

Table 2. Dynamics and structure of domestic credit in Romania.

Year	Total credit (billion lei)	Of which, granted:				
		households	Publoc companies	Non-monetary financial institutions	Public administration	Non-residents
billion lei. Absolute values						
2008	224,2	99,2	94,5	4,3	6,2	19,9
2009	271,1	100,2	96,2	3,5	11,3	59,9
2010	271,1	102,1	104,6	2,6	11,2	50,5
2011	265,6	104,3	115,4	3,4	10,8	31,8
2012	284,7	104,5	118,7	2,7	9,9	49,0
billion euro						
2008	60,9	27,0	25,7	1,2	1,7	5,4
2009	63,9	23,6	22,7	0,8	2,7	14,1
2010	64,4	24,3	24,8	0,6	2,7	12,0
2011	62,6	24,6	27,2	0,8	2,5	7,5
2012	63,8	23,4	26,6	0,6	2,2	11,0
GDP rates - %						
2008	43,6	19,3	18,4	0,8	1,2	3,9
2009	54,1	20,0	19,2	0,7	2,3	11,9
2010	51,8	19,5	20,0	0,5	2,1	9,6
2011	47,7	18,7	20,7	0,6	1,9	5,7
2012	48,5	17,8	20,2	0,5	1,7	8,3
structure (% - in total domestic credit)						
2008	100	44,2	42,2	1,9	2,8	8,9
2009	100	37,0	35,5	1,3	4,2	22,1
2010	100	37,7	38,6	1,0	4,1	18,6
2011	100	39,3	43,4	1,3	4,1	12,0
2012	100	36,7	41,7	0,9	3,5	17,2

Source: Authors' calculations based on data from the Monthly Bulletin no. 1/2013, the National Bank of Romania and the information from the database interactive NBR http://www.bnr.ro/Statistica-87.aspx

5. Credit to population trends

At the credit to population level are observable a number of structural changes.

Thus, foreign currency loans, especially the euro, remain the main type of credit required by the population, given that it costs continued to be below the national currency credit. Interestingly, if declaratively the management of Romanian commercial banks, and the central bank, reiterated the risks of this type of credit and the in the future the wish for it to be reduced in size, in practice it grew [4].

Table 3. Dynamics and structure of the credit for populaţieîn Romania.

Year	Total	Of which:					
		By currencies			By destinations		
		lei	euro	Other currencies	Consum-ption	housing	Other purposes
billion lei. Absolute values							
2008	99,2	40,9	45,8	12,5	73,7	20,9	4,6
2009	100,2	38,8	48,9	12,5	72,8	24,2	3,2
2010	102,1	35,9	52,0	14,2	64,2	28,9	8,9
2011	104,3	35,0	55,4	13,9	62,0	33,4	8,9
2012	104,5	34,4	57,1	13,0	58,0	37,1	9,4
billion euro							
2008	27,0	11,1	12,4	3,4	20,0	5,7	1,3
2009	23,6	9,2	11,5	2,9	17,2	5,7	0,7
2010	24,3	8,5	12,4	3,4	15,3	6,9	2,1
2011	24,6	8,3	13,1	3,3	14,6	7,9	2,1
2012	23,4	7,7	12,8	2,9	13,0	8,3	2,1
GDP shares - %							
2008	19,3	8,0	8,9	2,4	14,3	4,1	0,9
2009	20,0	7,7	9,8	2,5	14,5	4,8	0,6
2010	19,5	6,9	9,9	2,7	12,3	5,5	1,7
2011	18,7	6,3	9,9	2,5	11,1	6,0	1,6
2012	17,8	5,9	9,7	2,2	9,9	6,3	1,6
structure (% - in credit for population)							
2008	100	41,3	46,2	12,6	74,3	21,1	4,6
2009	100	38,7	48,9	12,4	72,7	24,2	3,2
2010	100	35,2	50,9	13,9	62,9	28,3	8,7
2011	100	33,6	53,1	13,3	59,4	32,0	8,5
2012	100	32,9	54,6	12,4	55,5	35,5	9,0

Source: Authors' calculations based on data from the Monthly Bulletin no. 1/2013, the National Bank of Romania and the information from the database interactive NBR http://www.bnr.ro/Statistica-87.aspx

Loans in exotic currencies (Swiss franc, Australian dollar and so on), but also those in U.S. dollars, although increased slightly in absolute value (normal in the conditions of the leu depreciation of the four years) decreased as a share of GDP or as a share of total loans, meaning that banks understand credit risks in such currencies, as well as population, credit institutions, in recent years, initiating conversion processes of this type of loan into other currencies.

To the domestic credit in lei contracted by population, the crisis made it more smaller in size, the decreases being ample in size and were observed regardless of the method of measurement. Worth mentioning a figure in the total loans to households it represents more than a third, while in euro it gives about 55%.

Analysis of lending to households by purpose indicates other interesting changes. Firstly there is a contraction of consumer credit, by approx. 16 billion, but as a percentage of total loans to the population decrease is of about 25%, from about 75% to just over 50%. Decrease explanation is that many consumer loans granted before the crisis or its early years, usually with terms of 1 year or between 1 and 5 years, have reached maturity, banks initiating few such new contracts of consumer credit during crisis years, to replace those that have reached maturity.

Secondly, housing loans increased absolute value doubled, the increase being from about 20% to about 35% as a share of total credit to the public. Housing loan usually takes into account long term, for over 10 years and in most cases it is denominated in euro. Thus, explains why it grew, the leu depreciation amplifying its value as decreased consumer credit has increased the housing and, additionally, the state has supported this type of loan, the program "First House" [5].

6. Credit developments for companies

Loans in foreign currency is, as with people, the main form of business lending, nearly 60% of total loans to firms are denominated in other currencies. Obviously, the best placed are loans in euro, the other currencies (dollar, etc..) are much more underrepresented than those granted to population (about 3%).

Euro loans to businesses increased in the four years of crisis with approximately 17 billion lei and those in lei with about 8 billion, the only decrease is recorded in loans in other currencies. However, converted into euro loans to companies seem more stable in volume, only growth seen in the denominated loans in euro, with an increase of approx. 2

billion, the explanation is very strong depreciation of the leu during this period.

Table 4. Dynamics and structure of the credit for companies in Romania.

Years	Total	Of which:					
		By currencies			By terms		
		lei	euro	Other currencies	Up to 1 year	1 - 5 years	over 5 years
billion lei. Absolute values							
2008	94,5	40,9	48,9	4,7	39,6	27,3	27,6
2009	96,2	39,2	53,3	3,7	39,4	26,6	30,1
2010	104,6	40,0	61,0	3,7	39,6	30,1	35,0
2011	115,4	44,6	66,3	4,5	45,2	32,1	38,1
2012	118,7	48,8	65,8	4,1	48,5	32,0	38,3
billion euro							
2008	18,4	7,9	9,5	0,9	7,7	5,3	5,4
2009	19,2	7,8	10,6	0,7	7,9	5,3	6,0
2010	20,0	7,6	11,6	0,7	7,6	5,7	6,7
2011	20,7	8,0	11,9	0,8	8,1	5,8	6,8
2012	20,2	8,3	11,2	0,7	8,2	5,4	6,5
GDP shares - %							
2008	25,7	11,1	13,3	1,3	10,8	7,4	7,5
2009	22,7	9,2	12,6	0,9	9,3	6,3	7,1
2010	24,8	9,5	14,5	0,9	9,4	7,1	8,3
2011	27,2	10,5	15,6	1,1	10,7	7,6	9,0
2012	26,6	10,9	14,8	0,9	10,9	7,2	8,6
structure (% - in credit for companies)							
2008	100	43,2	51,8	5,0	41,9	28,9	29,2
2009	100	40,8	55,4	3,8	41,0	27,7	31,3
2010	100	38,2	58,3	3,5	37,8	28,8	33,4
2011	100	38,7	57,4	3,9	39,1	27,8	33,0
2012	100	41,1	55,5	3,4	40,8	26,9	32,3

Source: Authors' calculations based on data from the Monthly Bulletin no. 1/2013, the National Bank of Romania and the information from the database interactive NBR http://www.bnr.ro/Statistica-87.aspx

The same mentions in the case of analysis of lending to firms as a share of GDP, although in this case loans in other currencies seem to decrease more. Regarding the term of granting, which in the case of loans to businesses overlap destinations: the ones on short-term, under one year, being destined to exploitation, the middle term ones, between 1 and 5 years, exploitations of firms witl a long activity cycle, but also small-scale investments and long-term over 5 years, large investments, the following changes occur:

- analyzed in terms of absolute value, loans of up to one year and more than 5 years, grow each with values of about 10 billion, and those of middle term with about 5 billion lei, but converted in euro increased by half a billion, the short-term ones with more than a billion, the long-term ones appear to have stabilized at values of about 5.5 billion the ones of medium term;
- as a percentage of GDP, short-term credit in 2012 returns to its value at the beginning of the crisis, 10.9% of GDP, the medium term one decreases slightly, to 7.2%, the only increase being observed in long term credits, they increased by 1% and reached 8.6%. The same behavior is also found when analyzing the terms for granting credit to business as a share of total [6].

As a conclusion, in the case of business credit, we find that the request is directed, on the one hand, to the loans to finance current exploiting activities, they are trying to overcome liquidity problems generated by the crisis (late collection of deliveries, decrease of sales), and on the other hand, the technical renewal through investments they probably do, trying to offset the loss of competitiveness due to higher costs. Should also be noted the orientation of companies to foreign currency credit, Romanian companies prefer currency risk and avoiding the credit in lei, although it would have generated lower financial expenses. In fact, in the last three years, the depreciation of the leu was below 10%, so it had a much smaller impact on business costs, while interest rates on loans in lei, in relation to the currency, means interest expense is almost double.

7. Government credit developments

In the early years of crisis the credit addressed to the public administration (government) greatly increases. Thus, it almost doubles its value, reaching over 11 billion USD, compared to 6 billion lei, at the beginning of the crisis, amid lower state revenues, maintaining the level of public spending and increasing the budget deficit. In the last two years, it compresses and government resolves some budgetary problems, under Agreement with the EU, IMF and so on or preferring to borrow cheaper on foreign markets.

It should also be noted that the government loan converted into euro has

modest value, just over 2 billion, while the total external debt of Romania was close to 100 billion euro and external public debt was on 31 January 2013 almost 30 billion euro.

As a share of GDP, government credit is 1.7%, and total domestic credit under 4%, values that do not have a negative impact too important. Sure, that does not mean that this type of loan does not lead to resources reorientation to finance the real economy to financing unproductive expenditures, which are the prerogative of the state. However, the mere existence of government credit means higher state costs with interest.

Table 5. Dynamic and structures of government credit in Romania.

Years	Loans granted to public administration	Of which for the administration		Loans granted to public administration	Of which for the administration	
		central	local		central	local
	billion lei.			billion euro		
2008	6,2	2,3	3,9	1,7	0,6	1,1
2009	11,3	6,3	5,0	2,7	1,5	1,2
2010	11,2	5,3	6,0	2,7	1,3	1,4
2011	10,8	3,7	7,1	2,5	0,9	1,7
2012	9,9	1,2	8,6	2,2	0,3	1,9
	GDP rates - %			Rates-% in total credit		
2008	1,2	0,5	0,8	2,8	1,0	1,7
2009	2,3	1,3	1,0	4,2	2,3	1,8
2010	2,1	1,0	1,1	4,1	1,9	2,2
2011	1,9	0,7	1,3	4,1	1,4	2,7
2012	1,7	0,2	1,5	3,5	0,4	3,0

Source: Authors' calculations based on data from the Monthly Bulletin no. 1/2013, the National Bank of Romania and the information from the database interactive NBR http://www.bnr.ro/Statistica-87.aspx

I would also like to note that for credit institutions, government credit meant that keeping their interest income, which is partially offset lower interest generated revenues more modest increases in credit to the public, the latter generating up to the crisis the bulk of banking revenues.

More important is the structure of government credit. Thus, most of it going to local authorities and the greater part to the central authority. If at the beginning of the crisis, 40% of government credit went to the Central Authority, value that reached nearly 60% in 2009, but falls to below 15% by the end of 2012, the difference of 85% going to local authorities. Credit for local authorities is increasing because it co-finances a number of EU funded projects or tries to make allocations of funds more and more modest of the central budget to local budgets or own reduced revenues of administrative territorial units.

8. Conclusions

Total domestic credit in lei, at the current value continued to increase during the four years of crisis, it increased its value with about 60 billion lei. However, as a share of GDP, domestic credit a contraction of 4% after recording a maximum of 52% in 2009.

As a structure, credit for population limits its size, growing for the companies, and the government credit after rising early in the crisis, seems to reduce itself in volume in the last two years, while the greater part of it is moved to the local authorities.

The conclusion drawn is that in the four years of crisis the intermediary role of banks experienced a pronounced erosion, its lending capacity maintaining near the values of the beginning of the recession.

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The Impact of Globalization in the Context of the Current Crisis

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Abstract

The economic crisis triggered in 2007 in the U.S. had reverberations around the world, with serious consequences in the field of economic exchanges and financial, which required a rethinking of economic policy at the global level. The economies of the developed countries and emerging markets were affected, the crisis deepening the gap between heavily industrialized nations and developing states as well as the least developed states, in particular African states. In this context the world expected a minimal state involvement in the financial sector through the provision of funds to be used to meet the need of liquidity of banks. A natural consequence is the increasing indebtedness of these countries with naturally impact on the trade deficits. The financial crisis has boosted the role of governments in national economies, making at the same time necessary the cooperation at international level in order to adopt concerted measures for economic recovery.

Keywords: global economy, financial crisis, public debt, budget deficit, domestic demand
JEL classification: G01

1.Introduction

The world economy is a heterogeneous system manifested by differences on the size of the countries, demographic and economic potential of states as well as their economic system.[1]

The last decades of the twentieth century is emphasizing the process of globalisation manifested by the globalisation of large companies and structuring them in networks, trade liberalization and also by the rapid transmission of information, a natural consequence being the inability of global economy of functioning for the benefit of all without solidarity and international cooperation.

Economic globalization manifests itself through an intertwining of economies, by increasing the role of foreign capital and investment and trade between the states.[2]

Amid the increasing interdependencies between States, the economic crisis has evolved rapidly worldwide in the financial sector, as a result of the collapse of major financial institutions, which had imposed a new form of development cooperation at the global level.

2. Anti-crisis policies and their effects on the economy

The current crisis was characterized by an initial period of economic recession that has put pressure on rising unemployment. Tax revenues have felt the strongest these macroeconomic imbalances which led to their reduction. Total public expenditure could not be adjusted in accordance with these revenue decreases. The result was the increasing deficits of the consolidated national public budget, that, in turn, have led to significant increases in public debt of the countries of the world.

The first step in combating the effects of the crisis was marked by the adoption by the central banks of some measures in the field of monetary policy, together with the implementation of fiscal stimulus packages by the majority of governments by, in order to restore financial equilibrium. At the same time some states have had to resort to public funds to rescue banks.

The measures were aimed at the reform of the international monetary system, and reducing the volatility of capital flows in the short term due to speculative operations.

Amid the growing budget deficit and the accumulation of large debts, many countries

have abandoned the stimulatory fiscal policies by adopting a policy of reducing public spending while increasing fiscal pressure.

The measures taken have had the effect of lowering the expenditures in the private sector, with consequences over the production of goods and services, economic agents being forced to restrict the activity which has led to rising unemployment, lower wages with impact on consumer purchasing power and a further reduction in consumption by giving birth to a degresive spiral.

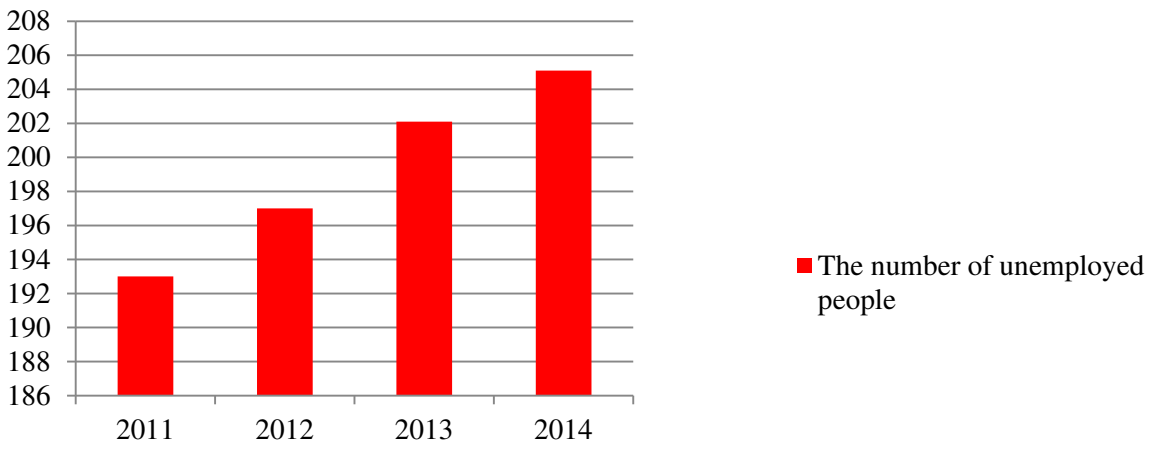
According to the agency for work within the UN, the number of unemployed worldwide has increased by 4 million, in 2012, reaching a total of 197 million.
below.

The International Labor Organization's report mentions that young people are most affected by unemployment: approximately 13% of the planet's young (under 24 years of age) don't have a job.[3]

The estimates for the current year are pessimistic, 5.1 million people remain jobless, and in 2014, another 3 million, which reflects an economic decline, especially in developed countries due to the inefficiency of the measures adopted by the governments.

The same report shows an increase in long-term unemployment, due to the decrease in demand for goods and services, investment and demand on the labour market, as it highlights and figure

Figure 1.The number of unemployed people (millions) worldwide, 2011-2014



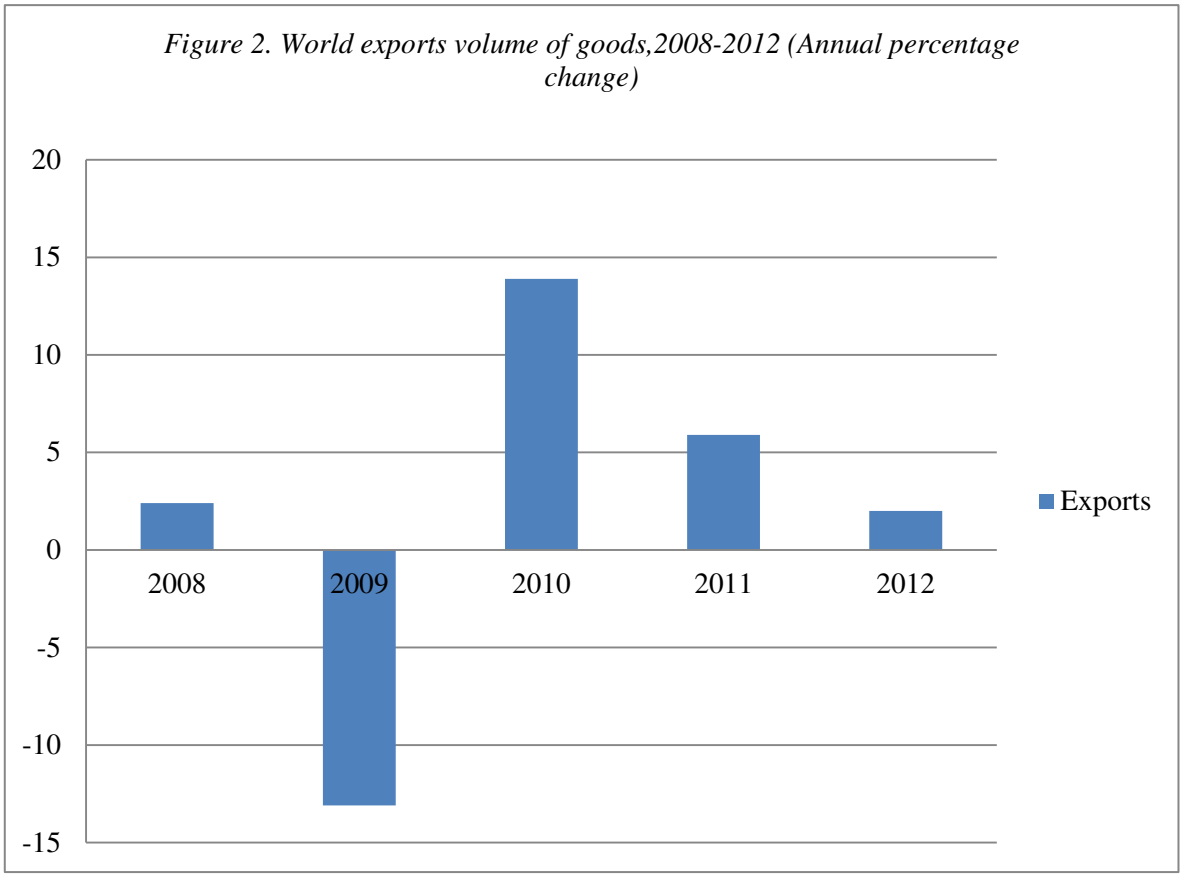
Source- based on data provided by The Report of International Labor Organization

The degree of indebtedness of households and economic agents to the banks in many countries continues to be high, financial institutions were reluctant to provide new financing.

Financial policy must have as single purpose external and internal investments stimulation by means of facilities of a fiscal nature, investors are attracted to countries with a high level of qualification of the labour force and low wage costs.

In this situation, the developed nations were based to a large extent on domestic demand than on exports, which registered a decline globally, as demonstrated in Figure 2.

Figure 2. World exports volume of goods,2008-2012 (Annual percentage change)



Source- based on data provided by UNCTAD, Trade and Development Report, 2012

If at the beginning of the crisis the world's States have embraced the doctrine of Keynes which implies that during downturns governments must increase the expenditure made from the budget, reduce taxes and lower interest rates which would have the effect of stimulating consumption and investment, in this way the global economy registering a recovering, subsequently they have resorted to reducing public spending, increasing fiscal pressure as well as the adoption of measures of tightening credit conditions that have resulted in the decrease in demand and the economy's entry into a new recession. The beneficial effects felt originally were canceled. The reasons which have led to the adoption of these measures were large budget deficits and the accumulation of huge debts that were paid to "regain the confidence of the financial markets" and that of the creditors. A huge pressure existed from the international financial institutions that have conditioned the granting of credits by taking measures such as those set out above.

Long term stability of the global economy and sustainable growth cannot be achieved without a tighter regulation of the financial sector and the orientation on investments in fixed capital, which requires increasing the coherence between the multilateral trading system and international monetary system.

At national and regional level, a reorientation of fiscal policy that takes into account the macroeconomic situation in general is required, than a policy focused exclusively on balancing budgets or the attainment of the rigid public deficit.

Governments must pursue a policy based on increasing incomes of the population as the basis for sustainable and balanced development of the global economy, otherwise the economic recovery will not be possible.

Therefore, it is necessary a fundamental reorientation of macroeconomic policy, based on the expansion of consumption and investment in productive capacities as a prerequisite for economic growth, based on positive expectations for growth in revenue of the population and entrepreneur.

The pace of global recovery has seen a decrease in 2011. Global GDP in 2010

recorded a growth of 3.9% and in 2011 was 3.1%.[4]

The tendency manifested in previous years remained in the year 2012, gross domestic product growth at a global level (GDP) being about 2.5 percent due to the continuation of the crisis in the eurozone, where the governments of the member states have failed to find a solution to resolve global imbalances and problems relating to internal public debt.

3.Perpective on the dynamics of the global economy

The unconditional austerity policy adopted by most countries block return to a sustainable economic growth, estimates for the next period are grim.

In the report of the International Monetary Fund it estimates a growth for advanced economies, with an annual rate of between 1.3% and 2.6% in the period 2013-2017, since reducing tax revenues will continue to affect public spending. Taking into account the actual levels of government debt and deficit for these economies, it will require years of concerted political and economic efforts so that the level of government debt in the GDP of the United States, Japan and several countries in the eurozone to fall.

Also, the growth of the emerging economies and that of newly industrializing economies will slow down compared to the pace recorded in 2010. Instability in the eurozone will continue to shape the overall prospects in the coming years.

The world economy experiences a persistence climate unfavorable investment , determined by the macro-financial environment in the euro area, as well as economic-financial jams.

At european and international level it is necessary to implement a program aimed at reducing the effects of the crisis and the recession through:

- progressive income taxation, the reduction of tax evasion and the abolition of tax havens;
- stimulating economic growth through government spending, that must compensate the collapse of the private demand;
-indexing wages and pensions;
-strict control over speculative operations performed on the capital market both in terms of the movement of capital and tax on earnings made;
-allocation of funds for investment in infrastructure, industry, agriculture, leading to the creation of new jobs.

4. Conclusions

Specialists in economics have concluded that in the evolution of economic activities there is a surface characterised by expansion and contraction in a certain sequence and regularity, the evolution of the economy are not linear, marked by periods of growth followed by setbacks.

The evolution of the main economic phenomena has a certain repeatability over time due to natural, socio-political and technological factors.

The cycles can be long, medium and short depending on the measures taken by governments for economic recovery.

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Considerations on the Profile of Respondents to the Comment Letters Submitted for IFRS 9 Financial Instruments. Phase 1 and 2

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Abstract

The paper examines the profile of the respondents to the exposure drafts published by the IASB as part of the IFRS 9 „Financial Instruments" project – phase 1 and 2. The analysis of the 650 comment letters submitted showed that preparers (consisting of financial institutions and their trade associations and also non-financial corporations and their trade associations) were the most active group of stakeholders, even though the accounting profession and the regulators were also very interested. The users had a low rate of participation in all 3 documents analyzed. The geographic analysis showed a 2-continent battle between Europe and North America with the Europeans submitting the greatest number of letters for the ED/2009/7 and ED/2009/12 and the North-Americans surpassing them in reponses for the SD/2011.

Key words: financial instruments, comment letters, IFRS 9, IASB.
J.E.L. Classification: M41

1. Introduction

In 2008, the International Accounting Standards Board (IASB) has started a new project aimed at replacing the existing standard for financial instruments (IAS 39) with a *new* one, less complex, more relevant and useful. The project's name is IFRS 9 Financial instruments. The Board divided its project to replace IAS 39 into three main phases.

The first phase was completed in 2010, in 2 steps: a) in November 2009, the IASB issued *IFRS 9 "Financial instruments"* on the *classification and measurement of the financial assets*; b) almost a year later, in October 2010, the Board issued additions to IFRS 9 for *financial liabilities accounting*.

The 2nd phase called *Amortized cost and impairment of financial assets* is still to be completed. An ED (ED/2009/12 Financial instruments: amortized cost and impairment) was issued in November 2009, but due to negative public commentary and a different approach followed by the American standard-setter, a supplementary document was needed. Supplement to ED/2009/12 *Financial Instruments*: *Impairment* was published in January 2011 together with the American standard-setter: the Financial Accounting Standards Board (FASB). The comment period closed on 1 April 2011 and re-deliberations are on-going.

The 3rd phase dealing with hedge accounting consisted of an exposure draft ED/2010/13 *Hedge Accounting* that was published in December 2010. After several re-deliberations, on 7 September 2012 the IASB posted to its website a draft of the forthcoming general hedge accounting requirements that will be added to IFRS 9 Financial Instruments.

This paper sets out to analyze the profile of different stakeholders who responded through comment letters to the new accounting rules provided by the *ED/2009/7 Financial instruments: Classification and measurement, ED/2009/12 Financial Instruments: Amortized Cost and Impairment* and *Supplementary Document (SD/2011) on ED/2009/12*.

2. Research questions

This paper explores the involvement of stakeholders through *comment letters* written in response to the IASB's issuance of EDs. Profile of respondents was defined based on their interests and their geographic distribution. Therefore, two research questions were developed.

RQ1 Did accounting profession, users, preparers, regulators and others write comment letters to IASB on the subject of financial instruments: classification and measurement (IFRS 9 – phase 1) and impairment (IFRS 9 – phase 2)?

RQ2 Did respondents from Africa, Asia, Australia and Oceania, Europe, North America and South America write comment letters to IASB on the subject of financial instruments: classification and measurement (IFRS 9 – phase 1) and impairment (IFRS 9 – phase 2)?

In this research, the *accounting profession* comprises professional accounting bodies (IFAC members), public accounting firms and other accounting groups.

Users include financial analysts and financial investors. *Preparers* include financial institutions, their trade associations, non-financial corporations, their trade associations and actuaries.

Preparers/users consist of insurance companies that use financial instruments in their operating activities, but also in their investing activities. *Regulators* consist of accounting standard setters, stock exchange regulators and other government entities.

Others are represented mainly by the academic community and individuals whose affiliation could not be clearly established.

3. Methodology

In order to achieve the goal of analyzing constituents' involvement in the process of developing an IFRS, we focused on the comment letters published on the IASB's website [7] for the 1st and 2nd phase of the IFRS 9 project and on the FASB's site [6] for the SD/2011. Additional data on corporations was obtained from respondents' websites.

For the ED/2009/7 "Financial instruments: classification and measurement", the total number of letters submitted was 246. One letter could not be accessed due to the file being corrupted (CL27). In addition, one respondent sent two letters (Association of Danish Mortgage Banks). Therefore, the final number of comment letters analyzed was 244.

For the ED/2009/12 "Financial instruments: amortized cost and impairment of financial assets", the total number of letters submitted and analyzed was 192. The SD/2011 received 214 letters submitted and analyzed.

4. Results

Respondents from over 33 countries and several stakeholder interest groups submitted their responses to the 15 questions provided by the IASB through the **ED/2009/7**.

Of the 244 letters, 119 (49%) were sent by the *preparers* of the financial statements that were identified as financial institutions (50 letters – 20% of total letters), financial trade associations (34 letters – 14%) and non-financial corporations and their trade associations (35 letters - 15%) (Table 1). This is consistent to other researchers' findings [5]. In addition, the large number of letters from trade associations was not unexpected and could be explained by cost considerations.

The *accounting profession*, consisting of 18 professional accounting bodies – all IFAC members, 9 public accounting firms, and 9 other accounting groups – such as Association of International Accountants, Federation des Experts Comptables Europeens, comes 2nd with 36 letters (15%) and is closely followed by *regulators* (34 letters – 14%). *Users*, including the users/preparers category, only account for 13% of all answers (32 letters). The stakeholder interest group represented by the *others* sent 23 letters (9%) (Table 1).

The participation of financial institutions and their trade associations is significantly more important than other researches on financial instruments showed [1]. It has increased on the account of the non-financial corporations and their trade associations whose number has decreased. This could be explained by the major use and promotion of financial instruments by the financial institutions and by the effects of the recent financial crisis.

Respondents from over 35 countries and several stakeholder interest groups submitted their responses to the 12 questions provided by the IASB through the **ED/2009/12.**

Of the 192 letters, 96 (50%) were sent by the *preparers* of the financial statements that were identified as financial institutions - FI (35 letters – 18% of total letters), financial trade associations - FTA (35 letters – 18%)

and non-financial corporation and their trade associations (26 letters – 14%). *Accounting profession* and *regulators* sent 76 letters (40% of all) (Table 2).

The findings of the research are in line with several studies that found *users'* participation not very significant as measured in number of letters [2, 3]. 7 letters from users and 10 from users/preparers represent less than 10% of all letters. Therefore, the results of this research did not contradict the prior literature.

The *accounting profession*, consisting of 22 professional accounting bodies – all IFAC members, 9 public accounting firms (all big 4 and several others world known firms such as BDO, Baker Tilly, Mazars or Grant Thornton), and 13 other accounting groups, comes 2nd with 44 letters (23%). It is followed by *regulators* (32 letters – 17%). The last stakeholder interest group is represented by the *others* with 3 letters (1%).

Moreover, 68% (131 of 192) of the respondents also sent comment letters regarding the 1st phase of the IFRS 9 project: the ED/2009/7 Financial instruments – classification and measurement [4], which shows their on-going involvement in this project.

Comment letters for **SD/2011** were sent from more than 33 countries. Not surprisingly, the preparers were the most active by submitting 115 letters, 53% of all. Regulators and the accounting profession were almost tied at 16-17% (36 letters vs. 34 letters) while users maintained the low participation rate from the other EDs of 10% (21 letters) (Table 3).

In addition, 50% (107 letters) of the respondents were involved in the process of developing the other 2 exposure drafts from 2009. Moreover, some participants did not comment on the first ED on classification and measurement, but because of their interest in the impairment rules, they commented on both documents: the initial exposure draft from 2009 and the supplementary document from 2011 - 11.21% (24 letters).

Overall, RQ1 is supported. All major stakeholder interest groups participated significantly in the development of IFRS 9 through their comment letters on ED/2009/7, ED/2009/12 and SD/2011.

The geographic analysis for the **ED/2009/7** showed that most of the letters came from the EU (86 – 35.25%), USA (37-15.36%), Australia (18 – 7.38%) and Japan (15 – 6.15%). Europe alone, including non-EU countries and Pan-European respondents, provided almost half of the total number of letters (111 – 45.49%).

The most numerous group of respondents from a single country came from the USA (37 letters – 15.36% of total), followed by UK (28 letters – 11.48%). Other countries that frequently provided respondents were: France (14 – 5.74%), Canada (13-5.33%), Spain (12 – 4.92%), Germany (10 – 4.10%), and India (7 – 2.87%).

By continents, Europe dominated through the largest number of letters – 111 and 45.49% of all, North America came 2nd with 51 letters and 20.90%, and Asia came 3rd with 36 and 14.75% (Table 1). Anglo-Saxon countries (USA, UK, Canada, Australia and New Zealand) provided 99 letters (40.57%). In addition, few countries provided the majority of the comment letters (8 countries supplied almost 67% of all letters).

The geographic analysis of the comments letters submitted for the **ED/2009/12** showed that most of the letters came from the EU (69 – 36%) and USA (18 – 9%). Europe alone, including non-EU countries and Pan-European respondents, provided almost half of the total number of letters (90 – 47%). The most numerous group of respondents from a single country came from the UK (23 letters-12% of total), closely followed by the USA (18 letters – 9%).

By continents, Europe dominated again through the largest number of letters – 90 and 47% of all, Asia came 2nd with 30 letters and 16%, North America came 3rd with 28 and 15%, Australia and Oceania 4th with 14 letters and 7%, Africa 5th with 6 letters and 3% and South America 6th with 2 letters and 1%. International organizations provided 22 letters (11% of all) (Table 2). Anglo-Saxon countries provided 64 letters, 1/3 of total numbers. Again, few countries provided half of the comment letters (8 countries supplied 50% of all letters).

Considering that the **SD/2011** was a joint document issued by the two standard-setters, the international one - IASB and the American one – FASB, the reaction of the respondents from North America was

significantly stronger than for the previous documents. They clearly surpassed Europe by sending 87 letters – 40.65% of all compared to the 65 – 30.37% sent by the Europeans. Asia was 3rd with 27 letters – 12.62% and international companies came 4th with 15 letters – 7.01% of all. Australia was 5th with 12 letters -5.61%. As usual, respondents from South America and Africa sent the lowest number of letters – 8 or 3.73% combined (Table 3).

These results are consistent with other studies [1, 5]. Therefore, RQ2 is supported; respondents from all continents provided their perspective on classification and measurement of financial instruments.

Table 1 Respondents to ED/2009/7 by Stakeholder and by Continent

Continent	Accoun-ting profe-ssion	Regu-lators	Preparers			Users	Users/ preparers	Others	Total
			FI	FTA	Others				
Europe	14	12	26	19	20	4	11	5	111
Africa	2				1	0	0	1	4
Asia	5	10	7	4	4	1	2	3	36
Australia and Oceania	3	4	5	1	4	3	1		21
North America	3	5	11	7	5	1	6	13	51
South America		1		0			1	1	3
International	9	2	1	3	1	1	1		18
Total	***36***	***34***	***50***	***34***	***35***	***10***	***22***	***23***	***244***
Percentage (%)	*15*	*14*	*20*	*14*	*15*	*4*	*9*	*9*	*100*
where: FI = Financial Institutions, FTA = Financial Trade Associations Source: own computations based on comment letters available at [6] and [7]									

Table 2 Respondents to ED/2009/12 by Stakeholder and by Continent

Continent	Accoun-ting profe-ssion	Regu-lators	Preparers			Users	Users/ Preparers	Others	Total
			FI	FTA	Others				
Europe	15	15	16	17	16	4	5	2	90
Africa	3		2		1				6
Asia	7	8	6	3	3	1	1	1	30
Australia and Oceania	4	3	3	3	1				14
North America	6	3	7	6	3		3		28
South America		1		1					2
International	9	2	1	5	2	2	1		22
Total	***44***	***32***	***35***	***35***	***26***	***7***	***10***	***3***	***192***
Percentage (%)	*23*	*17*	*18*	*18*	*14*	*4*	*5*	*1*	*100*
where: FI = Financial Institutions, FTA = Financial Trade Associations Source: own computations based on comment letters available at [6] and [7]									

Table 3 Respondents to SD/2011 by Stakeholder and by Continent

Continent	Accoun-ting profe-ssion	Regu-lators	Preparers			Users	Users/ preparers	Others	Total
			FI	FTA	Others				
Europe	8	11	17	12	10	1	4	2	65
Africa	2		1						3
Asia	4	10	3	4	1		1	4	27
Australia and Oceania	3	3	3	2				1	12
North America	7	8	33	17	7		14	1	87
South America	1	1	3						5
International	9	3		2		1			15
Total	***34***	***36***	***60***	***37***	***18***	***2***	***19***	***8***	***214***
Percentage (%)	*16*	*17*	*28*	*17*	*8*	*1*	*9*	*4*	*100*
where: FI = Financial Institutions, FTA = Financial Trade Associations Source: own computations based on comment letters available at [6] and [7]									

5. Conclusions

The goal of the paper was to examine the profile of the respondents to the exposure drafts published by the IASB as part of the IFRS 9 „Financial Instruments" project – phase 1 and 2.

The findings confirmed the ever-growing interest in the subject of accounting for financial instruments, interest that was significantly fuelled by the crisis of the financial markets.

The huge number of comment letters submitted by all stakeholder interest groups from all over the world highlighted that fact. Still, the preparers (consisting of financial institutions and their trade associations and also non-financial corporations and their trade associations) were the most active group of stakeholders. The accounting profession and the regulators were also very interested, being almost tied on the 2nd place. The users had a low rate of participation in all 3 documents analyzed which should be an alarming signal for the IASB who claims to consider them the most important users of the financial statements.

The geographic analysis showed a 2-continent battle between Europe and North America with the Europeans submitting the greatest number of letters for the ED/2009/7 and ED/2009/12 and the North-americans surpassing them in reponses for the SD/2011. Asians and Australians were placed 3rd and 4th in the analysis of all three documents, while respondents from Africa and South America sent the lowest numbers of comment letters.

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Conceptual Sides Concerning the Inter-Conditionality amongst the Underground Economy and Taxation

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Abstract

Since the taxation has practically represented a tool by which the state budget is provided, the tergiversation from their payment has become a phenomenon impregnated into the current economy. In this way, a major prejudice to the state budget is brought by the underground or unidentified economy. The weight of identified taxation tergiversation is much too low as comparing to the size of the total fiscal tergiversation, which includes the fiscal evasion of the underground economy, meaning the unidentified fiscal evasion. The underground economy has existed in all the countries of the world, in different percentages of GDP, and it is defined by the Belgian economist Pierre Pestieau as the assembly of the economic activities that are carried out outside the criminal, social or fiscal laws, or which are evading from the national accounts inventorying.

Keywords: taxation, underground economy, fiscal politics, budgetary politics, public budget;
JEL Classification: H21, H26, E62

Introduction

Within the free enterprise, the taxation has taken a double shape, as regards the economic agent. This is carried out by means of the compulsory take-offs towards the state, with influence over the enterprise's treasury, on one hand. On the other hand, the enterprise can also use the fiscal principles and methods on its own interest.

The taxation has been delimited as a system of perceiving and encashment of the taxes and duties, as well as a coherent assembly of sources by rights, which regulates the contributors assessment and establishes in a judicial way the taxes and duties.

The fiscal politics concept comprises the assembly of measures initiated and implemented by the state, by means of the public budgets, in the view of carrying out and maintaining the macroeconomic equilibrium in the real world. This foresees the use of taxation as a tool on reaching the macroeconomic objectives, and represents the integrant part of budgetary politics that refers on choosing the public expenditures, the budgetary deficit etc. the taxes and public expenditures affects both the consumption, as well as the companies incomes, thus having a huge impact over the cost and availability of funds. By fiscal politics one should [1] establish the volume and provenience of the supply sources on the public budget, the methods of encashment that follows to be used, the aimed goals, as well as the means of accomplishing them.

Concisely analysis over two of countries owning the highest underground economy

Bulgaria

Bulgaria [2] has had an advantageous fiscal system, considering many points of view. Either one talks about lower taxes, about a predictable and steady fiscal system

or about the reduced bureaucracy, this seems to be an accurate environment in order to develop business. Bulgaria owns one of the lowest taxes within European Union, as regards the companies' profit. **The profit tax** in Bulgaria is 10%, and **the dividends tax** is of five percentages. The companies are not obliged in Bulgaria to submit quarterly fiscal declarations. The companies have the obligation on submitting a yearly profit tax declaration until the 31st of March, including for the following year. In the same term, the companies should pay the yearly profit tax, as well.

- An accountancy system is applied in Bulgaria, in accordance to the accountancy law of Bulgaria, where the accountancy is underlying on the International Standards of Accountancy, and respectively on the International Standards of Financial Reporting [2].
- After the Bulgarian Republic adhesion in 2007 to European Union, all Directives and Rules of European Union has been also available starting with that moment.
- A company in Bulgaria is not obliged to have an authorized accountant. The single requirement consists in the fact that a company should submit the accurate fiscal reports on time.
- The company's balance account should be submitted every year, in case a company is not registered for the VAT. As regards the balance account, the signature of an auditor is needed, but only in the situation of high developed enterprises.

As regards *the tax on personal incomes*, a quota of 10% has been applied starting with 2008, considering that until that time, a progressive taxation included within 10 and 24% was applied.

The standard quota of VAT in Bulgaria consists in 20%. As regards Bulgaria, there is no reduced quota for the first need products (food, medicines, school materials etc.). A lower VAT quota is applied for only the tourism agencies. As regards the hotel accommodation services and the tourists support services, the VAT is paid with a reduced quota of 9%. Concerning the intra-Community deliveries of goods and services on intra-Community acquisitions, the zero quota of VAT is applied. The VAT progress in Bulgaria is illustrated in the following table:

Table 1 *Progress of VAT quota applied in Bulgaria*

Data of application	**Reduced quota**	**Standard quota**
01/04/1994		18
01/07/1996		22
01/01/1999		20
01/01/2007	7	20
01/04/2011	9	20

Source: CE, *VAT Rates Applied in the Member States of the European Union*, Brussels, 2012

The social insurances contribution quotas for 2012 are the following:

- As regards the normal work conditions – 22.3% (12.6% for the employer, 9.7% for the individual contribution quota). Here the 5% quota is included, afferent to the private managed pensions funds, for people born after 1960, and the quota of 1% for the unemployment;
- The contribution quota due by the employers and depending upon the risk class, as regards the industrial accident and professional diseases insurance is comprised between 0.4% and 1.1%, depending on the company's activity field;
- The contribution to social health insurances is of 7% (4.8% for the employer and 3.2% for the individual contribution quota);
- The contribution due by an employer towards the insurances fund, related to the wages claims, which is known at the value of 0%.

Romania

Romania hasn't been appreciated by the well-known foreign investors as one of the attractive countries, as regards the high span investments on long term, and this took place as result of many causes [4], amongst the following: the legislative unsteadiness; many legal provisions are not clear enough, are confusing and susceptible on various interpretations, even diametrically opposed; the high number of taxes, contributions, duties, tariffs, commissions, and especially of those parafiscal, [6] introduced and collected outside the fiscal regulations of judicial

attributes, therefore outside the taxation, with no control over the state; the corruption and bureaucracy that represent negative phenomena, of which the high investors take into account while choosing a country where the capitals can be placed.

The profit tax quota is situated at a level of 16%, and the companies are obliged to submit quarterly fiscal declarations, by which they oblige themselves on its payment.

The income tax quota is of 16% and it is applied over the taxable income that corresponds to every source included in any category, in order to determine the taxation on incomes; the independent activities, wages, the goods use surrendering, investments, retiring pensions, agricultural activities, premiums etc.

Starting with 1st of July 2010, the standard quota of VAT is of 24% and is applied to all deliveries goods and services performance, including the imports, for which the exemptions are not applied (with or with no rights of deductions), or one of the quota reduced by the VAT. In the same time, the VAT reduced quotas (5% and 9%) remained unchanged, and are applied for the same deliveries of goods or services performance, as until the time being.

The reduced VAT quota of 9% is perceived for the medicines dedicated to human and veterinary use, books, newspapers, the hotels accommodation or in locations of similar part, cinema tickets, entrance to museums taxes, historical monuments, zoological and botanical gardens, expositions and exhibitions, school books delivery, orthopedic prosthesis and products.

Table 2 *The quota progress applied in Romania*

Date of application	Reduced quota	Standard quota
01/07/1993		18
01/01/1995	9	18
01/02/1998	11	22
01/01/2000		19
01/01/2004	9	19
01/12/2008	5/9	19
01/07/2010	5/9	24

Source: CE, *VAT Rates Applied in the Member States of the European Union*, Brussels, 2012

The reduce quota of 5% is applied for the residences deliveries, as part of the social politics, including: the old people and retirees homes, children orphan asylums and centers of redemption and rehabilitation for the handicap minors, including the buildings and parts of them delivered as places to live, in some conditions. In this way, the reduced quota of 5% is also applied in the situation of the homes delivery, which have a serviceable area of maximum 120 square meters and a value that doesn't exceed the amount of 380.000RON.

As regards the quota of social insurances contributions (SAC) for the normal work conditions to an employer, this is of 20.8%, and as regards the employee, this has the value 10.5%. The social health insurances have the value of 5.2% for the employer, and the value of 5% for the employee. Both the employees and employers pay contributions to unemployment process of 0.5%, as well as other contributions.

The estimation of taxation in Romania

The taxes and duties system of Romania is characterized by a weak collection of them, with an inefficient management and an excessive bureaucracy, a basis of taxation relatively low, of many exceptions and legal deductions, as well as a high fiscal evasion.

In accordance to the OECD report [8], as regards the fiscal administrations, the efficiency of the management process on collecting the taxes is quite low in Romania, this being situated on the penultimate position included in the new member states group. In accordance to the World Bank report, *Paying taxes 2012,* Romania is placed on position 154 of 183 of countries at worldwide level [9], as regards the easy way by which taxes are paid, the number of taxes and duties payment every year, that a company in Romania should perform are about 113. Within the countries selected and included in Central and East Europe, Romania is placed on the last side of this chapter.

As an exemplification of weak collection of taxes, Romania collected 8.45 of GDP to incomes VAT in 2011, as Estonia, in conditions when the legal quota of VAT in Romania is higher than of Estonia (24% towards 20%). Moreover, Bulgaria, with a

structure of economy relatively similar to that of Romania and a legal quota of inferior VAT (20%), collecting even more of the tax imposed on the valued added tax in 2011, 8.6% of GDP.

Making a synthesis on those previously mentioned, it is possible to accomplish the next table that emphasizes the most important differences between the fiscal system of Romania and Bulgaria:

Table 3 *Comparative analysis of taxation in Romania and Bulgaria*

	România	Bulgaria
Profit tax	16 %	10%
Income tax	16%	10%
VAT	24%	20%
SAC	31,3%	22,3%
CASS	10,2%	8%
Unemployment	1%	1%
Payment of profit tax	Quarterly	Yearly

In this this way, one can emphasize a light direction of taxation in Bulgaria, as comparing to Romania, most of the taxation quotas being inferior, with the exception of unemployment quota, which is at the same level of 1%. Notwithstanding, it became paradoxical the fact according to which in a favorable fiscal environment, Bulgaria registers the highest level of the grey economy within the European countries (30.2%), followed by Romania, with a weight of 29.6% of the underground economy of GDP. It is obvious that the excessive fiscal task of our country and the unsteadiness of the fiscal system have obliged in a way or other the contributors to subtract from the declaration and payment of taxes.in antithesis, the reduced bureaucracy, the steady fiscal environment and a relaxed judicial system transforms Bulgaria into a new fiscal paradise, where everything is "allowed".

Besides all these, Romania has been known as being part in the category of fiscal regulation category [9], which can favor the underground economy and the issuance of some arbitrary regulations, with the possibility of random interpretation and the lack of credibility as regards the actions of the competent institutions.

As directions to be followed in the fiscal field, the next can be emphasized:

- Improvement of the fiscal management and ensuring a steadiness of the fiscal legislation;
- Issuance of the fiscal strategy on long term;
- The professional application of fiscal regulations, in the view of stimulating the economic development;
- The improvement of collecting level on taxes and duties;
- Adopting the fiscal measures able to stimulate the work;
- Eliminating the difficulties for the exporters, building companies and SMEs;
- Reducing the social contributions;
- Stimulating the investments that generate the added value.

One of the measures that follow to be implemented in 2013 and that might establish a step on establishing the fiscal evasion diminution consists in the creation of a single channel of complementarity amongst the fiscal authorities and the contributors. This measure is necessary, since many times there has been doubtfulness in the interpretation of Fiscal Code [7] and in this way, the Romanian taxation would be much more simplified if a single entity might exist, in order to comment and clarify the fiscal provisions.

Conclusions

The European Union countries are free on issuing the own systems on taxation, systems of direct taxation, in order to carry out the objectives and requirements already existing on national level – with the condition to respect the free circulation of goods, persons, services and capitals and the principle of non-discriminating principle. In the basis of Treaty as regards the European Union functioning, in order to ensure a better performance of the unique market, the EU disposes of those competences, as regards the basis and the taxation quotas.

Although the European Union owns a common system as concerns the VAT, the member countries have the freedom on establishing the VAT quotas. Also, this has harmonized the structure and established the series of minimal levels for excise duties to alcohol, tobacco and energy.

Although owning a unique quota of taxation on profits of companies and incomes of physical persons (16%), reasonable quota as comparing to the other East – European countries, the social contributions in Romania are excessive. With an effective rate of 43%, Romania has occupied one of the highest fiscal tasks over the labor force. Moreover, the increase of tax on the added value, starting from 19% to 24% has placed our country amongst the states with the highest quotas of VAT within the European Union.

One considers that Romania should return as regards the economic point of view, and the fiscal authorities should take some measures [3]. Amongst these, the predictability and the steadiness of the fiscal system signify the most important issues, due to the fact that until now, the fiscal legislation has been modified many times, thus creating a confusion and disappointment in the contributors category. Another issue that might be improved refers to the fact that carrying out the fiscal obligations is enlarged on a high number of hours, and consists in carrying out an excessive number of payments. Finally, although the fiscal authorities have tried to implement many fiscal incentives, these haven't brought real benefic effects into economy. For instance, one might talk about the non-taxation on the profit invested, which actually consists in postponing the tax payment.

This paper emphasizes the research results, as regards the promotion of some fiscal politics in Romania that are essential on encouraging the labor force. One should need the diminution of social contributions level, in the context of having a high number of retirees, rather than employees. As solutions to this issue, this paper is underlying a proposal, according to which the encouragement of the SMEs sector and of enterprises comprised in the manufacturing and agricultural fields implicitly, should be created within an accurate frame towards the economic development and employment.

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Firm Financial Performance: An Empirical Investigation on Romanian SMEs

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Abstract

Firm's financial performance is reflected by its profit and loss account. Still, all financial statements are needed in order to have a complete view on a firm's financial performance. As a general rule, several financial indicators are calculated in this sense. Hence, it would be of great interest to reduce the number of financial indicators into fewer, more synthetic ones. However, the new indicators should reflect the same information as the first ones. Statistics offers this possibility through factor analysis.

The purpose of the present study is to use factor analysis in order to generate a reduced number of relevant indicators that could help in analyzing firm's financial performance. The paper represents a case study on Romanian small and medium enterprises.

Key words: factor analysis, financial performance, principal components.
J.E.L. Classification: C58.

1. Introduction

Nowadays, firms are confronted with a permanently changing environment and need to adapt their activities in order to obtain good quantifiable results. Quantifiable results of a firm are summarized within financial statements.

Financial indicators are often the only tool for performance evaluation since they translate the whole activity of a company in terms of profitability.[1]

Nonetheless, profits are targeted as the main indicator of financial performance. Still, several ratios reflecting firms' financial situation are based on profits - profitability ratios. Such ratios include return on equity, return on capital employed, return on assets, profit margin.

Developments in the field brought into attention new techniques of evaluating firm financial performance. These modern approaches to financial performance refer to a firm's results in terms of created value. Such approaches introduce the concepts of Economic Value Added, Market Value Added and other such measures of financial performance.

Within our research, we address the issue of financial performance given the multiple indicators used in its calculations. Overall, our objective is to create synthetic indicators reflecting firm financial performance. In order to achieve this objective, we conducted a Principal Component Analysis (PCA) using SPSS software.

2. Literature review

For centuries, financial indicators have been used in assessing firm financial performance. As Otley shows, "accounting measures of performance have been the traditional mainstay of quantitative approaches to organizational performance measurement"[2].

Literature in the field is vast and offers diverse opinions regarding financial ratios that are needed in assessing financial

performance. Hence, researchers in the field argue that there are multiple indicators that reflect a firm's financial performance. Abdeen and Haight [3] group financial performance metrics into two classes: traditional financial metrics and first class financial metrics. As a result, they refer to earnings growth, market value, return on sales, cash-flow, asset turnover, etc., as traditional metrics (Table 1). First class financial metrics include economic value added (EVA), market value added (MVA), cash-flow return on investment (CFROI), etc.

Table 1 - Metrics used in assessment of financial performance

Traditional Metrics	**First Class Metrics**
Earnings growth	Value Based Metrics
Earnings Per Share	Economic Value Added (EVA)
Market Value	Value Based Management (VBM)
Return on Sales	Market Value Added (MVA)
Return on Assets Cash Flow ROI (CFROI)	Cash Flow ROI (CFROI)
Total Return to Stockholders Discounted Cash Flow (DCF)	Discounted Cash Flow (DCF)
Cash Flow The Balanced Scorecard	The Balanced Scorecard
Assets Turnover	
Inventory Turnover	
Accounts Receivable Turnover	
Capital Spending	
Budget Comparisons	
Cost Structure Improvement	

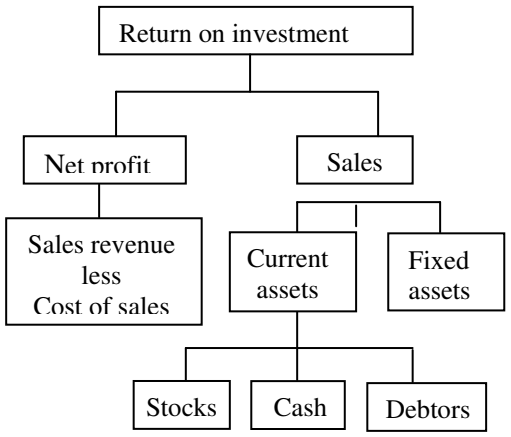
Source: Abdeen and Haight (2010)

The so-called "first class indicators" are modern financial indicators, and, as Robu and Sandu [4] show, they reflect firm's orientation towards shareholders. In fact, the prior objective of a firm's management is to create value for its shareholders, by developing certain shareholder-oriented methods [5]. In essence, "the modern indicators for quantifying performance at microeconomic (company) level are built on the concept of value creation"[6].

Vasilescu identifies a series of basic qualities of the financial indicators [7]. First of all, he shows that financial indicators reflect in a synthetic and dynamic way the financial situation of a firm. Secondly, they ensure the interdependence between the economical, social and natural phenomena, preventing environmental degradation. Moreover, financial indicators reflect correlations between all firm activities (production, research and development, human resources, commercial, finance and accounting) and allow time and space comparisons.

Otley argues that "although over the life of an enterprise total net cash flow and total profit are essentially equal, this can mask the fact that in the short-term they can be very different."[3] Thus, he shows, if the concern is with firm short-term profitability, the "pyramid of ratios" can be used (Figure no.1). Still, a particular purpose of calculating ratios imposes several restrictions. Referring to long-term profitability, Otley considers profit to sales ratios and value added ratios as relevant.

Figure 1 - Pyramid of ratios



Source: Otley, D., [2]

Cormier, Magnan and Zeghal consider that relevance of the financial indicators should be determined by referring to market value, expected cash-flows and value added [8]. Based on an empirical study over a sample of 300 firms within France, Unites States of America and Switzerland, they investigate relevance of the financial indicators, concluding that net income, operational income, operating cash-flows,

residual income and value added are relevant financial indicators.

3. Methodology

Research consists of an empirical study on Romanian manufacturing firms regarding financial indicators of performance. The main objective of our study is to find an answer to the following questions:

- ✓ Are there any synthetic indicators that can reflect financial performance?
- ✓ Can we classify firms as efficient or not, given these indicators?

In order to conduct our study, we used factor analysis as research procedure. Factor analysis is generally used for reducing data or detecting a structure pattern.

We proceeded in our research by calculating a series of financial indicators for a sample of 137 manufacturing firms. Data was collected from financial statements of the selected firms, available on site of Romanian Ministry of Finance. The obtained database consisted of a 7 financial indicators calculated within our sample. The considered indicators are: return on equity (ROE), return on assets (ROA), natural logarithm of total actives (Log(A)), liquid ratio, debt ratio, reliability ratio and return on sales (ROS). As a result, our database is formed of 7 variables, respectively the mentioned financial indicators, and 137 observations made on manufacturing sector.

Referring to our sample, we note that:

- ✓ main activity of the firms is manufacture;
- ✓ number of employees is less than 250 - selected firms are small and medium enterprises (SMEs);
- ✓ firms registering extreme values of profitability were excluded in order to prevent distortions of the results.

Given that all these ratios are calculated in order to obtain an overview on firms' financial performance, but they are correlated because of formulas used in their calculus, we conducted a principal component analysis. Principal component analysis is a factor analysis method of extraction that allows finding a component (a linear combination of variables) that explains as much of the initial variation of variables (financial indicators) as possible. The procedure continues this way by finding other components until all variation is explained.

Within any principal component analysis, several assumptions are made:

- ✓ variables are normally distributed;
- ✓ variables are linear - there is no co linearity and singularity;
- ✓ there are strong correlations between variables - $r > 0.3$.

Consequently, we tested these assumptions in order to ensure appropriateness of the used method. Firstly, histograms indicated that all variables are normally distributed. Secondly, the correlation matrix showed values of r-Squared higher than 0.3, signalling a strong dependence between variables. Lastly, Kaiser-Meyer-Olkin test and Bartlett test confirmed the appropriateness of the principal component analysis, given the sample.

4. Research results

The use of principal component analysis allows us to extract a number of components by taking into consideration several aspects.

First aspect refers to total variance explained by extracted components. Using this criteria, total variance explained by extracted components must exceed 70%. Within our sample, extraction of one component explains 44.291% of the initial financial indicators, extraction of two components explains another 37.321% of the initial variation, respectively a total explained variance of 81.612% of the initial variables, and so on, as Table 2 shows.

When extracting components we applied Kaiser rule. According to it, only those components that register eigenvalues higher than 1 must be considered. In our analysis, the first two components answer this criteria.

The scree plot confirmed that the optimal number of components to be extracted is 2. As a result, two components were extracted (Table 1).

Table 1 - Component score coefficient matrix

	Component	
	1	2
ROE	0.91	0.11
ROA	-0.54	-0.19
Log(A)	0.27	0.06
LIQ	-0.43	0.13
DEBT	0.07	-0.89

RR	0.32	0.72
ROS	0.97	-0.21

Source: Authors' processing using SPSS

Table 1 shows the percent (coefficient) of each financial indicator within the two extracted components. As a result, these components can be expresses as linear combinations of the 7 considered financial indicators, using obtained coefficients - as multifactor regression models.

Table 2 - Total variance explained by using principal component extraction

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.100	45.291	45.291	3.100	44.291	44.291	2.584	43.912	40.912
2	2.052	38.806	84.097	2.052	37.321	81.612	2.569	36.700	80.612
3	.874	6.015	90.112						
4	.747	5.652	95.764						
5	.130	2.853	98.617						
6	.097	1.382	100.000						
7	1.529E-005	.000	100.000						

Source: Authors' processing using SPSS

Analyzing the rotated component matrix, we observed high correlations between the first component and ROE and ROS, respectively the second component and debt ratio and reliability rate.

Regarding the first component extracted, we can interpret it either by ROE or ROS, given that both are indicators of profitability. We prefer choosing the second indicator in interpretation of the first component.

The second component can be interpreted in terms of debt (negative correlation) or in terms of reliability (positive correlation). Given that the coefficient obtained for debt ratio is relatively higher than that of reliability ratio, we proceeded by using the first one in interpretation of the second component.

Considering the above aspects, we interpreted the two components extracted as follows:

- ✓ the first component is a synthetic indicator of profitability;
- ✓ the second component is a synthetic indicator of interest gearing.

As a result, the new designed indicators can be expressed as linear combinations as follows:

Profitability (C1) = 0.91*ROE - 0.54*ROA + 0.27*Log(A) - 0.43*LIQ + 0.07DEBT + 0.32*RR + 0.97*ROS

Interest gearing (C2) = 0.11*ROE - 0.19*ROA + 0.06*Log(A) + 0.13*LIQ - 0.89*DEBT + 0.72*RR - 0.21*ROS

Hence, we can classify the 137 firms included in our sample using the two components extracted. Four classes can be distinguished:

- Efficient firms - profitable and debtless, containing 55 firms with good scores for both indicators (components);
- Relatively efficient firms - profitable and relatively indebted, containing 43 firms with high scores of profitability, but poor scores of interest gearing;
- Low-efficient firms - low-profitable and not indebted, containing 26 firms with low scores of profitability, but good scores of interest gearing;

- Non-efficient firms - non-profitable and indebted, containing 13 firms with poor scores for both indicators (components).

Therefore, the synthetic indicators extracted through principal components analysis offer the possibility of classifying firms as efficient, profitable and indebted firms, low-profitable and not indebted firms, and non-efficient firms. Within our sample, all four classes contained firms.

5. Conclusions

Principal Component Analysis represents a useful tool in data reduction. Moreover, it offers the possibility to determine the latent relationships between variables considered. As a consequence, design of new indicators is possible.

We used Principal Component Analysis on a sample of 137 Romanian manufacturing firms. Our findings show that it is possible to construct more synthetic indicators that reflect the financial performance of Romanian firms.

Within our empirical investigation, we extracted two components: the first one, interpreted in terms of profitability, and the second one in terms of gearing. We were able to classify firms within the sample as efficient or not given these two components. Efficient firms, considering our results, are firms that register a high return on sales ratio and are low indebted. Oppositely, non-efficient firms are firms with low profits and high debts.

Still, further research could add useful findings to our results, taking into consideration that sample used to conduct our analysis was a relatively reduced one.

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A Cost Radiography and the Premise of the Application of the ABC Method in Overnight Hospital Stay

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Abstract

The highly affected world economy has also left its mark on the health systems. In Romania, the health system copes with shortages, even though multiple reforms have taken place. The purpose of the present paper is to show the importance of "borrowing" the cost methods of the private system and to use them in the public health system, especially for the overnight hospital stay.

This transposition of methods has as a goal to make it easier to make decisions based on the calculation of the actual costs of hospitals.

Limitation of resources' availability can be also found in this domain, and the resources' efficient use is a desideratum for each manager. In this paper, the epistemological positioning is situated along the positivism-constructivism axis. The present study relies both on the literature in the domain and on observation and personal research out in the field.

Key words: health care system, cost accounting, ABC method, hospital
J.E.L. classification: I18, M41

1. Introduction

The economic-social problems which have put the world to a hard test have had deep consequences on the health cost. Although health is the basis of solidarity and economic productivity, the unbalances are obvious. Along with education, the health care system has been influenced by the decrease of budget allocation and by the economic problems in the private system. The population's health condition has degraded, while, at the same time, the pressure on subventions and on the reduction of the number of free health services has increased. These are the premises of the attempt to find new solutions to keep costs under control and to use the present scarce resources as efficiently as possible. The transposition of the cost accounting methods of the traditional productive system to the public health system represents a challenge but it may be a solution, as well.

The Standard-Cost Method has been adapted in such a way as to establish a code for diseases and to standardize human, material and financial resources necessary for the medical act during the overnight hospital stay. Thus, the DRG (Diagnosis Related Groups) system has been formed, by means of which hospital financing is provided.

We have employed the ABC Method in a larger study, considering that it answers best the need to know the actual costs.

2. Literature Review

In 1987, the famous professors Johnson and Kaplan published a paper, where they questioned the pertinence of the cost accounting system employed in the American private system[1]. At that time, they were very close to supporting idea of the cost accounting disappearance and its replacement by non-financial performance measure indicators.

In our opinion, cost accounting represents a complex and highly sensitive mechanism, requiring a toilsome costs calculation labour to get the information needed by the decisional process, in order to increase the

efficiency of the organizational activity by rationalizing the resources.

Alain Burlaud has made an analysis of the cost accounting pertinence in the public sector, starting from the complexity of the definition of its product, cost, and value [2].

However, the first work on application of the ABC method in the health system was issued in 1994 [3]. Later on, numerous authors (Alvarez[4], Camponovo [5], Nobre & Signolet [6] , Popesko & Novak [7]) showed the advantages of using ABC method in different hospital departments, i. e.: identification of the costs within the organization, of the relations between the costs but also of their influence on the whole activity.

Kaplan and Anderson (2004, 2007) assert that the cost calculation procedure by employing the ABC Method may have some difficulties because of the accounting system, in case it does not hold all the necessary information.[8] The use of this model requires time and resources, due to the huge amount of requested data.

By the study he carried out, Lawson Raef offers an image on the ABC method's impact on the health environment, taking as reference the period 1994-2004.[9]

If in 1994, out of 24 hospitals, 3 of them had never heard about the ABC Method, 16 of them knew the method, but did not apply it, and only 5 of them implemented it, in 2004, all the 12 hospitals which were part of the study knew the method, but only one of them, implemented it for the cost calculation in the organization.

3. Identification of Expenses in the Overnight Hospital Stay

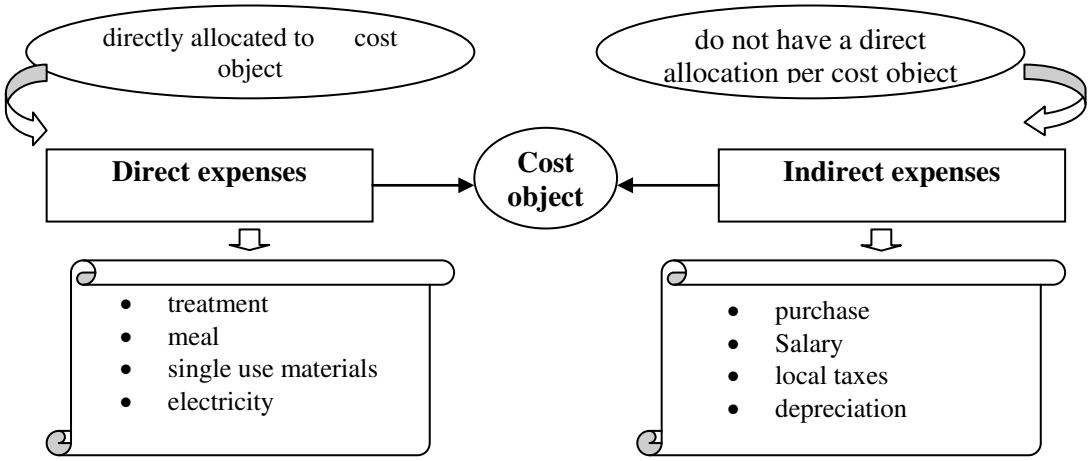
Due to the increase of health care consumption, the public hospital holds a special place in the healthcare system. When thinking of the organization in a public hospital, we can say that it lies on the border between specific and complex. Its different actors: the Romanian government, materials suppliers, medical staff, other non-medical employees, patients, the National Health Insurance House, have different interests related to the activity of healthcare production and provision.

The objectives of the public hospitals are hard to classify in a hierarchy: the quality of the services provided to the patient (how can it be measured), the accessibility of a number as high as possible of requests, continuity, equality regarding the treatment, efficiency in relation to the consumed resources, attractiveness and competitiveness (this is a competitive environment), diversity of jobs and skills.

To manage the resources and to apply the ABC method, identification of types of expenses inside the organization is necessary. Expenses may be simultaneously or chronologically established and divided into:

- *Direct and indirect expenses* (according to the resource destination) (Figure 1.).
- *Fixed expenses and variable expenses* (the definition of expenses according to the behaviour of resources, depending on activity level).(Figure 2.)
-

Figure 1. Direct and indirect expenses



Source: elaborated by the author

The classification in a certain expense group is done after a careful observation of the organization.

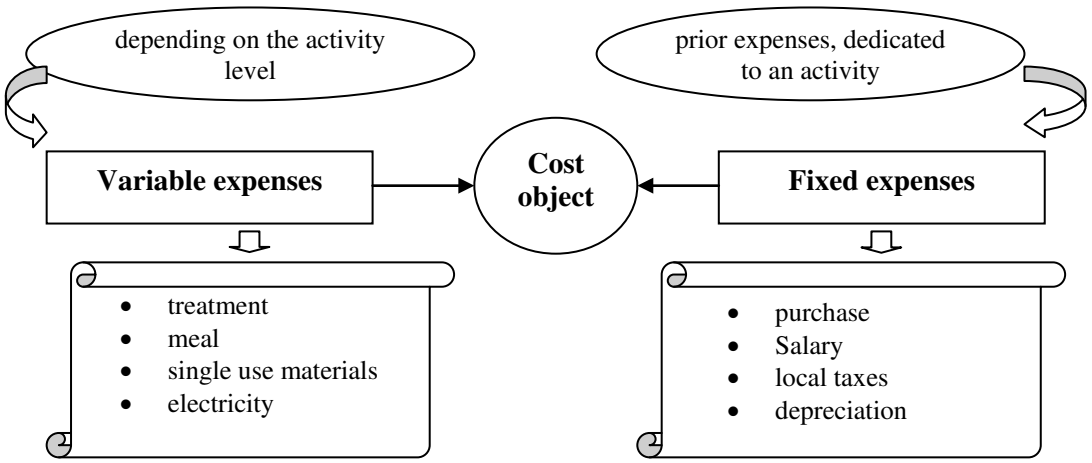
The equality relation is as follows:

Direct expenses + fixed expenses = total expenses = variable expenses + fixed expenses

An expense is classified as direct or indirect only from the viewpoint of cost calculation and of the allocation of that expense on a cost object.

The differentiation between fixed and variable expenses must consider the fact that an expense may be fixed in a case and variable in another, except for the case of meal and drug expense, which is always a variable expense.

Figure 2. Fixed and variable expenses



Source: elaborated by the author

4. Cost Structure in the Overnight Hospital Stay

The cost is defined by four dimensions, answering the questions: where, what, when and how.

The structure of the production cost varies depending on the industrial sector, yet it incorporates expenses pertaining to raw materials and the added value of the economic process. In the case of hospitals, the cost measures the use of resources for: maintenance, transport, meal, hospital stay, and any surgery procedure.

The division of costs in hospital is as follows:

DIRECT COST

1. Medical Expenses

1.1. Variable medical expenses

- consumables
- medical-therapeutic actions

1.2. Fixed medical expenses

- salaries
- medical materials (amortization + maintenance)

2. Logistics expenses

2.1. Variable expenses pertaining to logistics

- laundry
- reparation

Subtotal 1 Direct cost = 1.1. + 1.2. + 2.1.

INDIRECT COST

2.2. Fixed expenses pertinent to logistics

– other expenses (administration, informatics)

– administrative staff

Subtotal 2 Semi-complete cost = 1.1. + 1.2. + 2.1. + 2.2

3. Expenses pertinent to structure

- financial taxes
- amortization

Subtotal 3 Indirect cost = Fixed expenses pertinent to logistics + Expenses pertinent to structure

COMPLETE COST

Direct cost (Subtotal 1) + Indirect cost (Subtotal 3)

Semi-complete cost (Subtotal 2) + Expenses pertinent to structure

5. Responsibility Centres

The review centres gather in groups the expense elements which can not be directly distributed.

Theoretically, they are independent from the company's organizational chart. They are called: wards and activity, labour, and responsibility centres, and are useful for the measurement of an entity's performance. A first classification is in main centres and auxiliary centres.

Alain Burlaud and Claude Simon define the responsibility centre in terms of the means-objectives couple, in agreement with the organizational chart and the budgetary construction, as they may be simple intellectual or accounting constructions.[10]

If, on the level of an organization operating in industry, one may find standard cost centres and profit and investment centres, on the hospital level, one can say that there are activity (responsibility) or cost centres but there can be no profit or investment centres.

The organization of hospitals in review centres has a particular feature, since it achieves a double goal: that of internal management and that of external comparability, as well.

In the French analytical accounting guide, with applicability in hospitals, the organisation on centres aims to respect two principles:

- the principle of universality
- the principle of optionality

The universality principle supposes that the review wards should be connected to the major activities, so that comparisons in a standardization context may be allowed.

Through optionality, each entity has the possibility to review its own expenses depending on its internal needs, especially due to its large number of cost levels.

The tree-like organization is not obligatory and general, as it depends on the complexity of the healthcare organization, on the pertinence of the costs and on the informational system of the healthcare unit.

6. The ABC Method in the Overnight Hospital Stay

Academicians and experts have agreed on the ABC method stages, as follows:

- identification of major activities in organization;
- distribution of costs on cost centres;
- determination of the cost drivers for each activity;
- allocation of costs on products and activities.

In the non-profit society, represented by the public hospital, by the calculation of the cost pertaining to two diagnoses, to each activity we have attached: the involved staff category, the minimum time of the activity in the chronology of the activity flow, the average salary expense and, finally, the activity cost.

The drug-related expenses have been established on the basis of the pharmacy data, and the laboratory analyses on the basis of labour volume and reagent quantity used.

The direct expenses have been determined starting from handwork consumption per staff categories and tariff per minute, including drug consumption, medical materials consumption per patient and daily meal settled by law (lei/hospital stay), respectively. The other direct expenses have been distributed to the remaining diseases in the wards monitored in our study.

A cost driver has been attached to the indirect expenses of the hospital, as reference for their distribution (number of employees, number of labour hours, surface). The identification of the activity flow has been doubled by the determination of the cost driver pertaining to each activity. The measure unit is in relation to the production factors of the activity and is easy to measure (number of patients diagnosed, hospitalized, treatments, time etc). After establishing the cost drivers' value for the initially established activities, the patients are grouped in regrouping centres. The share of indirect expenses distributed to each centre, is determined depending on the identified repartition keys. To *determine the cost per unit per driver,* it is necessary to identify the expenses pertaining to each regrouping centre. The expenses specific to a particular centre are imputed to that centre, and the expenses done by more regrouping centres together, are be redistributed on the same, by using the cost drivers of those expenses.

After calculating the cost per unit per driver for each regrouping centre, we determined the cost per unit per each

diagnosis. In case the activities correspond to several diagnoses, the cost distribution will be done according to the cost driver, only.

After determining the cost per diagnosis, the post-calculation sheet can be elaborated, which contains both the segmented direct expenses, and the indirect expenses. Then, one may go on and compare the obtained cost per unit, by using the ABC method, to the one established by using the DRG system, taking into account the complexity index specific to each hospital.

Conclusions

The differences resulted from the present study highlight the disproportional financing of different diseases.

By using the ABC approach, hospitals have the possibility of separating and classifying their value-added activities. By the implementation of the ABC system, one can determine as accurately as possible the cost of the provided services. At the same time, by this method, non-financial data can also be included, for instance, the waiting time of the patient for radiology or for other medical investigations during hospitalization, having effects on the medical service quality.

The lack of protocols to stipulate the steps to follow from the patient's appearance in the emergency ward up to his/her discharge can lead to waste of materials, time and even to risk for the patient's life.

The present study has shown that most indirect expenses belong to the Regrouping Centre, to the administrative and service staff and to the Treatment Centre, where most of the indirect expenses pertaining to materials are allocated.

Water, electricity, heat-related expenses go to the centres with a larger surface, whose cost driver, in square metres (ATI and surgery block), has been established by us.

The National Health Insurance House, by its imposed system, influences the professional ethics and, consequently, the quality of the medical act. There is a tendency to keep stable patients in overnight hospitalization for a minimum time, in order to be able to compensate for the cases which, by their severity and complexity, exceed the maximum allowed hospitalization time.

The ABC Method will be able to reflect the true image of the costs, after a careful selection of the drivers, which must offer useful details on sub-activities and necessary resources.

Acknowledgement

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Consequences of the Adoption of European Fiscal Pact in Romania

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Abstract

This paper aims to emphasize the implications that the signing of the European Fiscal Pact will have on Romania. At the same time are also taken into account the estimates of the European commission concerning GDP and the negotiation of the structural deficit level. The advantages and the disadvantages that influence Romania's economy and some measures for increasing the incomes are also shown from the economical point of view. The fiscal governance pact of the European Union may have a positive effect on Romania, imposing a better fiscal discipline and financial stability. The fiscal governance pact is essential in strengthening the discipline in public finances but will create problems in the authorities' capacity of stimulating the economy due to the budgetary constraints that it will bring.

Key words: fiscal pact, European Union, stability, advantages, member states.
JEL classification: H30

1. Introduction

A number of 25 states of the European Union (EU), including Romania, but without Great Britain and the Czech Republic, have signed the European fiscal pact, which stipulates mainly the fiscal regulations for the balance of the budgets with the coordination of the economic policy at a European level.

Great Britain has decided not to adopt the pact because it has not obtained a series of concessions for the financial sector.

Moreover, the Czech Republic has announced that it would not sign the fiscal pact because it does not consider that this significantly improves compared with the existing regulations. The Czech Republic does not exclude the possibility to join later.

The European fiscal pact shall imply a commitment from the part of the participant states for a solid fiscal governance, the introduction of some provisions to balance the budget in the Constitution, the consolidation of the regulations on the excessive deficit procedure through the automation of the sanctions and the transmission of the budget drafts to the European Commission for verifications. This is the first step towards the fiscal unit. The agreement has been supported by the European Central Bank, which has insisted that the governments from the Euro zone should order their internal policies.

The Netherlands, one of the most vocal and strong supporters of the fiscal austerity, has managed however to comply with the pact for almost one month. With a budget deficit of 5.8% it has exceeded the deficit limit set at 3%. The budget deficit of the Netherlands for 2012 and 2013 shall probably be of 4.6%, facing the same problems as Italy or Spain.

In a similar way, the economy of Spain reduced during the last trimester of 2011 for the first time in two years and it may enter a long recession. The Spanish budget ended in 2011 with 8.5% from GDP.

Spain has to find deficit reduction measures with 0.5%, having to impose austerity measures in order to save 16 billion EUR - when the economy of the country shall drop this year with 0.9% because of a stagnation of exports caused by the financial crisis from the Euro zone.

France has reduced with half the increase forecast for 2012 to 0.5%. The International Monetary Fund has sent a warning to Paris, requesting that in 2013, the public deficit should reach 3.9% from GDP.

Because the negotiations regarding the restructuring of the Greece's debts have not been finished yet, it does not receive a second financial portion of 130 billion EUR, and, without the loan, it has become

insolvent in March 2012, when it had to compensate the high value of the due liabilities.

Portugal shall need a new loan in order to avoid insolvency.

The countries from the Mediterranean area have had very strong public sectors and have to restructure. Major problems occur in Greece, Italy and Portugal. The restructuring shall take many years from now on, probably at least 3 - 4 years, in order to see positive effects in the economy of these countries.

Many economists consider the fiscal pact only a gesture to calm the discontent of the German voters on the repeated external financial aids and for the restoration of the market reliability.

In May 2012, Germany sent a series of conditions to France, through which they excluded the possibility of the renegotiation of the European Fiscal Pact and any initiative of increasing the deficits. The renegotiation of the Pact is not possible because it has been signed by 25 of the 27 EU member states and has as purpose the consolidation of discipline in the field of public finances. Germany does not want an increase of deficits, but an economic growth through structural reforms.

2. Research Methodology

Romania has offered, following the negotiations carried out, the participation of the Euro zone non-member states to the common meeting that all the signatory states have, under certain conditions.

According to the Romanian Executive Power, the Pact stipulates the obligation to maintain a structural deficit that cannot exceed the national objective on a long term, set forth for each member state, with an inferior limit of 0.5% from GDP according to the market prices. If the level of the public debt is significantly under 60% from GDP and there are not risks regarding the long-term sustainability of the public finances, the structural deficit may reach at almost 1% from GDP. The maximum cyclic budget deficit plus the structural one must comply with the limit of 3% from GDP. The new pact must be adopted through the Constitution, and this must take place until the end of 2013.

If deviations are recorded at these levels, a correction mechanism shall automatically be launched, having to be introduced in the national legislation of each member state, in the same manner as the so-called "golden rule", on the limitation of structural deficit. If a member state does not translate these two provisions in the national legislation, the European Union Court of Justice may be notified in this matter.

The failure to comply with the decision of the court may lead to a financial sanction of maximum 0.1% from the respective country's GDP.

If regarding the level of the public debt, Romania ranks on a comfortable level, under 60% with a structural deficit of 0.5% from GDP, when the budget deficit target for 2012 is 1.9%, this seems more difficult to fulfill.

However, it is necessary to make the distinction between the two terms, "structural deficit" and "budget deficit". The budget deficit means one thing, remaining unchanged in the limit of 3% from GDP, and another thing is the structural deficit. The structural deficit and the cyclic deficit form the budget deficit. The structural deficit reflects the inability of the state to collect incomes and to spend the money available efficiently. On the other hand, the cyclic deficit is influenced by a certain evolution of economy, as it is now, during the crisis, when the smaller incomes are paid to the state, because many are bankrupt or pay less, because they have smaller incomes. Then the incomes of the state suffer a reduction.

The emphasis of the EU on the structural deficit reflects the emphasis of the member states on the solution of some structural problems and that are related to the public sector, so that the state should use efficiently the expenses, as well as the public services, and the private sector should not be "restricted"[1].

Moreover, Romania may benefit from a more extended maneuver margin regarding the structural deficit, because of the reduced level of the public debt.

On the other hand, the amendment of the Constitution is not possible in Romania on a short term (during an elective year). The introduction of the budget deficit in the Constitution represents the treatment of the effect, the deficit as a share of GDP, not of the cause, which is the share of the expenses from GDP.

The adoption of the fiscal pact provisions

means a certain limitation of the national sovereignty, but one that is not imposed, but self-assumed.

Although the media's attention is focused on the structural deficit, a more structured approach should start from the potential level of GDP. Although it is less difficult to understand, this constitutes the starting point for the classification of the European requirements on the deficit, implicitly for the budget elaboration, for the expenses that shall be made for the population.

According to the estimations of the European Commission and of the National Institute of Statistics, at the moment, the potential Gross Domestic Product, a key indicator for the determination of the structural deficit, has decreased significantly compared to the values from the second part of the last decade.

The potential GDP is the highest GDP that may be obtained without generating macroeconomic unbalances, the most visible effects being the inflationist pressures and the potential accumulations of deficits, if an austere, anti-cyclic fiscal policy is not implemented.

During the period 2004-2007, Romania, on the grounds of the reduction of the potential GDP, (the reduction of the economic increase), was found in a full process of consolidation of the disinflation process, reducing the increase of the prices to values comparable to the usual ones in Europe. If in 2004, an increase of 6% was sustainable, in 2007, the sustainability level decreased to 4%, and in 2012, to almost 2%.

The exceptional economic growth from 2008 meant an overloading of the economy, which increased within the given circumstances over the real capacity given by the total productivity of the production factors, people and capital.

From almost 6% in 2004 and 4% in the year of the adherence, 2007, the economic growth, and implicitly the potential GDP, reduced gradually to a level of only 2% in 2012. The reduction was determined mainly by the capital segment and, to a lesser extent, by the total productivity of the production factors.

We have to mention, however, that the values presented have considered the very low level of absorption of European funds, actually recorded in Romania.

A simulation (see Table) on the potential increase of the absorption degree shows that we could return to significantly higher values of the potential GDP, which would create much better perspectives, in terms of growth and favourable management of the structural deficit limit imposed by the Stability Pact.

Going on the assumption of a reasonable increase, it could go up to 3.5%. There are possible the next situations:

If we do not manage to increase the European funds and we continue with 2% GDP potential, a 3% economical increase, would impose a spending limit, to obtain a necessary budgetary surplus for the objective of 0.5% structural deficit.

a) If we do not manage to draw European funds in a significantly increased proportion, then, a 3.5% economical increase with 3.5% GDP would allow us a 0.5% deficit equal to our structural deficit objective.

The council tax draws the attention that Romania has one of the smallest GDP share of the budget revenues. These were only 32.5% of GDP in 2011, with 12.1 percentage points, under the European average, also the number of the financial administration is comparable to the one in Poland, a country with two times higher population. The lever of the income tax reported to GDP (taxes and social contributions), in Romania was 27.2% in 2022, 12.4 percentage points less than the average 27 EU (39.6%). The income taxes share in GDP was significantly lower than in Slovenia (37.8), Hungary (36%), Poland (32.1%) and Slovakia (28.5%), as shown in Council Tax report for 2011.

The tax revenue structure in Romania shows a high share of the receipts from the indirect taxes (46.32% from the total of the tax revenue, compared to 33.08%, the EU average 27), while the revenue from the social contributions was 32.35% (35.1% EU 27), and the one of the direct taxes was only 21.32% (31.81 EU 27).

Degree of absorption	**GDP Potential**
40%	3.1%
60%	3.6%
80%	4.0%
100%	4.4%

Comparing to 2010, the indirect taxes share has increased with almost three

percentage points, because of the TVA standard rate increasing and the excise, while the contributions and the taxes has reduced the relative importance, with a higher share decreasing in GDP than the reduction of the final tax revenue in gross domestic product. Under these conditions, we can see the indirect taxes as the most important component of the budgetary revenues tax consolidation. Romanian tax system is characterized by a poor collecting, with an ineffective administration and an excessive bureaucracy, a relatively low tax base, with many exceptions statutory deductions and a high level tax evasion.

As an example of the poor tax collection, Romania has collected 8.4 % from GDP, VAT income, in 2011, the same as Estonia, while the VAT legal share in Romania is higher than the Estonian one (24% and 20%). In addition, Bulgaria, with an economic structure, like the one in Romania, with a lower VAT legal share (20%), has collected even more VAT in 2011, 8.6% GDP. Regarding the social security, paid by the employees and the employers, budgetary revenues collected in 2011, was 8.3% from GDP, much lower than in Czech Republic (13.1% from GDP), and Hungary (12.3% from GDP), although the contributions rates were relatively similar.

In Council Tax's view, needs a radical reform of the tax collecting system, to ensure the significant increase of the revenues collected and the decrease of the administrative costs.

The Council believes that the reform needs to focus on: increasing levels of voluntary compliance of the contributors, especially by simplifying the tax code, and the tax procedure code, and, using a comprehensive program of government spending full transparency; increase efficiency and reduce collection costs, especially by strengthening tax administration number, computerization, statement and electronic payment aggressive promotion, increasing the quality of collecting staff and reducing corruption; indirect stimulation of a more sustainable economic conception, increasing the tax collecting level, suitable for a better accommodation of potential adjustments in Tax System, pointing in the direction of work stimulation (especially by decreasing the contribution to social insurance, being at a high level at the moment),and increasing internet savings for decreasing the dependence on foreign capital flows in, for financing of investments, as the report shows.

The Tax Council is an independent authority established in the Budget and Fiscal Law, which intents to support the Government's activity in the process of developing and conducting fiscal policy and budget and to promote transparency and sustainability of public finances.

The Fiscal Council has among its attributions the publication of an annual report that analyses the unfolding of the fiscal-budgetary policy from the previous year compared to the one approved by the fiscal-budgetary strategy and the annual budget, it evaluates the macroeconomic and budgetary trends comprised in the fiscal-budgetary strategy and in the annual budget, as well as the objectives, the targets and the indicators set forth through the fiscal-budgetary strategy and the annual budget.

The leaders of 23 states have set forth a new inter-governmental agreement, meant to start up a new fiscal pact. Broadly, this means a higher fiscal discipline and a careful control of the national budgets. Great Britain has opposed to this agreement again.

In an agreement published on the European Council webpage, "the decision of the European leaders to overcome the current difficulties" is shown, as well as the fact that these decided "a new fiscal pact and a new significantly more intense coordination of the European policies", on Friday.

A consolidated construction for the monetary unity means:

- the European leaders commit to debate at the level of the Euro zone the reforms in the economic policy, planned by the member states from the Euro zone;
- the Governance of the Euro zone shall be consolidated and they shall regularly organize summits, at least twice a year.
- The excessive deficits from the states of the Euro zone shall be corrected, and the countries that face a financial instability shall receive support and the evaluation of the budget plan drafts.

The provisions of the Fiscal Pact

1. a new fiscal rule shall be imposed:

- the general budget of the governments must be balanced or in surplus

- the rule shall be introduced in the national legal systems

- the member states with an excessive deficit undertake to present to the European Commission a strategy aiming at the remedy of the excessive deficits

The revival of the Euro zone:

- The European Fund of Financial Stability (EFFS) shall receive more funds and shall get actively involved in the finance of the programs in progress

- The Pact on the European Stability Mechanism shall be viable, starting with July 2012

- In March 2012, the total capacity of the Fund as well as of the Mechanism was revaluated

- The European leaders promise that they shall accelerate the capital payments so as to maintain a ratio of at least 15% between the paid capital and the outstanding amount from the MES issues and shall ensure an actual combined credit capacity of 500 billion EUR

- The member states from the Euro zone as well as other member states shall examine and confirm within 10 days the provision of additional resources for the IMF of up to 200 billion EUR (270 billion dollars under the form of bilateral loans, in order to ensure the fact that IMF disposes of proper resources to face the crisis.

The consolidation of the stabilization instruments means:

- The longer-term reforms must be combined with an immediate action in order to approach the existing tensions on the market.

- The leverage effect of the European Fund of Financial Stability shall be rapidly put in practice, through the means of two concrete options agreed by Euro group.

Romania shall be bound to continue the structural reforms, in order to classify in the structural deficit target of 0.5%. The problem is that a budget may be balanced or unbalanced even with collections of 10-20% from GDP, as the most liberal countries in the world have, and with 40 - 50%, as the majority of the EU states have. Romania finds itself in the middle of this range.

A scenario is "to bring to the surface the underground economy", and as a compensation to reduce the level of taxes on labor and consumption. In this case, the collection stagnates and cannot support the level of expenses.

Another scenario is that all the taxpayers should be bound to contribute to the current levels, thing that so far has proved infeasible and even counter-productive.

Romania and the Fiscal Pact: Three risks

1. The limitation to 0.5% of the structural deficit, amount unitary set forth for all the countries of the pact, although their public debt differs considerably, from 6% (Latvia) to 160% (Greece) – Romania being around the threshold of 40% – it cannot achieve the fine-tuning requested by the economic optimization.

Romania could request a derogation for the extension to 0.7% or even 1% of the structural deficit. Without this concession, the economic growth would be artificially affected, and the potential of development would remain underused. 0.5% would preserve the gaps instead of allowing their recovery.

2. In case of a favorable economic evolution, it would be very difficult to explain to the population why the immediate bonuses cannot be granted and why the consolidation of the results must be accepted before distributing advantages on a long term.

The problem of national sovereignty limited through this superstate agreement is already debated. The second step, the intervention one, even at the level of experts, on the budgets presented to Brussels before passing on to the National Parliaments is unavoidable and shall trigger controversies.

3. The calculation manner is very difficult and the unvarying application would lead to important controversies on the compliance with the rule of 0.5% of structural deficit.

Negative effects may be expected on the European cohesion, as well as unbalancing reactions at an institutional level.

Concretely, Hungary is already confused by the sanctions imposed by the European Commission for exceeding the budget deficit. Greece hardly accepts the conditions imposed at the moment. At the same time, it contests the calculations regarding the budget "restructuring" calendar and the feasibility of the reimbursement of the public debt, scheduled on a medium and long term.

Three advantages:

1. The prevention of the policy deviances, of granting some elective benefits with an

unbalancing effect on a long term, through the means of the structural deficit. The best example in this matter is the decision to increase the pensions based on the presumed economic growth, which, in reality, has not taken place.

The pension point value was increased in advance (!!) to 697.50 RON in October 2008, following the overoptimistic forecast of GDP increase with 6.5% in 2009. In reality, GDP decreased that year with over 7%, but, the pension point value had been increased to 718.40 RON in April and 732.80 RON in October.

2. The implicit obligation of any lawgiver to grant benefits to prove sustainability over time of the granted benefits. The practice has shown that, once given, the benefits cannot be withdrawn, even if the decision factors undertake the responsibility in this matter.

Again, we have to mention the reduction of the pension point value. This would have been logical, even in 2010, after the economic decrease recorded for the second consecutive year and after the reduction of the salaries in the budget sector. Although logical, it was not legal, according to the Constitutional Court.

3. The macroeconomic stability allows a rapid development, the better use of the available resources, for investments with a subsequent favorable effect and not for consumption. Everything is that the rule of 0.5% or the result obtained should be accepted as a value in itself, through the solid ensured frame of economic activity.

The increase of the VAT from 19% to 24%, measure taken by necessity to balance the budget, has affected the business environment and has stimulated the risk taking for the fiscal fraud. The competition has moved from technology and productivity to ability and accountancy.

3. Conclusions

The new fiscal pact has been very much debated lately, this being drawn up by initiators as a decisive solution to the euro zone issues. At a conceptual level, the new pact does not bring very many new elements, instead it introduces an automatic mechanism of correction and penalty in case deviances are recorded. The limits of 3% from GDP for the budget deficit and 60% from GDP in case of the public debt have always existed, being set up through the pact of Maastricht in 1992. The stability and increase pact (1997) set forth that the structural position on a medium term of the budget should be close to balance or in surplus. The fiscal structure introduces the target of structural budget deficit of maximum 0.5% from GDP.

Undoubtedly, an important step forward is taken through the adoption of this fiscal pact, by introducing an automatic correction mechanism of the fiscal deviations, thus contributing to the increased discipline of the fiscal policies and to their better coordination. However, may this new fiscal pact be considered as being sufficient for the assurance of a good operation of the monetary union (euro zone)? The answer is probably no. The historical experience shows that the monetary unions must be accompanied by fiscal unions in order to succeed. The euro zone does not have a fiscal union yet, the member states having sovereignty over the leading of the fiscal policy. The common budget of the European union is only slightly over 1% from GDP, which is a very low level. Moreover, there are no fiscal transfers between the EU states when the asymmetrical shocks occur and the mobility and the flexibility of the labour force in Europe are relatively low.

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The Impact of Financial Crisis on the Transactions in Off-Shore Zones

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Abstract

In the following paper we have started from the premises that in the "money-wash" phenomenon analysis, the resulted money circulate in the entire world, through some geographic and institutional channels. Starting from the fiscal paradise characteristics we have accomplished a parallel between that and the financial paradise characteristics. In the second part of the paper, we have analyzed the offshore zones, showing also the methods of income placement in the respective countries with some conclusions.

Key words: Shadow economy, the latent economy, evasion from payment of taxes, criminal business, money-laundering,
JEL classification: G01

1. Introduction

If we analyze the money wash phenomenon it results that no matter what the in fractional method of the source, the "dirty money" circulate around the world through some geographical and institutional channels opened for the organized crime. It is obvious the existence of some privileged territories in this financial universe, where huge transactions can be made without any control.

Using the bank institutions, the criminal uses most of the time those who are a part of the so-called "fiscal paradises". In a strict sense, almost every country in the world can be considered a fiscal paradise because one form or another, the companies and foreign physical persons are offered different stimulants to encourage their investments and to promote the economical growth.

The term of "fiscal paradise" is often incorrect used. To describe a country from this point of view there should be used jurisdiction terms from the financial sector. A certain degree of financial and banking discretion is characteristically to all states. Almost all the states impose a certain level of protection for the banking and commercial information, but also most of them won't protect this information in the case of an investigation from the legal organs from a foreign country.

A jurisdiction of the bank and financial secret will almost all the time refuse to break its own rules about the bank secret even when it could be the case of a serious violation of the laws of a country.

There are considered fiscal paradises the following countries: Panama, Cayman, The Common Wealth of the Bahamas, Bermudas, The Channel Island, The Island of Man, Liechtenstein, Monterrey, The Netherlands Antilles [1].

Gheorghe Nistoreanu and Costica Paun also add to the fiscal paradises Singapore, Hong-Kong and Switzerland [2].

2 Problem Formulation

The great financial scandals that have appeared in the past years are marked by the same trait: the criminal formations take advantage of all the given facilities from the financial paradises and offshore bank centers (outside the home country) to wash illicit profits, aspect that imputes over the penal investigations in this field.

The way the fiscal paradises have appeared has been in some cases determined by the lack of intern resources, a lack that has been compensated by the state authorities, respective by granting some fiscal facilities to commercial societies and financial institutions, for those to establish the headquarters in that state. Therefore, it has lead to the situation in which almost half of the world financial flux is going through offshore channels: banks, assurance societies, mutual funds, foundations and holdings [3].

An ideal financial paradise has the following traits:

- There are no deals about the information exchange with any other countries;
- International corporations can be created with minimum of formalities
- The assurance of the bank secret for these corporations
- Very hard rules for the break of the bank secret
- A very well developed tourist activity through which there can be justified the incoming of cash money.
- The use of an universal value, preferably the American dollar, as local money
- A government relatively invulnerable to external pressures
- A high degree of economical dependence in the financial service sector
- The existence of modern communication systems (cable, telex) that are connected to other countries.
- A geographical placement favorable to business travels from and to foreign rich countries [4].

Fiscal paradises are a main component of the organized crime. They are used for the wash of money that came from a large diversity of illegal activities (drug deals, fiscal evasion, and contraband) [5].

Fiscal paradises give the foreign investors a very large variety of services, without the obligation of revealing the origin of the money, stating with the registration of international corporations and ending with the banking operations that are not in the attention of the authorities. Although the banking secret and the financial paradise are two distinct notions, they have in common both the legitimate purposes and the commercial justification. In the same time they offer an unlimited protection to the criminals that are willing to do business at any price. It should also be added that the foreign companies and physical persons to whom it's giving stimulants to encourage their investments consider a country a fiscal paradise but the local population won't regard the same the state politic because the government takes taxes for personal incomes, taxes for the imports and exports, taxes for the successions and donations, for immobile proprieties, etc.

Petruţ Ciobanu [6] detaches in the financial paradises the so-called "banking heavens" that being the countries that are interested more by the banking secret than the tax reduction. These "banking heavens" are actually countries with a solid economical potential that offer different facilities for substantial capital contribution from other countries.

The characteristics of the fiscal paradises make of these a special attraction for the fond recyclers because they furnish a wave of secrecy over the transactions, so that the owner of a society that is a part of the fiscal paradise can't be associated with the fond flux. Furthermore, the banking and modern communication systems that the fiscal paradise countries have, allow the fast movement of the funds. All corporation types registered in the fiscal paradises- general societies, offshore banks, and captive assurance societies –can be used by the fond recyclers in all the steps of the money wash process: placement, stratification and integration.

In Eastern Europe one of the most encountered money wash schemes is that through the offshore zones. For example, the illicit income is placed in a bank account. The depositor, making a fictive loan contract with an economical agent from the offshore zone, transfers that money to the loaner account. The last mentioned, at his turn, makes a contract with a third economical agent. It is made the creating cession, the third person transferring the money in a bank, for example in Switzerland or Austria in the account of the "money washer".

The offshore is the territory designated for both the international financial centers and for some banking operations. The offshore zones are a power source that absorbs international organized criminality, and being also an exploitation channel of the country capitals, of money wash and fiscal evasion. They have a dominant role in the washing process, being also very used.

3 Problem Solution

Offshore areas are characterized, mainly, through the absence of any registrations referring to the facto leaders of the companies, the legislation interdiction of the revealing of any information about these areas, the leading that are unwilling to

cooperate from the idea that in most areas, the fiscal evasion isn't a crime in the purpose of money wash. In some states, the intern legislations interdict the operation effectuation through the way of financial institutions from offshore areas; in others the law doesn't interdict such operations. In the states where the national value is permanently subdued to the inflation, the elicitor can establish limitations for the exchange with the purpose to realize the more powerful value. Offshore areas are usually those who give value exchange services for the strangers. In the states with a stable value, it is usually allowed the participation in offshore banking operations.

The distinctive element of the offshore is confidentiality. Moreover, the majority of offshore areas don't admit the decisions of the foreign judging instances. The revenue placement in these areas is made by several methods, such as:

- The physical transportation – the illegal obtained value can be placed into offshore areas through luggage, intermediary.
- Bank transfers
- Mailed or physically given checks.
- Trustworthy persons: accountant – who transfers money on the trust fond and then somebody else, transfers it in the offshore areas.
- Telegraphic services: Western Union, American Express –can be made through transfers without the precise identification of the sender and through the application of passwords, it can be avoid the knowledge of the beneficiary's identity.

Once the money reaches the offshore areas, the incomes are stratified and there are reintegrated. Through the most frequently used methods to return the income in the origin country are encountered [7]:

- Fictive loans: fictive corporations can open bank accounts in foreign countries; after this, the checks can be sent to the original state as credits from these fictive companies.
- Fictive investors- the illegal business is organized in the origin state and the fictive investors are usually placed abroad and used to get capital.
- Commissions –are paid for the finding of investments to exercitation of a business, negotiations for immobile acquisitions.
- Checks and transfers
- Physical transfer

The countries, cities or areas that have the typical characteristics for the "financial paradises" in Europe are [8]:

1. In Europe: Andorra, Cyprus, Gibraltar, Man Isle, Channel Islands, Liechtenstein, Luxembourg, Malta, and Monaco.
2. In Asia and Pacific: Cook Islands, Hong Kong, Macao, Marshall Islands, Nauru, Samoa, Singapore, Bahrain, Libyan.
3. In Africa: Liberia, Mauritius, Seychelles
4. In Caribbean Sea and Central America: Antigua, Bahamas, Barbados, Belize, Bermudas, Virgin Islands, Britannic, Cayman Islands, Costa Rica, Panama.

We will make a short presentation of the most representative fiscal paradises as a rapport of the United Nations names them in 1999 [9].

Panama became in a short while an important fiscal paradise and international bank center. Through the abrogation of a law of corporation's birth that is very less exigent, in the last years, there have been made more corporations in Panama (~ 50.000) than in all the fiscal paradises from Caribbean/Central America together. Excepting an annual tax of 100$ there are no kind of taxes for foreign entities, no require to declare the incomes and no supervision from the government.

There is no demand about the minimum of invested capital, no requires for the maintenance of registers, and no stipulation about the frequency and corporation meeting schedules, like there is no need to trace any corporation evidential. At this is added a bank law that authorizes numbered and codified bank accounts. According to several experts in the field, that offer recommendations for the selection and use of the fiscal paradises, the laws of the banking secret and of corporation from Panama make this country an ideal paradise [10].

The *Bahamas Islands* form an independent colony of Great Britain and are situated in the Caribbean Sea at about 30 flight minutes from the east coast of USA. In the Bahamas Islands there are over 350 different banks, including most of the important banks of the world. About 95% of the total financial transactions volume that takes place here is connected to international

transactions for foreigners. The bank accounts are easy to open; they can be created even through mail.

There are no monetary or exchange restrictions for the foreign funds that can be transferred from country to country, easily. The banks and their depending governments strictly apply the banking secret [11].

Liechtenstein is an independent country situated between Switzerland and Austria. The banking secret is applied here even more strictly than in Switzerland. No so long ago here could be made trust for the income protection. Unlike most of the trusts, the "anstalt" from Liechtenstein is a commercial organism that is capable of having some specific activities that can give the person that is transferring the wealth to the trust. Most of the experts consider Liechtenstein and Switzerland interchangeable from the perspective of the fiscal paradises [12].

But it is admitted that the secret traditions of Liechtenstein assure probably the Switzerland superiority in the banking field. The more sophisticated foreign investors have created a nightmare financial secret through the use of the Switzerland bank accounts for corporations from Liechtenstein.

Although some of the smaller states have drawn certainly the dirty money, the most defying attempt to extract the illicit profits was initiated by the Seychelles Islands, which in the 90s have registered at least 10 million dollars in these banks. Under the pressure of the United States and of other members of the international community, Seychelles has given up selling its suzerainty.

One of the criticized paradises for the lack of any discrimination towards the customers is Antigua. In 1996, a rapport of the Senate commented that nobody attracts "dirty" money more than Antigua that has a banking industry with no regalements, doesn't apply the reporting demands but sanctions toughly the revealing of the banking secret. In 1995, the bank number in Antigua grown with 75%, any person that had the capital of 1 million dollars could open a bank and many of them were nothing more than a simple room with a fax. The authorities from Antigua have tried to minimize the case of the European Union Bank when the bank directors have disappeared with 8 million dollars, suggesting that there have been taken measures to prevent the apparition of such a situation. Still, they haven't been able to explain convincingly, how can a country with a population of 70.000 inhabitants to assure an adequate supervision of the countless institutions and financial services from the island [13].

Bermudas is another fiscal paradise- an ex Britannic colony, with lifelong traditions of an international financial center. Its pride is a large community of professions in the field of financial activities (lawyers, accountants, bankers, assurance agents) with experience the field of foreign investors relations. The financial system from Bermudas is old, stable and respected worldwide and the telecommunications network is modern and efficient. The Group of the Bermudas Islands is situated at only 350 miles, in the coasts of North Carolina, are beneficiating of good flight connections with the United States and Europe. There are no controls over the money exchanges and any money quantity can be introduced or removed from the country. The banks in Bermudas offer a large variety of accounts and services (current accounts, of economies, fiducially and of custody, trust counts, investment management, brokerage services, executive services, management and corporation administration, immobile proprieties management and services for funkier credits).There is no law code that would govern the banking secret. But the existing banking secret works as a consequence of the common Britannic right, which is strictly respected in the banking community.

The banks from Bermudas are more restricting about the new customers, at least comparing to the other fiscal paradises from the Caribbean area. Generally, they prefer that the new customers to be recommended as a member of the professional community (not necessarily local profession). Despite these, with banking references and a corresponding id, anyone can open an account of their own. The legislation from the Bermudas allows very easily the birth and working of some captive assurance companies.

It is interesting the fact that in the Bermudas, there are only four banks (The Bank of Bermudas, National Bank, Bermudas Provident Bank and The Bank of N.T. Butterfield and Son) and two major law firms that take care of all or most of the

financial transactions form the island. All these entities have their meetings in the capital city.

Isle of Man is a small island (227 square miles), situated in the Irish Sea, between Great Britain and Ireland, British possession, that is enjoying a high autonomy that allows her to work a fiscal paradise. There is no money control and like any other fiscal paradise, the telecommunication equipment and the capacities of the Man Isle are excellent.

The air traffic goes through England and Ireland. Same as Bermudas, the legislation of the Man Isle is very attractive to the birth and operations of captive assurance companies. On the island there are 45 different banks. In contrast, a recent rapport says that there is only one hotel that offers rooms with separate bathrooms. The acquisition of corporations on Man Isle is easy and cheap and therefore is a very often used as a way of opening accounts in another part of the world in the name of a company that the Man Corporation is giving.

The Cayman Islands (Grand Cayman, Little Cayman and Cayman Brach) are situated at south of Cuba and are serviced by more major air companies that make systematical flights from Miami, Houston and other cities from the United States. The main activity on the Grand Cayman Island is the international banking activity, in the isle existing about a bank for 30 inhabitants. The image Cayman has, as a "fiscal paradise" island is very promoted by the governmental authorities and of the private economical sector. The legislation and current regalements are deliberately been elaborated to assure and increase the country's reputation for financial and corporative use.

The law of banking and trusts, and also the Law of confidential relations are counted among the most severe and restrictive from the entire world. Not only that the revealing of information is a crime, but also the asking for information is against the law. Cayman possesses all the other characteristics of a well-done fiscal paradise, through which: a superior telecommunication system, no money restrictions or value exchange, the representation of most of the major international banks and local specialists in the field of international taxes.

Cayman is also proud of the specialized trusts in the birth and administration of foreign corporations. In 1992, there have been made in Cayman 2930 new corporations making the whole number to 16712 while the whole population of the Cayman islands is of about 17 000 persons.

Switzerland is not a fiscal paradise. Although the words "bank account in Switzerland" have become synonyms with "secret bank account" and even if Switzerland is without doubt, the safest, most stable place to hold secret money, it is not a fiscal paradise. The taxes for locals are high, but the taxes for foreigners that make money in Switzerland are up to 35%.

Of course, through Switzerland banks can be made some arrangements for investments outside the country to avoid high taxes from Switzerland, the profits being afterwards transferred back to safe Switzerland bank accounts.

The Switzerland banks offer an incredible range of services along the regular bank services, including that to act as brokerage agents, commercials in precious metals, administrators and even traveling agents for their customers. The operations banking secret and all the commercial or economical transactions represent a state of normal in Switzerland. The laws about the banking sector are part of the constitution of the country and are taken very seriously.

The Switzerland is making all the efforts to assure the confidentiality of the banking operations of their customers, up to the use of anted less envelops, mail boxes they change frequently, post through personal messengers and the expedition of mail for the customers from France, Italy or Germany, to avoid the stamp of the Switzerland post.

Although the Switzerland legislation assures enough confidentiality to face the necessities or any foreign investor, there are too many cheaper and more accessible places that are faster to create corporations. Recently, through the application of a treaty of assistance between Switzerland and USA, the investigators that have worked using adequate channels from the Minister of Justice and the State Department have managed to get some data and documents about the accounts in Switzerland of some American criminals. The Switzerland themselves are feeling disappointed and

embarrassed by the abuses made by foreign criminals through their banking system. They fear the potential threat that it rises over the integrity of the system the millions of dollars in "easy made money" that could tempt the persons working there, otherwise with no mistakes from the Switzerland bank network. In May 1984 it was a national referendum that proposed the attenuation of the banking secret to allow the foreign officials from the field of law enforcement to access the documents referring to the foreign criminals. The referendum wasn't approved, but the simple fact that such a proposition has been made and supposed to vote was a step in the right way.

4 Conclusion

These methods can be applied separately but also together. In the same time, there can be outlined other methods such as: customers presented by a part, branch or another bank from abroad with a headquarter in the country that produces or makes traffic with drugs is a main component of the economy, the use of credit letters or other financial methods to transfer money in the countries where the customer doesn't always do business in, customers that make big and systematic transactions, including the electronically transfer, that can't be clearly identified as being of good faith or customers that receive huge systematized amounts of money from other countries that are usually associated with the production, relocation and accomplishment of drugs, with terrorist organizations, prescribed "fiscal paradises"; the making of huge balances that don't correspond to the business number that the firm usually has and after transfers into bank accounts from abroad, unexplainable electronically transfers, without going through an account, traits of a foreign coin, frequent payment of traveling paychecks.

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Views on the Internal Control System of Economic Entities

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Abstract

The internal control system has to be developed and implemented by the manager up to the level, which allows him a better control over the functioning of all activities for the realization of the objectives set. In accordance with Companies Law, the determination of the internal financial control system is the competence of the board of directors of the company, therefore, each responsible of an economic entity has the obligation to create an internal control system at entity level. The internal control system of economic entities is made up of the following forms of control: hierarchical control; reciprocal control; self-control; financial accounting control; financial preventive control; financial management control.

Key words*:* internal control concept**,** internal control objectives, internal control components, internal control system, internal control activities.
JEL: M40, M41

1. Introduction

The objective of this article is to present the author′s opinion on the method of organization of the internal control system within economic entities. The economic entities have to create an internal control system with the purpose of monitoring and evaluating the effectiveness and efficiency of all the activities within economic entities. By the research carried out, we tried to answer the question: what are the forms and activities of control within economic entities.

2. Internal control concept

Internal control represents the assembly of policies and procedures adopted by management, which contribute: to the fulfillment of managerial objectives, to the prevention and detection of frauds or errors, to the accuracy and exhaustiveness of accounting entries, and to the preparation in due course of financial accounting information. [1]

The role of internal control can be summarized to: the limitation of uneconomical and unefficient operations; the assurance of patrimony integrity; the assurance of a thorough and efficient management of activities; the observance of orders given by the management; the observance of legal provisions; the reality and accuracy of accounting information. [2]

According to the legislation in force, internal control represents the totality of policies and procedures elaborated and implemented by the management of the entity to assure: the attainment of objectives of the entity in an economic, efficient and effective way; the observance of field-specific rules, of policies and decisions of management; the protection of goods and information, the prevention and detection of frauds and errors; the quality of accounting documents, and the provision in due course of reliable information for the management.

3.Objectives and components of internal control

a. Internal control objectives

In the meaning of legal regulations regarding internal control (Order of the Minister of Public Finances no. 3055/2009), the internal control of the entity has the following objectives: the compliance with the legislation in force; the application of decisions taken by the management of the entity; the good functioning of the internal activity of the entity; the reliability of financial information; the effectiveness of operations of the entity; the efficient use of resources; the prevention and control of risks of not achieving the objectives set etc. [3]

Therefore, the internal control procedures have the objective:

– on one hand, to follow up the registration of the activity of the entity and of the staff behaviour within the framework defined by the applicable legislation, the values, norms and internal rules of the entity;

–on the other hand, to check whether the accounting, financial and management information communicated accurately reflect the activity and the situation of the entity.

The internal control applies throughout the operations carried out by the entity, as follows:

a) prior to the realization of operations (which is done for the purpose of preventing the carrying out of the operations, which do not fulfil the conformity and legality conditions);

b) during the operations (which implies checks between departments, employees, following the separation of tasks and assignments of the employees);

c) after the completion of the operations (which represent checks on the method of observance of the legal provisions regarding the management of material and money values), in which case the check is designed, for instance, to analyse the profitability of operations and to acknowledge the existence of conformity or possible anomalies, which must be corrected.

The internal accounting and financial control is a major element of internal control.

The internal accounting and financial control aims at assuring:

– the compliance of accounting and financial information published, with the rules applicable to it;

– the application of instructions elaborated by management in connection with this information;

– the protection of assets;

– the prevention and detection of frauds and accounting and financial irregularities;

– the reliability of annual financial situations published and of other information communicated to the market.

b. Internal control components

For the persons responsible for the organization and implementation of internal control, we consider that the knowledge and understanding of internal control components are extremely useful. In order to reach its objectives, the internal control has the following closely connected components:

– a clear definition of responsibilities, resources and adequate procedures, methods and systems of information, appropriate instruments and practices (control environment);

– a system which aims, on one hand, at the analysis of the main identifiable risks regarding the objectives of the entity and, on the other hand, at the assurance of existence of procedures of management of these risks (risk evaluation);

– appropriate control activities for each process, conceived to reduce the risks susceptible to affect the realization of the objectives of the entity (control activities);

– the internal dissemination of pertinent, reliable information, whose knowledge allows each person to exert his/her responsibilities (information and communication);

– a permanent supervision of the internal control device, and an examination of its operation (control monitoring).

4. The internal control system of economic entities

The internal control system has to be developed and implemented by the manager up to the level which allows him a better control over the functioning of all the activities, in view of realization of the objectives set.

In accordance with the companies law, the determination of the internal financial control system is the competence of the board of directors of a company.

The entity management establishes for each activity what are the most adequate forms of internal control, in view of limitation of risks and to provide a reasonable assurance that the management objectives are fulfilled.

The structure of the internal control system is made up of the assembly of internal control forms which can function in economic entities.

The internal control can be found in the structure of each activity, being a process accomplished by all the employees, so it is not a distinctive department in the entity.

Regardless of the moment of exertion, the internal control done with competence contributes to the avoidance of financial or accounting irregularities and to the consolidation of patrimony integrity.

Internal control is made up of the assembly of policies, measures and procedures adopted by the management of an entity, which is designed to assure its good functioning. The internal control is exerted by the whole management and execution staff, usually, along with the other job assignments, under the form of self-control, reciprocal control, administrative (hierarchical) control, etc., each of them following specific objectives delimited by the organization chart, the job description (job tasks), procedure

manuals, documents drawing up, approval and circulation charts and data processing charts, etc.

The internal control is exerted preventatively, simultaneously and subsequently, through all the employees or structures from the entity.

Internal control is more an attribute or a condition than a function or organizational structure.

The internal control system of economic entities is made up of the following forms of control: Sistemul de control intern al entităţilor economice este format din următoarele forme de control: hierarchical control; reciprocal control; self-control; financial accounting control; financial preventive control; financial management control. [1]

a. Hierarchical control

Hierarchical control is exerted within the current competences of the persons with management positions over the subordinate persons. Hierarchical control can be exerted: without notice, on the spot, by factual checks or documentation; by inspection or direct observation of the subordinate staff, of departments or sectors of activity; by direct discussions with the heads of subordinate departments, on the occasion of analyses at the end of the month; by immediate and direct measures which aims at removing the deviations and the accountability of persons at fault; by the creation at company level of a regular system of information and notices or presentation of reports by the subordinate persons; by the personal information or organization of discussions of leaders of the entity with the subordinate staff; the use of fast means of communication and information (telephone, intercom, emission-reception devices, internet); anticipated establishment of tasks which are to be confronted and regularly checked.

b. Reciprocal control

Reciprocal control is carried out between departments and employees based on material and informational flows established following the division of labour, specialization and separation of tasks. Reciprocal control is done in a permanent way by the circulation of documents between different departments of the entity, each department aiming that the document fulfils the conditions of form and substance established and carries the authorized signatures to enforce it or check it, to go to another department.

c. Self-control

Self-control assumes the checking of one′s own activity, with the purpose of establishing whether the objectives proposed were achieved, whether the activity carried out is at requirements level.

d. Financial accounting control

The financial accounting control is permanently exerted by the staff working in the financial accounting department, at the moment of going through the stages regarding the registration of justifying documents in accounting books.

The head of the financial accounting department is liable for the unitary application of the provisions of this procedure.

The financial accounting control has the following objectives to check: the organization and running of accounting to date; the method of observance of accounting principles; the method of evaluation of elements of assets and liabilities; whether all the operations made the object of an entry (exhaustiveness); whether any entry is justified by an operation (reality); whether there are no errors in the computation of amounts (accuracy); whether the results of annual inventory were correctly valorized; the control of accounting correlations (correspondence of accounts, between synthetical and analytical accounting, the trial balance and the annual financial statements); the method of elaboration of trial balances and of annual financial statements etc.

e. Preventive financial control

The preventive financial control has as purpose the identification of projects of operations which do not observe the conditions of legality, regularity, reality, economicity, effectiveness and efficiency.

The preventive financial control has the purpose to prevent the employment and performing of operations which do not fulfil the conditions above, established by the management or by the regulations in force.

Private companies organize and exert preventive financial control by own articles of association, depending on their particularities and complexity.

The main operations, which are subject to the preventive financial control check in economic entities are: the conclusion of agreements with internal or external partners; the invoices of supply and delivery; the receipts and payments in lei and foreign currency; the payrolls and declarations regarding the social contributions of staff; fiscal declarations; consumptions of material goods; travelling deductions;

amendment of share capital; leasing and concession of assets, etc;

The preventive financial control is exerted on documents, in which the patrimonial operations are written before they become judicial acts.

The preventive financial control consists of the systematic checking of operations which make its object, from the point of view of:

– observing all the legal provisions, which are applicable to them, in force on the date of making the operations (legality control);

– fulfilling under all the aspects of principles and procedural and methodological rules, which are applicable to the categories of operations, of which the operations subject to control (regularity control) are part;

– following up the economicity, effectiveness and efficiency of operations and transactions (performance control).

The importance of preventive financial control results from the fact that it is a real filter of all patrimonial operations reflected in the justifying documents.

The preventive financial control is usually organized within the specialized financial accounting departments.

In view of thorough organization of the informational system and of the establishment in time of the moment in which the preventive financial control is efficiently exerted, the heads of economic entities will establish by internal decision the circuit of documents, the departments and staff involved and their responsibilities.

The preventive financial control is exerted by check, by persons from the specialized departments appointed for this purpose by the leader of the entity (usually the preventive financial control is exerted by the chief accountant or by the head of the financial acccounting department).

The documents regarding the operations, by which the patrimony is affected will be accompanied by the checks of the specialized departments, by substantiation notes, by justifying acts or documents.

The persons appointed for the exertion of preventive financial control will take over the documents and will proceed, in a first stage, to their formal checking regarding: the completion of documents in accordance with their contents; the existence of signatures of authorized persons from the specialized departments; the existence of justifying acts specific to the operation presented for check.

If the requirements of formal checking are not observed, the documents are returned to the issuer, stating in writing the reasons for return.

After the performance of the formal control, the persons appointed to exert the preventive financial control will move on to the substance check, by checking the operation from the point of view of its legality, regularity, reality, economicity, effectiveness and efficiency.

If need be, in view of exerting a preventive control as complete as possible, one can request other justifying acts as well, and the check of the legal department.

If following the substance check, the operation fulfils the conditions of legality, regularity, reality and performance, the check is given by the application of the seal and signature on the counterpart of the document which is archived at the economic entity.

After going through the procedures of documentary check and after giving the check or as applicable, the refusal of check, the person empowered will complete the register of operations subjected to preventive financial control.

If following the check it is acknowledged that the operations do not meet the conditions of legality, regularity, reality and performance, the persons appointed with the exertion of the preventive financial control will refuse with motivation in writing, to give the check of preventive financial control, recording this situation in the register of operations presented to the check of preventive financial control.

The refusal of check, accompanied by significant justifying acts, will be brought to the knowledge of the entity leader, and the other documents will be returned, under signature, to the specialized departments which initiated the operation.

The making on own responsibility of the operation refused at the preventive financial control check can be done by an act of internal decision issued by the leader of the entity. A copy of the act of internal decision will be sent to the internal audit department of the economic entity. At economic entities this disagreement is settled in accordance with the articles of association of the entity and with the internal policies and procedures.

In all the cases in which following a refusal of check, the leader of the economic entity orders making the operation on own responsibility, the head of the financial accounting department has the obligation to inform the board of directors in writing.

The head of the financial accounting department has the obligation to inform the Board of Directors on the operations refused at

check, but made on own responsibility by the leader of economic entities. The Board of Directors has the obligation to take the legal measures to reestablish the situation by law.

f. Financial management control

The financial management control is a subsequent control, able to compare the actual results with the legal provisions, to establish the deviations, to analyse and determine their causes, but also to propose measures of removal of inconveniences and sanctioning the persons at fault. It is organized by the leader of economic entities, in a distinctive department with competent staff. This subsequent financial control is exerted once a year, based on pre-established schedules approved by the head of the financial management department.

The financial management control is a form of financial control which is exerted after the carrying out of the activities and has the purpose, in most cases, to remedy deviations from the legal provisions or the internal norms.

The financial management control is done in whole or by survey, depending on volume, value and nature of assets, management conditions and the frequency of deviations subsequently acknowledged.

Based on the control acts drawn up (notes of acknowledgement or control reports), the head of the financial management control department presents the management of economic entities the conclusions of the control and the measures proposed for the removal of deviations acknowledged and the accountability of the persons at fault. The leaders of economic entities have the obligation to fully apply in due course the measures proposed, the sanctioning of the persons at fault, the recovery of damages and the forwarding of the acts provided by the criminal law to the investigation bodies.

The main objectives to check by the financial management control are: the existence, integrity and security of material assets; the method of use of material and money values; the method of establishment and awarding of salaries and rights assimilated to salaries; the method of making the receptions and storages of goods; the method of management of inventory items and of working equipment; the checking of the method of hiring the warehouse keepers and of the guarantees deposited by them; the method of making and settling the differences discovered on occasion of inventory-taking; the method of drawing up documents, of analytical and synthetical records (following up potential deviations); the method of performance of the preventive financial control and its role in the patrimony administration; the method of fulfilment of money, financial and fiscal obligations; the method of fulfilment of measures disposed on the occasion of previous controls, etc.

This form of management control is currently found in commercial activity, under the form of management reviewers, who make the regular inventory of managements of merchandise.

5. Conclusions

As for the method of organization and functioning of the internal control system of economic entities, we can draw the following conclusions:

- each responsible of an economic entity has the obligation to create an internal control system at its level;

– the manager of the entity can resort to the services of professionals for the conception, development and implementation of internal control;

– the internal control is exerted by the whole management and execution staff, usually, along with the other job assignments, under the form of self-control, reciprocal control, administrative (hierarchical) control, etc., each following specific objectives delimited by organization chart, job description (job tasks), procedure manuals, documents drawing up, approval and circulation charts and data processing charts, etc.;

– apart from the control activities integrated in management line, specialized controls can be organized, carried out by specially created structural components (commissions, financial management control departments, management reviewers, etc.), whose activity is carried out on the basis of a plan, conceived by taking into consideration the risks;

–the internal control is exerted preventatively, simultaneously and subsequently, through all the employees or structures from the entity;

– internal control is more an attribute or a condition than a function or organizational structure;

– from the legal regulations (Order of the Minister of Public Finances no. 3055/2009), it does not result clearly what are the procedures and policies of implementation of internal control applicable to an economic entity and the types (forms) of internal control are not presented in detail, only a classification of them is presented by the time in which it is exerted

(prior to, during and after the completion of operations);

– in legal regulations only a certain form of internal control is developed, represented by the internal accounting and financial control, as if the other forms of internal control had not existed;

– as for the internal control components, they are presented in another form, but similar to the already dedicated models of internal control (Coso and Coco);

– the general objectives of internal control are presented in the legal regulations, but there are no differentiated objectives developed by each form of internal control;

– as you can see, the legal regulations allot a significant importance to just one of the internal control components, which is the internal accoutning and financial control, from where it results the detailiation of the general objectives of the internal control of the financial and accounting function;

– yet, the management of economic entities does not have to limit the scope of internal control, only to the internal accounting and financial control, because the scope of internal control is much wider than the scope of internal accounting and financial control;

– as for the method of implementation of internal control activities, it is acknowledged that in most entities, they are not formalized (there are no specific internal control procedures);

– irrespective of the method of organization of internal control, the manager of the economic entity has to choose the most appropriate forms, techniques or procedures of internal control in the fulfilment of managerial objectives.

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Views on the Internal Control System of Public Entities

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Abstract

The internal control system has to be developed and implemented by the manager up to the level, which allows him a better control over the functioning of all activities for the realization of the objectives set. Taking into account the particularities of the legal, organizational framework, staff, funding and other specific elements, as well as the internal control standards, the heads of public entities will dispose the necessary measures for the elaboration and development of management control systems of each organization, including the procedures, formalized by activities. The internal control system of public entities is made up of the following forms of control: hierarchical control; reciprocal control; self-control; financial accounting control; financial preventive control; financial management control.

Key words: internal control objectives, internal control components, internal control concept, internal control system, internal control activities.
JEL: M40, M41

1. Introduction

The objective of this article is to present the author′s opinion on the method of organization of the internal control system in public entities.

Public entities have to create an internal control system with the purpose of monitoring and evaluating the effectiveness and efficiency of all the activities from the economic entities. By our research, we tried to answer the question: what are the forms and activities of control in public entities.

2. Internal control concept

According to the legislation in force, internal control represents the totality of policies and procedures elaborated and implemented by the management of the public entity to assure: the attainment of objectives of the entity in an economic, efficient and effective way; the observance of field-specific rules, of policies and decisions of the management; the protection of assets and information, the prevention and detection of frauds and errors; the quality of accounting documents as well as the provision in due course of reliable information for the management. [1].

The role of internal control can be summarized to: the limitation of uneconomical and unefficient operations; the assurance of patrimony integrity; the assurance of a thorough and efficient management of activities; the observance of orders given by the management; the observance of the legal provisions; the reality and accuracy of accounting information. [2].

Internal control represents a continuous process in which the administrative management, the executive management, and the whole staff of public entities participate, by which a reasonable assurance is provided on the attainment of the objectives of the entity.

3. Objectives and components of internal control of public entities

a.Internal control objectives

Starting from the definition of internal control in public entities, it results that it has the following objectives: [3]

– the attainment of objectives of the entity in an economic, efficient and effective way;

– the observance of field-specific rules, policies and decisions of the management;

–the protection of assets and information, the prevention and detection of frauds and errors;

– the quality of accounting documents;

– the provision in due course of reliable information for the management.

The Management of public entities has to create objectives differentiated by each form of internal control, by the instatement of adequate control procedures (based on job descriptions and checking questionnaires).

From the objectives analysed above it results that the internal control in public entities is a managerial instrument used to provide a reasonable assurance that the objectives of the management of public entities are fulfilled.

b. Internal control components

By taking into account the particularities of the legal, organizational framework, staff, funding and other specific elements, as well as the internal control standards, the leaders of public entities will dispose the necessary measures for the elaboration and development of managerial internal control systems of each organization, including the procedures formalized by activities.

Romania agrees and uses the elements of the control framework proposed by the model COSO, which, implemented at the level of public entities, allows them to better manage the activities necessary for the fulfilment of objectives.

COSO defines internal control as a process carried out by the board of directors, the management and the whole staff of the public entity, designed to provide a reasonable assurance regarding the fulfilment of the objectives of the organization, considering: the efficiency and effectiveness of the operations; the reality of financial reports; the compliance with the laws and regulations applicable.

The components of the model COSO are represented by:

1) *the existence of a favourable control environment*, which represents the attitude of the whole staff of the public entity, including the general management, towards control, by its acceptance, use and appreciation. It represents the basis of all the other components of internal control, assuring a discipline in the organization which must be observed and a structure of the entity, so that the internal control system can be effectively applied.

2) *risk evaluation* allows for their hierarchization, for the identification of unacceptable risks, which aims at, on one hand, the analysis of the main identifiable risks regarding the objectives of the entity and, on the other hand, the assurance of the existnece of procedures of management of these risks. At the same time, public entities have to create internal control activities, in view of avoiding the unacceptable risks and maintaining the residual risks within the tolerance limits acceptable.

3) *control activities*, for each group of activities or subactivities, the management of public entity disposes the use of forms of internal control designed to eliminate or limit the associated risks. The control activities are carried out in the whole public institution, at all its levels and positions.

4) *information and communication* assure the knowledge of the elements of internal control by all those who will directly or indirectly have to implement them, as well as of the results of control. The effectiveness of communication sustains the management of the public entity and has to cover all the aspects of governance. Feasible IT systems can facilitate the decision-making process and can guarantee the accuracy and reliability of information with public character. The absence of an efficient communication leads to a poor perception of risks and, inherently, to the implementation of inadequate internal control instruments.

5) *monitoring* is a process which evaluates the performance of the internal control system and is exerted by the management of public entities, by continuous supervision activities and regular evaluations (internal control reports and internal audit reports). The internal control systems have to be monitored to evaluate the quality of the performance of the managerial internal control system over time.

The adoption of the model COSO envisages the creation of a robust managerial internal control system in public entities and the monitoring and effective and efficient management in public entities.

4. Structure of the internal control system of public entities

The Management of public entities will take measures for the development of own internal control systems based on internal control standards, by elaborating written procedures for each activity and each form of internal control.

Line Management in public entities establishes for each group of activities the adequate forms of internal control in view of elimination or prevention of risks.

The internal control system of public entities has to be permanently updated to allow the management to hold a permanent control over the functioning of the entity in its assembly, in view of reaching the objectives set.

The control activities which are forms of internal basic control, intrinsically attached to

the activities of public entity are represented by: self-control, reciprocal control and hierarchical control.

Apart from these three forms of control, intrinsically attached to activities and subactivities, of preventive financial control, the management of public entity has competences to instate, when the situation requires it, other forms of control which imply supplementary costs and distinctive working procedures, of which the most frequently used are: financial management control (patrimonial), inspections and other forms of control imposed by the management.

a. self-control of the activity

It is accomplished by each employee and implies the observance of own working procedures instated by the management of the public entity, by which the operations to execute, the responsibilities and different control devices (in fact, control keys attached to operations) are described to appreciate whether the operation was correctly executed.

b. mutual (reciprocal) control

It is exerted between the stages of a procedural chain, by each workstation, on the method of performance of operations by the previous workstation, to see whether own operations can be added, which will make the object of control at the following workstation.

c. hierarchical (administrative) control

It is exerted at the right higher hierarchical level by the persons who have a decision-making position, as responsible for activities from the public entity.

d. preventive financial control

d1. own preventive financial control

It is organized in all public entities, usually in the specialized financial accounting departments.

The preventive financial control has the purpose to identify the projects of operations (hereinafter referred to as operations), which do not observe the conditions of legality and regularity and, as applicable, integration within the limits and destination of state credits and commitment credits and which by their execution would bring prejudice to the public patrimony or public funds. The documents regarding the operations, by which the public funds or the public patrimony are affected will be accompanied by the checks of specialized departments, by substantiation notes and justifying acts or documents and, as applicable, by a proposal of employment of an expense or an individual or global commitment.

The persons appointed for the exertion of the preventive financial control will take over the documents and will proceed, in a first stage, to their formal checking regarding: the completion of documents in accordance with their contents; the existence of signatures of authorized persons from the specialized departments; the existence of justifying acts specific to the operation presented for check.

If the requirements of formal checking are not observed, the documents are returned to the issuer, stating in writing the reasons for return.

After the performance of the formal control, the persons appointed to exert the preventive financial control will move on to the substance check, by checking the operation from the point of view of its legality, regularity, and integration in the limits and destination of state credits of the project subjected to the control.

If need be, in view of exerting a preventive control as complete as possible, one can request other justifying acts as well, and the check of the legal department.

If following the substance check, the operation fulfils the conditions of legality, regularity, and, as applicable, integration in the limits and destination of state credits or commitment credits, the check is given by the application of the seal and signature on the counterpart of the document which is archived at the economic entity.

After going through the procedures of documentary check and after giving the check or as applicable, the refusal of check, the person empowered will complete the register of operations subjected to preventive financial control.

The giving of the check or the refusal of the check cannot be imposed in any way to the person who exerts the preventive financial control, as the results of this control depend exclusively on the professional judgments of the controller. The persons entitled to exert own preventive financial control, are liable for the checked operations proportionally to their fault. The performance on own responsibility of the operation refused at the preventive financial control check can be done by an act of internal decision issued by the leader of the public entity. A copy of the act of internal decision will be sent to the internal public audit department of the public entity.

In case of refusal of check, the leader of the pbulic entity can order the making of the operation on own responsibility, in which case the Court of Accounts, the Ministry of Public Finances and, as applicable, the higher hierarchical body of the public entity are

informed. The information of the higher hierarchical body will be done as soon as the performance of the operation was ordered, by the transmission of a copy of the act of internal decision and the motivation of the refusal of check.

The leader of the higher hierarchical body has the obligation to take the legal measures for the re-establishment of the situation by law. If by the operation refused at check, but performed on own responsibility by the leader of the public entity it brings prejudice to the patrimony of the entity and if the leader of the higher hierarchical body (as applicable) did not dispose the legal measures, the central inspection or the territorial inspections of the Ministry of Public Finances will be notified. The information of the Court of Accounts will be done on the occasion of making the management discharge controls or other controls of its competence.

The evaluation of own preventive financial control activity belongs to the audit structure of the public entity.

The evaluation of the activity of the person who carries out own preventive financial control activities is done every year by the leader of the public entity, with the consent of the public entity which checked the appointment, by grades, based on the information included in the internal public audit reports and in the reports of the Court of Accounts, where applicable.

d.2. delegated preventive financial control

The delegated preventive financial control is exerted by the Ministry of Public Finances, through the Body of Delegated Controllers, which functions as a distinctive structure, in the subordination of the Ministry of Public Finances.

The delegated controller is independent from the managerial structure of the public entity at which the check is exerted, by exerting a re-check of those projects of operations which are considered as having a high level of risk.

The delegated preventive financial control is exerted:

– at important public institutions (main credit release authorities), state Treasury and on the operations regarding public debt as well as operations funded from external funds;

– at other public institutions or legal persons of private law which manage public funds or manage the public patrimony, in case of operations with high risk.

The refusal of check of the delegated controller does not have character of blocking the financial operation, which is executed based on the decision on own responsibility of the credit release authority, with the information of the Ministry of Public Finances and the Court of Accounts.

The preventive financial control will be gradually integrated in the scope of managerial liability, as far as the managerial internal control assures the elimination of risks in the administration of public funds.

e.Inspection

It is triggered following signals regarding potential irregularities, consisting of the examination of documents, facts, assets, with the purpose of establishing the deviations from the legality, taking measures for the protection of use of funds and public patrimony.

Within certain departments there was preserved a general direction with role of performing the inspections, considering the increasing number of complaints and claims, which had to be settled in due course, which exceeded the capacity of the other executive departments of settling in due course these complaints and claims.

f. patrimonial control (financial management)

The management of the public entity has competences of instating other forms of control when the situation requires it, forms of control which assume supplementary costs and distinctive working procedures, of which the most widely used is the financial management control (patrimonial).

The leaders of economic operators are obliged to assure the organization and exertion of the financial management control over own patrimony and the assets from the public and private patrimony of the state or of the administrative territorial units which are in administration, in concession or leasing.

This form of internal control has the objectives of checking the existence, the integrity, preservation and security of assets and values.

The financial management control is organized within economic operators and has the main following objectives:

– assurance of the integrity of the patrimony of the economic operator as well as of the assets from the public and private field of the state and of administrative territorial units in their administration, concession or leasing;

– the observance of the legal provisions and of internal regulations incidental to the economic financial activity of the economic operator;

– the increase of efficiency in the use of allotted resources.

The staff appointed to exert the financial management control has the main following assignments: [4]

– checks the observance of the legal provisions and of internal regulations regarding the existence, integrity, preservation and use of means and resources held by any title, and the method of their reflection in the accounting books;

– checks the observance of the legal provisions in the substantiation of the project of revenues and expenditure budget of the economic operator and of the projects of revenues and expenditure budgets of subunits from its structure;

– checks the observance of the legal provisions related to the execution of the revenues and expenditure budget of the economic operator and of the subunits from its structure;

– checks the observance of the legal provisions and of internal regulations regarding the method of performing the annual inventory of elements of nature of assets, debts and equity;

– checks the observance of the legal provisions and of internal regulations regarding the receipts and payments in lei and foreign currency, of any nature, in cash or by bank transfer;

– checks the observance of the legal provisions regarding the registration of economic financial operations in accounting books;

– checks the observance of the legal provisions and of internal regulations regarding the drawing up, circulation, preservation and archiving of primary documents, accounting documents and tehnical operational documents;

– elaborates economic financial analyses for the management of the economic operator for the purpose of substantiating decisions and improving performances.

The financial management control is organized at the economic operator for the control of own managements and at subunits from its structure.

The financial management control is exerted under the following forms:

– preventive control, which consists of checking the substantiation of revenues and expenditure budgets and of annexes to these;

– operational control, which consists of checking economic financial operations carried out during the current fiscal year.

The leader of the economic operator establishes by internal procedures: the method of elaboration and realization of the activity schedule; the duration of performing a control action; the types of control acts, their circuit and highlighting method; the appointment of persons responsible for the fulfilment of the measures established.

The observations written in the control acts have to be precise, based on data and documents, eliminating any personal, unuseful and inconclusive elements and descriptions. For the deficiencies acknowledged, it shall be necessarily written the legal provisions or internal regulations violated, the economic, financial and patrimonial consequences, the persons responsible and the measures proposed.

The control acts are presented to the leader of the economic operator.

The leader of the economic operator analyses, disposes and follows up the fulfilment of the measures written in the control acts.

The leader of the economic operator assures every quarter or whenever it is necessary, the information of the board of directors regarding the exertion and results of the financial management control.

The person appointed by the leader of the economic operator, with assignments of financial management control, participates in the meetings of the board of directors when financial, accounting and financial management control problems are debated. The other public entities can adjust the financial management control procedure by the financial management control procedure of the economic operators.

5. Conclusions

As for the method of organization and functioning of the internal control system of public entities, the following conclusions can be drawn:

– a resonable and flexible internal control system, which can change depending on realities, manages not absolutely, but within certain limits, to assure the fulfilment of managerial objectives of public entities with a higher probability and in better conditions;

– public entities agree and use the elements of the control framework proposed by the model COSO, which, implemented at the level of public entities, allows them to better manage the activities necessary for the fulfilment of objectives.

– the control activities are part of the managerial internal control process, by which the entity aims at reaching the objectives proposed;

– there are control activities which are forms of internal control intrinsically attached to the activities of public entity represented by: self-control, reciprocal control and hierarchical control. Along with these three forms of control, intrinsically attached to activities and subactivities, of preventive financial control, the management of the public entity has competences of instating when situation requires it, other forms of control, which assume supplementary costs and distinctive working procedures, of which the most widely used are: financial management control (patrimonial), inspections and other forms of control imposed by the management of the public entity;

– internal control targets the application of norms and procedures of internal control, at all hierarchical and functional levels: approval, authorization, checking, evaluation of operational performances, securitization of assets, separation of functions;

– managerial liability involves the responsibility for good financial management and performance at all the levels of a public entity, respectively for all the five internal control components. This means that the managers of public entities are obliged to report on the actions taken and decisions made to fulfil the objectives of the entity they manage;

– the line management in public entities establishes for each group of activities the adequate forms of internal control for the elimination or prevention of risks;

– the internal control system of public entities has to be permanently updated to allow the management to hold permanent control over the functioning of the entity in its assembly, in the attainment of objectives set;

– the internal control within public entities is based on the forms of internal control intrinsically attached to the activities of the public entity, which does not exclude specialized control staff, if the manager considers it necessary, control which implies the involvement of the staff from the entity in the activities carried out;

– irrespective of the way in which it is conceived and operates, internal control can offer only a reasonable assurance, and not an absolute one, that the objectives of the public entity are fulfilled, because of internal and external factors, which were not and could not be taken into consideration in the design (conception) of internal control, such as: human errors, negligence, carelessness, wrong interpretations, reasoning errors, etc; the abuse of authority manifested by certain persons with management, coordination or supervision assignments; limitation of independence in the exercise of job assignments; frequent changes occurred in the internal and external environment of the entity; inadequate control procedures; unadjusted or adjusted and inapplied control procedures; the costs of internal control etc;

– the management of public entity is responsible for the implementation of a managerial internal control system which offers him a reasonable assurance that the objectives of the public entity will be fulfilled;

– when the management of the public entity does not hold a good control over the activities, there is the significant risk that the objectives of the public entity are not fulfilled, and the existence or continuity of the public entity is even threatened;

– the management of the public entity has to establish the most adequate activities and forms of internal control, which allow it to keep under control the risks and to limit their consequences.

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Theoretical Condensation of Intensity, Limitations and Determination of Tax Compliance in a Behavioral Economics Approach

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Abstract

Taxpayers have different perception and attitudes towards taxation and react differently to fiscal stimuli: tax law and its loopholes, tax burden, tax representatives, fiscal policy decisions. On the other hand, tax administration acts, taxpayers react, but their goals seem divergent. Tax administrations around the world state their main objective, as it is increasing tax compliance. Tax compliance being related to economic factors is also related to socio-psychological factors as the literature in this field of research shows. Behavioral economics creates the bridge between economics and psychology and tries to understand what influences decision-making.

This paper aims to analyze, from qualitative perspective, the perceptions and attitudes related to tax payers. We also propose a condensation of the results of the interaction between taxpayers and tax, as well as their measurement possibilities.

Keywords: tax compliance, behavioural economics, research methodologies
J.E.L. Classifications: H20, Z13

1. Introduction

What is tax compliance and why do we need research in this field?

If taxes are very old, so is tax compliance defined as paying taxes, voluntary or enforced. Mostly, tax compliance is put aside with tax evasion, even if non-compliance is not necessarily intentional. If we need taxes, we obviously need tax compliance and tax compliance research. But what makes taxpayers pay what they owe? Is it mathematical calculations of costs, do ordinary people calculate before making decision, are people rational or are they emotional at first? Tax compliance research literature provides a large number of studies that focus on the non-economic determinants of tax compliance.

In this review we describe the major theoretical aspects of tax compliance in a behavioral economics approach as well as the methodological concerns. The literature although not very old is very vast and there is a growing tendency to study tax compliance from a socio-psychological point of view.

The paper continues with the literature review in section 2, describing how tax compliance research started as well as the main paradigms in the field. We then focus on the determinants of tax compliance, especially on those incorporating psychological aspects. In section 3, we attempted to summarize the methodologies used in research stressing their limitations as well.

2. Literature review

2.1. Tax compliance research start and paradigms

Tax compliance research started on the base of the early work of Schmölders [1] in economics, behavioural economics and economic psychology.

Most of the publications in the field of tax compliance mention its start in the spirit of

economics-of-crime paradigm based on the general framework of criminal behaviour developed by Becker [2]; according to this paradigm taxpayers are motivated to comply only because of enforcement – audit and penalty rates as Alm [3] suggests. The decision made by a single taxpayer, seen as rational, is the choice of honestly paying all taxes or to evade them taking the risk of beeing caught, so it is about a higher utility – if the benefit of evading covers the cost of being caught, then the taxpayer will evade taxes. Consistent with this paradigm, Allingam and Sandmo [4] and Srinivasan [5] developed one of the earliest utility models being interested to study how higher tax rates influence compliance.

According to Alm et al. [6], the research paradigm in the field of tax compliance needs a rethinking. Both economists and psychologists challenged this paradigm whose need of rethinking comes from the following motives: there is more than one single taxpayer – there are other taxpayers too, who form groups and approve particular social norms, there are also tax accountants, tax authorities and the government. But these actors interact in different climates as Kirchler [7] introduces the concept of the climate of trust or distrust between taxpayers and tax authorities. The way these actors interact bring to discussion the important concept of trust and the concept of power and as Alm et al. [6] state, the dynamics of these two.

So this is why the paradigms need rethinking. The authors previously cited introduce three new paradigms:

i) The paradigm of tax compliance behaviour as a social contribution dilemma – where the social contribution dilemma appears when individual's interests are opposed to those of the community. In short, it is about the decision whether to pay taxes or not when taxpayers think taxes are spent inefficienly and that other taxpayers don't pay taxes. Trust is here of a great importance, both the form of interpersonal and institutional trust.

ii) The paradigm of tax compliance behaviour as behaviour of many different taxpayers – this model takes into account that taxpayers are not the same and different things, either financial or non-financial, motivate them. Consistent with this interpretation, Braithwaite [8] identifies five types of motivational situations: two are pozitive – `commitment` and `capitulation` and three are negative – `resistance`, `disengagement` and `game playing`.

iii) The pattern of tax compliance behaviour as a pshychological contract (between taxpayers, government and tax authorities) focuses on the idea of social norm. As long as tax compliance is approved as a social norm, people will comply, but when tax evasion is accepted in the group, tax compliance ends to be a social norm.

These paradigms do not exclude the economic framework, but go beyond it, trying to find the substance of tax compliance and introducing other disciplines, like psychology. As Alm [3] shows, the analysis of individual decision-making using other social sciences like psychology is the the approach of behavioral economics. (The psychological view of tax behaviour can also be found in the book of Alan Lewis [9] "The psychology of taxation" and in Erich Kirchler's [7] book „The Economic Psychology of Tax Behaviour").

Regarding the first paradigm and the motives it has to be changed, Alm [3] found a way to improve the model of standard expected utility (Allingam and Sandmo, [4]) connecting it with the model of moral identity utility developed by Arkelof and Kranton [10]. According to the last one, the moral identity utility is a function of difference between the behaviour assumed ideal (by individuals) and the actual behaviour. If the actual behaviour approaches the ideal one, the taxpyer may feel happy since doing what is right, but if the distance between the types of behaviour is considerable taxpayers may feel guilt or frustration. Combing these two models it has been emphasized a resulting total utility model, as a way of going beyond the economic framework towards a behavioral one.

2.2. Tax compliance determinants and research findings

Kircler [7] has made a classification of tax compliance determinants including: fiscal policy determinants – tax rates, law complexity, and determinants related to the rational decision making which include audit

probability, fines, and income. In a socio-psychological frame, the author includes: tax knowledge, attitudes, norms, fairness perceptions, tax morale as a motivation to comply. Trust (or distrust), and its relationship with the power to control was included in the interaction climate between taxpayers and tax authorities depending on the tax authorities approach – `cops and robbers` or `service` and client` and taxpayers cooperation resulting from these approaches.

Focusing on the socio-psychological factors, tax knowledge is important in understanding the complex tax law. As Kirchler [7] concludes generally surveys proove a positive relationship between tax knowledge and favourable tax attitudes, but the complexity of tax law makes taxpayers feel incompetent as McKerchar [11] note. Many studies attempted to examine tax knowledge: Sakurai and Braithwaite [12]; tax knowledge and its relationship with perceptions and attitudes towards taxes: Eriksen and Fallan [13], Niemirowski et al. [14]. Boame [15] suggests that tax knowlegde does not necessary increase compliance, but taxpayer can use the tax knowledge gained to evade taxes. The question here is about avoidance and evasion – what is legal and what is illegal.

Regarding attitudes, there is a role they play in determining tax behaviour even if according to Ajzen [16] behaviour is only partly predicted by attitudes. In defining attitudes, according to Kirchler [7] there should be discussed three dimensions of attitudes: a cognitive dimension – a thought, a belief (e.g. taxes are useful to provide public goods), an affective – an emotion, a feeling (e.g. feelings related to the money loss) dimension and a behavioral or conative one – intention and action (e.g. responses to different fiscal stimuli – complying, using loopholes, evading). The relevance of attitudes toward taxation was examined in empirical studies and most of these studies found a significant, although weak relationship between attitudes and behaviour: Vogel [17], Dornstein [18], Porcano [19], Wahlund [20], Chan, Troutman and O`Bryan [21], Niemirowschi et al. [14]. Even if it is not sure that positive attitudes determine compliant behaviour, it is important the remark of Lewis [9] that if tax attitudes worsen, tax evasion will increase. The relationship between attitudes and behaviour either compliance or non-compliance is therefore a complex relationship.

As determinant of compliance trust in political leadership and administration was studied by: Pommerehne and Frey [22], Torgler [23], [24]. The conclusion is that trust will encourage voluntary compliance. Kirchler [7] in his "slippery-slope model" (the "slippery-slope" term was used to illustrate the dynamics in the interplay between trust and audit) includes the importance of trust in authorities, power of authorities and enforced compliance. The essence is that compliance results under the condition of strong power of authorities and the trust, mutual trust.

Seen as a motivation to comply, tax morale is seen as an internalised obligation to pay taxes - Braithwaite and Ahmed [25], Frey and Fred [26]. Orviska and Hudson [27] relate tax morale with civic duty. Civic duty implies well-being by acting responsibly in society. Defining tax morale (and tax ethics, and the differnce between them) is rather difficult but studies found a positive relationship between tax morale and tax compliance – Torgler [28], Eichenberger and Frey [29] and a negative one between tax morale and the size of the shadow economy – Alm and Torgler [30].

Tax morale was also analysed in relationship with religiosity – Torgler [31] found that religiosity raises tax morale. Another study – Grasmick et al. [32] found that `religiosity inhibits illegal behaviour`.

Finally, in an ethical hedonism perspective Lubian and Zarri [33] note that fiscal honesty brings us happiness. This is the point where economics meets philosophy and neuroeconomics as well as Harbaugh et al. [34] concluded after a neuroeconomic experiment that neural activity increases when tax assimilated voluntary transfers are made for a charitable cause.

3. Methodologies in tax compliance research and their limitations

In this paper we pay special attention in order to highlight tax compliance true economic theory, experimental design and survey results, as has been shown in the recent literature, but it is important to

consider this in strong correlations with cultural differences (Alm and Torgler [30]), quality of local governance (Fjeldstad [35]), level of education (Berhane [36]) or, even demographic characteristics (Asante an Baba [37])

Andreoni et al. [38] had identified four sources of information used to measure and study tax evasion: *audit data* that is data from tax returns examined by tax examiners, *survey data*, *tax amnesty data*, and *laboratory experiments data*. The problem of audit data is that is does not contain socioeconomic and demographic characteristics. Here it comes the advantage of survey data that can include socioeconomic, demographic and attitudinal variables. Most of the studies in the field use World Values Survey data. The problem with survey data is that being based on self-reports, the information can be inaccurate and in general as Andreoni el al. [38] points, survey result overstates compliance. Some determinants, for example perceptions and attitudes are not easy to measure. Most of surveys use Likert-type scales to measure taxpayer's degree of favouring tax evasion as Kichler [7] notes. Despite of this, in a psychological spirit, Ariely [39] argues that "anything you measure will impel a person to optimize his score on that metric". This could be a confirmation that measurement can be a motivation towards change. Matching survey data with tax return and audit data is more useful (due to completing with social and attitudinal variables) as well as when incorporating in econometric models.

Tax amnesty data can be valuable due to the direct measurement of non-compliance, but its problem is the sample selection; a subset of evaders may not represent all the population. Another problems of tax amnesties data: first, according to Das-Gupta and Mookherjee [40] repeated tax amnesties reduced compliance (in the case of India). Secondly, Fisher et al. [41] found that tax amnesty did not bring many evaders out from the informal sector.

Finally, laboratory experiments data imply the study of tax compliance in a controlled environment. Taxpayers are given money, declare, pay taxes or penalties, experience audits or receive rewards. The problem of these data is that it can be considered unrealistic, as moral, emotional and social factors can not be replicated in a laboratory.

According to Marriott et al. [42] the experimental methodology demonstrates the potential value in collecting behavioural data but has its limitations: data in collected in an artificial environment that has limited third-party impact, unlike in the reality, even if there is a reward, there is no adverse financial impact and finally there is another limitation from using students as a proxy for the taxpayers as a whole. Attention should be paid at the data preconditions and the sensitive questions in online surveys as well as Coutts and Jann [43] note.

4. Conclusions

Tax compliance research results show the importance of non-economic determinants of compliance, in other words entering the field of behavioral economics and experimental economics. When considering psychology, sociology, economics the process of measurement becomes difficult, there are some limitation for the various forms of data source and the way they are analysed. Our start in tax compliance research was by overviewing the major publications, the sift in research paradigms and making an idea about the methodologies.

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The Fair Value – between Theoretical Predictability and Practical Modeling within the Romanian Accounting Area. Case Study for the Societies within the Transportation Field in Romania

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Abstract

The paper sets out to explore the approach of the fair value within the set of financial situations published annually by entities from the point of view of the external analyst, who is interested rather in the practical modeling of this aggregate than in the theoretical process of measuring. After going through the existing specialized literature we tested the way of measuring the fair value by the Romanian groups of societies within the transportation field. We focused our action on modeling at the entity level the net fair value, exponent of the recoverable value of the held fixed assets. We took this course of action because all entities measure, at the end of the report period, the inventory value–standard for the recoverable value within the Romanian accounting practice.

Key words: fair value, market value, updated value, road transportation.
J.E.L. classification: M41

1. Introduction

Internationally, two sets of accounting rules have the supremacy nowadays: the international ones, developed by ISAB, and the American ones, developed by FASB. IASB has accepted, in its own way, FASB's rules' influence by participating at joint projects with FASB, whose purpose is to limit the differences between IFRS and US GAAP. It must be noted that fair value's measurement is one of the convergent issues between the two sets of rules, IASB having already published international rules of financial reporting, IFRS 1 to IFRS 13. From these, the American rules' influence is obvious within IFRS 5 *"Nonconcurring assets held for sale and discontinuous operations"*, respectively IFRS 3 *"Entities combinations"*. If initially IASB was equidistant from the prescribed evaluation bases, in recent years, it was requested a stronger reliance on fair value and, therefore, its extensive employment. International accounting rules are becoming more and more future-oriented, seeking to favor information users' predictions. Thus IASB once indicated that the fair presentation of the results and of an entity's financial position is more important than applying a set of rules.

2. Applications of fair value in the discovery of financial statements elements

Representations of the fair value for the recognition of patrimonial items, respectively for later notice can be at least the following [1] applications:

- ✓ coverage of intangible fixed assets with a potential buyer, starting with the second year of holding in entity, at fair value;
- ✓ recognition of tangible /intangible imobilisation depreciated either at the utilisation value or at the net selling price;
- ✓ for the tangible/intangible immobilization made as a contribution to the social capital, reflection in accounting is realized at their market value;
- ✓ immobilized tangible/intangible assets from exchange transactions are evaluated at the market value, respectively based on the best estimates, where market information is insufficient;
- ✓ immobilized tangible/intangible assets from entity combinations are recognized in the patrimony at market value;

✓ measurement and reflection in accounting of the residual value of tangible/intangible immobilization is realized at market value;
✓ tangible assets' recognition, such as special equipment, rarely traded on active markets at replacement cost – representation of fair value in accounting;
✓ both initial and subsequent recognition of tangible immobilization held for sale at the lowest value from book value and the fair value diminished with the sales' cost;
✓ subsequent recognition of property investments, in agreement with the IAS 40 conditions *"Property investments"* at market value;
✓ initial registration of the goods acquired through leasing at the lowest value from the good's market value and the updated minimal leasing value;
✓ initial recognition of long-term debts at their updated, market value;
✓ the subsequent recognition (at the end of the financial exercise) of the goods stock, products, merchandise etc. is performed at the net realizable value (market value), precisely for identifying any value losses/reappreciation;
✓ at the initial recognition (at the harvest time) of the agricultural production stocks, related to the biological assets, their market value it is used;
✓ initial recognition of commercial debts related to the current activity's income, in accordance with the IAS 18 conditions *"Income"* is obtained at the fair value – updated of the sums which are to be received;
✓ at the financial exercise's end, subsequent recognition of debts and commercial obligations denominated in foreign currencies is achieved at their updated value;
✓ the debts related to the employee's benefits are initially recognized at the corresponding value of the provided service, respectively at an updated value if the contributions are payable within one year after the accounting period when they have been rendered;
✓ at the initial recognition, long term liabilities are evaluated at their settlement value (reimbursement value) or at the updated value;
✓ subsequent recognition, at the financial year-end of cash denominated in foreign currencies is achieved at the value obtained from the sums in foreign currency.

3. Approaches of the fair value according to the specialized literature

For the time being, the term fair value is spread in the sphere of International Financial Reporting Standards through the IFRS 13 "Assessment on fair value". In order to improve [2] the consistency and comparability of assessments on fair value, IFRS 13 establishes a hierarchy of the fair value through which the entry data that are to be modeled in the techniques of assessment are classified on three levels, as it follows:
✓ the level 1 entry data are, usually, *quoted prices (unadjusted)* from the market for identical assets available to the entity on assessment date [3];
✓ the level 2 entry data are pieces of information taken from the market, directly or indirectly observable for the analyzed asset, different from the quoted prices included in level 1[4];
✓ the level 3 entry data are unobservable on the market for the asset [5].

Note that both the level 2 entry data and the level 3 entry data require modeling and adjustments. Adjusting the level 2 entry data varies according to the particular factors of the analyzed asset regarding the fair value's modeling, such as [6]:
✓ the condition and the location of the asset;
✓ the volume and the activity level on the markets where the entries are observed;
✓ the degree to which the entry data are afferent to the elements with which the analyzed asset is compared.

To the degree to which no observable entry data are available (level 2 entry data), the entity must develop unobservable entry data based upon the best pieces of information available under the given circumstances. In developing the unobservable data [7], an entity can start from its own data, but it must adjust the given data if the market information available in a reasonable way would indicate the fact that other participants on the market would use different data, or if there is an element specific to the entity which is not available for other participants on the market (for example, a synergy specific to the entity). It is not necessary that an entity undertake excessive efforts for obtaining information regarding the hypotheses of the market participants. However, an entity must take

into account all the information regarding the hypotheses of the market participants, available in a reasonable way. The unobservable entry data created in the above described manner are considered hypotheses of the market participants and meet the objective of the assessment on fair value.

When the entity uses level 2 entry data it is necessary to make a detailed presentation of the information connected to the employed assessment technique. If there is a modification [8] of the assessment technique (for example, changing the approach based upon the market with one based upon revenue or using an additional assessment technique), the entity must show that modification and the reason for which it was made.

For the assessments on fair value classified on level 3 on the fair value's hierarchy, an entity must provide quantitative pieces of information regarding the significant unobservable entry data employed in the assessment on fair value. An entity must not create quantitative pieces of information in order to comply with the provision of providing information if the unobservable quantitative information are not developed by the entity when it assesses the fair value (for example, when an entity uses prices from a previous transaction without adjusting them, or information regarding establishing the prices from a third party). However, when it provides these pieces of information, an entity will not overlook the unobservable quantitative data with an important role in assessing on fair value and which are available to the entity in a reasonable manner.

In modeling the final version of IFRS 13 "Assessment on fair value" IASB used the source of the American normalizator [9], which, through FASB issued in 2004 an Exposure Project regarding the way of measuring the fair value. In the FASB project one can notice three levels of fair value, the upper one represented by the market transactions that can be observed for the same type of asset, the second one represents the market transactions that can be observed for similar assets, and the third one is constituted from using models with the same contributions on the market or with another base. When the fair value is used, the entity must present what level was used, and if it is level three, what the model was.

4. The application of fair value in Romania

For Romania the fair value is still new [10]. It is difficult for the professional accountants to clarify it on a conceptual level – as it will be seen from the research performed in this material – but even more problematical is its practical application. Regarding this matter, there can be noticed an attitude of reticence justified in the academic and professional environment in connection with the possibility of introducing an accounting system including the fair value, or, why not, based on the fair value. What could be the excuse for this behavior?

Mainly, the system focused on the fair value as a management representative based on value, is directed towards maximizing the shareholders and creditors' fortune. Under the circumstances of the Romanian instable economical environment, where the bankruptcy phenomenon is manifesting strongly for too many entities, does the concern of protecting these shareholders and creditors even exist? Since he brought funds as well, will the minority shareholder be granted protection and will his economical interests be pursued? Is it possible, in the Romanian economy, to obtain an accounting support guaranteeing to the minority shareholder the profitability corresponding to the invested capital and the risks he has taken? Here are so many questions that must be answered by the Romanian economical environment.

Carrying on with the idea of the minority shareholder's protection, the Romanian accounting should find the best solution for evaluating the patrimonial items mirrored in the financial situations at the lowest cost from the historical cost and the fair value. At the time being, in Romania, at least on a conceptual level, a combination of the two systems has been adopted – historical cost and fair value, with an important significance for the former. Beyond the conditions of the accounting regulations, putting into practice the system based upon the fair value remains a necessity rather than an actual fact.

How did this situation come to be, actually? One possible explanation would be that, for the moment, too many hindrances

are restricting the applicability of the concept, such as:

- ✓ a profound study and theoretical reflection rather poor for the alternative methods of evaluation in accounting;
- ✓ the insufficient theoretical development of the fair value concept by not knowing in practice its succesive modelling stages;
- ✓ the scarcity of information on the market, as a result of the imperfect economical conditions;
- ✓ the opacity and lack of vision of the professional accountants who are not willing to accept the change of a familiar, easy to work with evaluation system, with another, more complex one that requires alterations and estimations difficult to achieve;
- ✓ the Romanian present accounting system's reduced ability to apply evaluation at a fair value, which requires specialised professionals – usually, the fair value is the evaluators' attribute.

Concerning the last point, only a few entities can afford hiring a professional evaluator, respectively creating a specialized department because this implies a sustained financial effort. Using outer consultants is not an option for Romanian companies either, especially during this crisis period. This is why, in our opinion, if professional accountants would have the necessary expertise, they could successfully shape the fair value, at a minimum cost for the entity for which they are providing accounting services. Additionally, ensuring the estimation's objectivity can be guaranteed through the ethical standards provided by an accredited organism to which that specific professional accountant has adhered.

5. Testing the implementation of the fair value concept within the Romanian accounting practice

To test how the fair value concept is implemented into Romanian accounting practice we started from the consideration that shaping it has a great effect on the assets held by the entity and thus our research methodology has focused on applying the concept in this direction. We proceeded to realizing a research regarding the implementation of the fair value concept within the Romanian accounting practice: that is, the way in which entities acted in reflecting in the published financial situations of the initial and subsequent value of the fixed assets according to the approach of fair value; initial recognition of trade receivables afferent to the income from the current activity, in accordance with the IAS 18 "Incomes" on fair value; subsequent recognition of the receivables and commercial debts expressed in foreign currency on updated value etc. A number of 211 groups of societies were selected within the transport field, as follows: 67 societies that work in road transport, 23 societies that work in railway transport, 27 societies from air transport, 43 societies that work in naval transport, 51 companies of merchandise transport and customs agencies. It sought to identify those entities that use in accounting practice the concept of fair value, taking into account the applicable law, the tax limitation that do not motivate the professional accountants to model two sets of financial statements – one according to the tax provisions and another taking into account the economic reality and which would result in a true accounting image.

From the set of annual financial situations published by the entities the external analyst focused his action of identifying the tools and levers through which the entities quantify the fair value of the held fixed assets. It was found that (outside the reassessment process, the responsibility of value measure, often belonging to professional assessors), the Romanian entities are not interested in quantifying the fair value of the held assets. Eloquent in this sense is also the process of recognizing the temporary value losses, since the Romanian entities have many difficulties to overcome in measuring the recoverable value. First of all, there is no data base for the modeling of the net fair value. Knowing that in measuring the fair value the entity's access on an *active market* is decisive, we tried to identify on entity levels if the held assets can be sold on an active market. If the asset can be sold on an active market, its fair value is the estimated price that could result from a normal transaction, between partners that acted knowingly, cautiously and without constraints, price that corresponds to the actual value of the flows the entity waits to obtain by selling it, except the disposal costs. When a market value cannot be measured (also as a consequence of the fact that the

given asset is rarely sold, or because of a lack of an active market), *the fair value is estimated,* based upon the best available information in order to reflect the sum that the entity could gain from selling the asset. It is the case of those productive tangible assets such as machines and equipment more difficult to sell on active markets, where it is necessary *to perform analogies with recent transactions* of the entities regarding similar assets, compliance with reasoning that will take into account variables like production capacity, working state, age, etc. Maybe this is why, in estimating the fair value minus the disposal costs the entity will comply with certain ***recognition criteria*** given both by the conditions encountered on the market and by the specialized character of the respective assets.

Covering the above, the external analyst has the difficult task of extracting from the set of published annual financial situations all the elements that could lead us to the conclusion that within the Romanian space the fair value assessment is applicable or not. From the analysis performed on the 211 groups of societies within the transport domain we obtained the following information:

✓ more than 80% of the studied entities did not even set out to treat the issue of value depreciation according to IFRS, most of the professional accountants do not know the techniques and instruments specific to modeling certain elements like the net fair value, cash flows, discount rates, etch;

✓ in the places where a dissemination of the knowledge was realized regarding the quantification of some values like: unadjusted quoted prices; information taken from the market directly or indirectly observable for the analyzed asset, different from the quoted prices destined for estimation the fair value; the Romanian professional accountants resorted, in more than 75% of the cases, to the contribution of the specialist assessors, which led to a much too simple solution, from the point of view of accountants and much too difficult to accept by the management who must cope with additional financial tasks for paying some obligations with services provided by the assessors. Especially under the conditions of the financial crisis, the Romanian entities cannot afford to allocate important financial resources for modeling some aggregates which could very well become the mission of the professional accountants within the entity;

✓ therefore, it is utterly necessary to rethink the tasks and responsibilities that fall on the shoulders of the professional accountants, so that in the near future the above mentioned concepts and aggregates can be easy to quantify in the entity by the accountants without resorting the assessors;

✓ coming back to our study, in the accounting practice of the Romanian entities, an overwhelming percentage – more than 80% from the analyzed societies did not transparently reflect in the published annual set of financial situations the way in which they measured the aggregates specific to the creative accounting such as the before mentioned cash flows, the discount rate, the use value of the held fixed assets, etc. We cannot even discuss about the steps or stages that precede the modeling of such values, and therefore we find ourselves in the impossibility of outlining conclusions and of resizing the sample of analyzed societies;

✓ out of the 211 groups of societies within the transport field, as a consequence of the data precariousness identified within the set of annually published financial situations, in the end a number of 37 societies were retained: 10 societies that work in road transport, 7 societies from railway transport, 8 societies from air transport, 6 societies from the naval transport and 6 companies of merchandise transport and customs agencies;

✓ out of the group of 37 analyzed societies only 8 (Bat Mediaș S.A., Roman S.A., SMR S.A. Balș, Aerostar S.A., S.C. Construcții Aeronautice S.A., Hercules S.A. Brăila, Baza Ateliere și Transport S.A. Arad, Farex S.A. Brăila) consequently applied the working instruments and techniques specific to the creative accounting in modeling the fair value through the means of professional accountants within the entity;

✓ for other 10 groups of societies out of the 37 analyzed, the help of specialist assessors was required – it is the case of Atlas S.A. Galați, Comautotransport S.A., Dacia Mioveni, Electroputere S.A., Construcții Feroviare Craiova S.A., CNFR Navrom S.A., Giurgiu Nav S.A., Romportmet S.A., Șantierul Naval Orșova S.A., Severnav S.A.;

✓ in the other 19 cases the reduced capacity of the current Romanian accounting system of implementing the creative accounting, the precariousness of market information, the opacity and lack of vision of the professional accountants led to the failure of implementing the IFRS provisions within the practice of the Romanian entities.

However, it cannot be considered that the Romanian societies do not apply the IFRS provision consequence of the precariousness of implementing the fair value in accordance with IFRS 13 "Assessment on fair value". From modeling the inventory value at the end of reporting period, the external analyst can claim that the Romanian societies have adopted their own practices in modeling the net fair value. For the future the option of adherence of the Romanian practitioners to the instruments and techniques specific to IFRS remains open.

6. Conclusions

Without a shadow of a doubt our action of identifying the way of implementing the IFRS provisions in the Romanian area can be subject to criticism and will run into a series of impediments, like:

✓ the strong connection of accounting to fiscality which limits the interest of the Romanian professional accountants to transpose the information from the financial situations by implementing two treatments, an accounting one and a fiscal one;

✓ although the financial situations should represent the projection in the communication scheme of concepts, regulations and specific accounting practice of the entities, in the Romanian space, these are not yet sufficiently formalized, with influences on the precariousness of information provided to the users, either internal or external (here we refer to the insufficiency of information regarding the discount rate of the cash flows from the future use of the assets held by the entities, impossible to identify from the composition of the financial situations annually published by the Romanian entities);

✓ precarious deep study and theoretical reflection of the alternative methods of assessment in accounting;

✓ precariousness of market information;

✓ opacity and lack of vision of the Romanian accountants;

✓ reduced capacity of the current Romanian accounting system of implementing the creative accounting, since the dialog state between the accounting norms and the accounting policies is still unidentified, between the freedom to choose accounting procedures and the obligation to provide the users relevant and credible information.

However, this action, in fact not very difficult to go through for the external analyst, does not have the objective of being more or less just – it is certainly subjected to limits – but to constitute an "alarm signal" for the management of those entities that, out of the desire for transparency and loyalty of information, will run into the challenge of implementing the creative accounting with all its difficulties that stem from here.

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Quantitative Analysis of the Higher Education System in Germany- Realities and Perspectives

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Abstract

Education is one of the main resources of a country. Germany is one of the countries that have put a strong emphasis on developing and improving the quality of education, and this was important in the development of its economy over time. In Germany, education is mainly the responsibility of the States (Lands) in the Federal Republic (sixteen lands). Each of them has their own laws, so that each University is different. Although the university education system in this country is characterized by a strongly decentralized system, at the same time it is one of the most competitive systems worldwide.

Key words: analyses, public finances, perspective, quality
J.E.L. classification: H52, H75, I21, I23

1. Introduction

The education system in Germany has undergone numerous changes, perhaps the most important being the 1990 unification of the Federal Republic of Germany in the 16 federal States, 11 in the West and 5 in the East. The Unification resulted in the proliferation of West German Law as applicable to all, and resulted in a massive restructuring of the education system in the East. Education system in Germany has faced new challenges due to the different philosophies such as equality of education for both sexes and especially to adapt the traditional system to the new requirements of globalization and technological development. The next major challenge for the education system in Germany was the introduction of the Bologna system. Although Germany was not one of the bigger sympathizers of the Bologna system, due to the desire of integration and globalization, bachelors and masters system was adopted in 2001. The German system of higher education is considered powerful but at the same time differentiated depending on the following factors [1]: European standards implemented by the adoption of the Bologna system of education; differences, depending on the area in which the University is situated and differences resulting from decisions taken by the Government of each land.

The education system in Germany is particularly characterized by the fact that it makes a distinction between students according to their competence. Thus, since kindergarten, children are followed closely up to admission to College. The education system in Germany is complex and the most important step is the secondary school, where students can choose their career in the future more easily. If you judge strictly after the organization of the education system [2], we can say that this system is beneficial to society. Thus, the best of the students will follow the courses of the university, the best of them will follow the doctoral studies, and students who have specific vocational, artistic talents can orient themselves in time for a career in art. Although controversial because of the differences created between students, this system proved effective so far

and has given rise to the fame and prestige of the educational system in Germany. Graduates can orient in time to technical and vocational schools, due to their skills and further supported and driven by teachers.

2. The higher education system in Germany – a historical perspective

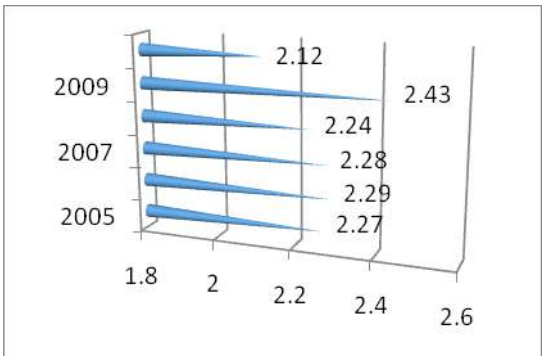
The demand for higher education simply exploded in the 1950, due to the growth of birth rates in the 1930s. This demand leads to increasing numbers of institutions of higher education throughout Germany. Then, the creation of the Council for science in 1957 promoted expansion of the German higher education system. By the early 1960s a trend of integration by the engineering and technical schools into Universities of applied science was noted. Thus, between 1970 and 1990, the number of students has doubled, and between 1980 and 2010 their number increased from 2.12 million to 1.36 million only in West Germany [3]. Overall if in the 1960, 10% of children went to College at the beginning of the 21st century, this percentage increased to 30%.

After the adoption of the Bologna system the number of foreign students in Germany has also increased. Although the representatives of universities and students in Germany have criticized this system because of the reduction of the number of semesters, it was decided to promote the idea of unification in the EU. The scope of Bologna system itself has been to reduce the duration of the school, greater flexibility for students, encourage mobility and facilitate intercultural experiences. After the adoption of the Bologna system, Germany has adopted a comprehensive policy to promote the internationalization, to and from the country. Germany is now among the countries with the strongest mobility of students. After the number of applicants each year, the foreign students in Germany are in third place in the preferences of the students after the USA and the United Kingdom. In 2011, 240,000 international students were enrolled in German institutions of higher education. Although the cost of living is quite high, many of the students from Eastern Europe choose Germany due to the prestige of universities. The admission process is long and very strict, so that many of the students are forced to choose other destinations, although the universities do not enjoy the same rating.

Universities are State controlled and they are financed by the Ministries of Education due to the Federal structure of Germany. Relations between the Ministries of the Federal States and universities are governed by various acts of Superior Education and are coordinated by the HRG (general act on education) available in all States. Moreover, there are a series of private universities, which offer a wide range of disciplines and colleges of Theology and religious sciences.

Currently there are 409 higher education institutions. Of these, more than 100 are private institutions that offer recognized diplomas, but have few students due to higher tuition fees than in state universities. Chart 1 reflects the number of students enrolled in higher education in Germany, both public and private. Demand for higher education has seen an upward trend in all of Western Europe, from 13.6% in 2000 to 16.8% in 2009. This trend was maintained also in the case of Germany.

Chart 1 Evolution of the numbers of students enrolled in German universities 2005-2010 (million participants)



Source: authors' processing based on the data supplied by Eurostat, DAAD

We observe an almost constant evolution for the number of students in every year. Exception is the year 2010 when their number dropped by 300,000. Most of the drop is due to the low number of students registered in private universities. The peak in the number of students registered in the University system in Germany was reached in 2009, when their number was more than 7% higher than the number of those enrolled in universities in 2005. These oscillating developments can be attributed to several factors, among which we can mention the

birth rate, the phenomenon of migration or the economic conditions.

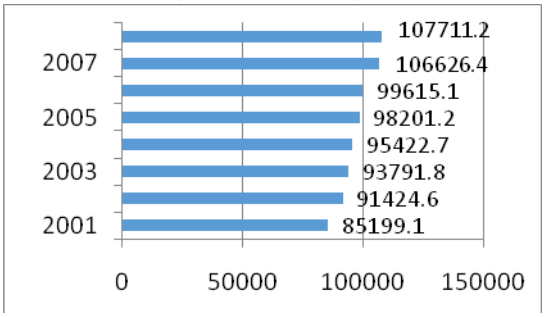
In 2010, Germany was the first place in terms of the accessibility of higher education. The raised standard of living and the relatively small fees compared to the prestige of universities make Germany one of the most accessible countries for university education. All costs for a student relative to the average level of income is 28.38% of GDP per capita. In comparison, in the U.S. these expenses represent 87.49% of the total.

The prestige of the University is also given by the large number of Nobel Laureates who have been trained in German universities, between them even Albert Einstein and also by the 140 institutions which have the right to grant doctoral titles. They offer the best conditions for young doctoral students. At this time, in Germany there are more than 80,000 PhD students. Around 25,000 doctoral studies are completed each year, the biggest number in Europe. Most of the titles of doctor are in engineering and technology [4]. Financing possibilities are quite limited, however, the students can choose between work at the College, a part-time job or scholarship. These scholarships are limited in number, being granted for a period of two or three years, the beneficiaries being required to reapply every year [5]. Until the implementation of the Bologna system, we can say that doctoral studies lacked a very high importance in Germany. Typically, those who chose to continue their studies through the doctorate were employed as assistant professor.

To settle the financial problems of the PhD students, in 2006, the Ministry of education and research of Germany has adopted the "Initiative for Excellence" with the aim of promoting higher education and research in the universities, through German Research Center. It provides annual funding of one million Euros for young researchers and doctoral students from 40 universities that have research programs. Moreover, this initiative creates so-called clusters of excellence [6] connecting Universities with German research institutions (6.5 million Euros per year). Another objective is the choice of nine Universities of excellence every year that will receive funds for future projects. From this point of view we can say that the young doctoral students and researchers in Germany have access to the best education and research programs, such as a value comparable with programs offered by Universities in the US and United Kingdom.

Germany is not one of the countries that provide impressive amounts for education as a percentage of gross domestic product. From this point of view, it hardly ranked 26th among OECD member countries, Norway first country in this top allocates 9 percent of the GDP, followed by Denmark with 7.7%. As a comparison, the US spends almost as much as the all European Union. However, Germany is ranked No. 18 in the rankings of the most educated countries (24 per cent of the population between 25 and 64 having completed higher education). The first in this top is Canada with 44%, followed by the US with 38.4% of the population having graduated from higher education. Sweden, Finland, Denmark, and Norway are also in top 10 [7].

Chart 2 Changes in total expenditure for education in Germany between 2001-2008 (millions Euros)



Source: authors' processing based on the data supplied by Eurostat

As one can see, the trend of total expenditure allocated to education in Germany is rising from one year to another. For the period under review, in 2008, an increase of more than 26% of these expenses compared to the year 2001 was recorded. This is a positive development as long as growth is maintained in the future years and does not let them influenced by the development of national and world economy.

Germany has been sharply criticized for the fact that these expenditures, as a percentage of GDP, are very low in comparison with other OECD countries, although in comparison with other EU countries, the amounts are large. An OECD report showed that between 2000 and 2005 the average of these expenses in Germany

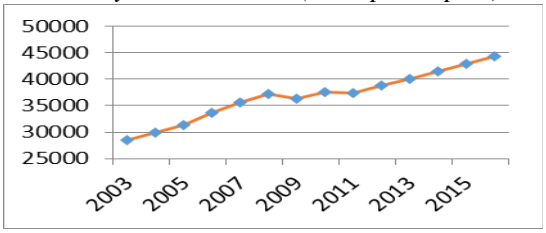
was less than 10% of GDP, while the OECD average was 13.2% [8]. The same study indicates that Germany is threatening to produce more higher education graduates than the market can absorb, especially in science and engineering. As a percentage of GDP, expenditure on education in Germany has not undergone significant changes, regardless of the economic situation from 2001 to 2008, being situated around 4-4.7%. Germany is one of the promoters of the "Europe 2020" project. Thus, sustaining increased expenditure on education, research and development in each member country of the Union, it is most likely that Germany will continue to support the increasing amounts of money necessary to finance higher education.

3. The present and future of the higher education system in Germany

Education is an important part of public spending in all Member States of the European Union. The budgetary allocation increases as an individual move from one level of education to another. Thus, the budgetary allocation for students is higher, although, overall, the bulk of public spending is targeted at secondary education system. This development strategy "Europe 2020" has led to discussions on the budget allocation per student to increase in each Member State in order to promote fairness and equal opportunities within universities in the Member States and to increase the efficiency and competitiveness of higher education institutions. This becomes more difficult to achieve in the current conditions of the euro area and uncertainty of the international economic crisis. In addition to the international economic context, the possibility of increasing the sources of funding for education depends on several factors, such as: the evolution of births, the evolution in the number of students, the level of GDP/capita, etc.

In order to be able to outline an idea as to how the budgetary allocation will be affected as a consequence of the development of GDP/inhabitant we will use the forecasts supplied by International Monetary Fund (IMF) with regard to this indicator. Based on these data, we propose to identify the way in which the budgetary allocation will evolve in the coming years.

Chart 3 growth Rate of GDP/capita in Germany in 2003-2016 (euro per capita)



Source: authors' processing based on the data supplied by the IMF

We can observe a gradual upward trend in GDP/capita. By 2016, it is projected to register an increase of 40% by comparison with the 2003 level. Starting from the premise that the University educational system depends directly on the economic developments of the country we can envisage how the budgetary allocation are expected to evolve as a percentage of GDP/capita. Starting from historical values registered during the period under review for both GDP per capita and the amount of the budget allocation we can calculate the coefficient of correlation between the two variables obtaining a value exceeding 0,92. This value indicates the strong intensity of the relationship, which will make the funds allocated by the central authorities for the funding of the University system to record the same growth trend. This strong connection can also influence the University system negatively, when the economy is going through a period of turmoil, like the one in 2009, when gross domestic product decline was defaced in the amount of funds allocated to the higher education system.

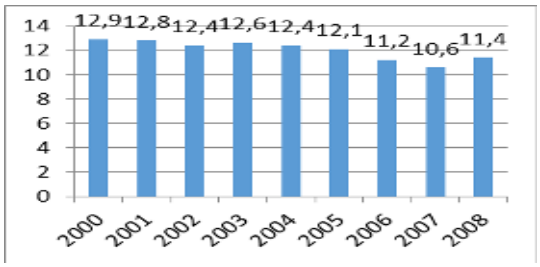
Superior education in Germany has gone through a radical change from providing higher education services selectively to only certain people, to a system of mass education rather, facilitated by the introduction of tuition fees. This change was due to the society, economic development, the increase in purchasing power, technological development, globalization, resulting in a greater appetite of young people to education. In addition, the current trends of orientation towards the knowledge-based society and innovation lead to higher demand for specialized labor force. Germany is one of the supporters of this process for the development of Europe. It is known that the economic well-being of a nation and the degree of competitiveness is determined by

the quality of education and its inhabitants. As Germany does not have outstanding natural resources, exploiting the human resources is essential for its development.

Discussion on the introduction of tuition fees in Germany was long and finally, on January 26th 2005, the Federal Constitutional Court of Germany has agreed that 7 of the 16 Lands of Germany should have the right to introduce such fees in the Universities and in the Universities of applied science. State universities that apply to tuition fees are those in the Lands of Baden-Wurttemberg, Bavaria, Hamburg, Hesse, Lower Saxony, Westphalia, Saarland [9]. Even though tuition fees charged are modest in comparison with those recorded at the international level, 500 euros per semester, internal mobility recorded a significant growth, students focusing on universities that don't request study fees.

As we said, in recent years Germany has experienced an increase in the number of unemployed persons with higher education, particularly in science and technology. Their number has increased with the onset of the crisis. There is an average number of unemployed persons with higher education somewhere between 11 and 12 percent, a fairly large percentage for a country with the level of development of Germany.

Chart 4. The evolution of unemployment with tertiary education as percent of unemployment in Germany,2000-2008 (%)



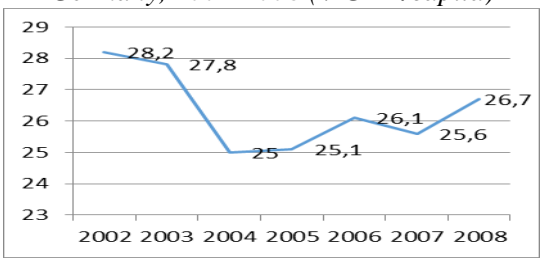
Source: authors' processing based on the data supplied by Trading Economics

The highest level of unemployed persons with higher education was recorded in 2000, with the value of 12.9%. This trend has been declining, with a historical minimum for the analyzed period by 10.6% in 2007, but this trend was not maintained, reverting to a value of over 11% in 2008.

It is curious that, even under these conditions, the labor market of Germany is open and very attractive to graduates of higher education from other countries. A solution for solving the problem of the lack of jobs for graduates is the creation of new research and development centers. Germany is one of promoters in projects of innovation, research, development and deployment of new technologies. Even if it implies many funds, investing in human capital is beneficial for increasing the competitiveness and future development of all sectors of the economy.

Another solution could be a better preparation of the students in the school. Although Germany has a very powerful teaching program which allows practical knowledge assimilation, the number of unemployed persons with higher education proves a lack of correlation between the labor market and the academic environment. At this point, the allocation of the budget for a student is quite small for a country with world-class universities. Most of the European States decided to decrease the amounts earmarked for education to students in State Universities. United Kingdom decided to reduce their budgets by 40%, increasing the fees for those students who have not "caught" a budgeted place. In contrast, France has decided to supplement these funds with 19 billion Euros in 2010, as well as Germany, which adopted a system of gradual growth of such loans by 2013.

Chart 5. Budget allocation per student in Germany, 2002-2008 (%GDP/capita)



Source: authors' processing based on the data supplied by World Bank

We notice a decrease in the budget allocation for the student during the period 2002-2005. The average expenditure per student was $ 12336 [10] in 2006, the majority of the funds coming from public funds (73%). The budgetary allowance has increased, however, since 2006 and will increase gradually until 2013. Germany has been criticized for this level of budgetary allocation for students in terms of the level of GDP per capita, the highest in the EU. France, which has a lower standard of living

in recent years, has increased the budgetary allocation for students achieving on average 30% of the GDP/capita. In order to adapt the education system in Germany at a future in which more funds are requested by education and an increasing number of foreign students and residents applying for higher education the Pact 2020 has been created. In this sense, the project provides an increase in the number of foreign students; increasing funding for higher education institutions-increase in funds from the federal budgets by 20% in order to provide greater flexibility to the universities and to facilitate the creation of institutional strategies; and it's facilitating access to higher education by offering more scholarships and more favorable lending conditions;

Another purpose of the Pact is to ensure non-discrimination between women and men and equal opportunities to all graduates. In the future, the experts estimated an increase in the demand for labor force specialized in mathematics, computer science, natural sciences. Specialists provide estimates, thus a decrease in the number of 2020 wedge of unemployed persons with higher education.

4. Conclusions

Education in Germany is a complex one, targeted towards performance from preschool to higher education. It is obvious from the beginning that talent is recognized and appreciated, and the level of education and training of the population is one of the indicators for measuring the country's competitiveness. Financing the higher education system is primarily the duty of the State, the Provinces, so that the competition between universities has always been fierce, and Germany's progress in the field of research, development and innovation is justified. It has always recognized the importance of education, the creation of specialized workforce, proof being the presence of the German universities in the most important institutions of higher education in the world.

Although there are concerns about the future of higher education, it is unlikely that Germany would not identify the reforms needed to ensure its sustainability. Education has always been one of the main resources for economic growth and further development. Higher education Pact adopted will provide the necessary funds for the modernization of the universities to provide the best conditions for study. The German economy is dependent on such qualified human resources, innovative capacity and to maintain competitive position. In this regard, the agreed reforms in 2011, in line with the strategy "Europe 2020", a percentage of 10% of GDP for education by 2015, of which 3% for research and development. The percentage for education is difficult to obtain without the impressive economic growth considering the fact that the average for the preceding year was between 4-4.5 percent. The percentage of 3% for research is viable; in 2009 this was 2.8% of GDP.

Germany has all the trumps required to create an efficient educational system. The correlation between tuition fees and the prestige of the institution is the correct one. The degree of absorption of the market after graduation and high standard of living are important arguments in Germany's ranking among the top countries with educational systems.

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Foreign Direct Investments Under the Impact of Public Sector's Corruption in the European Union's Economies

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Abstract

The present paper takes as its starting point a series of definitions associated with public sector corruption and the relationship between that and the state institutions. Later research continues with the presentation of some of the effects related to the previously phenomenon brought in question and some of the criteria used to define it. The final part of the paper is devoted to presenting Foreign Direct Investments (FDI) in several European Union economies (emerging and developed) and to the revealing of the relationship existing between these and the corruption in the economies brought into discussion.

Key words: emerging economies, FDI, corruption, relation.
J.E.L. Classification: D73, H10, H11,

1. Introduction

Any definition of corruption includes its political side expressed by the existence of an executive who, irrespective of the level it stands in terms of authority manifestation (central or local), acquires the attribute of being "for sale"[1]. This idea is circumscribed to the World Bank definition of corruption where the phenomenon is perceived as "public power exercised in exchange for a win", with the small and large valences of it but which may, ultimately, to the state capture by the private interests. In the public sector, corruption occurs as a result of the existence of state's weak institutions, both in terms of power and human infrastructure. Thus, when state institutions are weak, the rules can be ambiguous, leaders are not accountable for their actions and bribery, nepotism and other unpleasant behaviors related to corruption are emerging[2]. The presence of such corruption manifestations involves a combination of public servants, public officials, individuals, companies or industries, so we can not exclude the influence of the private sector over the corruption existent in the public sector.

2. Corruption effects and the criteria used for its classification

Later defining corruption we put ourselves the question: Can we define and it is enough, or corruption matters and if so, why? The answer is affirmative and the explanation is the one that although the analyzed phenomenon apparently does not directly make victims, its implications are producing undesirable effects widely spreading such as: inhibition or reduction of growth and investment rate; growth of the infant mortality and reducing of the literacy - through incorrect direction of the public funds; damaging how the countries formulate their economic policies; the influence exerted over the governments in relation to the spending of public money, by redefining the structure and size of government spending, etc.[5]. In summary, public corruption hinders the economic development (by distorting markets and competition), spreading cynicism among citizens, undermines the rule of law and deteriorates the government legitimacy. Like any phenomenon, corruption have not only causes but also effects (encouraging cynicism and reducing the interest in political life participation; political instability; reducing competition between politicians and parties

regarding satisfaction with the priority of voters' interests by bringing to the fore the personal interests or groups interest; decreasing of the transparency of decision making process; supporting the political activity by actions based on patronage and money etc.[6]. Paradoxically, the corruption effects are not only negative but the phenomenon can have, in some ways, also a number of positive connotations[3]. Therefore, it can be envisaged, as a general matter, a number of possible effects or consequences of corruption with respect to the time horizon, the affected area, respectively, in terms of customer-initiator relationship. Although none of the corruption's effects size is not negligible, we will focus, below, over some economic-financial particular aspects of the phenomenon systematized in Table 1.

Table 1. Corruption effects with impact over the economic growth

Effects	Comments
Significant impact on economic growth on FDI chain	Businessmen are often warned that bribery is required before opening a business and corrupt officials or officials may claim, as to which, part of the obtained revenues. The private sector interpreted therefore corruption as a kind of tax particularly harmful in nature, given the need for secrecy and the uncertainty that the one who received bribes will fulfill the promises once made[6]. Therefore, under such financial (through the advanced amount) and mentally (induced by the uncertainty) stress, the investor reduces its intention to invest. However, public officials which are favoring certain companies over others, encourage the competition distortion on the investment plan and maintain on market unprofitable firms, the negative effect associated to the same state being the one of economic growth slide down[4]. Certainly that the corruption-investment relationship may evolve and vice versa in the sense that a high level of corruption may give rise to a number of opportunities for investors seeking speculative situations in their pursuit of profit. Thus, investors favored by the state institutions will see between the corruption level and their profit directly proportional relationship, while investors discouraged by the favoritism granted to others will perceive corruption as a negative phenomenon at their business address. Therefore, to be on par in terms of the opportunities to invest, the interested one will be rather concerned about the quality of state institutions inside these economies rather the corruption level.
Misdirected "talent"	Financial incentives could attract the most talented and well educated to engage themselves in seeking of supplementary incomes, rather than productive work, which negatively influences the growth rate of a country[5]. However, the frustration that arises from the fact that the most attractive workplaces are occupied, mostly by people who are not the best but enjoy substantial support, has the effect of intelligence migration.
Diminishing aid flows	Through funds diversion, aid received by the less economically advantageous economies can get to finance, ultimately, unproductive and unnecessary expenditure of the government[9]. As a result, many donor agencies

Effects	Comments
	of such funds focused on issues of good governance in the recipient economies and, in cases where it has proved of poor quality, withdrew their financial support.
Loss of tax revenue	Takes the form of tax evasion or under the form of inappropriate tax exemptions.
Adverse budgetary consequences	By lowering the tax collection level or rising the public expenses level. In the first case there is a mobilization to the budget of some amounts lower than those projected as being necessary to finance the public spending. As such, money are tight, public services and economic activities can not be adequately insured according to the initial planning, the "final beneficiary" of this situation being, in fact, the economy in its entirety. The second case can lead to a "chronic" of the deficit state or to achieve or, worse, to overcome the excessive budgetary deficit, fact which entails after it a series of economic and financial restrictions.
Poor quality for the public services infrastructure	In this direction, the corruption translates as: maintaining in public administration of incompetent people who can make a negative impact on the proper course of things either in ignorance or in bad faith; dysfunctional state institutions; the existence of a corrupt system for the allocation of the public procurement contracts; etc.
Possible distortion of the public sector spending structure	Corruption can tempt government officials to choose the structure of budgetary expenditures (defense, public order, national security, general public services, housing, environment and water and so on to the detriment of the social-cultural expenses, for example), less according to public welfare and more in relation to possible illicit gains associated with some of them (bribe). In this respect, are preferably large projects, whose value is difficult to monitor because they present opportunities for corruption exercising (it is more attractive and more advantageous to take as bribe considerable amounts associated with large infrastructure projects, of high-tech or for defense systems than bribe for small projects to which the monitoring of the public money spending is much easier – the one whose purpose is the development of publications, teacher training and so on).

Further on we will follow the evolution of Foreign Direct Investments under the impact of different levels of corruption, for 2007-2011 period of time.

3. Foreign Direct Investments under the impact of corruption

The starting point is identified by the Foreign Direct Investments identified with the net inflows of money made for holding at least 10% of the voting shares of a company which is conducting business in an economy, other than the one of the investor. Generally putting the problem, the level of the foreign direct investment (FDI), shown in Table 2, is much higher in developed countries in the European Union, compared with emerging economies inside the same area due to economic and political stability of those areas, and due to the existence of an

appropriate legal framework and of effective state institutions whose voice is heard clearly.

Table 2. The Foreign Direct Investments level for the emerging economies inside the European Union (% of GDP)

EMERGING ECONOMIES						
Country	**2007**	**2008**	**2009**	**2010**	**2011**	**Avg.**
Bulgaria	29.4	19.0	7.0	4.9	3.5	12.7
Hungary	2.9	4.1	1.2	1.4	3.0	2.5
Latvia	8.1	3.8	0.4	1.6	5.5	3.8
Lithuania	5.1	4.1	0.2	2.1	2.8	2.8
Poland	5.5	2.8	3.2	1.9	2.8	3.2
Romania	5.8	6.8	2.9	1.8	1.4	3.7
Emerging economies average (avg.)						**4.83**
DEVELLOPED ECONOMIES						
Country	**2007**	**2008**	**2009**	**2010**	**2011**	**Avg.**
Austria	8.3	1.7	2.4	1.0	3.4	3.3
Belgium	20.3	38.3	7.3	5.7	18.0	17.9
Czech R.	5.8	2.9	1.5	3.4	2.5	3.2
Cyiprus	10.2	5.6	14.8	3.3	1.1	7.0
Denmark	3.8	0.5	1.3	-2.4	4.4	1.5
Estonia	12.4	7.2	9.6	8.1	0.8	7.6
Finland	5.1	-0.4	0.1	2.9	0.0	1.5
France	3.7	2.3	1.3	1.3	1.5	2.0
Germany	2.4	0.1	1.1	1.4	1.1	1.2
Greece	0.7	1.3	0.8	0.1	0.6	0.7
Ireland	9.5	-6.2	11.6	12.7	6.0	6.7
Italy	1.9	-0.5	1.0	0.4	1.5	1.2
Luxem.	372.5	381.4	391.2	386.0	558.1	379.4
Malta	13.5	9.8	1.9	12.9	7.1	10.8
Netherlan	15.3	0.5	4.5	-1.7	1.9	4.1
Portugal	1.3	1.9	1.2	0.6	4.3	1.8
Slovakia	4.8	5.0	0.0	0.6	2.2	2.5
Slovenia	3.8	3.6	-1.3	0.8	2.2	1.8
Spain	4.5	4.8	0.6	1.8	1.8	2.7
Sweden	5.9	7.6	2.4	-0.3	2.3	3.5
GB	6.6	3.4	3.5	2.2	2.2	3.5
Develloped economies average (avg.)						**21.7**

Source: own processing using the data from source [11]

Regarding the two factors (corruption and FDI), the dependency relationship between them, established in the literature with economic modeling is, in most of the cases, an opposite one but there are opinions according to that, the impact of corruption on Foreign Direct Investments can not be certainly surprised[7]. In other words, according to the first theory (which is corresponding to the link between the two approaches terms through the cost associated with an investment in a corrupt environment), the more corruption is higher, the more the value of foreign direct investment value size is reduced, the explanation of this fact being the one that for the investors, the investment cost in the economies governed of corruption are increasing by the value of the latter one (represented by bribery). As a result, the investor interest decrease and, in the same manner, evolve the Foreign Direct Investments flows in the countries with a high levels of corruption[10].

Another aspect of the relationship between corruption and Foreign Direct Investments is the approach of it in terms of state's institutions quality[8]. Thus, in the opinion of some authors (2), the more that institution are stronger, the more the Foreign Direct Investments level is higher. Related to the two theories looking the type of the bond existing between corruption and Foreign Direct Investments, for the analysis of the link between the two mentioned variables we present the data from Table 3.

Table 3. The level of corruption according to the Corruption Perception Index (CPI) for the economies inside the European Union

EMERGING ECONOMIES						
Country	**2007**	**2008**	**2009**	**2010**	**2011**	**Avg.**
Bulgaria	4.1	3.6	3.8	3.6	3.3	3.7
Hungary	5.3	5.1	5.1	4.7	4.6	4.9
Latvia	4.8	5.0	4.5	4.3	4.2	4.5
Lithuania	4.8	4.6	4.9	5.0	4.8	4.8
Poland	4.2	4.6	5.0	5.3	5.5	4.9
Romania	3.7	3.8	3.8	3.7	3.6	3.7

Emerging economies average (avg.)						**4.41**
DEVELLOPED ECONOMIES						
Country	**2007**	**2008**	**2009**	**2010**	**2011**	**Avg.**
Austria	8.1	8.1	7.9	7.9	7.8	7.9
Belgium	7.1	7.3	7.1	7.1	7.5	7.2
Czech R.	5.2	5.2	4.9	4.6	4.4	4.8
Cyiprus	5.3	6.4	6.6	6.3	6.3	6.2
Denmark	9.4	9.3	9.3	9.3	9.4	9.3
Estonia	6.5	6.6	6.6	6.5	6.4	6.5
Finland	9.4	9.0	8.9	9.2	9.4	9.2
France	7.3	6.9	6.9	6.8	7.0	6.9
Germany	7.8	7.9	8.0	7.9	8.0	7.9
Greece	4.6	4.7	3.8	3.5	3.4	4.0
Ireland	7.5	7.7	8.0	8.0	7.5	7.7
Italy	5.2	4.8	4.3	3.9	3.9	4.4
Luxembour	8.4	8.3	8.2	8.5	8.5	8.3
Malta	5.8	5.8	5.2	5.6	5.6	5.6
Netherland	9.0	8.9	8.9	8.8	8.9	8.9
Portugal	6.5	6.1	5.8	6.0	6.1	6.1
Slovakia	4.9	5.0	4.5	4.3	4.0	4.5
Slovenia	6.6	6.7	6.6	6.4	5.9	6.4
Spain	6.7	6.5	6.1	6.1	6.2	6.3
Sweden	9.3	9.3	9.2	9.2	9.3	9.2
GB	8.4	7.7	7.7	7.6	7.8	7.8
Develloped economies average (avg.)						**6.91**
"0" associated with this indicator shows a highly corrupted economy, and the value "10" indicates a highly pure economy in terms of corruption.						

Source: own processing using the data from source [12]

4. Conclusions

After analyzing the data from Tables 2 and 3 we can say that, in terms of value, for the economies of the European Union, between corruption and Foreign Direct Investments is difficult to detect a link which move in a certain sense, in all discussed cases. Supports this statement the following situation: for the example analyzed, the lowest average level of corruption is registering, for the developed economies group, in the case of Denmark (9.3) but, nevertheless, the highest average level of Foreign Direct Investments is associated to Luxembourg whose level of corruption (8.3) is higher than that of Denmark. The emerging economies presents, that feature, a fluctuating behavior of Foreign Direct Investments in relation to corruption in the public sector. Thus, the lowest CPI score (denoting the highest level of corruption) is associated with Bulgaria and Romania (3.7).

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Effects of Corruption in the Public Sector of Emerging Economies - Behavior of Public Officials, Public Funds Misappropriation and Government Effectiveness in the Fight Against Corruption

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Abstract

The introduction into the problems raised by the present paper is done by sizing the framework in which the corruption phenomenon makes its presence, in the state's public sector of the emerging economies. Related to the definition of the phenomenon itself, that is connected to the abuse of public power and its causes and effects are as numerous, as difficult to quantify. Therefore, we propose in this paper an analysis of some of the effects of corruption through the conduct of public officials (with focus on their granting of favors for different groups and interests), the diversion of public funds to companies or individuals and, not least, the revealing of the confidence manifested by public opinion looking the government efficiency in fighting corruption. The area of study was the European Union area with systematization in emerging and, respectively, developed economies.

Key words: economy, effects, public funds, corruption.
J.E.L. Classification: H10, H11

1. Introduction

Generating essential public services for the members of society, the public sector is governed by a particular form of monopoly, resulting from lack of competition in terms of state institutions providing such services[2]. Putting also for the public sector the problem of efficiency, we can say that we can not talk about efficiency in this sector due to a series of factors, one of them being the corruption phenomenon[1]. So, as consequence, the lack of corruption means a good governance which should ensure an environment characterized by the existence of certain public policies and public institutions that act efficiently in all sectors of the economic life. Whatever is the type of economy that characterizes a country (developing, emerging or developed), that suffers in a greater or less measure, the state intervention reflected in the objectives that the government aims to achieve[4]. Typically, public sector corruption may occur when some taxpayers, which can roughly be seen as sources of revenues through taxes they pay, are provided with poor public services, when some of them are served preferential for a bonus, or when they are asked by officials or public officials to pay bribe.

2. Behavior of public officials due to corruption in the public sector of the economies inside the European Union

First of the effects generated by corruption's existence in the public sector and one of the subject of this study are the favors that some public officials are granted to companies in exchange for illicit gains[3]. To capture the current situation in the emerging and developed economies of the European Union about this item we use the data collated in Table 1.

Table 1. Existence of favors granted to companies by public officials amid corruption in the public sector of the European Union economies

EMERGING ECONOMIES					
Country	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**Avg.**

Bulgaria	2.4	2.5	2.6	2.5	2.50
Hungary	2.4	2.4	2.6	2.8	2.55
Latvia	2.9	2.7	2.6	2.9	2.77
Lithuania	2.9	3.0	3.3	3.2	2.85
Poland	2.5	3.1	3.4	3.3	3.07
Romania	2.4	2.3	2.4	2.5	2.40
Emerging economies average (avg.)					**2.69**
DEVELLOPED ECONOMIES					
Country	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**Avg.**
Austria	4.7	4.3	4.0	3.9	4.22
Belgium	4.2	4.0	3.9	4.1	4.05
Czech R.	2.5	2.6	2.6	2.4	2.52
Cyiprus	4.0	3.9	3.6	3.5	3.75
Denmark	6.0	5.7	5.4	5.4	5.62
Estonia	3.5	3.6	3.8	4.0	3.72
Finland	5.9	5.4	5.0	5.0	5.32
France	4.4	4.0	3.8	3.7	3.97
Germany	5.2	5.0	4.6	4.3	4.77
Greece	3.1	2.7	2.6	2.6	2.75
Ireland	4.4	4.0	3.6	4.0	4.00
Italy	2.8	2.6	2.5	2.4	2.57
Luxem.	5.1	5.1	4.8	4.5	4.87
Malta	3.6	3.5	3.5	3.2	3.45
Netherlan	5.7	5.4	5.2	5.1	5.35
Portugal	3.9	3.6	3.1	2.9	3.37
Slovakia	2.3	2.1	1.9	2.1	2.10
Slovenia	3.2	3.2	3.0	2.7	3.02
Spain	3.5	3.5	3.2	3.2	3.35
Sweden	5.8	5.8	6.0	5.8	5.85
GB	4.3	4.1	4.2	4.3	4.22
Develloped economies average (avg.)					**3.94**
The indicator shows the extent to which public officials grant favors to patronage public companies or to individuals in the public auctions process {the values between [1, 3.3] shows a typically bias of the previous entities while values in the range (3.3, 7] shows a neutral public officials related to this issue}.					

Source: own processing using the data from source [16]

The interpretation of the Table 1 data creates the premises to formulate the following conclusions: for the European Union economies, a low levels of corruption contributes to the existence of a neutral position of public officials when it comes to granting favors to companies or individuals in relation to the award of contracts; the emerging economies, unfortunately characterized by a high level of corruption, has as peculiarity of the public sector, an unethical behavior of public officials who, frequently, grant such favors, their consequence being [14], often, the maintaining on market of unprofitable companies, that consume more than they produce, the increasing on illegally ways of their profits, by providing a monopolistic position in some situations, the population impoverishment who must bear the cost of services provided by some of these companies, all with a negative impact on economic growth and, hence, on the life quality [5]. The medium value associated to the indicator is for emerging economies of 2.69, respectively, of 3.94 for the developed one (the higher the index value is less, the involvement of public officials in such actions is greater). For Romania's case, the average index is 2.40 which indicate a strong involvement of public officials in such activities.

3. Embezzlement of public funds to companies, individuals or interest groups due to corruption in the public sector of the European Union economy

Another manifestation of corruption is the misuse of public funds for the purposes of channeling public money to various beneficiaries who are not destined (companies, interest groups or individuals) [6]. Also in this case, between the two sizes raised there (corruption and diversion of public funds) exist a reciprocal relationship: the more misapplication of such funds is intense and should be "rewarded", with both the corruption is proving to be more and the more corrupt administration is, with more the possibility of such state of affairs is more likely[8]. To capture how corruption creates such a state we propose a systematic analysis of Table 2 data.

Table 2. Embezzlement of public funds due to corruption in the public sector of the European Union economy

EMERGING ECONOMIES				
Country	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Bulgaria	2.5 - HI	2.6 - HI	2.7 – HI	2.9-HI
Hungary	3.3 - HI	3.0 - HI	2.7 – HI	2.6-HI
Latvia	3.5 - HI	3.4 - HI	3.1 – HI	3.3-HI
Lithuania	3.5 - HI	3.4 - HI	2.3 - HI	3.0-HI
Poland	3.4 - HI	4.0 - LI	4.2 - LI	4.1-LI
Romania	3.3 - HI	3.3 - HI	3.1 - HI	2.8-HI
DEVELLOPED ECONOMIES				
Country	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Austria	5.7 - LI	5.6 - LI	5.7 – LI	5.3-LI
Belgium	5.2 - LI	5.1 - LI	5.1 – LI	5.2-LI
Czech R.	3.0 - HI	3.0 - HI	2.7 – HI	2.3-HI
Cyiprus	5.1 - LI	5.1 - LI	5.0 – LI	4.7-LI
Denmark	6.5 - LI	6.6 - LI	6.4 – LI	6.5-LI
Estonia	4.4 - LI	4.4 - LI	4.6 – LI	4.8-LI
Finland	6.5 - LI	6.4 - LI	6.3 – LI	6.2-LI
France	4.9 - LI	4.9 - LI	5.2 – LI	5.1-LI
Germany	5.7 - LI	5.7 - LI	5.7 – LI	5.6-LI
Greece	3.5 - HI	3.1 - HI	2.9 – HI	2.7-HI
Ireland	5.7 - LI	5.7 - LI	5.3 – LI	5.4-LI
Italy	3.4 - HI	3.1 - HI	3.1 - HI	3.2-HI
Luxem.	6.0 - LI	6.1 - LI	6.1 - LI	6.1-LI
Malta	4.9 - LI	4.6 - LI	4.5 - LI	4.2-LI
Netherlan	6.0 - LI	5.9 - LI	5.9 - LI	6.0-LI
Portugal	4.7 - LI	4.5 - LI	4.1 - LI	3.9-LI
Slovakia	3.3 - HI	3.0 - HI	2.5 - HI	2.5-HI
Slovenia	4.3 - LI	4.3 - LI	3.9 - LI	3.4-HI
Spain	4.7 - LI	4.6 - LI	4.0 - LI	3.9-LI
Sweden	6.5 - LI	6.5 - LI	6.5 - LI	6.4-LI
GB	5.5 - LI	5.6 - LI	5.8 - LI	5.7-LI

In general, the value "1" associated with this indicator shows a normal presence of the phenomenon and the value "7" indicates total lack thereof. The significance of the value range associated to the indicators was as follows: for 2008-2010, a high diversion of public funds due to corruption is given by the indicator belonging to the interval (1, 3.8] and the poor existence of the analyzed phenomenon positions the values, of these indices in the [3.8, 7] range; in 2010-2011, a high degree of public funds diversion amid corruption is given by the index membership to the interval (1, 3.7] and the poor existence of the analyzed phenomenon is positioning this indicator value in the [3.7, 7] range; the 2011-2012 range of time shows a high degree of public funds diversion due to corruption through the membership of the indicator in (1, 3.6] range and the poor living positions of the analyzed phenomenon is positioning numerically this indicator values in the [3.6, 7] range.

Source: own processing using the data from source [16]; Legend: HI - high intensity of occurrence of the phenomenon of misappropriation of public funds, LI - low intensity of occurrence of the phenomenon of misappropriation of public funds.

For the part of conclusions affected to this indicator related to the corruption level, the interpretation of the Table 2 data leads us to consider the existence of reduced diversion of public funds to private interests for the vast majority of European Union developed economies (the average value associated to this indicator being, in this case, 4.87). Unlike this situation, the emerging economies from the same studied area shows, as feature, a public sector governed by a high degree of misappropriation of public funds resulted in a high frequency of occurrence of the phenomenon (the average value associated to the indicator being 3.20). Romania ranks an unwanted third place, after Bulgaria and Hungary, with an associated value of 3.12 for the described indicator.

4. Assessment by public opinion of the government actions in fighting corruption inside the European Union Economies

In our presentation things can not be stopped here because tackling corruption would not be complete only by presentation of the phenomenon itself, causes that induce and the effects it produces, without bringing into question the efforts that governments, as part of the public sector of the economy, do

to keep under control and combating the corruption phenomenon[7][13]. Thus, in influencing economic activity, the most powerful tool that state benefit is the ability to exercise coercive power and regulation, whose final product is the public policy-making in different areas (limiting wage growth, consumer protection by advertising and product quality control, set tings limits on contaminants issues, directly involved in producing goods and services of strategically or military economic interest, or producing public goods to be used even by those who do not pay for it and which may not be provided in sufficient quantity by private initiative - national defense, education, health etc.). If these decisions are taken in relation to a thorough search of economic reality and for public good purpose, they will prove their effectiveness and efficiency, state's role being realized. Often this does not happen, the public decision-making process becoming a prerogative of determined individuals who do not use rational criteria for the priorities. So, the public needs ranks secondly. Therefore, the expected response of the economy and the social environment or fail to appear, or is found in complete contradiction with the expected one, the lack of effectiveness and efficiency of governance making their presence felt[9].

To avoid such an undesirable state of affairs, it is imposed an analysis and an appreciation of how the state is involved in the economy, in other words, must be determined a measure of state's effectiveness[10][11][15]. All over the world, governments are accused of lack of efficiency, in conditions that politicians decide, or should decide according to the common good, fact which, unfortunately, does not happen in reality.

Politician's interest overlap with those of the majority population in a greater extent in a country characterized by a high level of democracy, but expresses their strong divergent character in emerging, frontier or developing economies[12]. Without alludes to corrupt officials who use power for personal enrichment, everywhere in the real world, these representatives of state adopt decisions according to their own interests or to those of similar groups, promoting and maintaining corruption, through this type of behavior.

To avoid or reduce the incidence of this latter phenomenon on the economy and, therefore, on meeting the public interest, governments have taken a number of measures of keeping under control, respectively curb corruption[14]. The evaluation of their effectiveness by citizens is subject to Table 3.

From Table 3 data we can say that, generally speaking, the public opinion in the European Union is skeptical when it comes to assessing the effectiveness of the governments from the respective countries in their fight against corruption. If for the developed countries of the Union, public distrust in government action on combating and limiting corruption stands, as GCB 2010-2011, around 42.4% of the total number of respondents, emerging economies from the same area are recording, as feature, a public sector burdened by people's mistrust in the efficiency of the government's anti-corruption actions, associated with a value for this indicator over the one of the European Union economies (61.33% of the total number of respondents according to Global Corruption Barometer (GCB) 2010-2011.

Table 3. Assessment by public opinion of the governments actions in fighting corruption inside the European Union Economies

EMERGING ECONOMIES												
Country	**GCB 2007 (%)**			**GCB 2008 (%)**			**GCB 2009 (%)**			**GCB 2010 (%)**		
	E	**F**	**IF**	**E**	**F**	**IF**	**E**	**F**	**IF**	**E**	**F**	**IF**
Bg	14	15	72	8	13	32	10	14	76	48	26	26
Hu	ld	ld	ld	29	16	9	7	23	70	42	7	51
Lat	ld	ld	ld	ld	ld	ld	ld	ld	ld	12	15	73
Lit	9	14	77	3	12	39	3	13	84	6	16	78
Pol	22	30	48	34	28	13	21	36	43	16	28	57
Ro	26	19	55	13	10	77	20	11	69	7	10	83
DEVELLOPED ECONOMIES												
Country	**GCB 2007 (%)**			**GCB 2008 (%)**			**GCB 2009 (%)**			**GCB 2010 (%)**		
	E	**F**	**IF**	**E**	**F**	**IF**	**E**	**F**	**IF**	**E**	**F**	**IF**
Au	30	24	46	ld	ld	ld	32	11	57	28	37	35
Cz	14	22	64	ld	ld	ld	9	27	64	12	29	60
De	34	42	25	ld	ld	ld	49	29	22	56	0	44

Fin	31	26	42	ld	ld	ld	50	0	50	35	0	65
Fr	37	25	38	ld	ld	ld	ld	ld	ld	27	5	68
Ge	20	3	77	ld	ld	ld	ld	ld	ld	21	3	76
Gr	26	15	59	ld	ld	ld	12	12	76	24	10	66
Ire	46	3	52	ld	ld	ld	ld	ld	ld	18	0	82
It	21	8	70	ld	ld	ld	ld	ld	ld	19	17	64
Lu	26	37	37	ld	ld	ld	48	34	18	68	2	30
Net	39	11	51	ld	ld	ld	60	6	34	57	0	43
Por	23	13	64	ld	ld	ld	16	10	73	10	16	75
Sp	42	6	51	ld	ld	ld	29	27	44	26	0	74
Sw	24	33	44	ld	ld	ld	ld	ld	ld	ld	ld	ld
GB	34	2	64	ld	ld	ld	31	30	39	34	0	66

Source: own processing using the data from source [17]; Legend: I-inefficient, F-very efficient, E-efficient: ld-no data about the subject matter related to the country.

Also in terms of the indicator analyzed in Table 3, Romania is on top looking the public distrust in government fighting effectiveness (as authority of the public sector) against corruption, being followed by Lithuania, Latvia, Poland, Hungary and Bulgaria.

5. Conclusions

As was expected but not desirable, the situation of the emerging economies relative to the developed one from the European Union area is characterized by a low level of corruption (for developed economies case) fact which is denoting a neutral position of public officials when it comes to granting favors to companies or individuals in relation to the award of contracts. At the opposite pole, the emerging economies unfortunately are characterized by a high level of corruption, has as feature of the public sector an unethical behavior of public officials who, frequently, grant such favors, their consequence being, most of the times, the maintaining on market of unprofitable companies that consume more than they produce.

Also regarding the public funds misappropriation, the emerging economies leads detached being characterized by the existence of a public sector where there is a high frequency of occurrence of the phenomenon (mean value of the associated indicator being 3.20). As for the efficiency of government actions fighting corruption, for the developed economies of the European Union the public distrust in government action to combat and limit corruption lies, according to GCB 2010-2011 around the value 42.4% of the total respondents while, the emerging economies from the same area are recording, as feature, a public sector burdened by the distrust of people on the efficiency of the government's anti-corruption actions much higher, associated with this index value of 61.33% by the total number of respondents, according to GCB 2010-2011 (last report made public).

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Accounting Policies Influence Upon the Position and Financial Performance in an Enterprise

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Abstract

General image of a company and good conduct of its business depends on the accounting policies implemented. Also, the accounting policies have influence also on the results presented in financial statements, useful to develop various economic and financial relations. We have analyzed the influence of accounting policies that are most often used just to try to find answers / solutions to questions such as "when it chooses their accounting policies, which are the most important factors that the company should take into account?", "how can the company obtain a favorable situation: by applying the temporary accounting treatment or by applying the permanent accounting treatment "?.

Key words: accounting policies, financial position, financial performance, accounting treatment.
J.E.L. classification: M40, M49.

1. Introduction

The accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting the financial statements. [1] Although accounting policies enjoy a broad approach in the explanatory notes, the major effect of accounting policies is reflected in the balance sheet and profit and loss account and thus in determining indicators which are established based on the financial statements.

As mentioned, the effective implementation of the accounting policies is the purpose of drawing up the balance sheet and profit and loss account, from which we can estimate the position and financial performance of the company. By analyzing the two concepts, the manager can form an opinion about the situation of the company, how resources are used, which financing needs the company has, and if it has it how can it obtain it, as well as its ability to honor its financial commitments reached to maturity.

2. Accounting policies

When it comes to accounting policies it appears a series of questions such as "what are the optimal accounting policies to be applied in a given situation", "if it appears that we have chosen accounting policies that are most appropriate, can we change them from one year to another? ". The answer to these questions is found in the provisions of rule IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors ". Thus, synthesizing the considerations for selecting and applying the accounting policies, we emphasize the following [2]:

- existence of a standard or an interpretation specifically applicable to a transaction, event or condition will result in the application of that regulation;
- absence of a Standard or an Interpretation specifically applied to a transaction, event or condition, will require the use of professional judgment

in developing and applying the accounting policies aiming relevant and reliable information, it will be considered the following sources in descending order:
  - requirements and guidance for standards and implementations involving similar and related issues;
  - definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements;
- selecting and applying accounting policies will be done consistently for similar transactions, events and conditions, it is permissible the change of an accounting policy only if it is required by a Standard or an Interpretation or if providing reliable and more relevant information of transactions, events or conditions in the financial statements;
- if the effect of applying an accounting policy is not significant, that policy should not be applied.

However, there are situations where there is flexibility in the application of one or another accounting treatment, whose influence on financial statements varies depending on the circumstances. In this case we can talk about the accounting policies for the valuation of assets (at cost or revalued amount), policies on the treatment of interest expense, investment subsidies policies, development costs, stock assessment methods. Thus, a crucial factor in presenting the financial position and performance is the choice of accounting treatment to be applied by the enterprise.

The influences of the most used accounting treatments on the financial position and performance of the eneterprise and, on the economic-financial indicators determined based on the financial situations are presented ahead [3].

Reevaluation of assets:	• has influence on the financial position • has influence also on the financial performance
Capitalizing the interest expenses	• has influence on the financial position • has influence also on the financial performance
Recognition of the subsidies at advance income	• has influence on the financial position • has no influence on the financial performance
Capitalisation of development costs	• has influence on the financial position • has influence also on the financial performance
Evaluation methods of stocks	• has influence on the financial position • has influence also on the financial performance

Figure 1: Influence of accounting treatments on the financial position and performance

Revaluation of assets involves recognizing of assets at fair value and recording the difference from the revaluation in equity. Thereby there are affected the balance sheet items (total assets and total equity) with major influence in decisions made by users of financial statements.

Capitalization of interest costs [4] is their recognition in the acquisition or production cost of the asset. Thus is increased the value of the assets and the result presented is greater than when entering the interest costs in the income statement. To capitalize interest costs it must meet certain criteria for recognition. Capitalization of these costs improves the coverage degree of interest

expense in profit, which is part of the record indicator for assessing the activity of companies that are considered for medium and long term financing.

Accounting treatment for investment subsidies [5] received by the company includes: a) their recognition as deferred income and they will be resumed on current income (depreciation subsidy) each year for the use of that asset, being affected elements such as assets, deferred income, current income or b) their recognition by reducing the accounting value of the asset, case in which it is affected the asset value, the result being the same. Between the two accounting treatments for investment grants recognition, the one which involves reducing the asset value provides a more favorable image of the company.

Capitalization of those development costs that meet the criteria for recognition as an asset will have as a consequence the increase of the total value of the assets without diminishing the result. Regardless of the option chosen, capitalization or registration in the profit and loss account of these expenses, each year result differs significantly from one treatment to another, although the cumulative result for five years (life useful duration) is the same.

Stock assessment methods have a significant influence on both the balance sheet that presents the final result of the exercise value of the stock and the profit and loss account which gives information about the value of the inventory costs consumed or sold.

Accounting treatments	**Solvency**	**Indebtedness**	**Coverage of the interests from profit**
	Equity/Total assets	**Total debts/Equity**	**Profit before interest and tax expenses/ Interest expenses**
Reealuaion of assets	↗	↘	—
Capitalizing the interest expenses	↗	↘	↗
Recognition of subsidies by reducing the accounting value of the asset	↗	↘	—
Recognition of the subsidies at advance income	↘	↗	—
Capitalizing the development expenses	↗	↘	—

Figure 2: Influence of the accounting treatment of economic-financial indicators

In case of revaluation of assets [6] , in the first year is achieved a significantly improved value of economic-financial indicators. In subsequent years, however, that increase in value recognized in the balance sheet will be found in the form of depreciation, in proportion to the number of remaining years from the useful life of that asset so that the entire increase will be transferred to the profit and loss account as an expense. And yet, after the end of the useful life of the asset, in the equity structure is found further the increase asset value, which leads us to say that such an accounting treatment provides a permanent favorable image.

Regarding the capitalization costs

(interest expense and development costs), in subsequent years, the value of the capitalized expenses will lead to increased depreciation of that asset, at the end of the useful life of the asset, the influence on the balance sheet and on the profit and loss account being null.

Whether the grant is recognized in advance income or decreases the accounting value of the asset, its influence on the result is the same. In this case, at the end of the useful life of the asset, the influence on the balance sheet and profit and loss account is null.

If in the statements of capitalization of costs and the recognition of the grant, it is obtained a temporary positive image by the end of the useful life of the asset, in the case of the revaluation of assets the obtained image is a permanent one (unless there are significant changes in the market value the asset). Invariably, certain accounting treatments give a much more favorable image to the company than others.

Given these accounting treatments influence on the financial position and performance, the company must use the flexibility allowed to get a true picture of the activity and must not follow the selection of policies that lead to the most favorable image.

3. Conclusions

In selecting the accounting treatments, the companies must not consider the strategy and objectives of short-and long-term financing (obtaining a bank loan, a mortgage bond issue), but to better

reflect its image.

Proceeding in this manner, the interpretation of financial statements and how to determine the economic and financial indicators leave no room for other interpretations. A higher degree of profit interest coverage, in the case of their capitalization, should not be questioned as long as they met all the criteria for recognition of these costs in the cost of the asset and hence, they will generate future economic benefits for the company. Also, in the case of the revaluation, a lower level of indebtedness will reflect the actual economic and financial situation of the company, as revaluations have a real basis, the revalued value being the fair market value, that is the amount for which an asset can be exchanged or a liability settled voluntarily between parties knowingly, within a transaction where the price is determined objectively.

Even if the influence is higher or lower on the financial position and performance, the accounting policies must be selected and applied so as to result in financial statements reflecting the true image of the company.

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Evolution of Taxation in the period 2004-2012. Impact on the Romanian Economy

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Abstract

In this paper we propose to realize an analysis of the Romanian economy in the period 2004-2012, analysis in which we follow the main macroeconomic indicators and their impact on the economic "health" in this period, highlighting two significant moments that have produced dramatic effects, respectively 2005, when introducing flat tax of 16%, and 2010, when budgetary wages were reduced with 25% and VAT increased from 19% to 24%. More specifically, our goal is to highlight the impact of these events on population, its way of saving, credit, inflation, namely to determine if these fiscal measures had the expected effects on the economy.

Key words: flat tax, vat, macroeconomic indicators, population.
J.E.L. classification: E21, E24, H12, H31

1. Introduction

Real wages in the economy, gross and net, had an oscillatory dynamics in the analysed period. If the interval 2004-2008 (third quarter) is characterized by a period of economic growth, following years correspond to substantial reductions of macroeconomic indicators.

The 2005 tax reform affected directly and immediately the net wage, tax reduction from 25% to 16% leading to stimulation and giving economic agents the opportunity to hire labour with attractive salaries. The reform also aimed to relaxing the tax burden on all employees and compliance of fiscal equity regarding the taxation of labour so that persons with high income should not have additional taxes than those with lower income.

Increase of real wages (gross or net wages) occured when in Romanian economy happened both structural and behavioural changes.

Regarding the structural changes in the economy, we refer to modifying exchange rate regime of RON, massive capital inflows in recent years and labour migration (this being reflected in the dynamics of deposits of population- their trend is increasing in the analysed period).

As changes in economic behaviour, we shoud mention the developments that have reduced the size of the underground economy, respectively the incentives for declaring the real level of wages and number of employees. Other potential factors in this respect are restrictive monetary conditions and positive shocks of supply, the latter being an important determinant of the evolution of inflation.

2. Flat tax and its impact on the economy

Introduction of the flat tax of 16% determined indeed an increase in the net wage per economy, and had in general a beneficial effect on all macroeconomic indicators, but these positive aspects were produced only on short term, on medium and long term that had not the expected effect.

Flat tax stimulated both importers and bankers and led to a boom of credits in 2005. Basically Romanian economy developed by credits and imports, but in reality this development should have been determined by production. In 2005 industrial production increased by only 2%, the number of employees in economy increased by 2%

compared to 2004 and foreign investments in Romania increased as well [1].

Preciselly, the growth during 2005-2008 was not real, sustainable, because it was determined in principle by domestic demand (due to increase of net wages), which was caused by:

- fiscal relaxation, namely the introduction of flat tax of 16%, which led to increase of income of population in short time;
- greeting loans in an easy way (loans to households recorded a spectacular advance);
- money that labor earned outside the country and brought to Romania.

Regarding the occupancy rate of labors, indicators as the number of unemployed, unemployment rate, number of employees showed continued improvement. The number of employees also increased steadily over the period. Following the introduction of the flat tax also increased the ratio between net and gross wages from an average of about 73% in 2004 to an average of about 77% in 2005. Net earnings increased in 2005, due to higher gross wages more or less correlated with labor productivity index, but also due to lower income tax on wages.

The conclusion is that the flat tax did not produce the expected effect, excepting the immediate period after its introduction.

Negative effects in the economy in the analysed period resulted in:

- developed social divisions, increasing social polarization between rich and poor; population with small wages earned less and consumption increased through bank loans, especially for those with high salaries;
- at first sight, flat tax helped the population that paid lower taxes and was charged for consuming and not for earning; once with higher income, it increased consumption (basically revenues to state budget came mainly from indirect taxes, VAT, excise duties on imported goods);
- irrational development of consumption caused the increase of inflation (in fact, the inflation target for 2005 was missed because of this), real interests on deposits became negative, and finally savings and investment suffered;
- external deficit was also affected, the trade balance and the current account. This happened because the surplus remained after introducing flat tax stimulated consumption, which was reflected in higher imports (persons with high income, for whom the surplus resulting from the flat tax was significant, spent first for imported goods such as cars, luxury replacement apparatus, and so on).
- for business environment: flat taxation affected small businesses in Romania, generally undercapitalized, and encouraged speculative foreign migratory capital (we should notice the flat tax impact of small entrepreneurs, when thousands of SMEs ceased their activities) [2].

We believe that the flat tax was not enough in order to stongly influence the labour; it should have been accompanied by reducing social contributions which in our country are among the highest in Europe. The fact that in 2005 revenues to social security budget decreased shows that the effect of the flat tax on labour was insufficient: there were not created enough jobs to offset the reducement of revenues. Most wages were negotiated between employers and employees in net form, while gross wages, to which social security contributions are calculated, in some cases have decreased as a result of the flat tax.

The flat tax generated in the first year a significant reduction in tax revenues collected as tax base had not have an increase rythem to offset the reduction of tax rate. Decrease of fiscal revenues from income tax was offset by increasement of fiscal revenues from value added tax. It is a normal evolution, if we think that the remaining income for taxpayers was used for consumption, which led to higher levels of indirect taxes collected to the budget. Basically there was a significant increase in indirect taxation than reduction of direct taxation, and finally there was an increase in tax burden and not a fiscal relaxation, as expected.

3. Austerity measures and the impact on the economy

The period 2005-2008, preciselly the third quarter of 2008, was a flourishing period for Romania, characterized by economic boom

(driven by domestic demand).Beginning with IV quarter of 2008, the economic crisis appears and all economic indicators record dramatic declines.

In 2010, the situation is recovering sensitive, but it simultaneously applies two shocking measures, with significant impact on the overall economy: reducing budgetary wages by 25% and increase of VAT from 19% to 24%.

a) Reduce budgetary wages by 25%. This reduction did not contribute only to decrease of income and implicitly the decrease of aggregate demand but also reduced debt repayment and developed pessimism of economic actors.

Before applying the measure, the average wage in the public sector was 2108 Ron and fell to 1701Ron. The reduction with 25% of budgetary wages also caused a decrease in social security contributions in the last six months of 2010, with the landmark contribution of 31.3% of gross salary, which is divided between the employee (10 5%) and employer (20.8%). Basically, the conclusion is that cutting wages had a major impact on the pension system.

Increase of wages by 15% in early 2011, followed by an increase of 8% from summer 2012 come to mitigate the impact of reducing wages in 2010 in nominal terms.

b) VAT increase had a positive impact on revenues in august of 2010. However, this impact was short-lived, because on macroeconomic level it had noticed a decrease in household income and thus a decrease in income tax revenues. This increase was not entirely absorbed in the economy, it was situated partly in product prices. It also decreased the purchasing power of the population.

At industry level the VAT increase was felt in the pre-financing costs, particularly at new investments. The increased VAT meant also closing activities in transport, distribution and in other sectors clients have become more reticent. Banking sector also recorded additional costs, which increased the cost of financing for businesses.

The increase in VAT determined the increase of excise rates, with implications for amplification of tax evasion, because, in practice, any tax increase leads to development of underground economy and tax evasion.

VAT increase led to higher prices for goods, even if most traders tried to delay as much as possible the transfer of this cost growth to consumers- we mention the promotions in the first days after 1 July (the date when VAT became 24% instead of 19%) [3].

In conclusion, the economic effects of the VAT increase were:

- Rising prices;
- Reduce consumption; VAT determined to certain products price increases, the impact came from consumers to business reducing profit margins.
- Closing of business based on services related to the circulation of goods (distribution, delivery, transport), many of which are brought from the unique internal market or China;
- Rising of unemployment: firms have revised production costs, "walking" the pay scale and establishment plan;
- Budget deficit: tax increase was made in order to finance the budget deficit, but the effects were opposite to expectations;
- Tax evasion: VAT is a tax often applied to other taxes such as excise duties. Excisable goods have suffered a big price increase, and in these conditions tax evasion becomes more attractive (not just for those who have to pay these fees but also for those who need to collect or to control).

4. Evolution of savings in 2004-2012

The most important factors that influence the decision process of saving are: income, consumption and investment process.

The main prerequisite of saving is the existence and size of income. Changes of real values of various forms of income and their strong dynemics in time had a decisive impact on the propensity of saving of population. Household income in the current period have seen a dramatic evolution, but a contradictory one. Developments in this area have included most of the quantitative and structural parameters for revenues, all components of household income being involved in these changes. Therefore, there have been changed their actual size (expressed by the power purchase), the apparent dimensions (nominal), their share in

the total revenues of the society, structure of income, the report between different categories of income, population distribution by size of income.

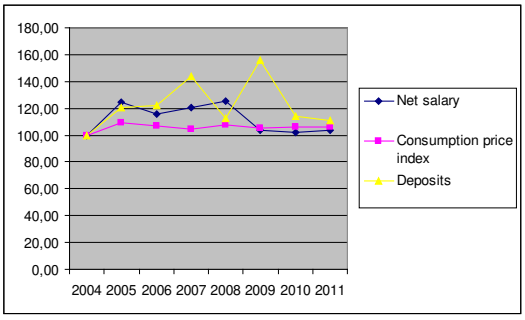
Evolution of household savings during 2004-2012 had semnificant fluctuations (upward trends beyond 2008 even if our country was affected by the global financial and economic crisis).

Net earnings of population were in continuous growth. Compared to 2008 the increase was 15% as a result of occasional bonuses (including quarterly bonuses at Easter), sums of net profit and other funds (including lunch and gift vouchers), salary negotiations, achievements of production or higher revenue(depending on contracts).

Regarding the influence of inflation on saving process for household sector, we can say that during inflation period, all goods, whose value grows slower than the general price level is devalued. In other words, people's purchasing power has diminished. About the influence of the price factor on the process of saving should be noted that price stability fosters savings and its growth hamperes it, as feeding the opinion that it is not worth to save because money is devalued, losing their purchasing power.

Figure below shows the 2005 and 2010 taxation impact on net wages, warehouses of population and consumption price index (CPI)

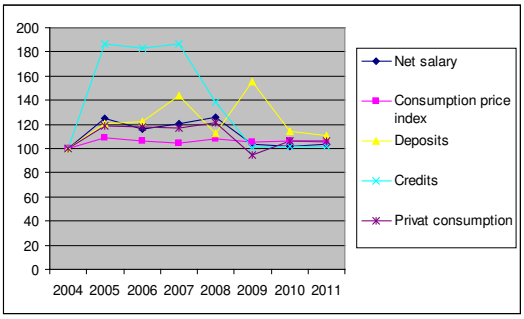
Fig.1.Correlation regarding Net wage-population deposits-CPI



Source: INS, Monthly bulletins, 2005-2012, BNR, Monthly Bulletins, 2005-2012

The flat causes a huge jump for all three indicators compared with 2004. But saving does not increase significantly after the intoduction of flat tax, which suggests that population, in terms of revenues growth, "focuses" mainly on consumption. Compared to 2009, when deposits had a maximum, in 2010, when budgetary wages were reduced, saving process recorded a minimum, so reducing income affected deposits and continued to decline also in 2011[4].

Fig 2. Correlation regarding net salary - credits-deposits-CPI-private consumption



Source: INS, Monthly bulletins, 2005-2012, BNR, Monthly Bulletins, 2005-2012

Flat tax led to a huge increase in loans, but compared with their growth, other indicators had lower intensity of increase, except net salary [5].

Can notice an increase in terms of savings (deposits increased significantly in 2007 and reached a peak in 2009; we believe the cause of this were the fear and uncertainty of people regarding precarious financial situation because of the economic crisis).

The year 2010 brought the collapse of credits and also a significant decrease in deposits and earnings. However, in terms of household consumption, it is one of the few indicators that did not suffer a substantial discount. The conclusion drawn is that no matter how much the income of population would reduce, it would still invest in its needs (food, clothing).

5. Conclusions

The level of taxation in Romania during 2004-2012 determined mainly the reducing of macroeconomic indicators. The introduction of flat tax in 2005 did not produce the desired effects, it had immediate positive effects only in the immediate period from its implementation. Among the negative effects there are: raise of social divisions, reducing direct tax revenues in favour of indirect taxation, grew of consumption and

consequently increasing of inflation, boosting lending and reducing savings, credit and economic development through imports and credits.

In terms of austerity measures, they have had a negative impact on the economy: lower net wages, reduction of social security contributions, rising prices, and thus reduce of population consumption, the decline of savings (due to lower net wages), encouraging tax evasion, closing of business related to services based on the movement of goods.

The level of taxation in Romania is high, although we have an attractive flat tax, yet social security contributions and VAT values are extremely high. We propose in this sense a reduction in social security contributions to employer, VAT reduction and simplification of tax legislation. We believe that these measures would improve the economic situation, stimulate investment, production and job creation.

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Case Study on Export Accounting Based on Commission

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Abstract

Export of goods is a component of foreign trade activity that includes all operations through which goods manufactured in one country are sold in other countries. As active participants in the foreign trade, foreign trade companies can export goods on their own or on commission. When a company acts as an intermediary between the local producer of the exported goods and the external client but doesn't handle the goods itself, its accounting has some particularities that this paper aims to point out.

Keywords: export, commission, accounting, foreign trade company
J.E.L. Classification: M41

1. Introduction

Export of goods on commission represents an indirect form of export. The foreign trade company (F.T.C.) exports the goods in their own name, but on the account and risk of the manufacturing companies, thereby the results of the export activity are reflected in the manufacturing company's accounting [1].

This form of export is based on firm contracts singed between F.T.C. and the manufacturing companies, between F.T.C. and the external providing services companies, such as the transporting company and the insurance company, depending on the delivery policy, and also between F.T.C. and the external clients.

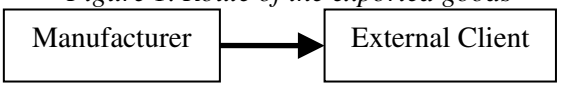
The contracts signed between F.T.C. and the manufacturing companies are commission based and stipulate that the manufacturing companies are committed to provide a specified quantity of goods that the F.T.C. will sell at a fair market price. Also the F.T.C. must pay the value of the sold goods to the manufacturing companies after deducting their own commission.

For their services F.T.C. are paid in commission established in percentage rates, either on the F.O.B. value of goods, or on the external value, depending on the delivery policy. The commission size varies accordingly with the type and value of the exported goods.

The objective of the commission contracts isn't the transfer of goods form the manufacturer to the F.T.C. but the provision of specialized services on the conclusion and the unfolding of international sales-purchase contracts.

The exported goods in the form of commission export follow the next route [2]:

Figure 1. Route of the exported goods

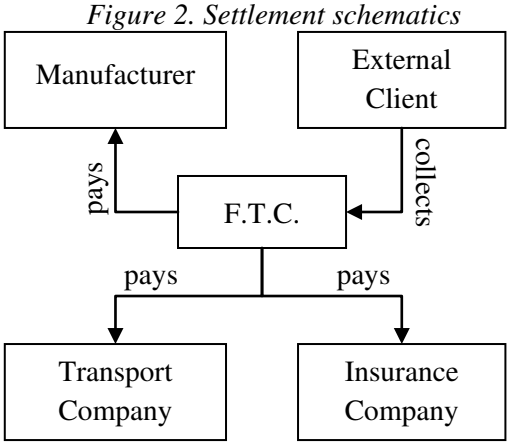


Settlement of the exported goods is operated on the reverse route of their movement as follows [1]:

- The value of the exported goods is collected from the external client in foreign currency (accounted in lei at the day's rate);
- The external F.O.B. value of goods is paid to the manufacturing company, except the negotiated commission that is deducted by the F.T.C.;
- The external services providers are paid for their services according with the delivery policy;
- All settlements are registered in foreign currency and in lei at the day's rate. That's why the F.T.C. must calculate the exchange rate difference which can be favorable (it is registered as an income) or unfavorable (it is registered as an expenditure).

The settlement procedure is presented in the next figure.

Figure 2. Settlement schematics



F.T.C. does not reflect in their own accounting the expenses and incomes form the sale of goods, it only registers income form commission and exchange rates differences and their own managing expenditures.

2. Particularities of export on commission accounting

As opposed to the export of goods on their own, export on commission has a number of specific features in F.T.C. accounting regarding incomes, expenditures and results (gains or losses).

In the F.T.C. accounting are reflected only their own expenses as: energy, water, postal and telecommunications, unfavorable exchange rates differences, depreciation of fixed assets and so on. As for incomes, F.T.C. only registers those from commission; from favorable exchange rates differences and other own incomes.

F.T.C. accounting will not reflect the price of goods as incomes or the cost of goods as expenditures. Also it would not reflect any incomes or expenses regarding the services provided by the external service providers (external transportation and external insurance). Al of the above will be reflected in the manufacturer's accounting.

F.T.C. accounting will reflect however the value collected form the external client and the value paid to the manufacturer and the external service providers.

In the F.T.C. accounting the income composing the turnover is reflected only in the account 704 "Income form work performed and services rendered" that registers the value of the commission collected from the manufacturer.

The account 707 "Income form sold goods" will not be used for registering the value of the exported goods but the account 401 "Suppliers" used on the analytical account 401.M "Supplier manufacturer" because the export is made on the account and risk of the manufacturer which is a client of the F.T.C. but also the supplier of the goods.

The account 708 "Income from various activities" will not be used for registering the external services value (transport and insurance) that compose the external price of the goods but the account 401 "Suppliers" used on the analytical account 401.T "Suppliers transport" for the value of the external transportation of goods and the account 401.I "Suppliers insurance" for the value of the external insurance of goods.

The accounts for registering goods will not be used because the F.T.C. is not the owner of the exported goods.

The income and expenditures structure highlights the fact that the result of the export on commission is determined by subtracting the F.T.C. own expenditures from the commission earned for the transaction.

3. Case study

A F.T.C. carried out export of goods on commission for which the following information are known:

- F.T.C. issues the invoice for the exported goods in the C.I.F. delivery policy for the sum of 20.000 euros on March 1'st 2012;
- The external insurance value for the exported goods is 2.000 euros;
- The external transportation value for the exported goods is 3.000 euros;
- F.T.C. commission is 10% of the F.O.B. value of goods, including V.A.T.;
- On March 3'rd 2012 the goods value is collected form the external client;
- On March 4'th 2012 the settlements are made with the manufacturer for the exported goods, with the transport company for the external transportation services and with the insurance company for the value of the external insurance of the goods;
- In the 3'rd month of 2012 the F.T.C. registered the following expenditures:
  - Wages 3.100 lei;

- Telecommunications 700 lei, excluding V.A.T.;
- Depreciation of a company's car 400 lei;
- Electrical energy 200 lei.

The exchange rate evolution is listed below:

Table 1. Exchange rate

Date	1 euro
March 1'st 2012	4,3 lei
March 3'rd 2012	4,32 lei
March 4'th 2012	4,35 lei

For the above information the following accounting registrations were made:

A. Registering the issued invoice to the external client:

Before the registration itself we must determine the F.O.B. value of the exported goods, which is shown in the next table:

Table 2. Determining the F.O.B. value of the exported goods

Elements	Value in euro	Value in lei
External C.I.F. value	20.000	86.000
Insurance value	2.000	8.600
Transport velue	3.000	12.900
External F.O.B. value	15.000	64.500

For registering the invoice to the client stating that the goods were delivered, the following accounts are used:

- 4111.E "External client"
- 401.M "Supplier manufacturer"
- 401.I "Supplier insurance"
- 401.T "Supplier transport"

And the accounting entry is as follows:

4111.E "External client"	=	%	86.000
		401.M "Supplier manufacturer"	64.500
		401.I "Supplier insurance"	8.600
		401.T "Supplier transport"	12.900

B. Registering the commission invoice issued for the manufacturer

Before the registration itself we need to determine the value of the commission and the value of the V.A.T. using the next table:

Table 3. The commission value

Elements	Value in euro	Value in lei
Commission V.A.T. included	15.000*10%= 1.500	6.450
V.A.T.	290	1.247
Commission excluding V.A.T.	1.210	5.203

For the registration of the commission we will use the following accounts:

- 4111.M "Client manufacturer"
- 704 "Income from performed work and services rendered"
- 4427 "Collected V.A.T."

And the accounting entry is as follows:

4111.M "Client manufacturer"	=	%	6.450
		704 "Income from performed work and services rendered"	1.247
		4427 "Collected V.A.T."	5.203

C. Registering the withholding of the commission from the external F.O.B. value

From the debt to the supplier, which is the manufacturing company, the F.T.C. withholds the commission value. For this operation the following accounts are used:

- 401.M "Supplier manufacturer"
- 4111.M "Client manufacturer"

And the accounting entry is as follows:

401.M "Supplier manufacturer"	=	4111.M "Client manufacturer"	6.450

D. Registering the collection form the external client

In order to register the collection made form the external client we must calculate the currency exchange rate difference, because the collection is made in a different date at a different exchange rate.

Value of goods on the date of delivery 20.000 euro * 4,3 = 86.000 lei

Value of goods on the day of collection 20.000 euro * 4,32 = 86.400 lei

Exchange rate difference = 400 lei

The difference is a favorable one because the exchange rate is higher at collection than at invoicing, therefore it is registered as an income.

The following accounts are used:

- 4111.E "External client"
- 5124 "Bank accounts in foreign currency"
- 765 "Income from the exchange rate difference"

And the accounting entry is as follows:

5124 "Bank accounts in foreign currency"	=	%	86.400
		4111.E "External client"	86.000
		765 "Income from the exchange rate difference"	400

E. Registering the payment made to the manufacturer

In order to pay the manufacturer for the exported goods we must establish the rest of the payment after deducting the commission from the external F.O.B. value. The calculation is demonstrated in the next table:

Table 4. The net amount to pay the manufacturer

Elements	Value in euro
External F.O.B. value	15.000
Withholdings	1.500
Net amount of payment	13.500

Before registering the payment we need to determine the exchange rate difference because the payment is made on another date as the invoicing.

Value of payment on the date of invoicing 13.500 euro * 4,3 = 58.050 lei;

Value of payment on the date of payment 13.500 euro * 4,35 = 58.725 lei;

Exchange rate difference = 675 lei.

The difference is an unfavorable one because the exchange rate is higher at payment than at invoicing, therefore it is registered as expenditure.

The following accounts are used:

- 401.M "Supplier manufacturer"
- 5124 "Bank accounts in foreign currency"
- 665 "Expenditure regarding the exchange rate difference"

And the accounting entry is as follows:

%	=	5124 "Bank accounts in foreign currency"	58.725
401.M "Supplier manufacturer"			58.050
665 "Expenditure regarding the exchange rate difference"			675

F. Registering the payment made to the external insurance company

Before registering the payment we need to determine the exchange rate difference because the payment is made on another date as the invoicing.

Value of payment on the date of invoicing 2.000 euro * 4.3 = 8.600 lei;

Value of payment on the date of payment 2.000 euro * 4,35 = 8.700 lei;

Exchange rate difference = 100 lei.

The difference is an unfavorable one because the exchange rate is higher at payment than at invoicing, therefore it is registered as expenditure.

The following accounts are used:

- 401.I "Supplier insurance"
- 5124 "Bank accounts in foreign currency"
- 665 "Expenditure regarding the exchange rate difference"

And the accounting entry is as follows:

%	=	5124 "Bank accounts in foreign currency"	8.700
401.I "Supplier insurance"			8.600
665 "Expenditure regarding the exchange rate difference"			100

G. Registering the payment to the external transport company

Before registering the payment we need to determine the exchange rate difference

because the payment is made on another date as the invoicing.

Value of payment on the date of invoicing 3.000 euro * 4.3 = 12.900 lei;

Value of payment on the date of payment 3.000 euro * 4,35 = 13.050 lei;

Exchange rate difference = 150 lei.

The difference is an unfavorable one because the exchange rate is higher at payment than at invoicing, therefore it is registered as expenditure.

The following accounts are used:

- 401.T "Supplier transporter"
- 5124 "Bank accounts in foreign currency"
- 665 "Expenditure regarding the exchange rate difference"

And the accounting entry is as follows:

%		5124 "Bank accounts in foreign currency"	13.050
401.T "Supplier transport"			12.900
665 "Expenditure regarding the exchange rate difference"			150

H. Registering the F.T.C. own expenditures

Next we will present the registration of F.T.C. own expenditures as follows:

- wages:

641 "Personal expenditures"	=	421 "Debt regarding the employees"	3.100

- telecommunications:

%		401 "Supplier telecom."	868
626 "Postal and telecom. expenditures"			700
4426 "Deductible V.A.T."			168

- depreciation

681 "Depreciation expenditures"	=	281 "Depreciation of fixed assets"	400

- electrical energy

%		401 "Supplier energy"	248
605 "Energy expenditures"			200
4426 "Deductible V.A.T."			48

I. Closing the income and expenditure accounts

The income and expenditure accounts are closed using the result account. If the income are larger than the expenditure the companies results are gains, if the situation is reversed the companies results are losses.

Registering the closing of the income accounts is made as follows:

%		121 "Gain or loss"	5.603
704 "Income from performed work and services rendered"			5.203
765 "Income from the exchange rate difference"			400

Registering the closing of the expenditure accounts is made as follows:

121 "Gain or loss"	=	%	5.325
		641 "Personal expenditures"	3.100
		626 "Postal and telecom. expenditures"	700
		681 "Depreciation expenditures"	400
		605 "Energy expenditures"	200
		665 "Expenditure regarding the exchange rate difference"	925

J. Calculation of the gain or loses

The next step is to show the "gain or loss" account and to establish its balance. If the balance is debtor it results in loss, but if the balance is creditor it results in gain. The balance of the gain or loss account for the F.T.C. is shown below:

Figure 3. The gain or loss account

121 "Gain or loss"	
5.325	5.603
C.E.B. 278	

4. Conclusions

There are both advantages and disadvantages when a F.T.C. is exporting goods on commission. On one hand the major advantage is that the export of goods is made on the account and risk on the manufacturer company, but, on the other hand, the major disadvantage is that the gain of the F.T.C. is calculated only form the negotiated commission. Thus F.T.C. must cover all of its own expenditures form this commission.

In the case of the studied F.T.C. we can conclude that it was able to cover its own expenditures from its own incomes and obtained a gain of 5% of turnover. This rather small gain was caused, in some part, by the payment exchange rate difference which was 925 lei (unfavorable) as against the collected exchange rate difference which was 400 lei (favorable).

In any case, exporters must assure a margin that allows them to cover the potential losses due to the exchange rate differences.

5. List of Abbreviations:

- F.T.C. – foreign trade company;
- F.O.B. – free on board (delivery policy);
- C.I.F. – cost insurance and freight (delivery policy);
- V.A.T. – value added tax;
- C.E.B. – creditor ends balance.

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New Measures in the Management of European Banking System under the Influence of the Economic Crisis

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Abstract

The financial crisis has highlighted the need for an EU framework for bank recovery and resolution. The European Commission proposed on Wednesday a series of measures to introduce European standards in terms of bank recovery and resolution. These standards ensure that in future the authorities will have the means to intervene decisively before the onset of both problems, and in the first phase of a possible crisis. The proposed tools are divided into powers of "prevention", "early intervention" and "resolution". This article aims to show what exactly to aspect from these measures and what European Bank Union means..

Keywords: bank management, economic crisis, prevention, early intervention, resolution.
J.E.L Clasification.: E50, M 10

1. Introduction

No bank in the European Union or Romania should be "too big to fail". The financial crisis has clearly demonstrated the need for more robust mechanism for crisis management at the national level and also the need to create mechanisms more capable of dealing with cross-border bank failures. During the crisis, there were many resounding failures (Fortis, Lehman Brothers, Icelandic banks, Anglo Irish Bank), which revealed many serious deficiencies in the existent mechanisms. In the absence of mechanisms to organize an orderly liquidation, EU Member States had no choice but to save entities in their financial sector.

On 6 June 2012, the European Commission published a legislative proposal for a Directive designed to avoid future taxpayer bailouts of troubled banks. The proposals aim to ensure authorities will have the means to intervene decisively before problems occur, or if they do occur, to intervene as early as possible. Banks that have deteriorated beyond repair would be partly rescued by unsecured creditors rather than taxpayers. The proposals include:

- Preparatory and preventative measures – including recovery plans, resolution plans, powers to address or remove resolvability impediments and intra-group support agreements;
- Early supervisory intervention;
- Resolution tools – including selling all or part of a failing firm to another firm, separating "good" assets into a new firm, putting "bad assets" into an asset management vehicle and a "bail-in" tool which involves a firm being recapitalized with creditors having their claims reduced or converted to shares
- Enhanced co-operation between national authorities for a so called bank union.

2. New management measures to avoid future bank bail-outs

The crisis has brought forward the shortcomings of financial regulation and triggered major improvements at global and EU levels [1]:

- *Solvency:* Better and more capital requirements. The Basel regulatory frameworks introduced a major overhaul in order to capture all risks of banks in particular in the area of market and counter party risks. This new prudential regulatory framework enhanced also significantly the quantity and quality of

capital for banks. It is estimated these capital requirements have to be multiplied by five since Basel II by 2013 in Europe.

- *Liquidity:* Proposed in Basel III as well, new liquidity standard includes a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The LCR is designed to bolster the short term resilience of a bank's liquidity risk profile by ensuring that it has high quality liquid assets in su1cient quantity to survive a plausible severe stress scenario lasting for 30 calendar days. The NSFR is designed to promote resilience over a longer timeframe by creating additional incentives for banks to use more stable resources of funding on an ongoing basis.
- *Lower interconnectedness and improved market transparency in particular for derivatives transactions:* First, the G20 and Europe (EMIR Regulation) in particular have agreed that standardized OTC derivatives need to be traded on an exchange not bilaterally, and cleared through a central counterparty (CCP). This will strengthen the system by making financial institutions less interconnected. Second, OTC derivatives trades will have to be reported to a trade repository, which registers electronically all relevant details of an OTC derivatives transaction over its lifetime. And third, banking and market supervisors are developing rules to make sure that the risks of derivatives that are not centrally cleared are covered by appropriate capital and margining.
- *Holistic view of financial risks:* regulation and supervision also encompasses the shadow banking. Another critical element of the reform agenda is to monitor and, where appropriate, to address the risks posed by shadow bank. The FSB brought forward two approaches: a monitoring exercise, by which authorities regularly exchange data and information on shadow banks in their specific jurisdictions; the framing regulatory responses to specific risks already identified in the shadow banking. In that respect work is ongoing in five priority areas, including money market funds, securitization and repo markets, with specific recommendations expected within months. (See Eurofi Executive Paper on Shadow Banking)
- *Macro- and microprudential supervision*: "For any global system to be robust and resilient safeguards are needed and a proactive supervision is one of them. Full, consistent, and timely rules are important but not su1cient1." This is why a macro and micro prudential supervision in Europe, and in particular in the Euro area, is also vital. *(See Eurofi executive summary on a European Banking Union).*

European Commission plan to avoid future bailouts through some changes in certain key areas, from prevention and early intervention to resolution [2].

A. Preparation and prevention:

- First, the framework requires banks to draw up recovery plans setting out measures that would kick in in the event of a deterioration of their financial situation in order to restore their viability.
- Second, authorities tasked with the responsibility of resolving banks are required to prepare resolution plans with options for dealing with banks in critical condition which are no longer viable. Recovery and resolution plans are to be prepared both at group level and for the individual institutions within the group.
- Third, if authorities identify obstacles to resolvability in the course of this planning process, they can require a bank to change its legal or operational structures to ensure that it can be resolved with the available tools in a way that does not compromise critical functions, threaten financial stability, or involve costs to the taxpayer.
- Finally, financial groups may enter into intra-group support agreements to limit the development of a crisis and quickly boost the financial stability of the group as a whole. Subject to approval by the supervisory authorities and the shareholders of each entity that is party to the agreement, institutions which operate in a group would thus be able to provide financial support (in the form of loans, the provision of guarantees, or the provision of assets for use as collateral in transactions) to other entities within the group that experience financial difficulties.

B. Early intervention [2]

Early supervisory intervention will ensure that financial difficulties are addressed as soon as they arise. Early intervention powers are triggered when an institution does not meet or is likely to be in breach of regulatory capital requirements. Authorities could require the institution to implement any measures set out in the recovery plan, draw up an action programmed and a timetable for its implementation, require the convening of a meeting of shareholders to adopt urgent decisions, and require the institution to draw up a plan for restructuring of debt with its creditors.

In addition, supervisors will have the power to appoint a special manager at a bank for a limited period when there is a significant deterioration in its financial situation and the tools described above are not sufficient to reverse the situation. The primary duty of a special manager is to restore the financial situation of the bank and the sound and prudent management of its business.

C. Resolution powers and tools [2]

Resolution takes place if the preventive and early intervention measures fail to redress the situation from deteriorating to the point where the bank is failing or likely to fail. If the authority determines that no alternative action would help prevent failure of the bank, and that the public interest (of access to critical banking functions, financial stability, integrity of public finances, etc.) is at stake, authorities should take control of the institution and initiate decisive resolution action. [2]

Harmonized resolution tools and powers, together with the resolution plans prepared in advance for both nationally-active and cross-border banks, will ensure that national authorities in all Member States have a common toolkit and roadmap to manage the failure of banks. The interference in the rights of shareholders and creditors which the tools entail is justified by the overriding need to protect financial stability, depositors and taxpayers, and is supported by safeguards to ensure that the resolution tools are not improperly used.

According to the framework, the main resolution tools are the following [2]:

- The sale of business tool whereby the authorities would sell all or part of the failing bank to another bank;
- The bridge institution tool which consists of identifying the good assets or essential functions of the bank and separating them into a new bank (bridge bank) which would be sold to another entity. The old bank with the bad or non-essential functions would then be liquidated under normal insolvency proceedings;
- The asset separation tool whereby the bad assets of the bank are put into an asset management vehicle. This tool cleans the balance sheet of a bank. In order to prevent this tool from being used solely as a state aid measure, the framework prescribes that it may be used only in conjunction with another tool (bridge bank, sale of business or write-down). This ensures that while the bank receives support, it also undergoes restructuring;
- The bail-in tool whereby the bank would be recapitalized with shareholders wiped out or diluted, and creditors would have their claims reduced or converted to shares. An institution for which a private acquirer could not be found, or which could be complicated to split up, could thus continue to provide essential services without the need for bail-out by public funds, and authorities would have time to reorganize it or wind down parts of its business in an orderly manner. To this end, banks would be required to have a minimum percentage of their total liabilities in the shape of instruments eligible for bail-in. If triggered, they would be written down in a pre-defined order in terms of seniority of claims in order for the institution to regain viability.

In order to deal with EU banks or groups that operate across borders, the framework enhances cooperation between national authorities in all phases of preparation, intervention and resolution. Resolution colleges are established under the leadership of the group resolution authority and with the participation of the European Banking Authority (EBA). The EBA will facilitate joint actions and act as a binding mediator if necessary. This lays the foundations for an increasingly integrated EU-level oversight of cross-border entities, to be explored further in the coming years in the context of the review of Europe's supervisory architecture.

To be effective, the resolution tools will require a certain amount of funding. For example, if authorities create a bridge bank, it will need capital or short term loans to operate. If market funding is not available and in order to avoid resolution actions from being funded by the state, supplementary funding will be provided by resolution funds which will raise contributions from banks proportionate to their liabilities and risk profiles. The funds will have to build up sufficient capacity to reach 1% of covered deposits in 10 years. They will be used exclusively for supporting orderly reorganization and resolution, and never to bail out a bank. National resolution funds would interact, notably to provide funding for resolving cross-border banks.

European Bank Union

On 12 September 2012 the Commission adopted two proposals for the establishment of a single supervisory mechanism (SSM) for banks led by the European Central Bank (ECB). The proposal for the SSM regulation aimed to confer upon the ECB specific supervisory tasks over credit institutions in the Euro area. The accompanying proposal for the regulation on the European banking Authority (EBA) aimed to introduce limited amendments to the Regulation setting up the EBA to ensure a balance in its decision making structures between the euro area and non-euro area Member States.

Key elements of the SSM [3]:

- The establishment of the Single Supervisory Mechanism (SSM) is a first step towards a banking union and one of the pre-conditions for direct recapitalization by the ESM. An integrated "Banking Union" will also include a common bank resolution mechanism, underpinned by a single rulebook.
- The SSM applies to all the euro-area Member States and is open to the participation of other Member States who wish to embark on a path of deeper integration for supervision.
- Non-euro area Member States may decide to join the SSM by establishing a close cooperation between their competent authorities and the ECB. In that case they may, on an equal footing with the euro-area Member States, participate in the activities of the newly created Supervisory Board which is in charge of planning and executing the supervisory tasks conferred upon the ECB.
- The Regulation confers key supervisory tasks and powers to the ECB over all the credit institutions established within the euro area. The ECB carries out its tasks within a SSM composed of the ECB and national competent authorities.
- Within the SSM, the ECB will be responsible for the supervision of all 6000 banks of the euro area. In particular:

- the ECB shall ensure the coherent and consistent application of the Single rulebook in the euro area.
- the ECB will directly supervise banks having assets of more than EUR 30 billion or constituting at least 20% of their home country's GDP or which have requested or received direct public financial assistance from the EFSF (European Financial Stability Facility) or the ESM.
- the ECB will monitor the supervision by national supervisors of less significant banks. The ECB may at any moment decide to directly supervise one or more of these credit institutions to ensure consistent application of high supervisory standards. The work of national supervisors is integrated into the SSM: for instance, the ECB will send instructions to national supervisors, and national supervisors have a duty to notify the ECB of supervisory decisions of material consequence.

- The governance structure of the ECB will consist of a separate Supervisory Board supported by steering committee, the ECB Governing Council, and a mediation panel to solve disagreements that may arise between national competent authorities and the Governing Council. Clear separation between the ECB's monetary tasks and supervisory tasks is fully ensured.
- For cross-border banks active both within and outside Member States participating in the SSM, existing home/host supervisor coordination procedures will continue to exist as they do today. To the extent that the ECB has taken over direct supervisory tasks, it will carry out the functions of the home and host authority for all

participating Member States.

- The rules on the functioning of the EBA will be adapted and its role reinforced. The EBA will continue developing the single rulebook applicable to all 27 Member States. In order to foster consistency and efficiency of supervisory practices across the whole Union, it will develop a single supervisory handbook. It will also ensure that regular stress-test are carried out to assess the resilience of European banks. There will be safeguards for non-euro zone Member States by means of double majority voting requirements for EBA decisions on mediation and on technical standards. This ensures that decisions are backed by both a majority of the participating and the non-participating Member States.
- The SSM is envisaged to be in place one year after the entering into force of the agreed texts. To allow for a smooth transition some flexibility by means of transitional arrangements is foreseen.
- After agreement on the pending proposals on banking restructuring and resolution and deposit guarantee schemes, as a next step the Commission will make a proposal for a single European resolution mechanism to deal efficiently with cross-border bank resolution and avoid taxpayers' money going into rescuing banks.

There are at least five main reasons why Europe is committing itself to a banking union. For the most part the implications of these various rationales are consistent, but there are also tensions between them. Key structural choices about the banking union will often hinge on the prioritization of these various objectives [4]:

- Dealing with existing bank weaknesses that contribute to the euro crisis.
- Reducing the risk that banking will contribute to later stages of the euro crisis.
- Restoring the effectiveness of the monetary policy of the ECB.
- Reintegrating the European banking system.
- Fixing long-standing problems with the "single market" in banking in the EU.

3. Conclusions

The proposals adopted by the European Commission for EU-wide rules for bank recovery and resolution will ensure that in the future authorities will have the means to intervene decisively both before problems occur and early on in the process if they do. Furthermore, if the financial situation of a bank deteriorates beyond repair, the proposal ensures that a bank's critical functions can be rescued while the costs of restructuring and resolving failing banks fall upon the bank's owners and creditors and not on taxpayers. The European Commission intends Member States to finalize their implementing measures for the proposed Directive by 31 December 2014 and apply the measures from 1 January 2015. The bail-in tool should be applied from 1 January 2018. All these measures could prevent further international banking failures, but making them work will take cooperation among national authorities.

According to Vítor Constâncio [5], Vice-President of the ECB, the prospect of the creation of Banking Supervision at the European level, complemented by future European banking resolution, is the more far reaching change introduced since the inception of the euro. It reveals the willingness of Member States to continue to deepen European integration and create at the same time a better framework for the effective functioning of the euro area. Few could have foreseen such momentous developments. A man of vision and a great European, Tommaso Padoa-Schioppa, who preceded me as the member of the ECB´s Board responsible for financial stability wrote in 1999 a few weeks after the inception of the euro [6]: *I am convinced, however, that in the future the needs will change and the multilateral mode will have to deepen substantially. Over time such a mode will have to be structured to the point of providing the banking industry with a true and effective collective euro area supervisor. It will have to be enhanced to the full extent required for banking supervision in the euro area to be as prompt and effective as it is within a single nation*"

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The Transmission Mechanism of the Interest Rates from the Inter-banking Monetary Market to the Loan Market in Romania

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Abstract

Understanding the transmission of the changes in interest rates within the inter-banking money market to the interest rates applied by banks to their clients is essential for knowing the way in which the monetary policy influences the economy.

The correlation between the inter-banking interest rate and the active interest rate is important for all participants to the financial market. The traits of this correlation are even more important within the financial systems in which banks play the main role such as those in Romania.

In this context, the purpose of the hereby study is to analyze how powerful is the correlation between ROBOR and the interest rate on new credits, in Romania.

Key words: ROBOR, interest rate on credit, correlation coefficients; credit.
J.E.L Classification: D4, E50, G21, L10.

1. Introduction

Transmitting the changes in interest rate within the inter-banking money market to the interest rates applied by banks is a topic of interest for all participants to the financial market: the monetary authority, the trade banks, and the public.

To reach the monetary policy objective, starting with 2005, NBR has adopted the mechanism of inflation targeting.

NBR is facing uncertainties related to the inflation targeting mechanism, to the state of the economy, and to a series of factors that do not depend on the monetary policy. In this context, the relation between the interest rate from the inter-banking monetary market and the interest rate on the credits given by the banks is a relevant indicator.

Banks also have precise goals on making profit, and risk and liquidity management. The spread between the interest rates within the inter-banking monetary market and those applied on the non-governmental credit market may be the key for obtaining banking performance.

The banks' clients are those bearing the credit cost and are the main beneficiaries of the decrease in the active interest rate.

Last but not least, the financial analysts are taking an interest in the interest rates' transmission mechanisms.

2. Theoretical aspects concerning the interest rates' transmission mechanisms

The relationship between the interest data from the monetary market and those applied by the banks in the crediting relationship is of a permanent interest to economists. Adopting the inflation targeting mechanisms by the modern central banks brought this correlation more often in present-day.

Some important contributions in this field were the studies carried out by Hannan and Berger [1], Neumann and Shape [2] that are studying the interest rates' pass-through in USA. Next, there is Lowe and Rohling [3] who evaluate the stagnation in the process of transmitting the changes from the inter-banking monetary market to the retail credit market in Australia.

Over the last decade, more and more studies are intended for this subject, and the case studies moved their focus to the Euro Zone and at the level of economies in Eastern and Central Europe: Mojon [4], De Bondt

[5], Sander and Kleimeier [6], Van Leuvensteijn et alii [7], Borio [8], Radu [8].

The studies carried out over the past years indicate that the banking competition degree might have a significant impact on the bank interest rates' level and in terms of the market rates' pass-through to the bank interest rates.

3. Correlation coefficients

The correlation analysis is used to study the intensity of the connection between variables. The correlation measures the intensity of the connection between variables. Depending on the type of variables taken into consideration, the statistical connections can express either associations (the case of nominal variables), or correlations (the case of numeric variables). The envisaged model shall measure the correlation. This can be expressed by covariance, the Pearson correlation coefficient, and the degrees' correlation coefficient (Spearman and Kendall).

The Pearson correlation coefficient is marked by ρ(X,Y) and is defined by the next relation:

$$\rho(X,Y) = \frac{\text{cov}(X,Y)}{\sigma_x \cdot \sigma_y} = \frac{\sum_{i=1}^{N}(x_i - \mu_x)(y_i - \mu_y)}{N \cdot \sigma_x \cdot \sigma_y}$$

where:

- cov(X,Y) - covariance;
- xi, yi, μx, μy are values of the corresponding variables and their medium level;
- N - the number of the pairs of values;
- σx, σy - the average square deviation for X, respectively Y.

The correlation coefficient is obtained by standardizing the covariance. The value of this coefficient is between -1 and +1. If it takes the value of zero, then there is no connection between the variables. The sign of ρ shows the sense/direction of the relation between variables. The plus sign indicates a direct connection (as the values of variable X are increasing, the values of variable Y are also increasing), and the minus sign point out a reverse connection (as the values of variable X are increasing, the values of variable Y are decreasing).

The absolute value of ρ indicates the intensity of the connection, namely: the closer it gets to 1, the stronger the connection is, respectively the closer it gets to zero, the weaker the connection is. A correlation coefficient of +1 points out a perfect connection between variables, and one equal to -1 shows a perfect reverse connection.

The Spearman coefficient is an extension of the Pearson correlation coefficient where the values of the connected variables are replaced with the corresponding degrees. The coefficient is marked with θ and is calculated applying the relation:

$$\theta = I - \frac{6\sum_{i=1}^{n} d_i^2}{n(n^2-1)}$$

where:

- di represents the difference between the degrees of the correlated values,
- n as the number of the studied units - the pairs (x,y).

The Kendall coefficient is defined by the relation:

$$\tau = \frac{S}{0{,}5n(n-1)} = \frac{2S}{n(n-1)}$$

where S = Q + P, in which P is the number of higher degrees taken further against the considered degree, and Q is the number of lower degrees taken further (the minus sign is applied). S is calculated for the degrees of the dependent variable Y, set in order after the degrees of the factorial variable X.

The degrees' correlation coefficient has the variation range of [-1,+1] with the same significance as in the case of Pearson correlation coefficients.

4. Loans interest rate in Romania

Although there is a strong connection between the interest rate of the deposits attracted by the commercial banks and the interest rate of the given loans, this fact does not have a correspondent in Romanian reality.

The banks in the Romanian banking system mostly have a private foreign capital and are dependent of the external financing

and the inter-banking market.

The interest rate of the lei and foreign currency loans is generally higher as the loan's maturity is larger, because the non-reimbursement risk of the loan increases with reimbursement deadline.

Still, there are situations when interest rates for longer maturity loans may be lower than shorter maturity loans, especially at times when inflation is high.

Interest rates for euro loans are essentially dependent of the interest rate at which the loaner bank can refinance from the international markets.

Currency credit access induces a currency risk for the clients and they must take it into consideration as an extra cost over the loan interest rate.

The lei loans' interest rates are higher than those for foreign currency loans due to the higher inflation in Romania compared to other countries, but also because of the monetary policy interest rate.

Accordingly, the total amounts of money paid by clients for lei credits, nowadays, tend to be higher than for currency credits. That is why clients have a tendency to access currency loans rather than lei, in order to pay lower interest rates for their credits.

Nevertheless, we must point out the fact that currency risk may deteriorate the financial position of the clients that access currency credits and have a lei income.

In 2007, the average banking interest rate was 11.62% for the new loans given to non-financial companies in lei, and 7.95% for the currency ones. 2008 is characterized by a significant increase in the interest rate for loans given to non-financial companies in lei (19.51%) and a slight drop for the currency loans (7.63%).

The interest rate decrease tendency for lei and currency alike takes place over 2009-2010 when they reach 9.4% and 5.63%, respectively.

Over the following years, the interest rate has a small increase reaching 9.79% in 2012 for loans given to non-financial companies in lei, and 4.87% for currency loans.

5. The ROBOR interest rate - loans correlation. A regression model

The fundamental relation between the interest rates and the loans offered by the commercial banks and the interest rates on the inter-banking market may be approached from the marginal cost and the refinancing cost perspective.

Within this model, the starting point is the idea that banks take loans on the inter-banking market in order to offer loans to the public. The hypothesis is in correlation with the Romanian reality, even under financial crisis conditions. [10].

Therefore, we have set to study the correlation between ROBOR and the loans interest rate. The data we have used covers the period January 1st 2007 – February 31st 2013 and are as follows:

- 1M and 3M ROBOR monthly series (as averages per month of the daily series);
- The loans interest rate for new credits in lei (average monthly series – noted RL_CS).

We have thus obtained 74 observations.

Table 1 Pearson Correlation ROBOR 1M - RL_CS

		ROBOR_ 1M	RL_CS
ROBOR_ 1M	Pearson Correlation	1	0.907*
	Sig. (2-tailed)		0.000
	N	74	74
RL_CS	Pearson Correlation	0.907*	1
	Sig. (2-tailed)	0.000	
	N	74	74

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations.

The correlation analysis has revealed that there is a strong correlation between ROBOR and the loans' interest rate.

Based on the calculations, we can observe that the value of the correlation coefficients is set between 0.729 and 0.896 for the Kendal and Spearman coefficients, and at 0.907 for the Pearson coefficient. (Table 1, Table 2).

Table 2 Nonparametric correlation ROBOR 1M - RL_CS

			ROBOR_1M	RL_CS
Kendall's tau_b	ROBOR_1M	Correlation Coefficient	1.000	0.729*
		Sig. (2-tailed)	.	0.000
		N	74	74
	RL_CS	Correlation Coefficient	0.729**	1.000
		Sig. (2-tailed)	0.000	.
		N	74	74
Spearman's rho	ROBOR_1M	Correlation Coefficient	1.000	0.896*
		Sig. (2-tailed)	.	0.000
		N	74	74
	RL_CS	Correlation Coefficient	0.896**	1.000
		Sig. (2-tailed)	0.000	.
		N	74	74

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations.

The calculations prove a strong direct correlation between the one month lei deposits interest rate attracted on the inter-banking market and the new loans offered in the national currency.

Table 3 Pearson Correlation ROBOR 3M - RL_CS

		ROBOR_1M	RL_CS
ROBOR_1M	Pearson Correlation	1	0.912*
	Sig. (2-tailed)		0.000
	N	74	74
RL_CS	Pearson Correlation	0.912*	1
	Sig. (2-tailed)	0.000	
	N	74	74

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations.

The calculated Pearson correlation coefficient in the case of ROBOR RL_CS is 0.912, therefore larger than in the first analyzed case. Thus, it is attested that the modifications of the interest rates on the inter-banking market (specifically ROBOR 3M) is immediately transmitted in the costs of the lei loans given by commercial banks.

Table 4 Nonparametric correlation ROBOR 3M - RL_CS

			ROBOR_1M	RL_CS
Kendall's tau_b	ROBOR_1M	Correlation Coefficient	1.000	0.738*
		Sig. (2-tailed)	.	0.000
		N	78	74
	RL_CS	Correlation Coefficient	0.738**	1.000
		Sig. (2-tailed)	0,000	.
		N	74	74
Spearman's rho	ROBOR_1M	Correlation Coefficient	1.000	0.904*
		Sig. (2-tailed)	.	0.000
		N	74	74
	RL_CS	Correlation Coefficient	0.904*	1.000
		Sig. (2-tailed)	0.000	.
		N	74	74

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations.

In order to estimate the evolution of the lei interest rate (RL_CS) according to the ROBOR 3M modifications, we have used a linear regression model. The points cloud is presented in Figure 1.

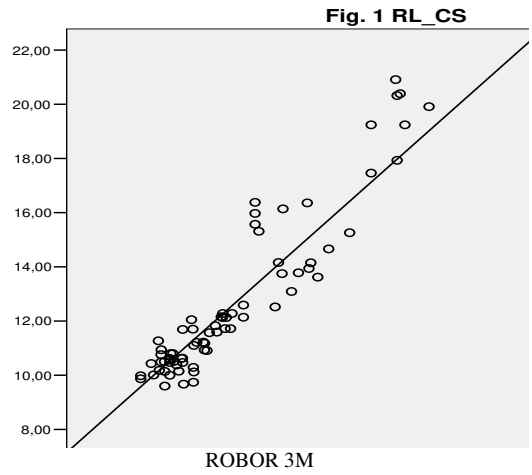


Table 5 Model Summary and Parameter Estimates
Dependent Variable: RL_CS

Equation	Parameter Estimates			
	R Square	F	Constant	b1
Linear	0.832	355.402	6.063	0.781

The independent variable is ROBOR_3M.
Source: own calculations

The results of linear regression application are presented in Table 4.It must be mentioned that the estimation error is smaller than 1%, and the R Square level of 0.832 shows the functionality of the model.

6. Conclusions

The structural characteristic of the financial Romanian system where banks have the dominant position is relevant within the study. The period January 2007 – August 2009 that we have analyzed is characterized by a growth tendency for the inter-banking rates, under the influence of the strong economic and financial shocks produced on the external and internal markets. [10].

As a result of the global financial crisis and the decline of the economic climate, the risk prime became larger and the banks had as a main objective the management of the loans portfolio.

Within the analyzed period, the channel for the transmission of the modifications in the interest rate of the inter-banking monetary market towards the loans' interest rates is functional. Contrasting to the 2005-2007 period when the high liquidity of the market compared with the relatively shallowness of the monetary market made ROBOR modification to be transmitted inertly towards the loans' and deposits' interest rate, the analyzed period shows a strong correlation. The affirmation is sustained by the high levels of the Pearson correlation coefficients calculated at 0.907 and 0.912. The nonparametric correlations are also strong: the levels of the Kendall and Spearman coefficients are between 0.738–0.896.

The evolutions have determined a direct strong correlation between the inter-banking monetary market's interest rate and the loans' interest rate margin. [11]

The adjustment function determined on the linear regression model allows us to estimate the active interest rate according to the possible modifications of the ROBOR 3M. A further development of the analysis could consist in investigating the determinants in the evolution of the interest rates spreads.

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Concentration and Competition in the Romanian Banking System

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Abstract

In this paper we try to assess banking concentration in Romania for 2001 – 2011 period, taking into account the evolution of market share of the first five banks in the system, HHI (Herfindahl-Hirschman Index) for assets, loans and deposits, also the banking system performances highlighted by indicators like ROA and ROE. In the analyzed period there are three approaches: in the first period banks have had very good performances in the context of a less competitive banking environment, after the privatization of some state capital banks, when the leader of the market lost market share in the favor of more efficient banks and the financial crisis the banks are still facing it today.

Key words: banking concentration, Pearson correlation, Herfindahl-Hirschman Index, banking system, concentration ratio.
J.E.L. code: G21.

1. Introduction

Over time market structure and competition were key points in the European financial and economic system. Thus, relationships between competition, performance, efficiency and stability were given special attention in theoretical literature as well as in empirical research. The competition ensures the availability of quality products and services for the final consumer, a higher degree of innovation, lower prices. It also enables efficient banks enter the market, or to expand in spite of inefficient ones. However, as noted by the former FED chairman, Alan Greenspan, the intense competition in the banking system may lead to a reduction in profit margins and encourage risky investments, which may cause financial instability and can induce systemic risks. Therefore, a balance must be found to ensure the stability of the banking system and maintain free competition [1].

Overall in the Romanian banking system, the competitive mechanism between banks is working. On some markets, the increased concentration degree is a key concern for the future, the growth of this indicator is a direct result of the market crisis that has removed some players from the system. The financial crisis has seriously affected banks activity, both incomes and profit rates were significantly reduced. Also, the evolution of ROE was negatively influenced, from values of 15-20%, considered reasonable for the banking sector in normal market conditions, fell to zero and even turned negative in some periods The larger banks have suffered less significant corrections of these indicators, as opposed to small banks whose profitability indicators were negative.

The Romanian banking system has high connectivity with the European banking system, being mostly owned by foreign capital (34 credit institutions with majority foreign capital accounted for more than 81.2 percent of bank assets in June 2012) [2].

2. Literature Review

The literature on the measurement of competition in the banking industry can be divided into two major streams: structural and non-structural approaches. The most relevant structural approaches used are Structure - Conduct-Performance Hypothesis (SCP) and Efficient Structure Hypothesis

(ESH). As the name suggests, the structural approach analyzes bank competition based on structural indicators, such as concentration ratio (the market share of the top three or five banks) or Herfindhal-Hirschman Index (HHI) and assume that a higher banking concentration implies weaker competition in the banking system and increase profitability. [3]

There are a number of studies that address these measures of bank competition and concentration.

Studies have been undertaken nationwide such as: the Germany - Hempell for Italy - Coccorese for Spain - Maud and Perez for Finland - Vesala for Canada - Nathan and Neave for Japan - Molyneux et al (1996). [4] Studies performed exclusively for Romania are in very low numbers. Thus, we can mention: Mereuta and Căpraru [5] using structural indicators (CR5 and HHI) to measure banking concentration during 2003-2009, reaching the conclusion that in the entire analyzed period, concentration in the Romanian banking system increased, which characterizes a monopolistic competition.

In this paper we focused on the most frequently used concentration ratios: the k concentration ratio and the Herfindahl-Hirschmann Index.

Simplicity and limited data requirements make the k bank concentration ratio one of the most frequently used measures of concentration in the empirical literature. Specifically, it implies summing only over the market shares of the k largest banks in the market, taking the following form:

$$C_k = \sum_{i=1}^{k} S_i$$

where *Si* represents market share of company i.

There is no rule for the determination of the value of k, so that the number of banks included in the concentration index is a rather arbitrary decision. The concentration ratio may be considered as one point on the concentration curve, and it is a one-dimensional measure ranging between 0 & 1.

Herfindahl Hirschman Index (HHI) is widely used in most theoretical treaties on measuring of concentration and often serves as a reference for evaluating other concentration indices. In the United States, the HHI plays a significant role in the implementation of antitrust laws in the banking sector. [6]

In other words, in U.S. an application for the merger of two banks will be approved without further investigation if the basic guidelines for the evaluation of the concentration in deposit markets are satisfied. HHI index has often been labeled as "full information" index because of the broad spectrum of information it provides about the size of a bank and its influence in the market. The HHI takes the following form:

$$IHH = \sum_{i=1}^{n} S_i^2$$

where Si represents bank market share, and n the number of banks on the market.

As mentioned, the Herfindahl Hirschman Index stresses the importance of larger banks, giving them greater weight than smaller banks and incorporates each bank, thus avoiding arbitrary cut-offs and insensitivity to share distribution.

In Table 1 it is highlighted the range used by European Commission, Department of Justice – Federal Trade Commission – USA.

Table 1. Range used for HHI

Concentration Degree	Value HHI	
	European Commission	DoJ Antitrust Division + Federal Trade Commission
Low	<1000	<1500
Moderate	1000-2000	1500-2500
High	>2000	>2500

* Source: Competition Council, The development of competition in key sectors 2012

Concentration Ratios are often used as input dates for public policy measures regarding the banking market structure. Policymakers can select suitable indicators of concentration, depending on the characteristics of the banking market, perceptions of the impact that small or big banks have on competition in certain markets and, not least, perceptions regarding the relative impact of size distribution and number of banks.

These characteristics and perceptions were designed to determine the most suitable indicator for the market. Concentration rate is also used for determining the impact of the concentration on competition.

3. Measuring banking concentration

The research regarding the degree of concentration in the Romanian banking system are shown in Table 2.

There are figured Herfindahl-Hirschman Index values based on three pillars (assets, loans and deposits) which perfectly highlights an overview of banking activity.

Between 2001-2012 there has been a general downward trend of the HHI on the three basic components, but according to the levels used by the European Commission a value of HHI> 2000 indicates a high degree of concentration in the Romanian banking sector, which reduces competition on the market.

The concentration degree at the end of 2007 was stable, although in the last quarter there were slight decreases in market share in favor for small and medium banks, most showing more aggression in terms of loan activity.

The concentration decreased slightly in 2008 and in terms of loan activity.

Table 2. Results for HHI for 2001-2012

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Herfindahl Hirschman Index (HHI)												
- for assets	4426	4004	3797	3589	3552	3672	3003	2959	2642	2735	2959	2992
- for loans	3574	2785	2105	2945	3446	4238	3170	3505	1606	1324	1036	n.a
- for deposits	4372	3760	2925	3344	3249	3981	3540	2704	1482	1361	1478	n.a

** Source: own calculations*

Table 3. Concentration Ratio results: 2007-2012

	2007	2008	2009	2010	2011	2012
1 largest bank (CR1)						
- For Loans	**21.9%**	**20.4%**	**19.1 %**	**19.8 %**	**20.11 %**	**19.3 %**
- For Assets	**23.5%**	**22.7%**	**15.25 %**	**14.3 %**	**12.19%**	**n.a.**
- For Deposits	**21.7%**	**20.4%**	**13.22 %**	**12.42%**	**12.8%**	**n.a.**
3 largest banks (CR3)						
- For Loans	**43.7%**	**42.87%**	**39.06%**	**40.03%**	**41.00%**	**40.4%**
- For Assets	**21.7%**	**45.75%**	**31.48%**	**28.51%**	**25.32%**	**n.a.**
- For Deposits	**50.4%**	**46.96%**	**29.48%**	**28.11%**	**29.02%**	**n.a.**
5 largest banks (CR5)						
- For Loans	**55.2%**	**54.37%**	**51.24%**	**52.63%**	**54.57%**	**54.5%**
- For Assets	**56.2%**	**59.25%**	**40.00%**	**36.4%**	**32.25%**	**n.a.**
- For Deposits	**59.4%**	**51.88%**	**38.46%**	**33.48%**	**38.50%**	**n.a.**

The concentration degree at the end of 2007 was stable, although in the last quarter there were slight decreases in market share in favor for small and medium banks, most showing more aggression in terms of loan activity.

The concentration decreased slightly in 2008 and in the first quarter of 2009, on both parts, loans and deposits. In late 2009, the market share of the top 5 banks in total assets decreased to 51.24%, but on the elements of active developments are not homogeneous.

Credit market decreased to 40% and on the liabilities side, the top five banks accounted 38.46% of total deposits. In late 2011, the market share of the top five banks in the Romanian banking system reached a level of over 54% of assets, the highest value for this period, about 38% of deposits and 32.25% of the loans - the lowest for the period.

4. HHI-ROE and HHI-ROA Correlations

The correlation analysis is used to study the intensity of the relationship between variables. Strictly speaking, the correlation is a measure of the intensity of the relationship between variables. Statistic links, depending on the type of variables, can express combinations (for nominal variables), or correlations (for numeric variables). In this specified model it will be measured the correlation. This can be expressed through: covariance, the Pearson correlation coefficient.

Literature and empirical studies show that there is a link between banking concentration and their performance. [8], [9],[10].

We propose to study whether there are links between the degree of banking concentration in Romania and performance of banks.

The data series used are short which limits the relevance of the results, but covers a relatively long period of time if we relate to the Romanian banking system market economy.

For ROE, ROA indicators and Herfindahl Hirshmann coefficient were used annual average values published by National Bank of Romania. (NBR) [11], [12]

Table 4. ROE – HHI Correlations

		ROE	IHH
ROE	Pearson Correlation	1	0,788*
	Sig. (2-tailed)		0,002
	N	12	12
HHI	Pearson Correlation	0,788*	1
	Sig. (2-tailed)	0,002	
	N	12	12

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations

In Table 4 it can be seen that between ROE and HHI there is a relatively strong direct correlation. Thus we can say that the banks' financial performance are increasing when the concentration is higher.

Regarding the correlation ROA-HHI is noticed that in this case the increase in concentration leads to higher economic return in the system. (Table 5)

Table 5 ROA- IHH Correlations

		ROA	IHH
ROA	Pearson Correlation	1	0,892*
	Sig. (2-tailed)		0,000
	N	12	12
HHI	Pearson Correlation	0,892*	1
	Sig. (2-tailed)	0,000	
	N	12	12

* Correlation is significant at the 0.01 level (2-tailed).
Source: own calculations

Moreover, the high value of Pearson correlation coefficient, 0.892 indicates a strong correlation between the two indicators.

5. Conclusions

A high degree of concentration shows that the same number of banks has control over a large part of the market, and this could lead to anticompetitive behavior. In most cases, there is a significant relationship between concentration and competition. Romanian banking market concentration increased from the onset of the financial crisis, mainly due to the elimination of certain competitors from the market.

Empirical studies show that the

concentration influences banking performance. The study on Romanian banking market shows that there is a strong direct correlation between the concentration measured by the Herfindahl Hirshmann coefficient and bank performance measured by ROE and ROA.

For a decade it is spoken that in Romania there are too many banks, but so far nothing has happened. BCR remains the largest bank by assets in the system and no one can compete without an acquisition. In 2012 the largest 5 banks in Romania have become stronger: more than half of the total assets of the banking system are concentrated in these five banks. Experts from McKinsey & Company say that in the future Romanian banks will turn their strategy to the most attractive segment. [13], [14].

In fact, a whole world is looking for new models for the future, since analyzes indicates too many banks for how much business can be produced.

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Accounting Support Function for Supply Chain Management

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Abstract

Recording past facts and events, accounting may be erroneously considered useless for Supply chain management. Since we are aware of the complexity of the subject, we tried to bring SCM in the area of accounting and of the relationships that can be established between these two research fields.

For this reason, the objective of our research is to point out the usefulness of accounting and its products in insuring the performance of Supply chain management. Our study reveals the support function of accounting for Supply chain management.

The main conclusion is that, through the nature and destination of the financial-accounting information, Supply chain management cannot ignore the importance and usefulness of accounting in attaining its performance. Although it does not meet all the requirements, integrated with the Enterprise Resource Planning (ERP) technology, accounting is a support function that insures most of the information necessary for the good planning and coordination of the supply, production, and sale processes in a Supply chain.

Key words: accounting, Supply Chain Management, economic decisions, financial-accounting information, performance.
JEL classification: M15, M41.

1. Introduction

Council of Supply Chain Management Professionals (CSCMP), states that Supply Chain Management *includes the planning and management of all the activities involved in supply and provision, conversion and all the Supply management activities. What is important is that it also includes the coordination and collaboration with the chain partners, which can be suppliers, agents, service providers, and customers. In essence, Supply chain management integrates the offer and demand management within and between companies. Supply chain management is an integrating function, whose main responsibility is to relate the major business functions and processes within and outside companies, in a unitary and effective business model. It includes all the previously mentioned Supply chain management activities, as well as production operations, insuring the coordination of the processes and activities with and beyond marketing, sales, product design, finance, and information technology.*

Martin Christopher [1] makes distinction between the *Supply chain* and *physical distribution*. The Supply chain is concerned with the management of the physical flow, which starts with the supply sources of a producer plant, and ends at the consumption point of a product, while physical distribution is more limited, being concerned solely with the flow of the finite products from the producers to the consumers.

Philip Kotler [2] also makes a distinction between physical distribution, a more traditional activity, and supply, which rather focuses on the market. Thus, physical distribution starts from the end of the production line and concerns the final product, and then solutions need to be found to make the goods available for the customer, involving the lowest costs. In what concerns supply, it starts from the customers, with their needs and demands, and then it aims to find the best solutions to achieve the products.

We can therefore notice that distribution starts upstream and goes downstream, and supply starts downstream, meaning a customer's demand, and goes upstream, beyond the producer, to the suppliers of raw

materials. On this logic of supply, the notion of Supply Chain was built.

Association Français pour la Logistique (ASLOG) defines the *Supply chain objectives* – the right product, in the right quantity, at the right moment, and the *Supply chain management* – the global management of the resources in order to best meet the customers' demands, expressed or predicted.

The authors who tried to find a generally accepted definition [3], [4], reached the conclusion that there is none, which implies negative effects on the development of practice and research in the field. In recent studies, Stock and Boyer made a review of 173 definitions of SCM [5].

Modern Supply chain theory and practice say that SCM implies total integration between providers and customers, and its main benefit is the reduction of the costs and stocks. In essence, the Supply chain and Supply chain management mean, for a company, starting to be or remaining competitive, in a challenging global environment [6].

After reviewing specialized literature, we noticed the diversity of opinions, the importance of the topic, and the resemblances/differences between SCM and logistics, as well as the fact that the usefulness and connections of accounting to this problem are neglected in studies. At present, the accounting system of the companies needs to be designed so as to be able to provide decision-makers, in an operative manner and even in real time, with relevant information on the evolution and dynamics of the activity of the company on the short and medium term, as well as the customer's reaction to the product, productivity, investments and costs dynamics, etc. [7].

2. Accounting functions, designed to respond to the needs of SCM

In the opinion of G. Norris [8], *financial and accounting activities are support processes,* along with others such as human resources and design, providing information flows and processes specific for SCM.

Accounting is the science that observes and quantifies the existing numerical language and movements in the structure of economic resources controlled by the enterprise determines the extent of these changes, defines the causes that have led, ultimately determining the nature of the results obtained [9].

Development of accounting in line with diversifying the needs of users, requires a nuanced approach to functions. The base was recorded at a time of wealth and the transactions between traders.

Over time was observed and confirmed that accounting was always the place where economic decisions were taken. Author Michel Capron [10] states that one of the functions of accounting is the *auxiliary power*.

For the activity of making process, accounting performs the following functions [9]:

- recording and data processing function;
- information and observation function;
- management control function;
- legal or evidentiary function;
- forecasting function.

Suggestive name of these functions makes us not itemized each one, but to insist on those who have the most significant utility for Supply chain management.

Summarizing, we can say that *the function of recording and processing of data* provides support economic events that will be used in producing the information. *We must recognize that in fact converge to the recording accounting data* [11].

Information and observation function of providing information about the business managers and the performance parameters and further correction of deviations. *Legal position (probably)* takes into account the reality and credibility of economic events expressed in monetary standard. When we talk about *forecasting function*, we need to refer to its utility for setting future plans and strategies, based on accounting information for a period concluded. Even if we refer only to the Supply chain or the whole business, it is important to establish where we came from, where we stand, by which we are going, where should we go and what to do to get there. All these require retrospective in the past objectivity to recognize reality and forecasting future goals. It is the task manager that can find a reliable partner in accounting to be well and properly informed and get the desired performance.

Imposed economic dynamics, both in

doctrine and in practice carrying several countries, the emergence of *provisional accounts*. In functional terms, they are tools to prevent difficulties they may encounter and enterprise routing efforts. From the methodological point of view, take the past of financial accounting information and correlate underlying the forward-looking information found in budgets network of the enterprise. According to the authors M. Ristea and C.G. Dumitru [12] any management that aims performance must accept the forecast financial documents.

Given the importance of costs and revenues for evaluating Supply chain performance management, it should be noted that the accounting allows *understanding and application of the most appropriate indicators showing the evolution of costs, revenues and profitability*. Another remark is that, to meet customer orders in the shortest time and lowest cost involving - requirement of SCM planning requires availability of materials, personnel, mechanisms and tools. Planning can be done taking into account developments in the past and forecasts, information such as accounting.

Moreover, the new systems are increasingly facilitating the registration and recording of financial and economic operations, we wondered whether the function of accounting information and forecasting long passed first [7].

3. Management accounting, source of information only to managers

Management accounting can be defined as the process of identifying, measuring, interpreting and communicating information (both financial and related operations) used by management to plan, evaluate and control the enterprise and ensure knowingly use its resources [13].

Decision problems can differ greatly, so that the diversity and complexity of the information is very important. Management accounting, headed and analytical, internal managerial knowledge is considering cost activities to optimize them. It provides useful information regarding monitoring and assessment developments, *is one that monitors the transformation of material into finished products, with detail on centers and products.*

Quantifying the costs and profitability follow each link of the Supply chain is essential. An analysis of this tool is the performance indicators that can provide business guidance for the employment prospects and targets in a SCM project.

Frequently, the Supply chain is described with *costs and revenues involved in each component* [14]: costs with suppliers/raw materials and materials, transport costs, costs of production, storage and distribution costs, revenues customers. These costs and revenues are specific instruments of financial accounting and, especially the management.

Management accounting not meet the needs of external users. It comes solely to assist managers and their decisions. It is aimed at developing budgets and cost forecasting, measurement of business performance (profitability, productivity) at product/service, station, link. Based on this information, supplemented in some cases by those from internal audit scope, the manager can make corrections or invest resources at the chain link.

The purpose of management accounting is to provide the manager strictly those elements necessary to help him understand the phenomena and processes occurring in the body, to provide intelligence on which can make decisions relevant repercussions can provide decision taken at the same time to have leverage to make a permanent and effective control [15].

In management accounting the activity is oriented towards business processes that are essential to intervene customers, suppliers and other partners [16]. It is concerned about:

- relationship between inter-organizational processes and values;
- interface between organizational processes, working techniques, structures, systems and cultures;
- alignment of organizational processes, strategies, products and services;
- how resources are deployed, used and consumed by organizational processes while creating value.

Of the mentioned we deduce the opinion that *accounting meets the specific needs of Supply chain management.*

4. Importance of quality and accessibility of accounting information for a performance management

To be useful, information must be accessible, that means visible. Visibility refers to the availability of information regarding activities and operations across the Supply chain among its members [17].

Supply Chain Management is an art gained through strategy and planning to sell the thing, ie answering the application, when must promptly and at that time and place, ie through efficient distribution network, making a profit as possible better. This requires continuous improvement of services offered to customers. SCM software aims to reduce costs, an efficient resource allocation, customer satisfaction and maximizing profits. Information is which carries out and strengthens the link between all functions and processes of SCM. It is that which owned at the right time and used effectively, can guarantee managerial performance. It is therefore very important that the quality and availability of the information that manager needs.

Regardless of the source of financial information, financial accounting (general) or the management, they must be visible, centralized and easy to understand, in order to provide control over everything that happens along the Supply chain.

If we refer only to management accounting, it must maintain a flexibility in compiling and interpreting information. This facilitates searching and presenting the clear, understandable and at the optimum time, the alternative to fair and safe decisions. The process is essentially future-oriented and information must satisfy the criteria of utility and relevance [18].

Besides the quality characteristics that must satisfy information to be harnessed properly, it is necessary at the same time, that the manager has the required knowledge of accounting data interpretation. Most of the information are strictly related to the accounting expertise and remain with the understanding and interpretation of the professional accountant. Therefore, collaboration between him and the manager is important and beneficial. It shows the consequences of decisions taken or manager to be taken and proposed solutions for improving business. Holder of a considerable experience and open-minded, professional accountant is not just tasks and new skills but also new responsibilities. Intervenes in decision making as a consultant and verifies by specific performance indicators, the actions of managers.

5. Conclusions

Theoretical research is particularly important for the conceptualization, strategy, and planning of Supply chain management, but the most efficient practices can only be designed after careful observation and analysis of practice. Practical experience, based on theoretical knowledge, is the main source for the most appropriate solutions to the problems of a Supply chain.

Without claiming to provide a definition, we consider that *Supply chain management is a dynamic complex, with a global vision on the processes and connections between them, which involves the best harmonization (balancing) decisions and strategies of the requirements of all the participating actors: the providers that want to sell established volumes, the producers that insure certain production capacities and volumes, the distributors that can insure certain sale capacities, the customers, whose demand varies and becomes ever more diversified (to the purpose of reducing costs and increasing profitability). SCM means a unique approach, specific to the market segment, which allows meeting the customers' demands at the highest level, involving the smallest costs possible.*

Subscribe to benefits of this study, highlight the support function of accounting and finding the elements specific to accounting that can insure and increase the performance of Supply chain management, also the importance of becoming aware of and giving the appropriate place to accounting/its information products, as well as possible solutions to better information of SCM.

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Fair Value Accounting versus Historical Cost Accounting - the Impact on Financial Statement Presentation

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Abstract

The financial scandals of recent years have further strengthened the hands of the proponents of fair value accounting. By shining a bright light into dark corners of a firm's accounts, fair value accounting precludes the dubious practices of managers in hiding the consequences of their actions from the eyes of outside observers. The debate presents a new start for fair-value accounting going forward and standard setters' push to extend fair-value accounting into other areas. In our research, we found important issues as an attempt to make sense of the controversies. While there are legitimate concerns about implementations of fair-value accounting , it is less clear that these problems apply to the stipulations of fair-value accounting in the accounting regulations. We believe that historical cost accounting is not the remedy. Fair value accounting is used when reliable fair value estimates are available and when they convey information about operating performance.

Key words: fair value, historical cost, IFR
J.E.L. Classification: M41, G32

1. Introduction

The recent financial crisis has turned the spotlight on fair-value accounting (FVA) and led to a major policy debate involving among others the European Commission as well banking and accounting regulators around the world. Critics argue that fair-value accounting has significantly contributed to the financial crisis and exacerbated its severity for financial institutions in the U.S. and around the world. On the other extreme, proponents of fair-value accounting argue that it merely played the role of the proverbial messenger that is now being shot. In our view, there are problems with both positions. Fair-value accounting is neither responsible for the crisis nor is it merely a measurement system that reports asset and liabilities values without having economic effects of its own.

In this article, we attempt to make sense of the current fair-value debate and discuss whether many of the arguments in this debate hold up to further scrutiny. We come to the following four conclusions. First, much of the controversy about fair-value accounting results from confusion about what is new and different about fair-value accounting as well as different views about the purpose of fair-value accounting . In our view, the debate about fair-value accounting takes us back to several old accounting issues, like the tradeoff between relevance and reliability, which have been debated for decades. Except in rare circumstances, standard setters will always face these issues and tradeoffs and fair-value accounting is just another example. This insight is helpful to better understand some of the arguments brought forward in the debate. Second, there are legitimate concerns about marking asset values to market prices in times of financial crisis once we recognize that there are ties to contracts and regulation or that managers and investors may care about market reactions over the short term. However, it is not obvious that these problems are best addressed with

changes to the accounting system. These problems could also (and perhaps more appropriately) be addressed by adjusting contracts and regulation. Moreover, the concern about the downward spiral is most pronounced for fair-value accounting in its pure form but it does not apply in the same way to fair-value accounting as stipulated by IFRS.

However, as our third conclusion highlights, there could be implementation problems in practice. It is important to recognize that accounting rules interact with other elements of the institutional framework, which could give rise to unintended consequences. For instance, we point out that managers' concerns about litigation could make a deviation from market prices less likely even when it would be appropriate. At the same time, it is important to recognize that giving management more flexibility to deal with potential problems of fair-value accounting (in times of crisis) also opens the door for manipulation. For instance, managers could use deviations from allegedly depressed market values to avoid losses and impairments. Judging from evidence in other areas in accounting (such as: loans and goodwill) as well as the savings and loans crisis, this concern should not be underestimated. Thus, standard setters and enforcement agencies face a delicate tradeoff (between contagion effects and timely impairment).

Fourth, we emphasize that a return to historical cost accounting (HCA) is unlikely to be a remedy to the problems with fair-value accounting . HCA has a set of problems as well and it is possible that for certain assets they are as severe, or even worse, than the problems with fair-value accounting. For instance, HCA likely provides incentives engage in so called "gains trading" or to securitize and sell assets. Moreover, lack of transparency under HCA could make matters worse during crises.

We conclude our article with several suggestions for future research. Based on extant empirical evidence, it is difficult to evaluate the role of fair-value accounting in the current crisis. In particular, we need more work on the question of whether market prices significantly deviated from fundamental values during this crisis and more evidence that fair-value accounting did have an effect above and beyond the procyclicality of asset values and bank lending.

2. Fair-value accounting: pros and cons

Under the historical cost regime, shortsighted firms find it optimal to sell assets that have recently appreciated in value, since booking them at historical cost understates their worth. Despite a possible discount in the secondary market, the inertia in accounting values gives these short horizon firms the incentives to sell. Thus, when asset values have appreciated, the historical cost regime leads to inefficient sales.

A remedy to the inefficiency in the historical cost regime would be to shift to a fair value regime where asset values are recorded at their current transaction prices. This is only an imperfect solution, however. When markets are only imperfectly liquid in the sense that sales or purchases affect the short term price dynamics, the illiquidity of the secondary market causes another type of inefficiency. A bad outcome for the asset will depress fundamental values somewhat, but the more pernicious effect comes from the negative externalities generated by other firms selling. Under a fair value regime, the value of my assets depends on the prices at which *others* have managed to sell their assets. When others sell, observed transaction prices are depressed more than is justified by the fundamentals, and exerts a negative effect on all others, but especially on those who have chosen to hold on to the asset. Anticipating this negative outcome, a short-horizon bank will be tempted to preempt the fall in price by selling the asset itself. However, such preemptive action will merely serve to amplify the price fall. In this way, the fair value regime generates endogenous volatility of prices that impede the resource allocation role of prices.

Fair-value accounting is a way to measure assets and liabilities that appear on a company's balance sheet. IFRS 13 "Fair Value Measurement" defines fair value [7] as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*" - that

is, an *exit price* . When quoted prices in active markets for identical assets or liabilities are available, they have to be used as the measurement for fair value (Level 1 inputs). If not, Level 2 or Level 3 inputs should be used. Level 2 applies to cases for which there are observable inputs, which includes quoted prices for similar assets or liabilities in active markets, quoted prices from identical or similar assets in inactive markets, and other relevant market data. Level 3 inputs are unobservable inputs (e.g., model assumptions). They should be used to derive a fair value if observable inputs are not available, which is commonly referred to as a mark-to-model approach.

Fair value is defined similarly under US GAAP as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction. In determining fair value, IFRS make similar distinctions among inputs as FAS 157 "Fair Value Measurements" [9]: Quoted prices in active markets must be used as fair value when available. In the absence of such prices, an entity should use valuation techniques and all relevant market information that is available so that valuation techniques maximize the use of observable inputs (IAS 39). It is recognized that an entity might have to make significant adjustments to an observed price in order to arrive at the price at which an orderly transaction would have taken place.

Under IFRS, fair values are most frequently used for financial assets and liabilities. But even for financial assets and liabilities, there is a mixed attribute model with a multitude of rules stipulating that some items are reported at fair value and others are reported at historical cost. Moreover, unrealized gains and losses of items that are reported at fair value may or may not affect net income, depending on their classification. Few dispute that transparency is important. Proponents argue that fair values for assets or liabilities reflect current market conditions and hence provide timely information, thereby increasing transparency and encouraging prompt corrective actions. But the controversy rests on whether fair-value accounting is indeed helpful in providing transparency and whether it leads undesirable actions on the part of banks and firms. Opponents claim that fair value is not relevant and potentially misleading for assets that are held for a long period and, in particular, to maturity. That prices could be distorted by market inefficiencies, investor irrationality or liquidity problems and fair values based on models that often are not reliable. Fair-value accounting contributes to the procyclicality of the financial system.

3. The choice between fair value and historical cost accounting

In the accounting literature the choice between fair value and historical cost accounting is one of the most widely debated issues. While the debate dates back to the 1990s it is still unsettled. One impediment to moving the debate forward is the lack of evidence on the choice between the two accounting practices, when the choice is determined by market forces rather than regulators. We exploit a quasi-experiment embedded in the recent mandatory adoption of the International Financial Reporting Standards (IFRS) to study the "market solution" for the choice between historical cost and fair value accounting methods. Our approach follows that private markets often differ from regulators in their accounting method choice.

We consider that our work has a number of advantages. First, unlike most other accounting standards, IFRS provides a free choice between fair value and historical cost accounting for non-financial assets. The second and more important advantage of the current setting is that IFRS requires ex ante commitment to one of the two accounting policies. It is, ex ante, in management's interest to limit the scope for future opportunistic actions, e.g., earnings management. Therefore, managers have stronger incentives to respond to market demands and commit to the accounting treatment that maximizes the value of the firm, i.e., is more efficient.

In our research we contribute to the debate over fair-value accounting by adding benefits of fair value accounting for non-financial assets such as increased value relevance and information content, reduced information asymmetry, and increased comparability. Our findings suggest that the choice to use fair value is not random and

occurs when benefits outweigh the costs. Yet, our evidence suggests that the vast majority of managers find the net benefits from fair value accounting to be rather limited. Indeed, our evidence is consistent with opportunistic revaluations of non-financial asset documented in settings where fair value accounting is mandatory.

The choice between historical cost and fair value must be stated in the accounting policy section of the annual report following the IFRS adoption and must be applied consistently going forward (analogous to revenue recognition or inventory valuation methods). A company that chooses to use fair value must revalue assets *every time* the book value is materially different from the market value (IAS 16 and IAS 40). A company that chooses historical cost *cannot* perform upward revaluations in the future. A switch between historical cost and fair value is considered a voluntary change in accounting principles and needs to be justified to auditors, lenders, equity investors, and potentially to regulators. Therefore, the choice between fair value and historical cost in our setting effectively represents an ex ante commitment, and as such is unlikely to be driven by earnings management considerations. Indeed, the early studies argued that discretionary revaluations are related to contracting motives – consistent with the finding that leveraged companies in danger of violating covenants are more likely to revalue assets.

High-quality financial reporting standards present in the body of IFRSs , with extensive disclosure requirements and evolved recognition and valuation procedures, expected to increase transparency, diminish information asymmetry, and, consequently, facilitate predictions in order to support investment decisions on capital markets.

4. Revisions of financial statements

In september 2007, the IASB decided to revise the standard IAS 1 "Presentation of Financial Statements" to "aggregate information in the financial statements based on common characteristics", no longer permitted disclosure of performance with with other elements, and all information on transactions with owners manifested as such will be presented separately. Revision of IAS 1 standard was the IASB-FASB convergence program, American influence is obvious accounting, in fact acknowledged even by the IASB. Review introduced a new financial statement, statement of comprehensive income. Which summarizes the income and expense recognized in profit or loss and on those recognized directly in equity, reporting such information on the overall performance of the entity.According to IAS 1 revised standard, the statement of changes in equity. Submit only information on changes in equity as a result of transactions with owners. Standard revised IAS 1 to assess the overall performance of an entity by calculating the total comprehensive income . Defined as "change in equity during the period arising from transactions and other events, other than those changes resulting from transactions with owners which manifests itself as such "(revised IAS 1). Basically, total comprehensive income is calculated by the same logic IAS 1 standard announced by the last review as the "total recognized income and expense." Total comprehensive income comprises all components included:

-Profit or loss , and in

-Other items of comprehensive results.

Other comprehensive income are defined as items of income and expense (including reclassification adjustments related) are not recognized in profit or loss as permitted by IFRS norm.

Components of other comprehensive income include:

-changes in revaluation surplus (according to standards IAS 16 "Intangible assets" and IAS 38 "Intangible Assets");

-actuarial gains and losses related to defined benefit plans recognized in accordance IAS 19 "Employee Benefits";

-gains and losses arising from translating the financial statements of foreign operations (in accordance with IAS 21 "Effects of changes in foreign exchange rates");

-gains and losses on revaluation of financial assets available for sale (in accordance with IAS 39 "Financial Instruments: Recognition and Measurement");

-the gain or loss on the hedging instrument that is determined to be an effective hedge (in accordance with IAS 39 "Financial Instruments:Recognition and Measurement").

Reclassification adjustments for the amounts that were recognized as other comprehensive income elements in the current and prior periods reclassified to profit or loss during the period.

5. Overall performance reporting

According to the revised standard IAS 1 , company performance may be reported:
(a) in a single statement : statement of comprehensive income , or
(b) in two financial statements :
- Profit and loss of the components of profit or loss of the period , and
- Statement of comprehensive income that begins with profit or loss reporting period and of the components included in other comprehensive income . For clarity, in the following, we call this form of presentation simplified format. At minimum, the statement of comprehensive income includes the following elements in place:
(A) revenue;
(B) the cost of financing;
(C) share of the profit or loss from associated companies and joint ventures accounted for using the equity method;
(D) income tax expense;
(E) a single amount includes the sum of: 1) gain or net loss (after tax) from discontinued operations and 2) gains or losses (after tax) recognized at fair value less costs to sell or on the disposal of assets or groups of assets failure constituting the discontinued operation;
(F) the result of the exercise;
(G) each component of other comprehensive income classified by nature (excluding amounts in (h));
(H) the other comprehensive income of associated companies and joint ventures accounted for using the equity method;
(I) total comprehensive income.

6. Reporting information on other comprehensive income

Before the review in September 2007, Standard IAS 1 does not specify the manner of reporting tax related items of income and expense recognized directly in equity, companies must be guided by the provisions of IAS 12 standard and after examples provided in the Implementation Guide of old IAS 1 standard. Thus, according to Standard IAS 12 "Income Taxes", current tax and deferred tax relating to items that were recognized directly in equity must, in turn, charged or credited directly to equity .And the examples of preparation of statement of changes in equity included in the standard application guide before last revised IAS 1 is shown the line item: Tax on items recognized directly to or transferred from equity, suggesting that the items of income and expense recognized directly in equity shall be presented before the tax effect and the amount of income tax relating to those items to be presented globally. Unlike its predecessor, the revised standard IAS 1 states that an entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments relating to or in the statement of comprehensive income (or in the "simplified" if drawn) or in the notes. Also revised standard IAS 1 clarify that an entity may present components of other comprehensive income either:

(A) a net tax effects, or
(B) the gross value (before tax effects) with a total amount of income tax relating to those components.

Revised IAS 1 makes a clear conceptual boundary adjustments for reclassifications, insisting on their turn, prevents falls in the category than adjustments that lead to a reclassification of other comprehensive income to profit or loss. The adjustments for reclassifications can be generated only by the rules of IAS 21 and IAS 39, such as the sale of foreign operations or derecognition of a financial asset available for sale leading to reclassify a component of other comprehensive income to profit or loss. Instead, standards IAS 16, IAS 38 and IAS 19 can not generate adjustments for reclassifications for other comprehensive income items recognized in accordance with these standards can not be reclassified to profit or loss.

For example, the revaluation surplus recognized directly in equity according to standard IAS 16 can be transferred to retained earnings when the asset sale or the extent of its use and depreciation, but this transfer is done without affecting profit or loss.

Fair value accounting overcomes price distortions by extracting the information conveyed by market prices, but in doing so, it also *distorts* this information. The choice is between relying on obsolete information or

the distorted version of current information. The ideal of having an undistorted, true picture of the fundamentals is unattainable.

7. Conclusions

Fair-value accounting recognizes losses early thereby forcing entities to take appropriate measures early and making it more difficult to hide potential problems that only grow larger and would make crises more severe. But this benefit gives rise to another set of tradeoffs. Fair-value accounting introduces volatility in the financial statement in "normal times" (when prompt action is not needed). Full fair-value accounting can give rise to contagion effects in times of crisis, which need to be addressed – be it in the accounting system or with prudential regulation. In our view, it may be better to design prudential regulation that accepts fair-value accounting as a starting point but sets explicit counter-cyclical capital requirements than to implicitly address the issue of financial stability in the accounting system by using historical costs. It is an illusion to believe that ignoring market prices or current information provides a foundation for a more solid financial reporting system.

We need to make more progress on the question of whether fair-value accounting did in fact contribute to the financial crisis through contagion effects. At present, there is little research that would answer or even directly speak to this question. Fair-value accounting did not cause entities failures because the fraction of assets reported at fair value was small in most cases, and in those cases where the fraction of fair-value assets was larger, the share price reflected even higher losses than were reported by the entities. While this argument and the accompanying evidence point to real losses as the source of entities failures, they do not provide convincing evidence that there was no contagion. The failure of some companies could have increased market illiquidity, which in turn may have spilled over to other banks via fair-value accounting . Moreover, it is tricky to use companies' share prices as evidence that fair-value accounting did not have any negative effects for entities with a large fraction of fair-value assets since the share price may already reflect the negative real effects of fair-value accounting.

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Diversity and Consensus on the Status of Accounting

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Abstract

The evolution of accounting as social practice is linked to human evolution as an economic entity. The accounting as a system as it is today, is the result of a long historical process, during which it was transformed from a simple registration technique of trade into a means of control and provision, and then into an instrument of management and information provider for a wide range of users, from management to shareholders and external collaborators of the company, as a basis for decisions-making related to the unit.

Keywords: accounting language, accounting science, accounting technique, accounting art

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1. Introduction

Over time, the definition of accounting has been closely aligned with the development of knowledge in this field, but also with the social, economic and cultural context in which this knowledge occurred. Each time, however, researchers have encountered difficulties to define it only by a single meaning.

Accounting evolution has generated heated controversies about its status. In the face of these controversies and many attitudes of thinking took place and continues today a dispute "To what extent accounting can be considered art or science, technique or social game, communication language or genuine social good?".

In the EDRL (D.E.X.) accounting is defined as: "all registration operations based on rules and special regulations, all movement of funds and materials in an institution; the booking; or the science that deals with the theory of these operations" [12].

If we make a summary of the various concepts relating to the status of accounting in the light of the nature of its state, we distinguish the following meanings:

- accounting as art
- accounting as a technique
- accounting as language
- accounting as a science.

2. Accounting as art

Since 1514 accounting is considered as art by Luca Paciolo, later in 1870 by Francesco Marchi and in the Romanian literature, professor Theodor Stefanescu consider the accounting as art, and then he defines it as the "science which teaches us the art of uniting a house trade accounts or any other public houses which manage funds" [11].

Over time, other Romanian professors take in their work definitions of French literature that considers accounting "the art to record and systematize the monetary value of commercial transactions and financial events, to issue synthesis accounting documents and interpret the results" [2].

The Americans, by the American Institute of Certified Public Accountants (AICPA) also considered in 1941 the accounting as the art of recording transactions, events and outcomes with financial character in a summary form and in cash in order to be

interpreted, and in 1980 they completed and formulated this opinion concluding that accounting information is the support of economic decision development in an economy entity.

In the aesthetic sense, the notion of art cannot be applied in accounting. We can speak though about an "art" of accounting to the extent to which, thereby, we understand a human activity that requires skill and some knowledge.

In the EDRL (D.E.X.) art is defined as "a human activity aiming to produce some aesthetic values and using ways of expression with specific nature; all works (from an era, a country etc.) belonging to this activity" or "a particular skill in an activity; ability, mastery" or "occupation that requires much skill and some knowledge" [12].

The definition of accounting as art is rooted in the socio-historical context of the emergence of double-entry accounting, thus in its inception. At that time, the accountants were organized in professional associations with conditional access, which made the accounting profession to be considered superior to all others. In Italy at that time, the accounting profession was regarded as superior to all others, and double-entry art secrecy contributed to growing the prestige these professionals enjoyed. Here is what mentioned the author of the first double-entry accounting work, printed in German in 1549: "I do not want to say that before me weren't good accountants as they are today, but they keep the accounting in secret and they do not give it to daylight or do not bother to show it to others" [4].

The necessary knowledge for bookkeeping are becoming very required by an economic environment in training, based on the seeds of capitalism, which converts them into an "art of accounting" as a specific area along with other art of the time.

Skills and abilities necessary for bookkeeping allowed the qualification of accounting as art. However, we believe that the correct meaning of this approach is rather the same kind of reasoning applying to the "art of gastronomy", "sports art" or "art craft" where genius or grace alone is not sufficient or decisive, but it is also required a knowledge base, skills, ability, technique and social utility [9].

Thus viewed things, we cannot talk about accounting as art but the art of accounting, between the two concepts there are essential differences even if both are creations of the human spirit. Professor Niculae Feleaga, competent field researcher, presents in his work "Taming the accounting jungle" the reasons underlying the existence of accounting [7]:

- because there are commercial trades between human beings or companies;
- because human, financial, natural and technical resources are limited;
- because there are third parties interested in financial information produced by the companies.

The economic reality in which individuals and companies live is represented in a synthesis and abstract accounting mean. But like any representation of reality, human, professional mastery, put a different emphasis on this reality. It is also one of the reasons that explain the seemingly inaccessible to amateurs in this area, the authority that experts in accounting and adjacent areas (taxation, finance) have in organizations and social recognition through the income they get from practicing accounting [10].

Gradually, as the knowledge necessary to practice the profession are more elaborate, the accounting is increasingly defined as an art and a science, as results from some definitions: accounting is "the science and art of keeping the accounts" (Francesco Marchi, 1870) or later, in the early twentieth century, Rene de la Porte considered that: "accounting is a science, and only its technique is an art".

3. Accounting as a technique

In French literature, authors of studies devoted on the field and in particular Bernard and Esnault and Cristian Hoaran considered the accounting as a "quantitative technique for collecting, processing and analyzing information on the legal and economic events in the life of the enterprise" [1].

In the course of history, the status of the accounting technique, in its evolution corresponding to various social practices, is recognized as a practical part of the theory and not a simple routine, such as simple calculations or some workbooks.

It was always felt the need for a rigorous system of accounting procedures, goals and principles for the practice of accountancy.

If at the beginning the organization of simple operations of input and output of values was enough, in time, the reality has imposed the need to record and trace all patrimonial mutations.

Thus, after generalizing the double-entry bookkeeping, the accounting seeks to record the origin, source of funds that went in, supplied the patrimony and their use regardless of their form or nature.

Some authors consider the accounting a management technique. In general, the term "technical" means a set of processes belonging to an art or a craft, used to obtain a specific result. If we limit accounting only to the records it seems like the accounting responds to this definition. But we must keep in mind that by technique we also understand applying theoretical knowledge. In this latter sense, the technique is an inherent part of science.

The name of "quantitative technique" given to accounting means that it performs the measurement, meaning number expression in natural standard (physical), but most of all, value standard of the economic reality.

Some authors consider that the accounting technique mainly consists in applying the principle of double entry bookkeeping, defining accounting as a technique of observation and control of an enterprise activity, which is based on continuous and correlated recording due to double entry principle, the set of internal and external financial flows of the enterprise. The crisis in the years 1929-1933 was not only a financial and economic crisis but also a crisis of financial information. Investors were in the uncomfortable position of being very poorly informed. The "art", meaning the force of judgment of professional accountants, as a result of accounting technicalities, was insufficient to meet the new economic and social environment conditions.

After the EDRL (D.E.X.), technique means "all procedures employed in practicing a profession, a science" [12].

From this perspective, accounting is really a technique, this status being the most often cited in the literature. Thus: "Accounting is a quantitative technique for collecting, processing and analyzing information on the legal and economic events in the life of the enterprises" or: "Accounting is a technique that allows the appearance of a business activity and results and, more generally, of an organization".

4. Accounting as language

In the business world, communication is the knowledge support and accounting can be considered the "formal language of communication".

The practical side of the accounting language is characterized by the connection that must exist between accounting information communicated, their usage by various stakeholders, and also regarding the control on certain activities or entities, results that influence the decisional process.

The accounting syntax is the set of accounting rules and procedures to be followed to record accounting transactions and to prepare synthesis documents, starting from the symbols that form the accounting vocabulary. The accounting syntax ensures the organization of the accounting structure.

Semantics of the accounting language deals with the meaning of the signals transmitted by the accounting and refers to the correspondence between the object described – the organization and the model it represents – the accounting.

The practical aspect of the accounting language refers to communication, through accounting information, between different users of accounting.

Thus, the accounting syntax is grouping rules, methods and procedures used to record operations, to collect and process information, to prepare, present and publish summarized documents based on symbols that form the accounting vocabulary. The symbols of accounting language are: debt, credit, assets, liabilities, turnover, balance, position, net position, revenues, expenses, debtors, creditors, parties etc.

The accounting syntax has the role to organize the accounting structure such as grammar organizes natural language. The accounting semantics gives meaning to signs transmitted by accounting, ensuring the correspondence between the real world (economic, social environment etc.) and its reflection (accounting).

The practice of accounting language is directly related to accounting disclosure and their use by beneficiaries (managers, owners, third parties, tax authorities).

The status of the accounting language is generalized once with the output of accounting information from the organizational boundaries, with its address to third parties. The common language of accounting is based on [6]:

- precise definition and terminology;
- common assessment methods;
- uniform rules of operation of accounts;
- summarized documents presented by an identical manner.

The accounting language is precise, concise and complete, but also has limits. Those who operate in the market of accounting information can communicate without any problems because the information is transparent.

5. Accounting as a science

In the EDRL (D.E.X.) science is defined as "all systematic knowledge about nature, society and thought; all the knowledge in a particular field of knowledge" [12].

Changes in economic and social environment make the national accounting systems dependent on this environment and its evolution. Postulates, principles and accounting rules that confer the character of science are voided of stability and are not based on objective, verifiable relations. This makes it difficult to define accounting as a science, but it is certain that it is the subject of scientific research.

Specialists studying the accounting theory have not reached a consensus and could not yet define a theory to be universally accepted. On the other hand, there are theoretical studies that have not yet found their practical application [10].

- There are currently four major families of accounting theories:
- descriptive and inductive theories, that have succeeded only an inventory of the problems;
- descriptive and deductive theories, that have had the ambition to describe an orderly practice;
- normative and inductive theories designed based on the observation of practices considered to be the most satisfactory and presented as reference (are included in this category the generally accepted accounting principles);
- normative and deductive theories designed based on the objectives assigned to accounting and also presented as references.

Other authors are firm in asserting that accounting is a science because it has elements of science, namely: the domain which is the object of the research, the method of research used and its utility in the economic and social life.

Accounting has a language, an object and a research method of the object that defines it to other sciences:

The object of study of the accounting is the organizations' patrimony, the economic processes (supply, manufacturing, sales) that occur in organizations, sources of origin of money and material items and the results of the activity [5].

The research method of accounting is based on its own methods: balance sheet, account, trial balance.

The usefulness of accounting in the economic and social life is determined by the need for organizations to know accurately and in a timely manner the size and structure of assets, activities, results and the interests of third parties (associates, shareholders, partners) to have accurate information about the situation of tax bodies and organizations in order to establish obligations due. As a science, accounting is part of the system of economics [9].

6. Conclusion

Recently, some accounting theorists have brought in discussion other possible approaches.

In practice, the use of accounting information in economic decision-making processes often generates conflicting interests among different categories of users (shareholders, unions, managers, state, customers, creditors, suppliers and so on).

Thus, these conflicts between different categories of users of information accounting distort the truth, leading to a situation where accounting is a "social game".

The practice has also proved that the economic life discipline was achieved by accounting functions through the rigor required by specific accounting methods and procedures. Starting from the fact that the order, rigor, discipline and morality in economic life are given by accounting, determined that for human society accounting is allocated the role of "social good".

Another approach considers accounting as a techno-science, meaning a technique fed not only by past knowledge, generated by practice, but also by the results of the research.

Another approach considers accounting as an information system because it has all its features. An information system is defined as "an organized grouping of resources (equipment, software, personnel, procedures) that allow the acquisition, processing, storage, communication of information (in the form of data, images, texts etc.) within the organizations". Accounting is practiced by people, involves the use of tangible and intangible assets (it is in symbiosis especially with the new information and communication technologies) and from technical point of view, it consists of acquiring, storing and disseminating information.

According to the General Accounting Plan in France, accounting is "a system of organizing financial information which allows identifying, sorting, recording digital databases and presenting situations that reflect a true and fair view of the assets, financial situation and results of the entity at the closing date". As a result, many theorists and practitioners believe the accounting is, first of all, a simple system of information, but still having its specificities. The accounting is the only information system producing an overall representation, a global model of the enterprise.

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The Correlation Between Inflation Rate, Interest Rate and Household Savings in the Current Period

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Abstract

In a society of free people, obviously, it cannot be proceeded in the same mode, and as result, the economising must be rewarded through the possibility of obtaining expendable goods, destined for later use, or capital goods, destined for productive use.

In liberty conditions, there does not exist, a saving without rewards, and the reward cannot exist if the goods that it contains, indifferently if they are expendable or capital goods, do not become the private property of the person who makes the savings. The person makes savings because he has a purpose, which he freely chooses: to improve his living conditions. He can wish that for himself or others, but certainly not for strangers, or the state.

Key words: savins, inflation rate, interest rate, population
JEL Classification: E2, E22

1. Introduction

Analyzing the phenomenon of saving people in Romania (in the present thesis) covers the period January 1994 - September 2012, following the effects of inflation released, the deposit rate and the average monthly salary savings. Therefore, we considered multifactor regression model of the form:

$$Yt = \alpha + \sum(\beta_i * X_{it,i=1....p}) + \varepsilon_t$$

Where:

- Y_t is the dependent variable;
- α coefficient constant term;
- β_i independent variables coefficients;
- X_{it} independent variables;
- ε_t random variable;
- p number of variables as the regression is;

Aims at quantifying the link there, on the one hand, the quantity of savings of households (economically dependent variable or outcome) and, on the other hand, inflation and interest outward.

2. The impact of inflation and saving

Modeling the impact of inflation and the saving in interest liability is based multifactor regression model of the form, where is the dependent variable - E (household savings), the coefficient constant term, the coefficients of independent variables, independent variables - II (inflation rate - I, the interest rate liabilities - R), random variable, then the number of variables is regression (1), and t the time (January 1994 - September 2012).

The model will be:

$$E = \alpha + \beta_1 * I + \beta_2 * R + \varepsilon$$

Given the fact that generally most economic phenomena and processes are linear, we chose for our country if the linear regression model using the software package EViews 7.1.

The savings of the population has significant growth potential, a situation that requires a more detailed analysis in terms of

influencing factors. If a stable market economy, the savings are largely predictable trajectory, in a country in transition; the amplitude varies with a much higher, driven by many factors, many of whom were subjective. In Romania, after 1990, the evolution of savings was basically determined by the wage inflation rate, banks' interest rate of consumption, of the exchange rate, rotation speed etc. of money.

Thus, below we propose to quantify the econometric relationship between the main factors (inflation rate and deposit rate) and the savings in the 1994-2012 period and to analyze, based on simulations, their impact on growth, relatively slow , the saving process in Romania.

The inflation is a phenomenon much more profound than the increase of prices, alternating the ensemble of the economic mechanism in more ways: a) the forming of prices; b) income repartition; c) economic decisions; d) saving strategy;

In what concerns the influence of inflation on the saving process in the household sector, we can say that in the inflationist period, all the goods, whose value grows slower than the general level of prices, are losing value. In other words, the population's buying power has diminished. Connected with the influence made by the price factor on the saving process it must be cleared out that the stability of prices stimulates savings, and the increase of prices lowers it, thus it feeds the opinion that it is not worth saving money because they lose value, losing their buying power.

Situations can intervene, however, when the lowering of prices exercises a contradicting action on the population's savings. Thus, the more substantial lowering of prices on certain goods, can lead to the situation of not being necessary to save money for their purchasing, being able to purchase them from the current income.

As consequence, a high rate of inflation annihilates the backup way function of currency and implicitly annihilates the saving tendency of the population, in the frame of a market economy. Thus, we can say that the population's saving process is a function resembling:

$E = f(I)$

where: E = *saving*

I = *inflation rate*

meaning:

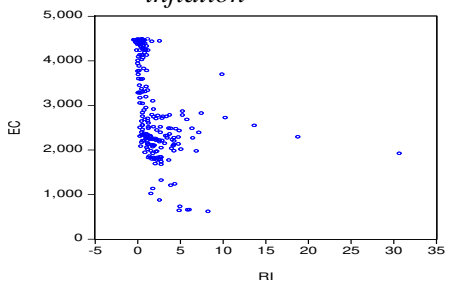
$E = C(1)+C(2)*I$

Thus, the inflation hits in the buying power, in the real salary of the population, those more affected being those with low or fixed incomes; in other words, the inflation destroys the population's savings made from the use abstinence.

In our country's case, in the January 1994 – September 2012 period, the statistic data took from the Annual Reports or BNR 1994-2012 and ran through the software package EViews 7.1 have demonstrated an indirect link between the inflation rate and the saving process, link that cannot be considered, representative. The question is posted "Why does the inflation rate influence savings only in a proportion of 15,6%?" The answer can be found in the content of the saving notion, process that is influenced by numerous factors, like income, interest rate, consume, and exchange course and so forth.

To observe the nature of dependency between the two variables we have drawn in the following diagram three graphics:

Figure 1- Correlogram for saving and inflation



Source: data gathered from the BNR reports and ran through the software package EViews 7.1

Table 1 - Linear regression

Dependent Variable: EC				
Method: Least Squares				
Sample: 1994M01 2012M09				
Included observations: 225				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RI	-143.0089	21.89892	-6.530410	0.0000
C	3252.980	79.19198	41.07715	0.0000
R-squared	0.160538	Mean dependent var		2963.880
Adjusted R-squared	0.156773	S.D. dependent var		1072.595
S.E. of regression	984.9356	Akaike info criterion		16.63188
Sum squared resid	2.16E+08	Schwarz criterion		16.66224

Log likelihood	-1869.086	Hannan-Quinn criter.	16.64413
F-statistic	42.64626	Durbin-Watson stat	0.114493
Prob(F-statistic)	0.000000		

Sursa: EViews 7.1. calculations

The model is not a representative one for describing the link between the inflation rate and saving rate, link which can have the following form.

The equation (model) which describes the link between savings and inflation rate is:

$E = 3252.980 - 143.0089 * I$

In conclusion there can be observed that a modification with a percentage of the inflation rate determines a modification with 1,43 lei of the saving. So, the inflation as a economic unbalance state is negatively preponderant having numerous consequences on the population:

- the decrease of the population's buying power;
- the incline towards consumption is stimulated;
- the incline towards saving is discouraged;

3. Correlation between interest rate and saving

Correlation between growth and increased interest income from savings made, highlight the link directly proportional: if interest rates increase saving becomes more attractive, but at the same time, becomes less necessary. Thus:

E = f2(R)

Where *R = deposit rate* *E* = household savings

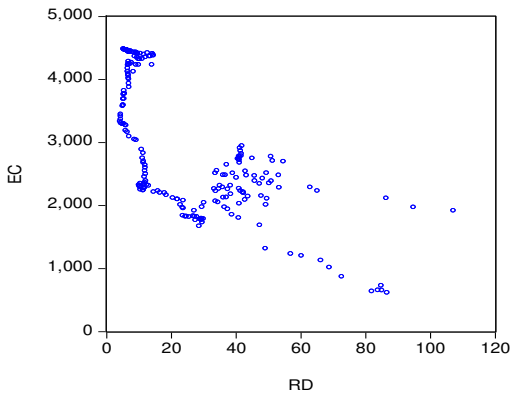
If f2(R)=c1+c2*R then

E = c1 + c2*R

In Romania deposit rate affects the population's savings rate of 43.85% which can be regarded as a significant influence. But unfortunately, our country is a country where some people have extraordinary amounts and therefore have a seasonal savings. For example, even if banks offer attractive interest rates the world has nothing to save if we think they need months to make supplies of winter or to start a new school year.

In other words the interest rate causes a change in the same sense of volume savings. Residual values, estimated current and corresponding dynamic model are presented in the following chart:

Figure 2 - Correlogram for saving and interest rate



Source: data gathered from the BNR reports and ran through the software package EViews 7.1

Tabel 2 - The results of econometric tests that describe the link between deposit rate and saving

Dependent Variable: EC
Method: Least Squares
Sample: 1994M01 2012M09
Included observations: 225

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RD	36.69619	2.387818	-15.36808	0.0000
C	3858.329	76.69278	50.30890	0.0000

R-squared	0.514350	Mean dependent var	2963.880
Adjusted R-squared	0.512172	S.D. dependent var	1072.595
S.E. of regression	749.1506	Akaike info criterion	16.08461
Sum squared resid	1.25E+08	Schwarz criterion	16.11497
Log likelihood	-1807.518	Hannan-Quinn criter.	16.09686
F-statistic	236.1780	Durbin-Watson stat	0.046876
Prob(F-statistic)	0.000000		

Source: calculations Eviews 7.1

Given the values obtained from testing, we consider representative link that describes the dependence between deposit rate and savings related will have the following form:

$E = 3858.329 + 36.69619 * R$

In conclusion it is noted that a one percent change in interest rates causes a change in savings of 36,69 Lei (if the interest rate increases by one percent then the savings will increase to 36,69 lei and vice versa). So individuals do not save for the pleasure of holding idle cash, but they save to make placements paid through an interest rate that they increase their future wealth. Populations

being the victim of illusions money, no interest in purchasing power than that the interest rate. They take into account the real interest rate, nominal interest rate that is possibly correct to remove the depreciation due to inflation. It follows that saving is an increasing function of real interest rate.

4. Correlation between inflation, interest rate and household savings

If we analyze the correlation between inflation, interest rates and household savings is observed that both (the inflation rate and deposit rate) influences the rate of 51,68% savings (see table below):

Tabel 3 - Econometric test results describing the relationship between inflation rate and savings deposit rate

Dependent Variable: EC				
Method: Least Squares				
Sample: 1994M01 2012M09				
Included observations: 225				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RD	40.26826	3.114403	-12.92969	0.0000
RI	-38.55046	21.72488	1.774484	0.0774
C	3867.465	76.49935	50.55552	0.0000
R-squared	0.521142	Mean dependent var		2963.880
Adjusted R-squared	0.516828	S.D. dependent var		1072.595
S.E. of regression	745.5671	Akaike info criterion		16.07941
Sum squared resid	1.23E+08	Schwarz criterion		16.12496
Log likelihood	-1805.934	Hannan-Quinn criter.		16.09779
F-statistic	120.8013	Durbin-Watson stat		0.053338
Prob(F-statistic)	0.000000			

Source: calculations EViews

Saving is the prerequisite for the existence of positive real interest rates (over inflation). Based on the data processed using the linear model can plot statistical observations:

- As seen most influence the interest rate and saving the same direction, followed by volume inflation, if it is the opposite effect. A low inflation, positive real interest rates will lead to greater savings.
- Following tests carried out using EViews 7.1 package we can say that the model is representative and will have the following form:

$E = C1*I + c2*R$

$E = 3867.465 - 38.55046*I + 40.26826*R$

5. Conclusions

The conclusion that inflation is an important factor encouraging people under the form of savings deposits, but also a major disincentive. If potential depositors want to preserve the purchasing power of saving money means that there is a saving incentive in the form of deposits, savings reverse this discouragement arises from the fact that people prefer alternative saving rate when bank liabilities is lower. We note, however, that inflation is a causal factor in the process of saving deposits form.

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Considerations Concerning the Quality of the Services Provided by Accounting Professionals in Romania

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Abstract

The position of the accounting professional implies great responsibility because of the services provided and, irrespective of the country where they come from or of the professional body to which they belong, they perform an activity specialized in accounting, financial consultancy, audit, evaluation, and liquidation. Given the current economic conditions, an "over-certification" of their activity is required. Under these circumstances, quality in audit must provide the users a better perception on the quality of the supplied services, as well as the guarantee of harmonizing the professional behaviors of the members. The purpose of this study is to present, based on the activity reports of the professional bodies in Romania, the current status in the implementation of quality in audit and in the accounting profession.

Key words: accounting professional, quality of accounting services, quality in audit.
J.E.L. classification: M41, M42.

1. Introduction

Insuring quality in the audit profession implies a succession of coherent measures to be implemented in all the stages of this approach.

In order to make their activity more efficient, the accounting professionals must know and apply the appropriate norms and procedures for meeting all the objectives in conditions of performance and high quality. Punctually, we are concerned with the regulations of: the national ethics code of the accounting professionals, the rules concerning the continuous professional training of financial auditors, the norms concerning the quality assurance system, the norms and procedures for revising the quality of financial audit, the norms concerning documentation in audit, the norms for reporting audit, and other norms for regulating this profession. The mentioned regulations are not aimed at suppressing the initiative and fair judgment of the auditor. However, if the auditor considers it necessary to stray from the usual audit techniques, they must prove the need to do so and to show that the approach they chose is closer to fulfilling the objectives of the audit mission [1]. At the same time, it is absolutely indispensable to be familiar with the International Audit Standards (ISA) and with other professional standards (ISRS, ISAE, the Internal audit standards, etc.).

According to the *Statements of Membership Obligations (SMO)* issued by the International Federation of Accountants (IFAC) in April 2004 and revised in November 2006, ***SMO 1: Quality Assurance*** presents the conditions to be met by all bodies that are IFAC members, in revising the quality assurance programs for their members, in fulfilling the audit commitments of the financial statements.

Reaching ***true excellence in audit*** *requires creating an institutional culture where* ***quality is a fundamental value*** *reflected in the leadership competences of the management and in the relationships with other institutions* [2]. Quality control becomes essential in planning, executing, and reporting the audit mission. Post-audit checks evaluate if this control improved the efficiency and effectiveness of audit. Moreover, the attention of the providers of accounting financial and audit services must provide the users with information of the highest quality, in compliance with the

provisions of the Green Card of the EC of October 2010, which mentions that "*robust audit is the key to re-establishing the trust of the participants to the market; it contributes to protecting the investors and to reducing the cost of capital for the companies*".

2. Purpose, Objectives, and Methodology of the Research

In our study, we aim to present some viewpoints in specialized literature that concern quality in audit and in the accounting profession at the national level, as well as to stress the current status of knowledge in what concerns the quality of the services provided by accounting specialists.

We wish to give an answer to the question: *Are there explicit references and a legal frame that concerns assuming and implementing quality in the accounting profession in Romania?*

The research methodology used in performing the study concerns both qualitative and quantitative methods. The quantitative part concerns a study that stresses the approaches taken by professional bodies in Romania in order to improve quality in audit. This study suggests a comparative analysis of the Activity reports of the two professional bodies, CECCAR and CAFR.

3. Valences of the Quality of Financial-Accounting Services from the Perspective of the Two Representative Professional Bodies, CAFR and CECCAR

In Romania, there are two professional bodies that coordinate and implement all the necessary approaches for the financial-accounting and audit activity to be performed according to the International Audit Standards, in compliance with the criteria for high quality.

One of the professional bodies with major incidence on implementing and insuring the quality of the accounting profession is the ***Chamber of Financial Auditors in Romania (CAFR)***, as a competent authority that, under the supervision of the *Public supervision body*, performs revisions in order to *insure the quality of the financial audit activity*, since its creation.

Within CAFR, an important function is fulfilled by ***The Department of Monitoring and Professional Competence (DMCP)***, a *specialized structure that performs revisions in order to insure quality in the financial audit activity.* This structure also concerns other activities and professional services performed by financial auditors, natural persons and audit companies. As a result, all financial auditors that are members of the Chamber, natural persons and audit companies, are the object of a *quality assurance system*. This approach is organized as an independent system, according to the provisions of OUG 75/1999 concerning the financial audit activity, republished, with subsequent modifications and amendments, and of the Organization and Functioning Regulation of the Chamber. At the same time, it is also required to consider that after *OUG no. 90/2008 concerning the statutory audit of the annual financial statements and of the consolidated annual financial statements*, all the references to "financial audit" that exist in legislation will be read as references to "statutory audit" [3], when audit is concerned with verifying and certifying the annual financial statements. OMFP 3055/2009 uses the phrase "statutory audit" in art. 5, par.2. The approach is compliant with the changes to the European Directives in audit. As a matter of fact, *financial audit* also includes *statutory audit*, according to Law no. 26/2010 *for the modification and amendment of OUG no.75/1999* concerning the financial audit activity.

The inspections concerning quality assurance are performed in compliance with the provisions of the *Norms on revising the quality of financial audit and of other activities performed by financial auditors, approved by the Decision of the CAFR Council no. 168/08.25.2010.*

The activity performed by the Chamber includes several attributions, such as: insuring the implementation of the control system for the activity of the members of the Chamber by scheduling, organizing, and performing quality inspections; monitoring the compliance by the members with the norms of the Chamber and with the International Audit Standards (ISA); reporting the control activity in order to insure quality; monitoring the financial auditors evaluated with lower grades, by

organizing additional annual professional training courses; making suggestions for improving the quality assurance regulations; informing the Professional Behavior and Discipline Department in case deviations from the norms of the Chamber are noticed.

In Romania, it is absolutely required for the members to comply with the quality assurance provisions concerning: the requirements of the *Code of Ethics*, adopted by CAFR through the Decision of the CAFR Council no. 161/04.14.2010; *the provisions of the International Audit Standards (ISA)* and of other *professional standards (ISRS, ISAE, the Internal audit standards);* the provisions of the *Norms concerning the revision of the financial audit activity and of other activities performed by financial auditors*, approved by the Decision of the CAFR Council no.168/08.25.2010; the procedures concerning *the revision of the financial audit activity and of other activities performed by financial auditors,* approved by the Decision of the CAFR Council no. 182/09.22.2010; the procedures included in the *Guide for quality in audit of March 2010*; compliance with any other *regulations issued by the Chamber*, relevant in applying the revision procedures for the quality of the activity (continuous training, computing and paying the membership fees, etc.).

The second professional body with a significant incidence in insuring the quality of professional services is ***The Body of Accounting Experts and Certified Accountants in Romania (CECCAR).*** It manages the accounting profession in Romania, watching and taking actions for the Romanian accounting professionals to provide the stakeholders only high quality financial-accounting services, which would meet the requirements of the market and of the business environment. The fundamental objectives of the Body are focused on: certifying the quality of the services provided by its members, initial training and continuous professional development of the accounting professionals by meeting the demands for deontological behavior. The attributions of the professional body in this context also refer to*:* granting the right to exert the profession of accounting expert and certified accountant, withdrawing the right to exert the profession of accounting expert and certified accountant, controlling the competence and morality of its members, and last but not least, *controlling the quality of the services provided by its members*.

A specialized structure of the Body of Accounting Experts and Certified Accountants in Romania is the ***Department for Monitoring the Application of Professional Norms and Quality Audit (DUANPAC)***, which makes revisions, according to the law, to insure the quality of the financial audit activity, as well as of other professional activities and services performed by financial auditors, natural persons and audit companies.

The ***quality audit*** performed by CECCAR refers to the *set of measures concerning the analysis of the ways of organization and functioning of an office, evaluating the application within it of each and every professional norm, including checking the compliance with the member obligations*. This activity is performed both on the office and on each and every accounting professional. Quality audit is based on *five fundamental principles* [4]: universality, confidentiality, adapting audit, partnership, and harmonization.

4. Case Study concerning Quality Assurance through Professional Bodies in Romania

In this respect, we will analyze the activity of the Department for Monitoring and Professional Competence, as well as that of the Department for Monitoring the Application of Professional Norms and Quality Audit, according to the activity reports published by them.

Starting from the previously mentioned theoretical ideas, we notice that, in order to improve the activity performed by financial auditors, the activity initiated in recent years, 2009-2011 by the DMCP members, mainly focused on:

- Creating quarterly and monthly inspection schedules;
- Meeting the strategic objectives of the Chamber concerning the monitoring and guidance of the audits that received scores B, C, or D;
- Complying with Decision no. 44/ March 23, 2005 of the CAFR Council, including
- Other regulation and representation

activities.

According to the Report on the activity performed by DMCP, in the year 2007, 350 financial auditors, members of CAFR, were subject to quality inspections, in 2009 - 303 financial auditors, and in 2010 - 284 financial auditors. In 2011, quality inspections were performed on 423 national financial auditors, members of the Chamber, of which 211 (49.9%) are audit companies and 212, that is, 51.1%, auditors that are natural persons. The auditors inspected in 2011 are 149% compared to the auditors evaluated in 2010 and 139% compared to 2009. We could also notice that most auditors performed financial audit activities. At the same time, quality inspections have been performed on other activities and professional services, corresponding to 319 financial auditors, representing 80% of the total evaluated auditors. Of them, 82 members (26%) performed other missions than financial audit.

We can see that the number of persons that were subject to quality control was increasing, which means that the concern with the importance given to the quality of the accounting profession intensified. At the same time, there was a situation when 19 CAFR members have not been checked, because a financial auditor reported to the Chamber the activity as a UCAPI member; two auditors performed a hot/cold review; six auditors reported their activity erroneously to the Chamber; and 10 auditors were included in the theme action concerning checking the way the activity was performed.

For the same period, DMCP inspectors performed, in 10 audit companies, checks and investigations of aspects mentioned in various notifications of public and regulating institutions. According to art. 24 of the *Norms concerning the control of the quality of the audit activity*, the evaluation is done by the inspection team, in relation to the degree of meeting the verification objectives, which express the way in which the auditor complied with the requirements of the Audit Norms and of the relevant International Audit Standards (ISA). In what concerns the grades given for the fiscal year 2010, in comparison with the corresponding periods in previous years, they show an increase in the percentage for the numbers of A grades and a drop in the C grade given to the inspected auditors, while the number of auditors evaluated with grades B and D remained constant. To this there contributed, on the one hand, *the higher quality of the activity performed by the members of the Chamber* who were inspected, and on the other, *the impossibility to compare the data recorded for the fiscal years 2009 and 2010, which were affected by abnormal events, such: improvement of the structure of the audit companies inspected in 2010 and influencing the data recorded for 2009.* We mention that the auditors who received grades B, C, and D were constantly monitored and guided in the period 06.20.2009 – 06.20.2010, as a session of compulsory additional courses were was organized in July 16–18, 2010.

The minimum value of the fees collected by audit companies, of 15 lei/hour, was noticed in the year 2011 in the case of an auditor, legal person, whose activity was evaluated with A, corresponding to an audit mission of a contracted value of 2.500 lei, made for a period of time of 180 hours.

The maximum fee of 422 lei/hour, for the year 2011, belongs to an auditor, legal person, evaluated with A, corresponding to a period of 240 hours, reaching a total value of 101.302 lei. At the same time, the largest contract, of 150.000 lei, corresponding to a period of 500 hours, with a value of 300 lei/hours, was that of an auditor, legal person, evaluated with A.

If we look at natural persons, an hourly rate of 316 lei was collected by an auditor, natural person, from Bucharest, for a contract of 56.937 lei, a value obtained in an interval of 180 hours. The highest fee reported by a natural person was 62.070 lei, corresponding to an activity performed over 240 hours, meaning a value of 259 lei/hour.

According to the provisions of Annex 1, chapter VI, letter B, point 36, letter "h" of Decision no. 274 of December 15, 2011, for the modification and amendment of Decision no. 182 of September 22, 2010 for the approval of the Procedures concerning the revision of the financial audit activity and of other activities performed by financial auditors, "until February 15 of each year, the Chamber of Financial Auditors of Romania will publish on its own web site the lean fee resulted from the quality inspections made the previous fiscal year".

Following the quality inspections

performed by the Department for Monitoring and Professional Competence, for the calendar year 2011, on the audit mission of CAFR members based on the financial statements of 12.31.2009 and 12.31.2010, there resulted a mean hourly fee of: 97 lei/hour.

As for **CECCAR**, it has been performing quality audit activities for over 11 years. In 2008, it had a spectacular growth, receiving particular importance in the general profession management system, by insuring a high standard of the works made by accounting professionals and by raising the users' trust in the activity performed by the professionals.

As a result, the activity of the Department for Monitoring the Application of the Professional Norms and Quality Audit has been very intense recently, the total number of offices audited in 2008 was 2010. A total of 3.624 customer files have been examined, of which: 2.723 files for bookkeeping missions, 263 files for analyzing accounting, 162 files for statutory audit, and 476 files for special missions (accounting expertizes) [5].

In the same time, concerning to the quality of the audit process for legal accounting expertise for 2008, the accounting experts presented, in order to be verified and receive the quality approval for complying with the Professional Standard no. 35 and with the National Code of Ethics for the accounting professionals, 8.291 legal accounting expertise reports from various activity fields, which means a 25% raise compared to 2007, when the number of files was 6.651. We could see that 788 files in the analyzed period took into account the observations made by the quality auditor.

Subsequent analysis showed that this department gives special attention to the aspects referring to quality in the accounting profession, performing an intense activity in this field. The number of verified entities is growing from one year to another, and the results create favorable conditions to performing and developing the accounting profession as a whole.

In the year 2011, responsibility for public interest was again one of the major objectives of the accounting profession, which aimed to insure high quality services supplied by accounting professionals, which is a function of the professional accounting standards, of personal competences and values, and of regulating systems, since all must be coherent and support each other.

The control of the quality of the professional services supplied was in the foreground of the activities for 2011, for which permanent actions were taken, thus insuring a higher standard of the missions performed for the recipients, contributing therefore to improving the users' confidence in the members of the professional body.

The number of offices scheduled to be audited in 2011 was 2.619, of which 2.341 were actually performed (1,383 natural persons and 958 legal persons), representing a percentage of 89% of the number of scheduled offices. Of these, 2.180 were offices approved by the High Council to be audited, plus 370 offices that received grade C for the year 2009, as well as those that obtained grade D for the year 2010.

Most clients resorted to the members of the Body for accounting services (89.5%), followed from a large distance by requests for legal accounting expertizes (5%), other services that imply knowledge of accounting (1.2%), extrajudicial expertizes (0.7%), financial and fiscal consultancy (0.6%), patrimonial evaluations (0.6%), personnel salary services (0.5%), other types of audit (0.3%), assistance in creating and reorganizing trading companies (0.2%).

The number of files under work analyzed in 2011 in the 2.341 audited offices is 6.532, and in relation to the missions, the situation is as follows: 5.358 files for bookkeeping and services of drawing and analysis of financial statements (82%); 1.174 files for special missions (18%); no files have been examined for statutory audit works. Moreover, the quality auditors also made suggestions for quality classifications of the 2.341 audited offices in the year 2011, which were carefully analyzed by DUANPAC in order to issue Dispositions to the audited offices: for quality class A – no offices were suggested; for quality class B – 1,408 offices, that is, 60%; for quality class C – 791 offices, that is, 34%; for quality class D – 133 offices, that is, 5.5%; for quality class E – 9 offices, that is, 0.5%.

The fact that over half of the audited offices were ranked in quality class B (60%), as well as the fact that a significant percentage was ranked in classes C (34%)

and D (5.5%), is explained because in the organization of the respective offices, the professional standards issued by the body are not appropriately applied.

The measures for reducing the differences, taken by CECCAR, have the following structure: 26.687 recommendations for reducing the differences; 2.341 measures for participation in courses for acquiring the professional and ethics standards; 791 measures concerning performing a new check within maximum 2 years; 142 concerning notifying the council of the branch; 133 measures concerning issuing a new code within maximum 1 year; 9 measures concerning the implementation of a permanent supervision system.

5. Conclusions

Nowadays, society needs more and more certification / attestation services provided by the accounting profession. Considering the importance and complexity of the services supplied by accounting professionals, we believe that quality assurance is an essential condition for obtaining performance. Therefore, *continuous professional training is needed in order to perform a responsible and quality activity.*

Quality is a fundamental parameter for any field of activity. In the case of audit, certified information guarantees the users' trust and, through it, business development. Also, before performing this study, we were wondering if *the accounting profession is regulated enough in what concerns the quality of the activity performed by its active members.* The bodies that manage and coordinate the accounting profession in Romania, respectively CECCAR and CAFR, currently have the human resources, including the necessary regulations that allow optimizing this activity. The compliance with the Code of Ethics and with the professional deontology is also, in our opinion, an essential premise for improving the quality and responsibility of the accounting professional. All these would not be possible without the implementation of *quality control departments in each individual professional body.* We can notice an increase in the number of natural persons or audit offices subject to activity control or to quality audit, from one year to another. This action is confirmed by *giving grades (A, B, C, D), which, in our opinion, lead to better quality management.* Also, we can notice that the final dispositions issued by the professional bodies are communicated to the offices for reducing the deficiencies in the established terms. Therefore, in a specific activity, irrespective of its nature, nothing can be worse than lack of control and its actions.

We can say that the accounting profession in Romania, through the two professional bodies that govern it, takes all the approaches, starting from establishing the regulations according to the international norms, imposing their application and the compliance with them by all its members, to the verification of the activity performed by them.

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Audit Conservatism Versus Unique Regulation of Financial Markets in Romania

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Abstract

The theme of our research is related to the new type of relationship between financial audits (statutory) and unique regulation of financial markets in Romania. Recent developments in the regulation of financial markets require a new perspective on the role and place of financial audit in Romania. The main elements of our study are: the relationship between the audit committee and regulatory authority; quality of financial reporting for financial market entities. In this case, financial regulation can coexist with compliance audit. For those synergies to be real we felt that our research must answer the questions on the link between financial auditor independence and audit committee role with financial reporting quality.Our research results show the high importance of the audit committee in ensuring the high quality of financial reporting in the financial markets and seeks to identify potential points of conflict between audit conservatism and unique market regulation.

Keywords: audit conservatism, financial markets, regulatory authority, audit committee, financial reporting.
JEL: M42, M48

1. Introduction

The achievement of this research is the result of the emergence of a regulatory entity for financial markets in the institutional landscape of Romania. This entity will regulate the capital market, insurance market and private pensions market, while money market will remain under the authority of the central bank. Under these conditions new elements occur that redefine the relationship between financial (statutory) audit and regulatory policies of public authorities in the field.It is a well-accepted notion that auditing reduces the information risk in accounting reports, thereby improving investors' investment decision [2]. Thus, we focus on the link between auditing and investment efficiency. Specifically, we model the interactions between the regulator autorithy and investors' decisions and assess how auditing mediates these interactions. We focus on two aspects of auditing: audit quality and auditor conservatism. Audit quality is the probability that an auditor will detect misstatements in financial statements. The audit process may produce either conclusive evidence or inconclusive evidence. Inconclusive evidence (i.e., auditor doubt) raises the issue of the nature of the auditor's attestation. We refer to the attestation of an auditor who, when in doubt, disapproves a favorable client report as auditor conservatism and to the attestation of an auditor who, when in doubt, approves a favorable client report as auditor aggressiveness. Our definition of auditor conservatism is consistent with that used in the auditing profession. When in doubt, a conservative auditor requires her client to make a downward adjustment to the financial statements or else she will issue a qualified or adverse opinion. If the auditor knows her client's financial condition without doubt, a request for a downward adjustment is viewed as a "correction," not as "conservatism."The capital market's pricing rule induces the firm demand for auditing,that, in turn, affects the firm's auditor fee decision. In turn, auditor

fees, balanced against the auditor's litigation risk, determine the auditor supply of auditing. Overall, the demand for and the supply of auditing determine the equilibrium auditor conservatism and audit quality. Companies with high business risk induce auditor conservatism, while companies with low business risk induce auditor aggressiveness. This finding contributes to the literature by linking auditor conservatism to client characteristics and therefore identifying the determinants of auditor conservatism in a capital market setting. We also provide a theoretical explanation for the positive relation between firm business risk and conservatism that has been documented. If auditor conservatism is in force, a greater client pressure on auditors improves audit quality, but if auditor aggressiveness is in force, a greater client pressure on auditors impairs audit quality. Client pressure on auditors can take the form of potential client businesses for the auditor, such as nonaudit services and repeat audit engagements [7]. This result is contrary to the popular belief that client pressure on auditors is always bad. We find that client pressure is desirable when the auditor is conservative. The nature of investment efficiency depends on the auditor's attestation. Given auditor conservatism, an unfavorable report triggers overinvestment. Given auditor aggressiveness, a favorable report triggers underinvestment. In specifying the conditions under which investment inefficiencies arise, we contribute to the literature by identifying the real effects of auditing.

2.Auditor independence and conservatism

The audit committee is a means of enhancing the integrity and quality of the financial reporting process. A strong and independent audit committee may thus potentially serve as a vehicle for auditors to use in their ability to maintain true independence from the pressures of management. Current recommendations that dealt with strengthening the independence of the audit committee (e.g., audit committees should be comprised solely of independent directors), processes and mechanisms to make the audit committee more effective (e.g., audit committees should have formal written charters), and mechanisms that will enable the audit committee to be more active participants in enhancing the effectiveness of the financial reporting process and thus assist auditors in their quest to maintain independence (e.g., all members of the audit committee must have financial literacy and at least one member must have financial expertise). Regularity has provided a vehicle to protect auditor independence by enhancing the type and degree of communication between the external auditor and the audit committee. For example, auditors are now required to discuss the quality and not just the acceptability of accounting principles and estimates. In theory, this should give the auditors an opportunity to question overly aggressive accounting policies pursued by management. When conservatism is strong, a greater client pressure on auditors diminishes audit quality, when the auditor aggressiveness is in force, a greater client pressure on auditors impairs audit quality. Client pressure on auditors can take the form of potential client businesses for the auditor, such as nonaudit services and repeat audit engagements. This result is contrary to the belief that client pressure on auditors is bad. We consider that client pressure is desirable when the auditor is conservative. But when, little is known about how auditors and audit committee members define financial reporting quality and how that will affect the type of communications between the auditors and the audit committee. Further, recent research provides evidence that the changes resulting from the new international auditing standards may indeed result in an enhancement of the auditors' ability to maintain their independence from the pressures of management by more active involvement of the audit committee (AC) with respect to the financial reporting process and with internal auditing. There is a positive association between the effectiveness and knowledge of the audit committee and the quality of financial reporting and that more active and independent audit committees were associated with a decreased incidence of financial statement frauds. Audit committee members with more knowledge in auditing were more likely to express support for external auditors in reporting disputes with management. This implies that audit committees with financially astute members will be more likely to help auditors in their

struggle to maintain their independence from the pressures imposed by management. Experienced external auditors believe that the lack of financial expertise of audit committee members negates the effectiveness of the committee. The effectiveness of audit committees and their ability to help auditors in their quest to maintain true independence may also be somewhat hampered by the strong influence of management. It would be difficult for the external auditor to obtain support audit committees reporting to a dispute with management, if there is a lack of consensus on what constitutes quality financial reporting.

3. Financial regulators versus financial auditors independence

The tasks of the regulatory model shall include the following:

a. undertaking measures aimed at ensuring regular operation of the financial market;
b. undertaking measures aimed at development of financial market and its competitiveness;
c. undertaking educational and information measures related to financial market operation;
d. participation in the drafting of legal acts related to financial market supervision;
e. creation the opportunities for amicable and conciliatory settlement of disputes which may arise between financial market actors, in particular disputes resulting from contractual relations between entities covered by FSA supervision and recipients of services provided by those entities;
f. carrying out other activities provided for by acts of law.The aim of financial market supervision is to ensure regular operation of this market, its stability, security and transparency, confidence in the financial market, as well as to ensure that the interests of market actors are protected.

Supervision of the financial market

A stable, competitive and financial system founded on integrity provides the basis for a functioning economy, sustainable employment and secure levels of affluence. The task of supervising the financial markets is therefore a crucially important one in all national economies.

Integrated supervision

As an integrated supervisory institution, the FSA, which was founded in 2013, brings together responsibility for supervising all significant providers and functions under one roof. The authority supervises, insurance undertakings, pension companies, corporate provision funds, investment firms and investment service providers, investment funds, financial conglomerates and exchange operating companies As an integrated financial supervisory authority, the FSA is able to accommodate all official processes under one roof. As a public body, the FSA has full sovereignty. It is able to issue binding standards, such as regulations and decisions, or impose sanctions such as the withdrawal of licences to operate. In addition, it monitors the companies that fall within its supervisory remit over their entire life cycle, from granting the licence that allows them to trade, through the ongoing supervisory cycles while they are active to liquidation, withdrawal or return of trading licences.

Tiered structure of supervision

Any efficient and effective supervisory system builds on the work of upstream supervisory instances. This is referred to as the tiered structure of supervision. The first tier of monitoring and control is provided by each financial institution's own internal auditing department. The institutions' supervisory boards and auditors form the second tier, which, while appointed by the individual companies, is composed of independent, third-party experts. The state system of supervision takes over at the third stage.All three institutions cooperate closely, and form the Romanian system of supervision of the financial market.

Mission

The primary mission of the institution is to assist through legal, administrative and informational means for the maintenance of stability and transparency on the non-banking financial sector, and to ensure the protection of the consumers of financial services and products.

Regulatory activity

The FSA's regulatory activity includes drafting and adoption of regulations and instructions provided for in the legislation, issuance of guidelines and instructions regarding the implementation and interpretation of the codes and laws. The

Commission adopts secondary legislative acts concerning laws' implementation in relation to the carrying out of financial supervision. The regulation of the market participants' activity is in conformity with the European legislation, norms and practices.

Supervision

The unified financial supervision over the supervised entities' activity monitors compliance with the legal requirements, the companies' financial status and the reliability of information that they provide.The FSA's supervisory activity is being carried out through off-site supervision and on-site examinations of the licensed market participants' activity.The purpose of FSA's controlling activity is prevention and termination of legal violations in view of ensuring protection of the interests of investors, insurers and the insured persons.

Licensing regime

In its licensing activity the FSA is guided by the principle of impartiality and implementation of a unified approach and criteria with respect to all applicants. The FSA examines the documents that have been attached to the applications for permit issuance or amendment of one that has already been granted in view of their compliance with the regulatory requirements.

Sanctions

Upon establishment of offences on the supervised entities' side, the FSA imposes coercive administrative measures. They include the issuing of recommendations to undertake specific actions, fines and property sanctions.Our analysis indicates that the regulatory concern about nonaudit services potentially damaging auditor independence and audit quality is partially valid. If we interpret a violation of auditor independence as the auditor biasing her opinion in favor of the client due to financial incentives, then auditor aggressiveness in our model is a violation of auditor independence. Opponents have countered that restricting nonaudit services may be inefficient because it damages the synergy between audit and nonaudit services. We have deliberately assumed away any synergies between audit and nonaudit services and any direct benefits of nonaudit services to the client firm. The relationship between the National Securities Commission - the regulatory body of the capital market - and financial audit can be extended to the single regulatory authority, authority to possess a broad area of responsibility. In this sense, insurance companies and private pension funds can assimilate capital market entities, when acting as investment funds.In this case, financial regulation can coexist with compliance audit. For those synergies to be real we felt that our research must answer the questions on the link between financial auditor independence and audit committee role with financial reporting quality.

4. Research methodology

We conducted this research in an effort to identify the possible divergence between the type of regulations that can emit single regulatory authority and the audit process. New regulator will operate on two levels, issue general regulations apply to all three categories of financial markets, capital market, insurance market and private pensions market, but in the same time and in greater extent will issue specific regulations of each market in part. We want to identify the extent to which audit the entities in these markets will be influenced by these changes. Interest is our largest to determine whether the audit can identify any changes in the new regulatory requirements on quality of financial statements.We conducted a study to show the effects of regulation of the single financial authority to audit *:*

- Functions and responsibilities of the audit committee.
- Quality of financial reporting.
- Communication with the audit committee.

Research Question 1: What do financial auditors consider as important functions and responsibilities of audit committees and what are the resulting implications of these issues for auditor independence?

Research Question 2: What are the factors that financial auditors perceive determine financial reporting quality and what role does the audit committee play?

Research Question 3: What factors affect the level and quality of communications between the financial auditors and the audit committee?

Our research sought to identify the challenges and opportunities raised by a single financial supervisory authority to the independent financial auditor . The study was conducted on a total of 34 respondents who expressed an opinion on the functions and responsibilities of the audit committee , the quality of financial reporting and the quality of communication with the audit committee. The major functions of an audit committee are to oversee the financial function of the Company. They should have oversight responsibility for systems of internal controls, quality financial reporting and disclosure and financial risk management. Almost half of the respondents (45 percent) also indicated that ensuring quality internal controls and overseeing the audit process, including regularly reviewing the relationship between the company and its external auditors, are important responsibilities of an audit committee. This latter finding suggests that audit committees potentially may evaluate if there is too close of a relationship between management and the auditors that may call to attention a perceived lack of independence on the part of auditors. Surprisingly, despite the emphasis placed by the auditing profession on the potential importance of the interactions between the audit committees and the internal auditors, few auditors (14%) stressed the role of the audit committee in enhancing the effectiveness of the internal audit function.The legislation requires has called for the auditor to discuss with the audit committee the quality and not just the acceptability of the financial reporting process. This recommendation is consensus on what constitutes "quality," it will be highly unlikely that audit committees would align with auditors in financial reporting disputes with management. However, the recommendation raises the issue of how "financial reporting quality" is to be defined. In this regard, auditors were asked an open-ended question regarding factors they consider important in determining financial reporting quality.

5. Conclusions

In conclusion, we asked three questions regarding communications between the external auditor and the audit committee. First, in an open-ended question auditors identified audit committee factors or characteristics that encourage an open and frank communication. The most frequent factors cited were: competency (45 percent); independence (24 percent); private meetings with the audit committee (19 percent); and receptive to auditors questioning financial reporting positions (19 percent). In a second open-ended question we asked participants to identify auditor or audit firm factors that encourage strong communication. There were no overwhelming factors noted. However, those that were cited were: develop a strong relationship with the audit committee (21 percent); knowledge of client/industry/ audit committee (17 percent); frequent meetings (10 percent); challenge the audit committee on financial reporting issues (10 percent); alter the contract with the financial auditor (longer term, limit liability, rotation, hired by audit committee) (10 percent); and willingness to lose a client (10 percent).Our country, as a parcel part of the international agreements concerning the regulations institutions of insurances and pension funds, respectively, signer of Memorandum of Understanding on Cooperation Between the Financial Supervisory Authorities, Central Bank and Finance Ministries of the European Union on Cross-Border Financial Stability and taking into consideration Romania's market structure, where the monetary market holds 94%, and the difference of less than 5% representing the capital market, the insurances market and the market of private pensions, heads to a dual model, similar to the one of Bulgaria, in which the monetary market regulation stays at BNR, and the regulation of the other markets will realized by one institution.This model presents the advantages of a real moment projection of the financial market characteristics from Romania, leading to the growth of financial stability and a better risk management on this market, leading to a better reference with the European profile institutions. The disadvantage of this kind of institutional regulation consists in the implementation in a certain inferior situation of the financial markets, other than the monetary market, which might affect the developing rhythm in the future. It requires an alignment of regulations for financial markets with

international audit standards without undermining its independence in condition of audit conservatism, all print can be made good communications with the audit committee. Therefore, it is possible that the mixed empirical evidence on the economic consequences of the directives of financial authority is due to the use of pooled samples in empirical studies that combine firms with the independence of auditors.

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Empirical Evidence of a New Trilemma

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Abstract

The scope of this research paper is to investigate the trade-off which appears when dealing with the "new trilemma" (formed by price stability, financial stability and sovereign debt sustainability) brought forward by Duvvuri Subbarao. More specifically, the paper offers interesting empirical proofs on the existence of trade-off within the "holy trinity" using the Principal Components Analysis (PCA) and confirming the robustness of the results with a cross-country panel OLS regression.

Key words: trilemma, holy trinity, price stability, financial stability, sovereign debt stability, Principal Components Analysis
J.E.L. classification: C31, C38, E31, G21, H63

1. Introduction

In the economic context created by the international financial crisis triggered in 2007, central banks were called to face an additional challenge, other than the traditional one – of *maintaining the stability of the prices* – namely: the development and maintaining of a stable financial environment and the ensuring of the premises necessary for obtaining macroeconomic stability. However, this challenge is not a novelty, for the preservation of financial stability is actually one of the reasons for which these institutions were created from the very beginning (especially if we consider the bank run episodes towards the end of the 19th century and the beginning of the 20th century). In this context, this research paper aims at investigating the trade-off that appears when dealing with the *new trilemma* (or the *Holy Trinity*) that the Governor of the Reserve Bank of India [22], [23] brought forward. More specifically, the paper highlights the positive and negative effects that the central bankers would face if they were to expand their responsibility from a single objective to multiple objectives of price stability, financial stability and sovereign debt sustainability. To better highlight the existence of trade-off within the *new trilemma* two individual empirical techniques have been used: the *Principal Components Analysis* (PCA) and an *estimated cross-country panel OLS regression.*

The rest of the paper is structured as follows: section 2 briefly sketches some aspects related to the international context given by the relation between price stability and financial stability as main responsibilities of central banks and the involvement of the ECB in ensuring the stability of the states in the euro area. Section 3 of the paper presents the methodology and data sources while in section 4 the authors normalize the data. Section 5 and 6 presents some empirical arguments supporting the existence of the new trilemma while section 7 concludes and gives perspectives for policy.

2. International context

During the past two decades, the financial turbulences which occurred in the financial globalization process determined the intensification of the debates amongst authorities, as well as in the literature, with regard to the relation between price stability and financial stability; in this context, two essential approaches, namely the *traditional approach* and *the new environment* approach took shape [3]. Moreover, national authorities had to use several fiscal, monetary and prudential instruments in order to ensure macroeconomic and financial stability in the given context. In order to attain these objectives, monetary authorities had to work closely with other institutions, particularly

tax and regulatory authorities, but this approach did not affect their independence. If, in the economy of the years before 2007, the mission of central banks, including the European Central Bank (ECB), was simple or at least clearly defined – they had to *keep inflation at low and stable levels* – the events from the last years posed a new challenge for monetary authorities, that of preserving financial stability. In addition, in the context of the sovereign debts crisis in the Euro Area, ECB is called to become actively involved in ensuring the stability of the states in this area.

The financial crisis is considered by some [23] a punishment for central banks because of the fact that they neglected financial stability in their "wild race" to ensure price stability. ECB was thus forced to grant more attention to financial stability (although there are still for and against opinions with regard to the statutory involvement of a central bank in ensuring the stability of the financial system, as well as with regard to institutional arrangements), while not losing sight of price stability. In addition, ECB is called at present to take into consideration the possibility of becoming involved in ensuring the stability of the sovereign debt market. In this case, the problem is whether the ***new trilemma*** – simultaneously ensuring *price stability, financial stability* and *sovereign debt stability* – is truly impossible? The literature does not have any theories to support the fact that these objectives are incompatible. We can go even further and argue that the three objectives can support one another and that together they sustain economic development and growth, thus constituting not an impossible trinity but, on the contrary, as argued by Subbarao [23], a "Holy Trinity" of objectives. The question to which we must find an answer is not whether it is possible or whether we should try to (simultaneously) achieve all three objectives (the answer being more than obvious), but to what extent ECB should become involved in solving this trilemma. The opinions are also divided in this respect.

As the sovereign debt crisis worsens, several voices – from academic circles and from the area of economic policies – ask the European Central Bank to adopt a more *active* attitude for solving this problem by purchasing a larger volume of securities (sovereign debt). The absence of a lender of last resort (LOLR) was considered an essential weakness of the euro area. After forming a general view with regard to the current situation, we mention the position adopted by most German officials, who declared themselves against the involvement of the LOLR function of ECB in the problem of sovereign debt, and the position of South-European officials, who are in favor of such involvement. The position of the French officials is balanced, although we may notice a slight sympathy for the *pro* camp.

Focusing our attention on the long-term financing operations (LTRO) of the ECB, we notice that they have been firmly analyzed and debated. As concerns the LTRO operations from February 2012, by supplying a significant and cheap volume of liquidity to commercial banks, ECB officially expressed its intention to prevent a liquidity crisis which may have ruined one or several banks in the euro area, as it happened in the case of the Lehman Brothers collapse. According to another interpretation of the actions undertaken by BCE – which is maybe at the opposite pole in relation to the first interpretation – the monetary authority has thus indirectly supported the market of sovereign bonds. The two opposite camps are delineated by the very way in which they position themselves in relation to the two interpretations: one *for* and the other *against* the involvement of ECB (by undertaking the function of LOLR) on the market of sovereign bonds [4].

3. Methodology and data sources

To better highlight the existence of trade-off within the ***new trilemma*** – simultaneously ensuring *price stability, financial stability* and *sovereign debt stability* – two different empirical techniques have been used, namely: the *Principal Components Analysis* (PCA), known also as Hotelling transform or Karhunen-Loeve transform (using the SPSS software), and an *estimated cross-country panel OLS regression* (using the EViews software).

The study uses yearly data from 2007 to 2011 for the countries from the Euro Area (17 countries) for 3 main categories of variables: price stability, financial stability and sovereign debt stability.

To capture the movement of price

stability, the analysis uses the overall index of HICP (Harmonised indices of consumer prices), excluding alcohol and tobacco (with 2005=100 as reference period), from the Eurostat data base.

As mentioned earlier in the study, unlike price stability, financial stability is not so easy to measure given the interdependence and the complex interactions of different elements of the financial system among themselves and with the real economy. However, this didn't stop researchers from central banks and elsewhere to try capturing the conditions of financial stability through various indicators of financial system vulnerabilities. Following the findings of Gadanecz and Jayaram [12], the study assess financial stability through four main indicators of key sectors of the financial system: GDP growth (pertaining to the *real sector*), real exchange rates (reflecting the conditions in the *external sector*), private sector credit (a proxy for the *financial sector*) and house prices (for describing the *household sector's* health). Therefore, using the Eurostat scoreboard platform we extracted for the 17 countries the following indicators to asses *financial stability*: the Real Effective Exchange Rates (percentage change, 3 years), the Real GDP (year over year percentage growth), House Prices (year over year percentage change) and the Private Sector Credit flow (percentage of GDP).

As for sovereign debt stability, we used an indicator that captures the volatility in General Government Debt (as year over year percentage of GDP) from the Eurostat scoreboard platform.

4. Normalizing the indicators

Given the fact that the indicators mentioned above do not always present the same measurement unit, their values have to be normalized. The most employed normalization methods used in the literature are: statistical normalization, empirical normalization, axiological normalization and mathematical normalization [1]. To normalize the indicators, the study uses the following formula:

$$I_{it}^{n} = \frac{I_{it} - Min(I_{it})}{Max(I_{it}) - Min(I_{it})}$$

where, I_{it} represents the value of one of the indicators mentioned above during a *t* period while $Min(I_i)$ and $Max(I_i)$ are the minimum respectively the maximum value registered for a certain type of indicator in the analyzed period. The results, I_{it}^{n}, is the indicator's normalized value.

Regarding the four main indicators describing *financial stability*, the study aggregates their individual values into a *composite financial stability* index (giving them the same importance regarding their weight in the index).

In conclusion, the research uses the following yearly variables for the 17 countries:

Table 1. Input data used in the study

Ps – Price stability	*Individual indicator:* HICP (2005 = 100) - annual data (average index and rate of change), overall index excluding alcohol and tobacco
Fs – Financial stability	*Aggregate index* grouping the following individual indicators: - % Change (3 years) of Real Effective Exchange Rates with HICP deflators; - % y-o-y change in House Prices; - Private sector Credit flow as % of GDP; - % y-o-y growth of real GDP.
Ds – Stability of Sovereign debt	*Individual indicator:* y-o-y General Government Debt as % of GDP

Source: Eurostat, Eurostat scoreboard platform

5. Empirical results of the PCA analysis

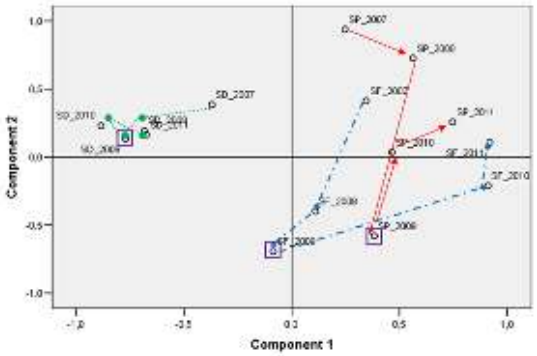
The aim of the principal component analysis is to explain the variance-covariance structure of a set of variables through a few linear combinations of these variables. Its general objectives are (1) data reduction and (2) interpretation.

The Principal Component Analysis was chosen since it represents a powerful tool for analyzing data by reducing the number of dimensions, without important loss of information. In other words, the PCA reduces the large dimensionality of the data space (observed variables) to the smaller intrinsic dimensionality of feature space (independent variables), which are needed to describe the data economically.

After applying the PCA method, a series of results were obtained, but the authors consider appropriate to focus on and to interpret the most representative and suggestive results: *Component Plot* and

Graphic of regions representations. It should be noted that all the necessary steps were covered, directing the research towards the two factorial axis graphs.

Figure 1. Component plot

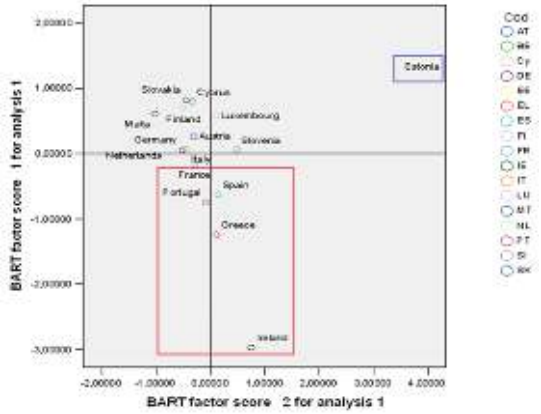


Source: Authors elaboration

The position of variables from the first axis of the Component Plot graph shows a *strong* and *direct relationship* between two analyzed variables: *financial stability* and *price stability* (see Figure 1). Therefore, a variation of price stability will lead to a *strong* and *unidirectional* (the same direction) variation of financial stability. Nevertheless, the situation is different when dealing with the third variable (sovereign debt stability): there is an *inverse relation* between this variable, on the one hand, and financial stability and price stability on the other hand. One can see the positioning of the **Ds** variables on the left side of the graphic, while on the right side there are the **Ps** and **Fs** variables.

When analyzing the trajectory that the values of the three indicators displays over the 5 years period, one can notice a "V"-shape pattern (for all three variables) with an extreme value in 2009 (see Figure 1). An interesting aspect is the fact that the positions of the three indicators are quite reversed in 2009. In other words, there is a *direct* relation between financial stability and sovereign debt stability, and an *inverse* relation between the above mentioned variables and price stability. Nevertheless, this exception comes to reinforce the rule according to which in a market economy, especially in the case of the Euro Area, all the three points of the *new trilemma* cannot be touched at the same time (when dealing with the same institution) thus highlighting the existence of a trade-off between the 3 types of stability.

Figure 2. Graphic of state representations



Source: Authors elaboration

The second graph (see *Figure 2*) reflects the adjusted position considering the stability priority of the Euro Area countries in the 2007-2011 period. One can see that countries like Portugal, Ireland, Greece and Spain formed a separate aggregate group from the rest of the Euro Area countries. When overlapping the two charts (Figure 1 and 2), one can notice that the ***PIGS*** countries directed their macroeconomic policies towards maintaining *financial stability* and *price stability* in 2007-2011 (with the sacrifice of sovereign debt stability). Thanks to a substantial financial effort, Italy detached itself from the group of PI(*I*)GS countries and realigned to the group of (relative) stable states, directing their macroeconomic policies to maintain the *sovereign debt stability.*

Another interesting observation should be made by the different positioning of the last newcomer in the Euro Area: Estonia (in 2011). The Baltic state is situated in the area concerned with assuring *price stability*, focusing its attention on achieving the main objective of the Central Bank. Estonia will have to make a considerable effort to align with the other states from Euro Area.

Using the *Principal Components Analysis* method and focusing on the most representative and suggestive results, the research paper highlighted the existence of the *New Trilemma* in the Euro Area.

6. Empirical results of the cross-country panel OLS regression

In the second analysis, the paper estimates

a pool equation by using the least squares (OLS) method (and AR), with correction for *random effects* in the cross-section dimension, in order to highlight the trade-off within the *new trilemma*. As a dependent variable, the research paper takes into consideration each of the three indicators describing the trilemma (*Ps, Fs* and *Ds*) as follows:

$$M_s^0 = c + \omega_1 * M_s^1 + \omega_2 * M_s^2 + \varepsilon$$

where, M_s^0 is, at a time, one of the three indicators describing the trilemma (Ps, Fs and Ds) and M_s^1 and M_s^2 are the other two indicators; c is the constant and ε is the error term.

The estimated models, regressing Ps, Fs and Ds on the other two common regressors, with a crosssection random effect, are presented below:

$$P_s = 0.33 + 0.38 * F_s - 0.20 * D_s + \varepsilon_1 \quad (1)$$
*(0.117)*** (0.186)** (0.109)**

$$F_s = 0.49 + 0.13 * P_s - 0.21 * D_s + \varepsilon_2 \quad (2)$$
*(0.046)*** (0.063)** (0.061)***

$$D_s = 0.77 - 0.61 * F_s - 0.19 * P_s + \varepsilon_3 \quad (3)$$
*(0.087)*** (0.172)*** (0.106)**

() - standard error in parenthesis;
***, ** and * being the 1%, 5% respectively 10% significance level

According to the results of the three estimated pool equations (1, 2 and 3), for the 17 countries in the Euro Area, and for the 5 years period (2007-2011), there is a ***direct*** relation between the indices of *financial stability* and *price stability* (depicted from the positive sign of the estimated parameter in equation (1) and confirmed by the results of equation (2)), and a ***negative*** relation between each of these two indices and the indicator of sovereign debt stability (as one can conclude from the negative sign of the estimated parameters in equation (3) and confirmed by the results of equation (1) and (2)).

Therefore, one can say that for the Euro Area, the countries pursuing *financial stability* and/or *price stability* in the 2007-2011 period, have lost in term of *sovereign debt stability* proving thus empirical proof of the existence of the new trilemma.

7. Conclusions

Ensuring financial stability is a natural concern of central banks, resulting from their specific prerogatives with regard to the elaboration and implementation of monetary policy, the role of bank of the banks and with regard to the regulation and monitoring of payments in economy. The significant changes on financial markets in the context of the current international crisis, the increase of the risks for financial stability, as well as the severe negative consequences of financial instability for the functioning of financial institutions and markets and for economic growth and price stability determined central banks to pay more attention to ensuring financial stability during the past years.

The Principal Component Analysis (PCA) showed us that there is a strong and direct relationship between financial stability and price stability (where a variation of price stability will lead to a strong and unidirectional variation of financial stability) and an indirect relation between these variables and sovereign debt stability (with a *V-shape* pattern over the 5 years period span of the trajectories for the three indicators and). The results highlight the existence of a trade-off between the 3 types of stability. The above mentioned trade-off within the *new trilemma* is also confirmed by the results of the cross-country panel OLS regression. Therefore, for the Euro Area, when pursuing *financial stability* and/or *price stability* in the 2007-2011 period span, countries have lost in term of *sovereign debt stability* proving thus empirical proof of the existence of the new "Holy Trinity".

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Reorganization, a Possible Bridge over Bankruptcy

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Abstract

In the economic context of competitive market of today and from the perspective of European integration, even big companies can get in trouble. Because their executives or managers are not able to deal with difficult issues by taking effective and timely measures, companies may not keep the position in their field of activity and end up in a situation of lack of liquidity, record profit decreases or excessive debt. If they are not recovering quickly, even viable companies lose the moment of market and especially the possibilities to generate cash and the creditors, bondholders, investors, management and employees are forced to seek solutions to recover various rights to society.

Keywords: Company in difficulty, Insolvency, Reorganization, Restructuring Strategies, Liquidation.
J.E.L. Classification: M41

1. Introduction

The financial crisis represents a situation of economy characterized by instability and uncertainty.

In Romania, the financial crisis was perceived at its real dimensions long after release, although there were clear signs that outlined an economic recession: closing many factories that were operating in Romanian economy before 1989 and that were more or less profitable, loss of important markets, restricting others, alarming rate of unemployment, withdrawal of foreign investors.

A healthy market economy is characterized by free and rapid circulation of goods and money in a loop that repeats continuously: production-goods-money-production. In this course, the commerce is the engine of the market economy, but the freedom of commerce has created competition, and this led to commercial risk [1]. Thus, commerce appears as an economic activity, as a more or less predictable risk. In terms of risk, an economic activity may be bankrupt as far as it does not provide money needed to initial cycle resumption[2].

In general, a business failure comes from a continuous process of degradation of its financial-economic status, predictable process based on anticipated failure symptoms. Whereas in the past 20 years the issue of bankruptcy was the area of interest of many researchers and practitioners and has been legally, economically and financially addressed, we wonder why in an economy in which companies economic inability to pay is chronic, and companies capital diminishes obviously, their managers and clients prosper and no one is punished for fraudulent bankruptcy[3].

Unfortunately, the facts show how many companies are in insolvency. The statistics of Romanian companies that manage to successfully escape from insolvency is only 2%, 98% of the companies reaching to bankruptcy.

In terms of accounting, liquidation prohibits the beginning of any economic activity since the moment of dissolution judgment of the entity. To liquidate the

company will be used and will be determined the liquidation values or of forced sale, namely: the amount that can reasonably be collected from the sale of a property in a time too short to be consistent with the time specified in the definition of market value[4]. Liquidation value is calculated based on the sale of individual assets as quickly as possible, taking into account the costs associated with liquidation (commissions, fees, administrative costs, legal fees and taxes and so on).

2. Need for reorganization procedure

The main purpose of the reorganization plan coincides with Law no 85/2006, namely covering debtor's liability in insolvency.

The main way to achieve this goal, in the modern conception of the law, is reorganizing the debtor and maintaining the company in commercial life, with all the social and economic consequences resulting from it. Thus it is revealed the economic function of the procedure established by Law no 85/2006, namely the need for rescue company in insolvency by reorganizing it, including economic restructuring and only secondarily, in terms of reorganization failure or lack of debtor viability, the use of bankruptcy procedure in order to satisfy the interests of the creditors.

Reorganization by debtor's work continuity assumes some structural changes in the current activity of the company in difficulty, maintaining the object of activity, but aligning the conduct of business to the new strategy, according to available resources and to those to be attracted, all these applied strategies are designed to make profitable the company's core business.

The reorganization plan, according to the spirit of Law no 85/2006, must meet the lato sensu reorganization goal, namely maintaining debtor in business and social life, with the effect of maintaining the debtor's services and products on the market. However, reorganization means to protect the interests of creditors who have an extra chance to achieve their claims. This is because, in the modern conception of the law, is more likely that a functional business to produce resources needed to cover liabilities than debtor's assets liquidation in bankruptcy. Arguments that plead for liability coverage of the debtor company by reorganizing its business are emphasized especially in the current economic context characterized by an acute liquidity crisis and significant decrease of demand for the purchase of property. In this economic context, the attempt to cover debtor's liabilities by liquidating its property will require a fairly high recovery interval generated by market circumstances affecting demand for the assets of the debtor company[5].

The reorganization plan proposes to act for the structural change of society on several levels: economic, organizational, managerial, financial and social primarily aiming to pay debtor's liabilities, viable recovery of the activity under strict control of the receiver in terms of achieving the mentioned goals.

2.1. Economic aspect

Economically, reorganization procedure is a mechanism that allows the trader being in a precarious financial situation, to recover and to pursue trade.

From a conceptual point of view, the reorganization means drawing realistic goals that must be achieved within the timeframe planned in terms of new business employment, launching new goods and services on the market and improving the quality and quantity of products and services already launched. The reorganization plan is a real recovery strategy, based on the adoption of appropriate policies for management, marketing, organizational and structural policies.

2.2. Social aspect

Reorganization of the company and business continuity expresses its social effects by keeping existing employees within the company, and recovering the activity will require new employment.

This report is designed so as to create the possibility of increasing the number of directly productive employees who have a significant role in the marketing, as the company seeks to gain considerable profit from its business, profit meant for the payment of liabilities.

At employment, the company will consider, in addition to the criteria of

competence and efficiency, the former employees left without jobs for extrinsic reasons, employees of which most have not found another job after dismissal or work for wage small, for lack of an alternative.

2.3. Advantages of the reorganization

The main premises for company reorganization are the following:

- its ability to recover activity;
- society still has good relationships with suppliers;
- its material basis allows it to operate;
- existence of surplus assets in relation to the core business of the company that generates rental income or may be an alternative source of income by selling them.

Starting company's reorganization proceedings and resuming the trading process will create the opportunity to generate additional cash flows which will allow the distributions to creditors after the first receipts from the procedure.

Selling all assets of the company in case of bankruptcy would eliminate any chance of recovery for unsecured and budgetary creditors that leads to the alienation of this property to a value below not only its real value but also secured creditors value that would meet claim in much smaller amounts than reorganization.

Continuing reorganization proceedings are measures intended, by their purpose, to satisfy the interests of secured, wage, budgetary creditors and certain unsecured creditors and debtor's interests that continue to operate with all social and economic consequences thereof[6].

Reorganization process involves other advantages:

Continuing current activity considerably increases the merchantability level of the goods of an "active" company to the situation of a "dead" company's patrimony (patrimony that, unused, undergoes inevitable degradation until alienation);

Also, continuing work considerably increases the chances that the company's assets to be sold as a set in operation (as a business), even in the event of inadvertent opening of insolvency proceedings;

2.4. Advantages for secured creditors

As far as secured creditors are involved, the implementation of reorganization plan has benefits regarding the recovery of claims held by them. The percentage of coverage of such claims, as it is proposed to be achieved by the Payment program is 100% of the secured claims.

Assuming openness to the debtor on the bankruptcy proceedings regarding covering claims in this category there is only partial risk of their coverage. This risk is mainly caused by latent market for existing real estate of the debtor's assets and the current liquidity crisis in the financial market caused by current financial crisis.

2.5. Advantages for wage creditors

Wage creditors would recover the debt also in bankruptcy, but only after liquidating assets and payment of procedure expenses. However it is noted that a part of the wage creditors in the table are still enrolled employees of the company, for them continuing company's work means the chance to keep their work under a labour market hit hard by massive layoffs in the private economy.

2.6. Advantages for budgetary creditors

The reorganization alternative is the only that ensures the budgetary claims, given that, although there are unencumbered assets of the liquidation value of their tasks does not cover claims resulting from the continuation of the business after the opening of proceedings, which according to art. 123 are paid before budgetary claims; only recovering the activity can provide the necessary resources to cover several categories of claims, including budgetary claims;

Reorganization process offers another clear advantage of budgetary creditors: approved system of instalment payment provided in the reorganization plan establishes a rigorous regime of control of payments made to state budgets;

2.7. Advantages for suppliers

The main advantage for suppliers of the debtor is the opportunity to partially recover financial claims held against the debtor. Thus, if the debtor is insolvent this category of creditors, which is found in the group of unsecured creditors, will have no chance to recover claims held against the debtor. This is because in the event of liquidation of the debtor's assets, the financial resources will cover the value of secured claims, wage claims and claims arising out of continuing work after the opening of proceedings, liquidation of the debtor's assets not generating sufficient financial resources for making distributions to unsecured creditors.

Continuing commercial activity necessarily involves continuing collaboration with suppliers with which continues the development of commercial activity currently, some of it creditors of the company. Working with an economic partner whose widely raw material is satisfied in this segment of the market is an important source of revenue for companies supplying, source that would disappear if insolvent.

3. Conclusion

The bankruptcy of a company situates the debtor and creditors on antagonistic positions, first seeking full recovery of the claim against the debtor's wealth, and the latter maintaining the company in business life. If the interests of creditors in bankruptcy preclude the possibility to save the interests of the debtor, whose wealth is sold (liquidated) entirely, in case of reorganization the two goals are aggregated, the debtor continuing his work with the result of its economic growth, and creditors take advantage of the maximization of capital value and additional cash acquired, and thus achieving claims in a higher proportion than that which would be achieved in the event of bankruptcy.

Comparing the degree of satisfaction of claims under the two procedures shows that in both cases there is a marketable assets for the payment of liabilities, but that in the reorganization procedure, at the liquidity obtained from the possible sale of the debtor's wealth that are not necessary successful to the plan is added the substantial profit resulted from continuing the debtor's activity, all meant for payment of liabilities.

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Criteria for Substantiating Decisions under Risk

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Abstract

Exponential technological societal development was made possible trough risk-taking, and economic growth could not be realized if certainty was put prior to risk. The market economy has in its essence assuming some risks, that without them the activity of an economic agent under risk would be impossible.

Key word: decision, risk management, intensity of the risk
Classification J.E.L.: G02

1. Introduction

Risk management has as a vital component: the decision activity, considered as a continuous process of suitability of the structures and instruments of the financial and banking entities to the challenges and requirements of the financial market environment.

The decision activity, interpreted in a both descriptive and normative approach, circumscribes to a system in action subject to rules and an immanent decisional logic, regardless of the quality of the decision act and the performance of the system. [8]

The decisional acts in the financial-banking branch targets in the first place the insertion of performance entities in an environment characterized as uncertain, risk generator and loss for the financial entities, improvement in the decisional act implying system analysis and decision logic. Analysis which can be methodologically segmented in three phases: [2]

1. Knowing the essential elements of the determinant factors and variables of the decision process and the impact of the risk concerning them;

2. Critical analysis of decisional processes utilizing principles, methods and tools specific for the analysis and modeling of complex systems;

3. Highlighting deviations and decisional deficiencies with respect to the character, intensity and amplitude of the risks and also determining corrections and adjustments necessary for the decrease, covering and elimination of the risks. [10]

Whether structural modeling of the decision-making process is done in descriptive perspective in order to understand and describe the risk oriented decisional mechanism, or from the normative perspective in order to formulate and set rules regarding the decisional process, the essential elements of this process are the following:

- the decider which represents the subject which adopts the decision in risk conditions;
- the decisional problem, which emphasizes the characteristics and the impact of the risk;
- the possible decision alternatives within the decisional situation given;
- establishing the set of criteria upon which the decision maker chooses favorable alternative;
- qualitative and quantitative analysis of the consequences of decision alternatives;
- choosing the favorable decision option, this representing the core of the decisional act;

2. Analytical process for decisions taken under risk

Analytical process for decisions taken under risk circumscribes some cognitive methodological elements necessary for the adequate functioning of the decisional process, namely:

- accentuating the trigger element of the decisional act which can be: covering, decreasing or eliminating the risk;
- clarifying the decisional tension

determined by the information gaps, and also aiming for the formulation of the decisional problem;

- elaboration of an analysis and interpretation decision model during risk conditions;
- setting a decisional brainstorming session in order to offer decision alternatives and to permit the most favorable alternative choice;
- the implementation of the decision, monitoring and controlling the achievement of its objectives.

The decision process analysis during risk conditions of financial and banking entities is based on two complementary methodologies:

- *constructive methodology,* which deals with the structural and instrumental reconfiguration of the activity affected by the risk, aiming to avoid the manifestation of the loss generating risk;
- *ameliorative methodology*, dealing with the adaptation and adequacy of the existing structures and instruments with the purpose of decreasing the losses generated by the risk.

Overall the financial entity, the loan decisions during risk conditions may generate losses which represent the quantitative value dimension of the incapacity of the financial entity to completely master the environment meaning the loans market. Depending on the development and size of the losses due to the risk, the credits are structured on risk classes, credits with losses regardless on their nature or their dimension, constituting bad loans.[4]

Confronted with an uncertain environment, characterized as a diversity of risks, the financial and banking institutions often base their loan decisions on credit rating systems, this representing the main element of risk evaluation and maintaining rigor to the internal process of lending. In this sense, improving the system of credit rating and monitoring the credit facilities may lead to the increase the rigor and objectivity of the risk analysis, to an accurate identification of the types of risk and to a correct quantification of them.[5]

The experience of utilizing this system highlights the fact that the distinction between different types of risk within the portfolio of the financial institution is essential, but also that their ranking and the establishment of the loan risk classes (their number varying from 5 to 20) is vital.

The importance of the rating in substantiating a loan decision resides in the fact that by utilizing both a coherent and complex methodology and instruments of quantification that can be flexible, information related to the degree of risk concerning each loan may be provided. But also information may be give on certain categories (groups) of loans and on the entire loan portfolio of the financial entity. [1]

Generally, for the classification depending on the risk of a loan associated to a client, the bank needs relevant information for the adoption of any decision. Information that have a mix of qualitative and quantitative indicators provided mainly by the financial and accounting documents of the client.

In the conditions of increasing competitiveness between the financial and banking institutions, the internationalization of the activities and processes accomplished by them, of more complex and volatile financial instruments being transitioned on the market, the decisions of this entities assume in the first place an adequate estimation of the risks and in the same time the establishment of mechanisms and instruments in order to diminish, transfer or cover the risks.[9]

At the level of the banking entity the *improvement of the decision process* during risk conditions should focus of the following *four aspects*:

1. defining, integrating and implementing the risk management function;
2. enhancing the internal credit rating systems in order to evaluate qualitatively the portfolios and the credibility of the customers;
3. utilizing the instruments and statistical and econometrical modelling methods of risk administration;
4. Promoting a decisional strategy focused on the project analysis that can permit the selection of the markets, the consolidation of the portfolios and the improvement of the performances.

3. Criteria for substantiating

Decisions under risk condition are characterized by the existence of more states

of nature of processes with probabilities of appearance that are known and through the application of less controllable and insufficient known variables. In this situation the choice of the optimal variant or option can be done using more rules and trough the use of the degree of optimum choice affiliation method.[3]

1. Pessimistic criterion of Abraham Wald

This criterion takes into account the minimum earning that corresponds to each state of functioning. The optimum option is that which will lead to the highest of the minimum earnings. It can be said that the best choice in the Wald sense is if:

$$U_{opt} = \max_{a} \min_{b} Uab \qquad (1)$$

Where: U_{ab} is the utility of the option "a" in objective conditions "b".

2. Hurwicz optimistic criterion

The optimum choice is the maximum earning for each state of functioning, followed by the decision or action of insurance leading to the biggest of the maximum values. The rule is the following:

$$U_{opt} = \max_{a} \max_{b} U_{ab} \qquad (2)$$

Where: U_{ab} is the utility of option "a" in objective conditions "b".

Practically maximum utilities will be chosen of all the options, out of which the maximum utility will be chosen, that maximum utility determining the optimum option.

Another formulation of the same criterion is the choice of the optimum option through the maximization of the relationship:

$$\text{Max} [\xi U^1_{ab} + (1 - \xi) U^0_{ab}] \qquad (2')$$

Where ξ is a coefficient chosen by the decider included in the interval [0,1], measuring the optimism;

U^1 is the maximum utility of option "a";

U0 is the maximum utility of option "a";

U_{ab} is the utility of option "a" in objective conditions "b".

3. Criterion of minimum regret (Savage)

The criterion has at its core an analysis of the effects of an erroneous decision in relation with a good decisions and chooses as an optimum choice that which the regret of not being chosen the optimum option in minimum. [6]

The regret is the difference of a random option with respect to an optimum one, within each state of the objective conditions and it states as follows:

$$R_{ab} = \max (U_{ab}) - U'_{ab} \qquad (3)$$

Where: R_{ab} is the regret of not choosing option "a" in objective conditions "b";

U_{ab} is the utility of the option "a" in objective conditions "b".

After measuring the regrets, the optimum option will be the one for which the maximum regret is minimum, meaning:

$$U_{opt} = \min_{a} (\max_{b} R_{ab})'$$

4. Maximum likelihood criterion

The criterion consists in determining the state of the most probable (the highest probability of happening) and choosing that decision of insurance which will maximize the utility corresponding to that state. In this respect, it is assumed that the probabilistic repartition of the states of functioning is known, and thus of the corresponding utility. Thereby, the following rule:

$$U_{ab} = \max_{b} (U_{kb})' \; U_{kb} = U_{kb} (p_k = \max_{a} P_a)$$

where: P_a are the occurrence probabilities;

U_{kb} is the utility of state "k", with the highest occurrence probability, in objective conditions "b"

5. Method of the degrees of affiliation to the optimum choice

Important strategic or tactical decisions are adopted in uncertainty conditions, the need of the optimization of the decision act led to the formulation of this method that has at its base the theory of fuzzy sets. This theory assumes covering certain steps:

a) Formulating the decisional options, the consequences and choosing the optimization criteria. The consequences of the options due to incomplete information to decision makers or the imprecision of the information are presented in fuzzy terms:

$$U_{ij} = \| a_{ij} \| = \begin{pmatrix} a_{11} \ldots . a_{12} \ldots \ldots . a_{1n} \\ a_{21} \ldots . a_{22} \ldots \ldots . a_{2n} \\ \\ a_{m1} \ldots a_{m2} \ldots . a_{mn} \end{pmatrix}$$

b) For each consequence (U_{ij}) it is done a variable change like the following:

$$U'_{ij} = \frac{| a_{ij} - a^*_j |}{a_j},$$

whenre: a_{ij} -is the value of the option consequence "i", considering the criterion "j";

a^*_j –is the value of optimum consequence, considering criterion "j"for an optimum option, after a certain criterion, $U_{ij} \approx 0$.

c) Establishing the degree of affiliation of each option to the optimum option for each criterion of optimization. Generally, the degree of affiliation to the optimum option is given by an exponential function having the form:

$$\mu (U_i) = \mu_{ij} = e^{-kU_{ij}} \qquad (8)$$

Where: k- coefficient of affiliation

The value of k is differentiated according to the importance of the optimization criterion.

For k it is recommended to be given values between 3 and 6.

The values $\mu_{ij,}$ are written in a matrix $\|\mu(z_{ij})\|$ which emphasizes the degree of affiliation of each alternative z_{ij} to the optimum option.

d) The choice for the optimum option is done trough aggregation of the matrix elements grades of affiliation to the optimum value after one of the optimization rules of the decision under risk and uncertainty. [7]

5. Conclusions

High degree of complexity of the financial and banking systems combined with the relatively low decision capacity of the human factor determined the management of the financial and banking entities like any other management structure regardless of their nature or dimension, to create, promote, use instruments and means of sustaining and enhancing the decision making acts, among those the methodology, modeling and computerized decision making are remarked.

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Significance of Volatility in Option Pricing

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Abstract

This paper examines the significance of volatility in option pricing considering that the option's theoretical price depends on the accuracy of this parameter's estimation. One of the assumptions of Black-Scholes model according to which the volatility is a constant parameter and may be determined based on historical data is not realistic. Thus it is considered that a more appropriate estimate of volatility is implied volatility. This study investigates the correlation between implied volatility and strike price known as volatility smile and the relationship between volatility and option' s maturity – the volatility term structure. Testing these correlations on the Romanian options market is quite difficult because of the low market's liquidity.

Keywords: volatility smile, volatility skew, volatility term structure, volatility surface.
JEL Classification: G11, G13.

1. Introduction

Estimating volatility is the most delicate aspect in valuing an option because the option price is very sensitive to volatility changes. It is the source of different estimates of price options that can change suddenly, even if the price of the underlying asset is stable. This correlation is very important because it allows speculating on exchange rate volatility. For example, if an investor is expecting a higher volatility than the market anticipates, he will purchase options that he considers undervalued hoping that the market will correct before the option expires and will sell it at a higher price. If he estimates a higher volatility than the market, he will sell overpriced options. So we can speak about selling or buying volatilities not options.

A call option is not absolutely overvalued, but in relation to a given value of a model. Since the models used by operators are similar, the difference between the price observed on the market and the one calculated at a time can come only from a different estimation of volatility. Consequently, volatility is a very important parameter in option pricing, and the accuracy with which the volatility will be estimated determines the accuracy of option pricing. In other words, it is not enough to use a good pricing model, but you have to make the best possible volatility estimation.

The problem is that volatility is not observable. Empirical studies have shown that volatility of the underlying asset is not constant, which contradicts the assumption of Black-Scholes model that volatility does not vary over time (Negrea B., 2001). A first approach is to estimate it from historical data - historical volatility. An alternative solution is the implied volatility which is the volatility for which the price calculated with the Black-Scholes model equals the market price (Weizmann A., 2007). In other words, the premise of this approach in estimating implied volatility is that the market is efficient.

An adjacent theory to the Black-Scholes model assumes that volatility follows a diffusion process with jumps followed by a Brownian process. This category of pricing models is known as pricing model with stochastic volatility.

2. The role of historical volatility in option pricing

Estimating volatility from historical data has been used by several researchers such as Black & Scholes (1972), Galai (1977) and

Finnerty (1978). Historical volatility is measured by the standard deviation of returns on the underlying asset for the period preceding the moment of the option pricing. If we exclude dividends and if S_{T-t} and S_T are the underlying asset prices at the beginning and at the end of the period, the rate of return will be:

$$R_t = \frac{S_T - S_{T-dT}}{S_{T-dT}} = \frac{dS}{S} = d\ln S$$

It is assumed that the current rate of return of the underlying asset follows a geometric Brownian motion $\frac{dS}{S} = \mu\, dt + \sigma\, dz$, where dz is a Wiener-Levy process, *i.e.* variable dz follows a centered normal law with variance dt. We say that R_t follows a lognormal law or that $ln(1+ R_t)$ follows a normal law or $ln\frac{S_T}{S_{T-dT}}$ follows a normal law.

Black-Scholes model assumes that the volatility of the underlying asset is constant, and the best estimate of the volatility for daily data can be done using the following formulas:

$$\sigma^2 = \frac{1}{n-1}\sum_{i=1}^{n}(\ln(\frac{S_t}{S_{t-1}}) - \mu)^2$$

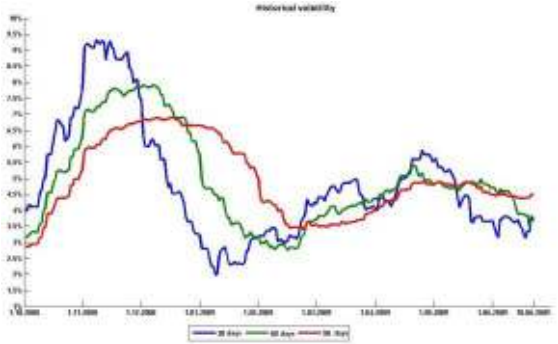
where $\mu = \frac{1}{n}\sum_{i=1}^{n}\ln(\frac{S_t}{S_{t-1}})$

where n is the number of past observations used to calculate the volatility. Generally, the number of observations for calculating the volatility is equal to the number of days remaining until the maturity of the option.

Black-Scholes model assumption regarding the stationarity of the underlying asset price does not reflect the reality. Also, the historical volatility may not be stochastic only considering a calculation period as a rolling window. In fact, the volatility depends on the number of observations used in calculating volatility. This approach has been criticized especially because investors' perceptions on risk are linked exclusively to the past variation of prices. Therefore we can say that it is a subjective estimation of market volatility, that there is a significant difference between the option's market price and its theoretical value. Thus it is considered that a more appropriate estimate of volatility is the implied volatility.

The next figure shows the volatility of DESIF5 futures contract since October 1, 2008 until its maturity in June 18, 2009. To calculate the historical volatility we used rolling windows of 30, 60 and 90 days. As can be seen, as the number of observations used in calculating volatility is higher, the variation curve of the volatility curve is flatter.

Figure 1. Historical volatility of DESIF5 IUN09 contract



Source: Authors' processing

3. Implied volatility – an alternative measure of volatility

Implied volatility is the future theoretical volatility of the underlying asset obtained with the current price of the option. Implied volatility is calculated by the reversal running of the valuation options models (Notger C., 2005).

According to put-call parity relationship, implied volatility should be identical for European call and put options when the two have the same underlying asset, the same strike price and the same maturity. This observation is partly true for American options for which implied volatility can be estimated with Barone Adesi Whaley model. If the underlying asset does not generate revenue, even the Black-Scholes model can be used in order to determine the implied volatility.

The studies on volatility evolution conclude that volatility is strongly correlated with the maturity and the strike price of the option. If the changes in implied volatility take the form of a descending curve, the phenomenon is called *volatility skew*. This shows that implied volatility is lower for options with higher strike prices (deep in the money put options or deep out of the money

call options) than the options with lower strike prices (deep out of the money put options and deep in the money call options). In summary, volatility is lower when the prices are increasing and higher due to the decrease of prices, while the variations are of equal values. This correlation was first observed by Fischer Black in 1976 and is called "Black effect".

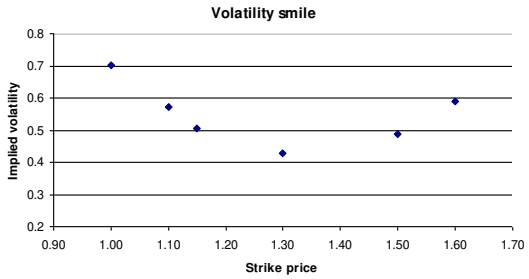
The curve variation of implied volatility to the strike price indicates higher values of volatility for extreme strike prices (deep out of the money options) and lowers for at the money options. The function that reflects the relationship between implied volatility and the strike price is called *volatility smile*. Practically, this distribution shows that operators give more chances to out of the money options to become in the money at the maturity than the Black-Scholes model.

4. Volatility smile and volatility skew

The researches on evolution of volatility concluded that it is strongly correlated with the maturity and the option's strike price. The function that reflects the relationship between implied volatility and the strike price is called *volatility smile*.

The next figure presents a volatility smile for a call option on DESIF5 futures contract with the maturity in December 2009, traded on 31.07.2009, close price for DESIF5 DEC09 being 0,9801 lei/share.

Figure 2. Volatility smile for options on DESIF5 DEC09

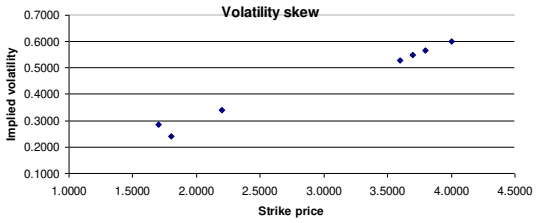


Source: Authors' processing

As we can see, the correlation between implied volatility and strike price observed on the well-developed world market are also confirmed on the Romanian options' market: calls deep in the money have a higher implied volatility decreasing until options become at the money and then rising again as options approach out of the money. So, the previous figure confirms the presence of volatility smile on the Romanian market.

The next figure shows a volatility skew for a call option on DESIF5 futures contract with the maturity in December 2008, traded on 19.08.2008, close price for DESIF5 DEC09 being 1,82 lei/share.

Figure 3. Volatility skew for options on DESIF5 DEC09



Source: Authors' processing

Even if the volatility skew is not obvious for the call option above, it can be easily seen that when the option is at the money it has the lowest volatility (24.02%) and when it is deep out of the money its implied volatility is maximum (59.93%). In other words, the strike prices that are more distant from the point where the option is at the money have a higher implied volatility. An investor can take advantage from these differences if he will sell the option with maximum implied volatility and buy the one for which the implied volatility is minimal and the curve of volatility skew flattens. This strategy can generate profits even when futures price of the underlying asset does not change in the same direction.

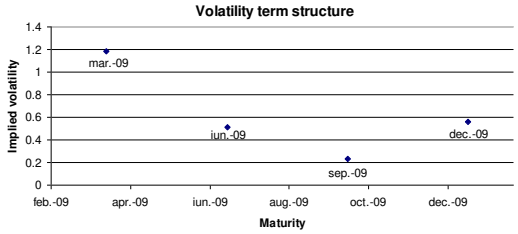
5. Volatility term structure and surface

In addition to the volatility smile, traders take into account the volatility term structure in pricing options. This notion reflects the correlation between volatility and maturity. Practically, the volatility used for at the money option pricing depends on the maturity of the option. Volatility tends to be an increasing function as the maturity of the option approaches because most speculators prefer to bet on the short term surprises. This relationship between implied volatility and maturity is closely related to events that will happen immediately on the market. For example, it is well known the situation in

which stocks' volatility increases significantly the day that the company announces its financial results. Similarly, we see that the implied volatility of options with underlying assets such as stocks increases in the near announcement, and then decreases as new information is incorporated in the stock's price. Options with closer maturities present greater amplitude of implied volatility than those with longer maturity.

Figure 4 shows the evolution of volatility up to maturity for options that were traded on 13.03.2009, with the underlying on DESIF5, the strike price 0,4 lei/share and the maturity on March, June, September and December 2009.

Figure 4. Volatility term structure



Source: Authors' processing

As can be seen in the previous figure, the volatility term structure for the most liquid options on the Romanian market follows nearly the same shape as observed on the developed markets. Surprisingly, the contract with the maturity in December has a high level of implied volatility (56,09%). A possible explanation could be the low liquidity of the Romanian futures market.

Volatility surface combines the volatility smile and the volatility term structure. An example of volatility surface that might be used for foreign currency options is shown in table 1. The entries in the table are implied volatilities calculated based on Black-Scholes model. At any given time, these entries correspond to options for which reliable market data are available.

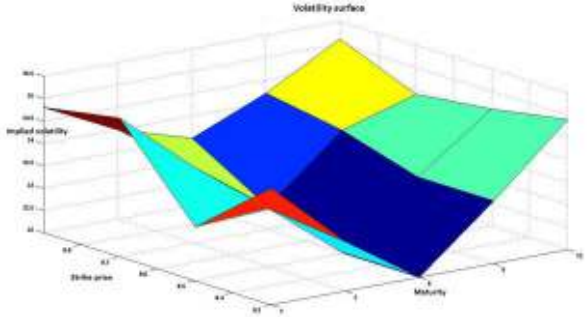
Table 1. Example of volatility surface

Strike / Maturity	0,4	0,5	0,6	0,7	0,8
1 month	34,6	33,1	32,0	33,4	34,9
6 months	33,2	33,3	32,0	33,4	34,6
9 months	35,1	33,7	32,5	33,9	34,4
12 months	34,8	34,0	33,5	34,2	35,1

Source: Authors' processing

The graph below shows the volatility surface from the previous table.

Figure 5. Volatility surface



Source: Authors' processing

Since there are no available data for all strike prices and all maturities and as the prices of out of the money options with longer maturities remain unchanged over long periods of time, interpolation techniques can be used in order to complete the volatility surfaces.

6. Conclusion

The correlation between implied volatility and strike price identified on the most developed markets around the world is also confirmed on the Romanian options' market: calls deep in the money have an increased implied volatility which decreasing until the options are at the money, afterwards increasing again until the options tend to become deep out of the money.

Besides volatility smiles, traders also take into account volatility term structures in order to price options. On the Romanian market the volatility term structure is not quite identical to the structure observed on international markets even for the most liquid options. A possible explanation might be the low liquidity of the Romanian futures market. More than that, computing implied volatility for a short period of time, a day for example, is very difficult. Furthermore, as directly observable prices of options are limited it is hard to obtain complete information for estimating the value of a portfolio.

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Substantiation of Budgetary Indicators. Their Features and Sizes in Education Institution

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Abstract

In Romania, the aspects concerning the budget process are laid down in Law 500/2002 regarding public finance. According to this law, budget inputs and outputs as well as the specific regulations of a fiscal year are provided and authorized for a budget year by an annual budget law.

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.

The present paper aims at highlighting several features of how budget substantiation of budgetary indicators takes place in the budgets of public institutions which are entirely funded by the public budget and local budgets..

Key Words: budget, budgetary indicators, substantiation.
J.E.L. Classification: H61, I22

1. Introduction

The State achieves its economic and financial policies choosing a volume of financial resources and a certain structure of their origin. Subsequently, these resources are allocated through public spending made by state institutions for certain purposes (public order, defense, education, culture, etc.).

The financial system has financial relations, relations have an important role in the budget that shows training, allocation and use of budgetary funds needed by national and state-level administrative units - relationships that take place within unified budgets.

Our country needs resources in the society and options for financing these needs are reflected in the consolidated state budget, whereas the management of public funds is done through: the state budget, the state social insurance budget, budget of local special funds, the Treasury budget, budgets of other institutions with autonomous character, while ensuring financial balance.

Law 500/2002 - Public Finance Law defines the general government as "all budgets, components of budget, aggregated and consolidated to form a whole". Consolidated budget components are also highlighted in the law: state budget, state social insurance budget, special funds, treasury budget, budgets of public institutions, autonomous budgets of public institutions wholly or partly funded from the state budget, budget insurance, state social and special budgets, as appropriate, budgets of public institutions financed from own revenues, budget funds from foreign loans contracted or guaranteed by the state and whose repayment, interest and other costs are paid from public funds, external grants budget.

The most important requirement of the entire budget management is the consistent implementation of the sizing requirements of financial resources with the possibility of their insurance. Concordance between "what you want" to "what can be" budget management is carried out so that, finally, the objectives are met.

In light of its role, the state cannot conceive of unmet needs, but uses public budget as a tool for the purpose of sharing resources collected. As a document approved by law, the budget is an important milestone of reporting the extent to which the state is involved in economic and social life, the economy capability to contribute to the establishment of financial resources, as well as how the state intends to manage them.

The numerous needs that must be met under conditions of limited resources involve state attention in choosing the best forecasting method and application costs of measuring the efficient allocation and use of public funds.

2. Forms of Financing Education Institutions

Budget substantiation of public institutions which receive their own incomes (it is the case of undergraduate education institutions) is done only for the expenses that are covered by budgetary allocations.

Financing educational institutions shall be in accordance with Law 1/2011, basic finance, funding and financing the complementary needs.

Executing **basic finance** in the normal education process takes place according to national standards. This ensures the state budget, the amounts deducted from VAT and state income taxes by local budgets for expenditure categories as follows:

a) expenditures on salaries, bonuses, allowances and other payments established by law, and related contributions;

b) expenditures on staff training and ongoing assessment;

c) the costs of periodic reviews of students;

d) expenses for materials and services;

e) maintenance costs.

Basic finance in education institutions is calculated by multiplying the standard cost per student / pre-primary school specific coefficients and curriculum of students and annually approval of the Government decision:

Fb = Cs x S x ki x krui

Where:

Fb = volume of basic;

Cs = standard cost per pupil in secondary education

Ei = the number of students enrolled in the profile/education level

i 1 .... n = level/ profile / educational pathway

Ki = coefficient of differentiation levels / profiles / educational pathways

Krui = coefficient of differentiation for rural / urban level/ profile / chain of education

There is also the **complementary financing** of capital expenditure, social spending and other expenses associated with the educational process. It ensures local budgets, the amount deducted from the VAT for the following categories of expenditure:

a) investment, repairs;
b) subsidies for boarding and canteens;
c) expenditure on national assessment of students;
d) expenditure on student grants;
e) expenses for transportation of students;
f) expenses for commuting teachers according to the law;
g) expenses for the mandatory periodic health examination of teachers, except those for whom the law provides it is free;
h) expenditure on competitions organized in extracurricular school and educational activity schemes;
i) charges for insurance in related work for staff, preschoolers and students;
j) management of information services situations;
k) expenses for participation in European cooperation projects in education and training.

The complementary funding is approved through the annual state budget law. Public finances are distributed in communes, towns, cities and districts of Bucharest by DG's county or Bucharest and with the assistance of the county school inspectorates respectively of Bucharest.

The calculation of the additional funding is:

Fc = S Fci

Where:

Fc = fund for additional funding;

Fci = fund needed to cover costs of the "i" of activity

Additional funding is provided as a lump sum from the Ministry of Education ', Youth and Sports, for the awards of education institutions with outstanding results in the inclusion or school performance. Local councils, concerned sectors of Bucharest and county councils, namely the General Council of Bucharest additionally contribute to giving grants to these institutions, based on its own methodology.

Supplementary funding is achieved based on agreements between an education institution and a financial body.

Fs = Cs x S x ksi

Where:
Fs = fund needed for additional funding
Esi = number of students receiving category "i" additional activity that will be funded
Cs= standard cost/ student
Ksi = correction factor applicable for standard cost / student activity financed in addition

Education institutions can get their incomes from specific activities by the law, donations or other legal sources. Their incomes diminish not in terms of basic, complementary or supplementary finance, and are used as decided by the Board. At the end of the fiscal year, unspent money remains in the account of the education institution and the latter reports next year's budget.
the Director and Board of Directors of the education institution is responsible for budgets approved by the law.

3. Substantiation of Budgetary Indicators. Their Features and Sizes in an Education Institution

The substantiation of budgetary indicators involves the following steps:

The draft budget is approved by the Board and accompanied by a background note and it is submitted to the City Council.

The City Council reviews and corrects it if necessary, taking into account the compliance of projects in the development program of the school, the number of students approved by the Board and approved by the competent institutions for development and modernization projects of the school, additional funding programs approved by the law or other competent institutions, including the local council.

After its acquisition by the City Council, it is submitted to the County Council together with background notes for each form of financing (basic, additional and supplementary).

The County Council collects data from local councils, allocation coefficients calculated for the cost of local students, using the same methodology that they use in local councils for schools. In the next step, there are the necessary funds for education based on the three forms of funding that will be requested from the state budget and the amount of funds needed to be allocated to the education fund balancing local budgets.

The National Pre-University Education Funding Council under Article 104, paragraph 4 of National Education Law no. 1/2011 determines the standard cost per student and sent to the Ministry of Finance proposes a funding level for education allocated from the state budget by type of financing and allocation coefficients counties to fund education approved by the law. The Ministry of Finance includes the state budget, the necessary fund indicators representing the three forms of financing. After the approval of the state budget, allocations are done on three structures:
1. from the state budget to the County Council
2. From the County Council to the Local Council
3. the City Council to the school.

Upon receipt of the proper budget as a gross amount, the school prepares its budget. It is endorsed by the Board of Directors approved by the City Council. After completing these steps, the budget becomes operational.

4. Conclusions

Analyzing how the theory discussed above is put into practice identifies a number of issues:

Student cost standards for personnel expenses and material costs determined in accordance with Government Decision no. 1395/2010, amended by GD no. 926/2011, have been found to be sufficient to ensure the annual costs in many schools.

Under these circumstances, the core funding is proposed based on the standard cost per student (Art. 104 of Law no. 1/2011), using the formula funding. Core funding is based on the payroll for the current school year and the corresponding historical costs year.

It is difficult for officers, teachers in other specializations than finance, for other staff in this type of entity except the financial – accounting department. Instead, let us understand the requirements of the Ministry of Finance which should be "translated and adjusted".

In any entity, although there is some

management control system, otherwise there is functioning with frequent and serious distortions. Each supervisor has to organize themselves and adopt some measures in their work: defining individual tasks of staff, establishing working methods, creating an information system, supervising staff activities etc., meaning nothing else than a system with its own internal control management.

The public nature of the funds and assets (and the private property items in the state or administrative - territorial units) that manages a public entity requires that its internal control system be developed, perfected by allowing the general manager / officer, and officers from other hierarchical levels within the entity to exert good control over the operation of the public entity as a whole and their individual conducts in its activities should be focused on achieving objectives.

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Exit Routes and Performance Measurement for Private Equity Investments

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Abstract

Private equity is an alternative form of financing companies, besides classical methods (bank loan or bonds), which is done in exchange of a part of the share capital of the company. This funding is realized by investors interested in the company that also offer portfolio companies expertise in order to increase their value. The investors' gain is the difference between the selling price and the buying price of the shares. Therefore, the divestment process is of great importance for the investors. Because the shares are not liquid, the divestment process is complex. There are five different routes an investor can follow in order to liquidate the investment. Once the exit is over, the investor can measure the performance of the investment in several ways. The article presents the entire exit process and performance measurement of the investment.

Keywords: private equity, investment, exit route, performance
J.E.L. classification: G24, G34

1. Introduction

Private equity is a form of equity investment into private companies that are not quoted on a stock exchange. Private equity is distinguished by its active investment model, in which it seeks to deliver operational improvements in its companies, over several years [22].

The definition of the private equity activity has changed in time, including today any investment in share capital of companies, listed or not, accompanied by the active involvement of investors in their activity, through a well developed strategy, with the express purpose of helping to increase the value of the respective companies and to generate profits by selling the shares at a higher price than the acquisition one. Thus, private equity operations offer financing and expertise to portfolio companies in exchange to a part of their share capital. The profit realized by private equity investments is represented by the difference between the selling and the buying price of the shares. This difference is a result of active involvement of the investors in the activities of companies in order to increase their value. The role of private equity activity is to increase the performance of the company, because "any economic entity must increase its performance in order to survive" [5].

The divestment process represents the final stage of a private equity investment. It is a very important process for the investors, because the profits that they make depend of its success.

2. The exit process

The divestment (exit or liquidation of the investment) is a process through which the founders, management or investors in a company find buyers and sell a part or all the shares of the company. Through an exit, the investors realize gains, and the company can receive an infusion of capital and/or a new strategic direction from the buyer.

Investors change their stocks in money when they liquidate the investment (exit – selling the owned shares). Most of them target a 38% Internal Rate of Return (IRR) and 5 times investment multiple for a 5 year period [6].

The exit term in this context can be called divestment and it means that the private equity investor sells his contribution to a company, totally or partially, to reduce his exposure. In order to make money from the

investments, the private equity investors have to transform their non-liquid shares into cashed gains.

Private equity investments are non-liquid and therefore cannot be sold as easily and fast as public companies' stocks on the market. While venture capital funds focus on start-up companies with a 7-10 years investment plan, private equity and buyout funds only have a 3 to 5 year plan. The successful selling of the shares is not critical only to realizing substantial gains, but also to attracting extra capital.

An essential feature of the private equity funding is the limited time of the investment, therefore the exit process being of utmost importance. Because there is a limited period of investment time, private equity funds must finalize the investment relation with the companies in the portfolio after a certain period of time. In this way, investors have to liquidate investments at a certain point.

2.1. Potential exit routes

According to authors and practitioners in this field [3][11][23], there are five important exit routes for an investment: trade sales, secondary buyouts, initial public offers (IPO), buy-backs and write-offs. Also, liquidation can be partial or complete, for all the five methods, with the mention that trade sales usually refer to the entire owned package, and by initial public offer (IPO) a total and immediate exit is not very likely. Besides the five methods, some authors claim that recapitalization can also be a method of partial liquidation of an investment. Still, recapitalization does not change the structure of the shareholders and therefore cannot be called liquidation. Also, another method through which the investors may recover their money is liquidation of the company.

The process of every one of these methods is different and has distinct requirements based on the size and features of the company. Every method has different costs, different execution time, different requests regarding the necessary documents which have to be made public, impact on the fees that have to be paid, etc.

a. Trade sale. Selling the company to a competitor or a partner is the most common exit route in Europe. If the stake in the company represents a majority and the whole company is sold, we are talking about merger or acquisition type of liquidation. The sale can also be made to a financial investor.

Trade sales are usually complete liquidations, and are made against money, in comparison with partial sales, much more rare, in which you usually receive shares at the buying company.

The buyer in a trade sale is usually from the same industry (strategic investor) and follows product and technology integration of the two companies (the buying company and the acquired company), either horizontally, or vertically. Strategic acquisitions may include the merger of two related companies (such as supplying raw materials, or companies that apply certain patents). Because they work in the same industry, the buyer may best evaluate the value of the bought and resulted company. Due to the synergies created, strategic buyers usually pay more. But a synergy is not always created by combining two entities. Many times, at the base of the acquisition lie different reasons, such as the desire to seize human personnel, certain patents, client data-base, etc. Also, the desire to buy can be placed on the necessity of the buyer to have a certain technology and can be cheaper (in time and money) to acquire a company that already holds the technology rather than to develop in internally.

The anticipation of the buyer regarding the resulted gain by combining the two companies determines the sum that he is willing to pay for the targeted company. The price is negotiated between the two companies on the basis of the power of negotiation and information held by both the parties regarding the generated synergy.

b. Secondary sales and secondary buyouts. Specialized literature differentiates secondary sales and secondary buyouts. Different to the trade sale, the secondary sale is a method of liquidating the investment, where only de investment fund has to sale its shares, but not the managers or other investors. The buyers are usually strategic investors. They do not have access to inside information as in the case of a takeover. Also, synergies are harder to realize, as the two companies do not merge. Therefore, the prices are lower than in the case of trade sales. This is not such a common method.

By contrast, secondary buyouts are

transactions through which the company is sold from one financial investor to another. This phenomenon grows due to the large sums of money used in the industry.

c. Initial public offer (IPO). Initial public offers are very attractive for investors as a way to liquidate an investment. Primary public offers market gives the possibility to obtain liquidities and at the same time keep a certain stake in the company.

New listed companies need to have a very high growth potential in order to maintain a high price after listing. Plus, they need to have a proved competitive advantage, capability to maintain market share, and to be situated in areas favored by the analysts. The investor can bring an added value to the offering process by choosing an investment bank which can lead the offer. The bank has to be experienced in the company's industry and to have analytical experience and coverage in the respective field.

In the case of a public offer, the company is selling o part of the shares to the public. These public offers are followed (most of the times) by the listing of the company on the stock exchange. From all the methods of liquidating an investment, the initial public offer is the only one through which the company receives directly an infusion of capital, offering at the same time (if it is listed on the stock exchange) the possibility of shareholders to liquidate their investment at any time.

It is a form of divestment which lasts a long period of time, because the private equity funds that have invested in the company are not allowed to sell their shares for 12 months (the lock-up period) after the company is listed on the exchange, as to not create panic among the investors, resulting in massive sales and low stock price. An initial public offer does not represent a liquidation method in itself; it only precedes and facilitates such an option. Investors who buy the newly emitted shares have a low degree of initiation, in comparison to the private equity funds, but this fact is countered by the interest of those involved in the emission to keep their reputation, and thus to evaluate accurately the stock price. One of the disadvantages of such a public offer is the high cost of the entire operation.

d. Buy-back. In a buy-back transaction, the private equity fund sells its shares back to its initial owner or the company. Buy-backs are very common in the case of investments which seem to be without success, companies that do not have growth potential, a reduced value and are at the beginning of the investment period. In many funding contracts, there is the clause which stipulates that investors can resell their stocks to the owner or to the company if certain established targets are not fulfilled, such as performance levels or the failure to list the company on the stock exchange.

With all these, most of the times, the owners do not have the necessary resources to buy the shares back. In order to go through with the buy-back, the entrepreneur or the firm must get a loan, thus raising the debt of the company. The managing team can therefore discipline itself, having to deal with high credit interests.

e. Recapitalization. Recapitalizations do not truly represent a form of divestment, because the stake of the investors is not reduced. The financial exposure of the investors is reduced by receiving an extraordinary dividend possible only by contracting another credit.

The idea is to re-debt the acquisitioned company after the reimbursement of a part of the initial credit. There are several methods to recapitalize a company. A recapitalizing through loan means a credit to buy-back its own shares. The price that can be paid is limited to the company's potential to be in debt. These types of methods are usually applied in situations of take-overs (LBO – leveraged buyout), because the acquired companies are big in size, mature and used to generate constant cash flows sufficiently large to be able to pay the debts.

Another method assumes the involvement of other investors. The company may be at a development stage which presents more interest to a more powerful investor.

f. Write-offs, in case of a failed investment. If the acquired company does not manage to reach the targeted performance level, but only manages to survive, the investors are no longer involved in restructuring it and it temporarily goes into a flat line. These types of investments sustain only the life-style of the employees and the shareholders, not having the hoped growth potential.

2.2. The exit process

The entire exit process can be detailed over several steps, with are detailed below.

1. Identifying the exit opportunity. The identification of an opportunity to realize the exit lies at the beginning of every exit process. Lieber [15] believes that there must be periodical evaluation of the investments in order to identify the exit opportunities. The preparations for the exit process have to be made as early as possible, even before beginning the investment.

2. Evaluating the companies in the portfolio and the exit routes. The second step presumes the detailed evaluation of the company and the possible exit routes. Although in the first step there is an evaluation, here the evaluation is more thorough. In this step the investors also appeal to field experts, analysts, evaluators, investment banks, etc.

3. Planning the exit process and mandating the consultants. In this stage, the private equity company, alongside the management, start to prepare the exit plan, this being known only by those directly involved.

4. Sharing assignments, negotiating benefits. While most of the duties have been assigned in step three, here follows the informing of more persons regarding the exit intention. Preparing for an exit requires many human resources, and can distract the management's attention from the current operations. The involvement of more people is required and the exact assignment of the tasks. In this stage there can still be discussions regarding benefits given to certain key persons.

5. Preparations before beginning the exit process. Before beginning the process, a lot of preparations are required: advertising materials, legal and financial documents, financial projections, and everything that leads to the accurate evaluation of the business. Most of the times, the company can be visited by potential buyers.

6. Launching the exit process. After the preparations and analysis of potential buyers, the exit process begins, formally or informally, by offering potential buyers pertinent information. The information is revealed only after signing a confidentiality agreement, thus protecting the interests of the company. If there are several exit possibilities, those are not revealed to the investors.

7. Unrolling the process, client negotiations. Once the exit process is launched, extra information is given to potential buyers, if solicited.

8. Exit opportunities and options evaluation. After receiving offers, the private equity company and the consultants must evaluate the possible exit routes and offers. This process can last a few weeks, and interested buyers may be called to bid for the company.

9. Closing the transaction. After a few rounds of detailed negotiations, the transaction can be completed, which will lead to the change in company owners.

10. Post-transactional evaluation. After closing the transaction, an evaluation regarding how it went can be made, in order to identify aspects which can be improved.

3. Performance measurement

The concept of performance is a reference both in theoretical approaches and in practice due to the fact that the field of economic performance includes various terms, through the most important we can mention competitiveness, productivity, profitability and business growth [18].

Once the exit process has come to an end, a performance measurement of the entire operation can be made, or in case of several investments of a private equity fund, an evaluation of the entire fund. While standard methods of quantitative evaluation of risks and reward have made great progresses, for other "alternative" forms of investments, including risk funds, a standard profitability evaluation of the private equity activity has not been established. The lack of trustworthy data about the performances and secret nature of the transactions is completed by the attempt of background managers to avoid publicity regarding the earnings generated by the funds they run. This means that most of the performance based reports are incomplete. With all these, as investors become more and more sophisticated, and funds start to attract a more diverse range of investors, the transparency in this field is beginning to grow.

The difficulty of measuring the risk and

reward profile of private equity funds is not owed entirely to the lack of information, but also to the imperfection of the secondary market for such share packages. As a consequence, for every investment there are only two moments when the price of the transactions can be observed objectively – at the moment of purchasing and exiting. Therefore, historical data lacks, and evaluating the performance of a private equity fund becomes complex.

Because investments in private equity can be made either through a fund either direct (co-investment), there are two ways of measuring the performance from the point of view of an investor: either by analyzing risk and reward features in a fund, either by analyzing the performance of the investment in a certain company. While the first approach is relevant for all the investors in a fund, the second one is important only for the manager of the fund and its investors. Because the first one is more relevant to all the investors, it is more often used. Next we present three methods of measuring the performance that can be applied in both situations. Cash flows represent the basis of analysis for all the three methods.

a) Investment multiples. Because of the long term orientation and lack of liquidity of private equity investments, we can use as a method of measuring the performance, the ratio between the invested and returned capital. The ratio between the invested and return capital is an easy method to measure the profitability of an investment and it represents the multiplying rate of the invested capital. Unfortunately, this method does not take into account the period of time in which these earnings are made. This fact makes it almost impossible to compare the performance of two different funds. The following concept offers solutions to this problem and is used with a higher rate of success.

b) Internal rate of return (IRR) based on cash flows. Internal rate of return has become the standard measurement system of the profitability of a private equity activity at the investor level, singular investments, as well as at background and field investments level. This rate represents the up-to-date rate for which the present value of cash flows is zero. Mathematically, the internal rate of return can be expressed as being the solution to the following equation, where T represents the life span of the fund, and CF_t represents the cash flow generate in the t period:

$$\sum_{t=0}^{T} CF_t (1+RIR)^{-t} = 0$$

c) "Public market equivalent" (PME) based on cash flows. Kaserer and Diller [13] explain the objective of the approach through the public market equivalent as: *"Given that the investor invests – in terms of present value – Euro 1 in a private equity fund, how many Euros would he have to invest in a given public market index in order to generate a cash flow equivalent investment and, hence, in order to end up with the same terminal wealth? The PME is exactly the answer to this question"*. This indicator represents the ratio between the profitability obtained by investing in a private equity fund and reinvesting the intermediary gain on the stock market, and the profitability obtained by investing the same amount on the stock market. This permits calculating the performance of a fund by eliminating the problem connected to reinvesting at the same internal rate of return. Mathematically, the indicator can be expressed through the following formula:

$$PME = \frac{\sum_{t=1}^{T} cf_t \prod_{i=t+1}^{T} (1+R_{It})}{\prod_{t=1}^{T} (1+R_{It})}$$

where:

R_{It} = The net return of a public market index in the period t

cf_t = the normalized positive cash flow of the private equity fund in period t

If the private equity fund has a superior performance then the investment in the stock market, the PME value is greater than 1. The public market equivalent can be used to compare the profitability of the funds, as well as to compare the individual investments.

4. Conclusions

Private equity is an alternative form of financing companies, besides classical forms (bank loans or bonds). This financing is done against a stake in the company's share capital. Besides financing, private equity investors offer expertise to their portfolio companies, in order to help increase their value and realize profits from selling the shares at a higher price than the purchase

price.

The divestment is the final stage of any private equity investment. The exit is the final goal of any private equity investment and of its success depends the profit realized by the investment. The exit process is a very complex one and ideally has to be planned even before the investment is made. Investors change their stocks in money when they liquidate the investment (exit – selling the owned shares). Private equity investments are non-liquid and therefore cannot be sold as easily and fast as public companies' stocks on the market.

According to authors and practitioners there are five important exit routes for an investment: trade sales, secondary buyouts, initial public offers (IPO), buy-backs and write-offs. Among these, the IPO is the only exit route that provides financing to the company.

The exit process comprises 10 steps that differ based on the exit route chosen by the investor.

Once the exit process is finished, a performance measure can be made for the entire investment. Because of lack on information about private equity deals, the performance measurement is a complex task. The three most used methods of performance measurement are the investment multiples, the internal rate of return (IRR) and the public market equivalent (PME).

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Cash-Flow Analysis Base of the Company's Performance Evaluation

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Abstract

Analyses based on the study of financial flows allow coherent merge to study the financial equilibrium of the firm's performance. If static analysis to assess the financial imbalance at some point, but does not explain its evolution, in contrast, dynamic analysis highlights the evolution of financial imbalance, but does not indicate the extent of it. It follows that the two kinds of analysis are complementary and should be pursued simultaneously.

Dynamic analysis is based on the concept of streams-streams and streams of Treasury funds. The notion of flow of funds is fundamental to building the dashboard or instrument panel uses funding resources.

Key words: cash-flow, dashboard, funds, resources.
J.E.L. classification: M41.

1. Introduction

The funding is an important financial document, because starting from the classical synthesis documents such as the balance sheet and income account results, allow to obtain more information on the company and which are not provided by them directly, such as: investments, debt underwriting volume, volume of dividends distributed, self-financing capacity level. It appears that the funding allows an analysis of the different strategies adopted by the undertaking.

The dashboard is funding an array of means and resources in explaining variation in the elements of heritage in the course of the reference period (usually a year) and has two parts. [2]

Funding for the development of the instrument panel is to explain the formation of the Revolving Fund and its relationship with Treasury balance through monetary flows (receipts and payments) for the financial year ended. Shall be determined mainly on the basis of two successive balance sheets and explains the connection between the top and the bottom of the sheet through the Revolving Fund variance

2. Development phases of financing

To develop an array of funding must go through two phases:

(a) determination of variation Revolving Fund as a result of the change in capital structure at the top of the sheet.

(b) the determination of the variation of net Treasury) as a result of the amendment need Revolving Fund (the bottom of the sheet) articulated with variation of working capital.

Through an array of funding streams is highlighted by the financial resources mobilised by the enterprise, namely: of self-financing (internal); in consideration of external loans and the use of these financial resources for investments; payment of dividends and the repayment of loans. [3]

The funding is set by using: the balance sheet positions and variations in flows shown in the profit and loss account.

Changes in balance sheet items are obtained from a balance sheet variables

(differential) or the difference between two consecutive balance sheets (both being detained before they affect the result).

Variations in this manner in order to identify four types of financial flows:

- an increase in assets due to the acquisition of an asset or the debt growth, requiring greater use of funds;
- a decrease in liabilities, which means all use of funds;
- an increase in liabilities, due to new commitments made by the enterprise, provide new resources;
- a reduction in asset consecutively or in realizing the assets, either in reacoperirea previous claims held by an enterprise also offers new resources.

The funding dashboard highlights this variation in a detailed and analytical form. Increase in inventories gross funds expressed not only the realization of new investments, it may be due to the acquisition of new fixed assets, fixed assets growth in previous years. In the same way, changes in amount (value) of long-term debt can result in new debt and made (increase) in liabilities and returned (decrease).

These variations are classified according to their term. In fact, the picture cuts off funding and resources uses with maturity over one year (which have the top of the sheet) the uses and resources with maturity less than one year (the bottom of the sheet). [4] Figure No. 1. exemplifies this structure:

Figure No. 1. the funding Dashboard

USES	RESOURCES
Uses long or medium: • increase of assets restrained • permanent capital reduction	Long-term resources and medium: • increasing the permanent capital • reduction of assets restrained
Uses: • increase of circulating assets • decrease in short-term debt	Short-term resources: • increase in short-term debt • reduction of circulating assets

Source: Feleagă, N., Kingsley, L. *Accounting policies and options*, Economic Publishing House, Bucharest, 2002, pp. 110

The funding comprises two parts:

The first part examines how, in Dynamics, structural balance between stable elements of functional, i.e. balance sheet variance working capital net global (Δ FRNG). This part of the painting is the result of investment and financing of the enterprise during the period analyzed.

Δ = Δ FRNG sustainable RESOURCES Δ USES stable

Explanation of variance FRNG starts from the identification of the sources of capital and continues with an explanation of the use of those sources in the upper part of the sheet.

The starting point in the construction of the painting represents financing gross operating surplus revealed in the account as a potential source for the self-financing capacity of the company. [5]

Part II of the Finance Panel explaining variation in the revolving fund net overall based on items in the bottom of the functional review, highlighting issues of work and health personnel on their Treasury. This part examines how he has used the revolving fund net global balance between cyclical elements of the functional balance of the monetary balance between receipts and payments. [6]

Δ FRNG = Δ Δ Payables net current assets-short term

3. Interpretation of financing

In the interpretation of the funding must be taken into account and uses significant resources, i.e. the changes affecting the top sheet (acquisition of fixed assets, contracting of loans of over one year). The funding allows the appreciation of the company's financial policy coherence, as follows:

- analysis of investment and financing of the company, highlighting them rapidly if the investments are financed by long-term or not;
- checking whether the financial balance principles were applied during the current period, whereas the long-term policy implications of the Revolving Fund.

Uses and resources under one year is characterised by instability and discontinuity in evolution, elements conducive to a fair and reasoned analysis. However, it should be highlighted the consequences of long-term policy on assets and liabilities in the short term and the need for variation Revolving Fund of the Treasury.

The evolution of the bottom of the balance sheet is presented in a manner that

emphasizes net variations of different posts: inventories, short-term debt service for the NFR, then Bank debts and short-term for the Treasury. [7]

4. Picture of cash flows

Cash-flow from operating activities relative - Operating activities are the main revenue generating activities and any other activity, except for those defined as activities of investment or financing.

The value of the cash flows arising from operating activities is a key indicator of the extent to which the company generated enough cash to maintain its ability to pay dividends, etc., without having to have recourse to other external sources of finance.[8]

Cash flows from operating activities are derived from the principal revenue-producing activities of the firm. Therefore, they generally result from transactions and other events that contribute to the formation of the net result for the financial year in question.[9]

Thus, as streams of Treasury operation with predilection: proceeds from the sale of goods and provision of services; Revenue from fees, fees, fees, fees; payments to suppliers of goods and services; payments to or on behalf of employees; payments or receipts from income tax, other than those that can be identified within the investment and financing activities.

Norm IAS 7 provides for two ways of operating cash-flow:

Direct method-which has the advantage of presenting cash flows from current transactions of the company, referring to receipts and payments (credit inputs and outputs) rough;

Indirect method-according to which the net result is corrected to take into account:

- the influence of operations non cash;
- any report or regularization of receipts or payments in the past or future, alleged exploitation;
- of the items of income or expense associated with the cash flows related to investment or financing.

IAS 7 recommends businesses use direct method, because this method allows obtaining information which may prove to be useful for estimating future cash flows, which is not possible by applying the indirect method. However, even if the international body recommends using direct method indirect method has the advantage of reconciliation between the accounting details and operational Treasury. [10]

Annex to IAS 7 standard provides examples on determination of cash flows on the three activities, either through direct method or indirect. On the basis of examples, can be reached, however, on the next presentation, from the figure no. 2.:

Figure No. 2 Cash-flow related to operating activities (direct method)

Revenue generated by customer relations + Cash receipts from royalties, fees and other revenue -Payments in favor of suppliers -Payments in favor of and on behalf of the staff of the -Interest and dividends paid to[1)] -VAT Payments + Other revenue generated by mining -Other payments generated by mining -Income tax Payments on profits [2)] Extraordinary Items ± = Net cash Flow more or less relative to operating activities 1.) These flows could be included also in the category of funding flows 2.) These flows could be distributed among the activities of the investment and financing.

Source: Feleagă, N., Kingsley, L., *Accounting policies and options*, Economic Publishing House, Bucharest, 2002, pp. 187

Under the direct method, information on the main categories of payments and receipts may be obtained either from the accounts of the company, either by adjusting sales, cost of sales and other items in the profit and loss account for the period: changes and advances, obligations and stocks; other items not requiring cash and other items whose monetary incidents consist of streams of investment or funding (Figure No. 3.).

Figure No. 3. Cash-flow related to operating activities (indirect method)

Result before taxation ± and extraordinary items <u>Elimination of income and expenses without affecting the Treasury:</u> + Depreciation and provision charges -Income from depreciation and provisions

Elimination of income and expenses unrelated to the operation: Result from disposal of fixed assets + Result from disposal of securities + placement + Interest expenses -Income from interest and dividends -Investment Subsidies paid out of income = ± Operating Profit before change in revolving fund requirement Stock Variation ± + Customer accounts and Change other operating receivables Variation in prepaid expenses +- Vendor accounts and Variation ± other Payables from operations The income advance Variation ± (in operation) Other processes involving information collection and payment type: -Interest and dividends paid to [1)] -The taxes on benefits Payments [2)] Extraordinary Items ± = Net cash Flow more or less relative to operating activities 1) these flows could be included also in the category of funding streams. 2) these flows could be distributed among the activities of the investment and financing.

Source: Feleagă, N., Kingsley, L., *Accounting policies and options*, Economic Publishing House, Bucharest, 2002, pp. 190

In accordance with the indirect method, the net cash flow from operating activities is determined by adjusting the net result, taking into account the impact of:

- changes occurring in the course of the year, inventories, receivables and Payables from operations;
- other items that are not of the nature of the cash, as depreciation, provisions, deferred income taxes, the losses or gains unrealized exchange rate differences;
- other items for which the impact is achieved through the Treasury investment flows and the funding.

Cash-flow from investment activities - cash-flow from investment activities show the size of the expenditure incurred for the purchase of resources for the benefit of future generation (and, implicitly, cash), such as: [11]

- payments for purchase of fixed assets and other long-term assets, including capitalized development costs and disbursements incurred by the enterprise products for asset headings themselves;
- proceeds from the sale of fixed assets and other long-term assets;
- receipts/payments related to the sale/purchase of equity and debt securities of other companies, as well as receipts/payments related to the sale of holdings in joint ventures (other than receipts/payments for instruments considered to be cash equivalents or held for commercial purposes);
- cash advances and loans to third parties (other than advances and loans granted by a financial institution);
- revenue arising from the repayment of advances and loans to other parties (other than advances and loans granted by a financial institution).

IAS 7 does not specify which headings are set corresponding to these streams. However, the examples given in annex rule leads to the following presentation layout (see Figure No. 4.):

Figure No. 4. Cash-flow related to investment activities

-Purchase filiaRon x (-) the Treasury purchased FiliaRon Leasing + y -Purchase of fixed assets -Acquisition of investments + The proceeds resulting from the disposal of fixed assets + The proceeds resulting from the disposal of investments + Interest received + Dividends received (paid)
= Net cash Flow more or less relative to the investment activities

Source: Feleagă, N., Kingsley, L.- Accounting policies and options, Economic Publishing House, Bucharest, 2002, 193

Cash flow from financing activities - financing activities are those activities that give rise to changes in the size and structure of the capital and borrowed capital of the firm.

Separate presentation of these flows is important because it is useful "suppliers" of society in the capital appreciation of the amounts they will withdraw from the funds

(equity).

The Treasury movements resulting from financing activities [12] refers to (Figure No. 5):

- proceeds from issuance of shares or other equity instruments;
- payments to shareholders for the purchase or redemption of shares;
- receipts/payments from the issuance of bonds, bank loans;
- rates payments made under financial leasing contracts.

Figure No. 5. Cash flows related to financing activities

+ Capital growth, cash
-Reimbursement of capital in cash
+ Issue (Contracting) of loans (other than cash)
-Repayment of loans (other than cash)
-Repayment of debt resulting from the contracts of tenancy-finance
-Interest and dividends paid to
= Net cash Flow more or less relative to financing activities

Source: Feleagă, N., Kingsley, L., *Accounting policies and options*, Economic Publishing House, Bucharest, 2002, pag. 194

5. Conclusions

Information provided by array may serve also to assess the relationships between the three types of activities. One and the same operation (more complex) can assume the Treasury movements included in the different categories. Thus, when the repayment of a loan covers both interest and capital [14], the relevant interest may be classified as operating activity flows, while the corresponding share capital corresponding to the financing activities flows.

If we refer to the usefulness of cash flows in financial diagnosis, the main goal is the presentation of information to assist investors and creditors to accurately predict the amount of cash that will be distributed in the future in the form of dividends or interest, or to assist in the assessment of risk. The term risk, in this context [15], includes both the variability of expected future income and the probability of insolvency or bankruptcy.

With regard to the use of cash flows in financial diagnosis, two lines of analysis are considered relevant, namely: risk analysis of bankruptcy and profitability analysis.

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Is Patent Box a Solution to Retain and Attract Innovative Businesses in EU?
History, Concept and Further Development

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Abstract

Nowadays the concept of intellectual property (IP) became very important and sensitive. Using literature review, this article approach the IP problem from a business and taxation perspective.The key issue concept of patent box regime was treated presenting the main differences towards R&D tax credits in different countries. Our main conclusion is that, first of all, each country should understand the concept of patent box regime and after that shall research the ways to properly implement it in the local environment and legislation.

Key words: intellectual property, R&D tax credits, Patent box regime
J.E.L.Classification: O34

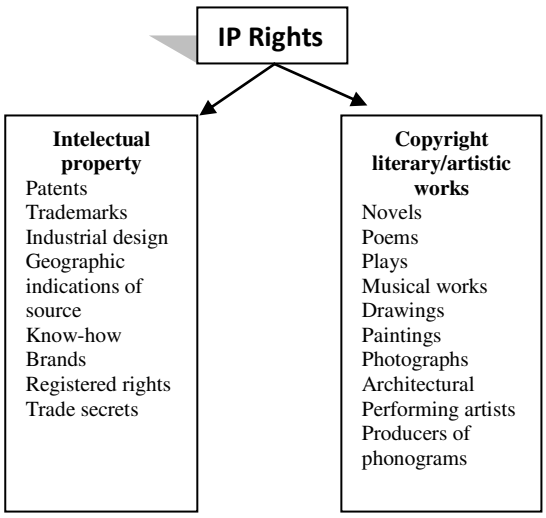
1. Introduction

Nowadays businesses have become more focused on building and deriving value from creating and exploiting intangible assets and the concept of intellectual property (IP) became very important.

There are many definitions for Intellectual property (IP) but the essence is that IP is a legal concept which refers to protecting the products of human intelligence and creation, creations of the mind for which exclusive rights are recognized [11, 12, 13].

IP is divided into two categories [9]: Industrial property and copyright (see Figure no.1)

Figure no.1 IP rights categories



Source: own processing of informations from the scientific literature

From a business perspective IP should be considered as the most important strategic asset of a company, rather than legal papers and evidences that is the key driver of business performance and differentiation[2].

Taxation in case of IP is one of the key consideration for companies but also for each state authority. Due to the fact that IP is highly mobile and can be easily separated from the jurisdiction where it was developed companies prefer to move IP offshore to minimize tax consequences [4].

This article approach the new concept of Patent Box from a business and taxation perspective. It is structured in five parts: the second part approach the differences between R&D credit regime and Patent Box, the third part treats the new concept of Patent Box as a tax incentives for businees environment and the fourth part approaches the application of patent box regime in different countries. In

the last part of article we conclude that the main important start point is to understanding the new concept of Patent Box and it regime and to customize its application in accordance with local framework.

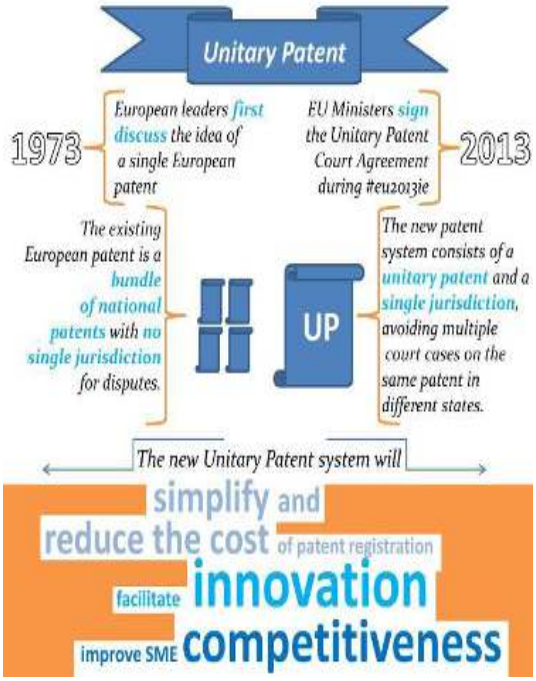
2. R&D credit regime versus Patent Box regime

In very tight connection with IP, the R&D expenditures represent a continuous concern of countries and governments for innovation inputs and increasing productivity [7]. EU as a whole and each country's government have established R&D intensity targets, see: Sheehan and Wyckoff (2003) on one side and scheme tax credit, that give tax relief, to encourage R&D investment on the other side [3].

Starting point for a global approach within EU was done at the Lisbon summit (2000) that announced its aim to make EU "the most competitive knowledge-based economy". The advancement of intellectual property (IP) and research and development (R&D) activities is widely believed to be an important element in achieving this aim. At a subsequent EU Summit in Barcelona EU member states committed to spending 3% of gross domestic product on R&D investments by 2010 [15].

As a step forward the 24 member states of EU signed on February 2013 the international agreement establishing a Unified Patent Court (UPC). Once the agreement enters into force, as soon as it has been ratified by 13 member states, the signatory countries will form a unified area as regards patent law [16]. The UPC is the third element of what is known as the *patent package*. Two regulations establishing enhanced cooperation for unitary patent protection and its translation arrangements were adopted in December 2012 [5].

Figure no.2 The Unitary Patent system



Source: http://www.eu2013.ie/news/news-items/20130219upcfeature/

Following these announcements, a number of EU jurisdictions have introduced favourable tax rules for IP and/or R&D activities, with a view to attracting and retaining investment in their countries, such as: R&D tax credits or patent box regime [14].

R&D tax credits refer to fiscal incentives granted on the "input side" at the front end of the innovation value chain, in the years when research and development expenditures are incurred, i.e. serving to incentivize activities designed to result in innovation and encouraging more basic research [10].

Patent box regimes are relatively new and refer to fiscal incentives granted on the "output side" at the back end, in the years when income is generated from exploiting IP, rewarding companies that can capitalize on that research and turn into profit, targeting commercialization of the research outcomes [6].

3. How to qualify for a patent box regime

The first country that develops this system was Ireland in 1973 [3], followed by another EU and non-EU nations: Belgium, France, Luxembourg, The Netherlands, Spain, Switzerland and China. Starting with the 1st

April 2013 also the very conservative UK will have a patent box in place [18].

The ''patent box'' terminology apparently refers to the application of a lower tax rate to a separate schedule or ''box'' of income [20].

Patent box represents tax incentives that allows business income resulting from qualifying IP to be taxed a lower rate than regular income. This preferential treatment of IP income is meant to provide firms with a stronger incentive to innovate and commercialize the innovations, domestically [1]. State authorities would like to encourage investment and economic growth and to retain and attract innovative and high-tech businesses to the country that apply this system [8].

Relief takes in the form of either the application of a reduced tax rate on income earned in the patent box or a deduction for a portion of the patent box income. Countries that have implemented a patent box regime include Belgium, China, France, Hungary, Ireland, Luxembourg, the Netherlands, and Spain. The UK government has announced its intention to adopt a patent box regime effective in 2013 [17].

It is important to mention that not only patents are included in this regime but any types of IP that qualify for preferential tax treatment from country to country. For example Ireland, Luxembourg, Spain, and Switzerland have expanded lists of qualifying IP, including designs, copyrights, models, and certain types of information and China's regime included also know-how. In the 2009, the Netherlands expanded its patent box into a so called "innovation box" including as IP that may qualify also R&D –based products or other services that have not a result a patent or a trademark [19].

4. Criteria of application of Patent box regime in various countries

Application of patent box regime differ from country to country in respect of [9]:

- **definition of qualified IP**

Includes from country to country patents and other IP elements

- **types of entity**

The definition includes nearly all business models. For an entity to qualify, a Patent can be legally held by, or an exclusive licence granted to, a company, joint venture, partnership or cost-sharing arrangement, opening up the applicability of the regime to many more businesses.

- **eligible taxpayers.**

Patent box regime should be limited or not to corporate taxpayers and, if not, whether it should apply to domestic branches of foreign companies or not

- **acquired IP**

Qualified IP must be self-developed or can be acquired from others

- **contract IP**

IP development activities must be carried out by the taxpayer directly or may be carried out by other persons, whether related or unrelated and there is the permission for cost-sharing arrangements under certain conditions..

- **election the incentive regime**

From country to country there may be or not a written obligation to submit an election into the patent box regime, specifying the accounting period on which the company is entitled to amend its tax return (elective or automatic regime).

- **ownership rights**

Companies must only own the IP rights or they must also have contributed to their development, or they must be actively involved in the management of the rights

- **exclusivity of the licence**

IP rights are held under and exclusive licence or not

- **calculation of taxable basis**

It differs from country to country and may be determined taking into consideration gross or net IP income (royalties). Also in taxable basis may be included or not gains from the sale of qualified IP and damages for breach of IP (infringement payments). Due to the often lengthy patent approval process another issues is how to treat income earned pending approval of a patent. In case of companies that own a single licence agreement that covers both qualified and non-qualified IP it is necessary to separate the agreement for the purpose of correct taxation.

- **taxation**

There are 2 options applicable: reduce rate on qualified IP income or deductions

- **treatment of patent losses**

Losses may be fully deductible in the current period and may be carried forward and used against any future profits or not.

There may be unlimited or limited certain period of time applicable in case of carry forward the losses. Any unused patent box deduction may be or not carried forward

- **cap on benefits**

There are from country to country different percentages of the IP deduction

- **foreign tax credit**

There may be limitation or not to impose additional limitations on the credit otherwise allowable for foreign taxes withheld on royalties.

- **Antiabuse rule**

Might be needed to address situations where royalties from a foreign related party qualify for the IP box and the local taxpayer simultaneously makes deductible payments to the foreign related party.

5. Conclusions

A thorough understanding of the Patent Box is only an important starting point. However translating Patent Box accounting principles into a practical patent action plan is not straightforward.

Companies at the very least will need to evaluate their patent portfolios and modify their existing patent strategy, and companies embarking on a patent filing programme for the first time will need patent education and expert guidance.

The following questions at least need careful consideration for any company included in this system:

- Are products covered by the existing patents and if not should be filing additional patents?
- In which Patent offices should be filing applications for patents to ensure rapid grant and earlier Patent Box benefit?
- Does this regime mean that previous assumptions regarding whether and when to file for patents no longer hold true?
- Up to now we have not thought it worthwhile securing patents; does this require reconsideration?
- In which corporate entities should the company hold the patents?
- It is needed to formalise intercompany arrangements regarding use of group held patents?
- Should it be looking to acquire patents by other means, including joint ventures with universities etc?

Should it be considered opportunities for in-licensing patents?

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Introducing Patent Box Regime in UK – a possible model to be followed in Romania

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Abstract

In the last decades the concept of intellectual property (IP) became very important amd therefore the EU jurisdictions have introduced R&D tax credits or patent box regime as incentives to attract foreign investments. Using literature review, this article approach the R&D and patent box regime applied in UK starting with 1 April 2013. Our main conclusion is that, the Patent Box needs to be seen in the context of the efforts of European countries made to introduce specific reliefs for revenues that derives from IP and also to fight against tax avoidance using off shore jurisdictions.

Key words: intellectual property, R&D tax credits, Patent box regime
J.E.L.Classification: O34

1. Introduction

EU jurisdictions have introduced R&D tax credits or patent box regime as incentives to attract and retain investment in their countries.

The UK Government has been keen to make the UK's tax system more competitive in the high-tech arena as a result against departures of UK headquartered multinationals from the UK due to unfavourable fiscal climate and used both R&D tax credits and new introduced patent box regime [2].

This article approach the new concept of Patent Box applied in one of EU membre states and mainly in the UK. It is structured in four parts: the second part approaches the differences between R&D credit regime and Patent Box applied in UK, the third part includes a structured presentation of the new regime regime applied in UK since 1April 2013. In the last part of article we conclude that even if, Romania has not yet adopted patent box regime and uses only R&D tax credits, following the advanced development of technological IP and the very qualified local IT labour force, the patent box may be an option to increase local competiveness and UK model may be an example to be followed.

2. R&D and Patent Box regime in the UK

R&D tax credits refer to preferential corporation tax treatment for R&D-related expenditure carried out in the years when research and development expenditures are incurred [9]. The allowable costs are, in general, staff costs and consumables and costs of hiring sub-contractors are subject to additional rules and will not necessarily be eligible for the enhanced relief [1].

UK defined two treatment of R&D expenditure, one fiscal treatment for SMES and another treatment for large companies.

Small and medium-sized enterprises (SME) those companies meeting the conditions of having less than 500 and employees and either turnover of less than €100m or - a balance sheet total of less than €86m that have to be satisfied for two consecutive accounting periods [3].

For these companies it is applied a preferential treatment for an additional tax deduction of 125% of the qualifying R&D expenditure incurred, with effect from 1 April 2012 [3].

A large company will only be eligible for a maximum additional deduction of 30% of the qualifying R&D expenditure in the period [3].

Patent box regime is are relatively new and refer to fiscal incentives granted in the years when income is generated from exploiting IP and targeting commercialization of the research outcomes [6].

The process of introducing Patent Box regim in UK was a very laborious one and started since 2009, when the Government announced the possibility of a favourable fiscal regime referred to as the 'Patent Box' introducing tax relief for research and development expenditure and law rate of corporation tax for income from patents [4].

In November 2010, Her Majesty's Revenue & Customs and Her Majesty's Treasury launched an initial consultation document named "*The Taxation of Innovation and Intellectual Property* setting out a series of corporate tax reforms and confirmed the intention to introduce Patent Box regime [16].

On March 24, 2011, the UK Chancellor of the Exchequer delivered the annual Budget setting out the fiscal plans for the government for the coming year that included also the introduction of the patent box regime effective April 1, 2013 [5].

In June 2011, as stage 2 consultation it has been issues the document "Consultation on the Patent Box" which gives more detail on the design proposals.

On December 2011 the draft legislation and explanatory notes, Patent Box, response to consultation, and The Patent Box: Technical Note and Guide to the Draft Legislation have been made public.

Legislation to introduce the Patent Box was included in the Finance Act 2012 receiving Royal Assent on 17 July 2012. HMRC have also published a Technical Note on the legislation [5].

Starting data in application of this new fiscal regime is 1 April 2013. According with HMRC technical Note, the Patent Box legislation: "will encourage companies to locate the high-value jobs associated with the development, manufacture and exploitation of patents in the UK and maintain the UK's position as a world leader in patented technologies". UK sectors that will be most probably positively affected may be pharmaceuticals, life sciences, manufacturing, electronics and defence use patents and are likely to benefit from the Patent Box [8].

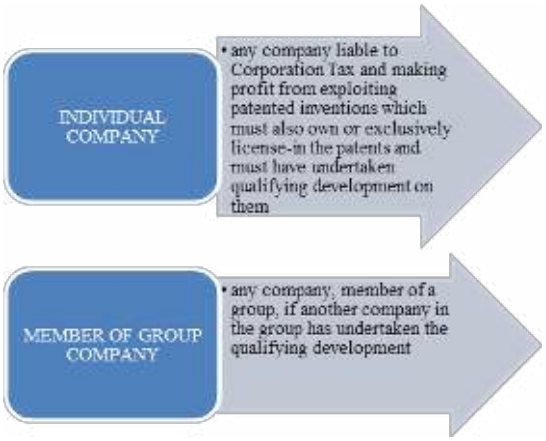
3. Effective Patent Box application in the UK

From 1 April 2013 companies will be able to elect and apply a reduce rate of 10% of corporation tax on profits generated from qualifying patents whether received as a royalty or embedded in the sales price of products and limited other forms of intellectual property such as such as regulatory data protection (also called 'data exclusivity'), supplementary protection certificates and plant variety rights[i]. This rate will be effective until 2017 [12].

Companies qualifying for the Patent Box are also likely to be undertaking significant research and development and qualifying for R&D tax credits. If the requirements of the rules are met Companies claiming R&D tax credits will be able to benefit also for certain research and development (R&D) expenditure under the R&D tax regime and will not be penalised when calculating their profits for Patent Box [15].

Beneficiary of the Patent Box will be both individual companies as well as companies member of a Group of companies. (see picture below) [17].

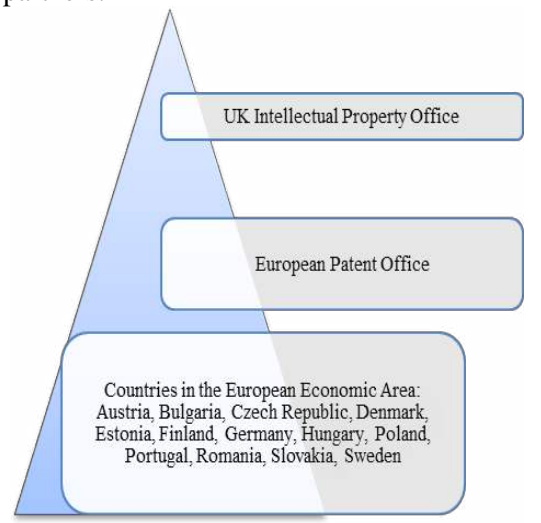
Figure no.1 Patent Box applied to individual company and member of a group company



Source: Own processing of informations retrieved from the http://www.hmrc.gov.uk/manuals/cirdmanual

Beneficiary from Patent Box regime can be any company that owns or exclusively licenses-in patents granted by the following

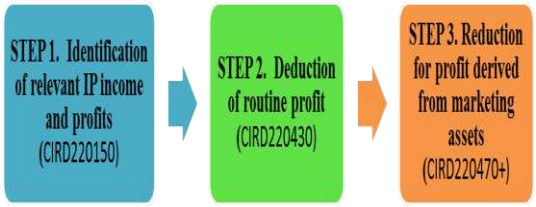
partners:



Source: Own processing of informations retrieved from the http://businessroudtable.org

The regime applies to new as well as existing patents owned or developed through partnerships, joint ventures and cost-sharing arrangements, however the claimant company or group has a significant involvement in development of either the patented invention or activity, or a product incorporating the patented item or activity [13].

The method for determining the profit eligible for 10% rate is, in principle a three step process as follows [10, 11]:



Source: Own processing of informations retrieved from the http://www.forbes.com

Calculation of the part of a company's overall profit which will come within the Patent Box and qualify for favourable treatment involves several steps calculation and uses specific terms [14].

STEP 1. Identification of relevant IP income and profits (CIRD220150)

The starting point for STEP1 (Identification of relevant IP income and profits) is the total gross income, that is computed using the standard accounting rules, i.e. the correctness of accounting recordings is of greatest importance.

The next action refers to identify the relevant IP income (RIPI). RIPI shall be included in the total gross income of the trade, excluding financial income and can arise from five different ways of exploiting IP rights (CIRD220160):

CIRD220170	Head 1 - sales income (Sales of "qualifying items" and associated items)
CIRD220200	Head 2 - licence fees (Licence Fees or royalties from the grant of rights over qualifying IP assets)
CIRD220220	Head 3 - proceeds of sale (Proceeds of realisation of qualifying IP assets (i.e sale or other disposal)
CIRD220230	Head 4 - damages for infringement (Infringement income, that is compensation paid from an infringement or alleged infringement)
CIRD220240	Head 5 - other compensation (Damages, Insurance and other compensation receipts)

Source: Own processing of information retrieved from the http://www.bakertilly.co.uk

A specific term of 'notional royalty' is introduced by CIRD220250 if a company derives some of its total gross income from the exploitation of the patented invention but the income does not fall into any of the five heads. In this case it may be able to deem some of that income to be RIPI for the patented item.

The next step in this stage consists in computing the net income attributable to RIPI using two methods: apportion the total profits or allocation the expenses to RIPI and using several specific adjustments.

STEP 2. Deduction of routine profit (CIRD220430)

The routine return represents the profit a business might have made if it did not have access to unique IP and other intangible assets. (CIRD220430) and must be deducted from the profit attributed to RIPI to arrive at the amount of that profit that is attributable to the intellectual property.

Using the cost plus methodology a "routine profit" is calculated by deducting a notional 10% return on certain operating expenses from profit determined according with STEP1 presented above. These

expenses include capital allowances, premises costs, personnel costs, plant and machinery costs and miscellaneous services.

STEP 3. Reduction for profit derived from marketing assets (CIRD220470)

A business needs to identify how much of the IP profit calculated at STEP 1 and 2 above is due to the patent and how much is due to marketing assets such as brands.

The Patent Box is not designed to reward other forms of IP and this is the reason why the profit associated with intangible assets, such as brand or other marketing assets is removed. At this point profits generated between application and grant, subject to certain conditions, may be also added to the figure calculated above. In many cases this figure is nil and in others a simplified small claims treatment can be applied [7].

From 1 April 2013 companies may elect into the Patent Box regime. The Patent Box allows qualifying companies (CIRD210000) to be taxed at a reduced rate on the profits from patents and other specified intellectual property [6].

The Patent Box reduces the rate of tax by allowing an additional deduction ('the Patent Box deduction') from the profits of the trade for corporation tax purposes for each of the accounting periods it is a qualifying company.

The Patent Box deduction is a proportion of the relevant profits from patents and intellectual property. CTA10/S357A(3) provides the calculation for the Patent Box deduction as [10]:

Patent Box deduction = RP x (MR-IPR)/MR

Where:

RP is the Relevant Intellectual Property Profits (CIRD220000)

MR is the main rate of corporation tax (CTM03510), and

IPR is the 10% Intellectual Property Rate of corporation tax.

As an example if a company has corporation tax trade profits of £100.000 and all of these qualify for the Patent Box, when the main rate of corporation tax is 21%, then the tax payable will be calculated as follows:

Trade profits chargeable to corporation tax	£100.000
Patent Box deduction £100.000 x ((21-10)/21)	(£52.400)
Profits chargeable to corporation tax	£47.600
Tax payable (£47.600 x 21%)	£10.000

Source: Own processing of informations retrieved from the http://www.hmrc.gov.uk/budget2012

So it can be seen from this that relevant IP profits of £10.000 have an effective 10% rate of tax.

In order to phase in the benefit of the Patent Box only a percentage of the relevant IP profits of the trade will be included when calculating the Patent Box deduction (CIRD201020).

The relief is phased in from 2013 to 2017. In the 2013 financial year only 60% of the relevant intellectual property profits will be included when calculating the Patent Box deduction. This will increase 10% a year until it reaches 100% in the 2017 financial year (CIRD260170).

The percentages for each financial year are:

Year	2013	2014	2015	2016	2017
Percentage of RP	60%	70%	80%	90%	100%

Source:http://www.bakertilly.co.uk/publications/Pages/The-Patent-Box-10-tax-rate.aspx

If an accounting period falls within more than one financial year the RP for that accounting period should be apportioned to each financial year.

Companies without patents may wish to consider whether they have products or processes which could be patented, such as IT/software.

4. Conclusions

The Patent Box needs to be seen in the context of the efforts of European countries made to introduce specific reliefs for revenues that derives from IP and also to fight against tax avoidance using off shore jurisdictions.

There are new issues to be considered by the consultants in advising companies how to benefit from this new regime and to maximise the benefit, as follows:

- Identification existing patents and also the other IP elements that can be patented
- Correctly determination of qualifying income from patents

- Performing a correct calculation of taxable basis using the three-step method
- General planning for intellectual property and specific tax advice in the field of IP and property rights
- Fiscal planning and structuring that may contribute to securing benefits taking into consideration group profit arrangements.

Even if Romania has not yet adopted patent box regime and uses only R&D tax credits, following the advanced development of technological IP and the very qualified local IT labour force, the patent box may be an option to increase local competiveness.

Of course a very structured approach based on broad consultation among the most important player, state authority (that needs to take into consideration substantial compliance and administrative burden) and beneficiaries of this regime needs to be followed in the next years.

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The Role of Cost Accounting in the Management of the Activity Center

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Abstract

Cost accounting is supporting managers to establish the development strategy of the company. The information provided is used in the decision making process regarding the production and marketing of products.

Estimating the future cost influences the development strategy of an activity. Thus, there are costs that vary proportionally with the volume of production, while others remain fixed whatever changes appear in the business volume.

Analysis of costs evolution is related to the type of calculation method. Rapid determination of production costs can be achieved using an evolved method as variable costs method, which allows the calculation of some broad-spectrum indicators, necessary to support decisions.

Extended version of the method emphasizes profitability analysis based on sales volume through indicators such as: balance point, range safety and so on.

Thus, the analysis based on the relation „Cost-Volume-Profit" can be used in order to optimize the results of the activity center.

Keywords: cost accounting, direct-costing, cost analysis.
J.E.L. Classification: M41

1. Introduction

Cost accounting provides information that managers use in the decision-making process of the enterprise. Information provided by management accounting and costs is used by managers to select and implement a strategy.[1]

They use this information to coordinate their decisions regarding the conception, production and marketing of products and services.

Developing strategy of an activity is close related to the estimation of the future cost, through the elaboration of cost budgets by type.[3]

There are costs that vary gradually with production volume or with operating activity; others remain fixed whatever changes occur.

Cost assessment in based on the type of analysis (total costs or unit costs).

2. Product costing through Direct-Costing method, extended version (depending on sales volume)

Rapidly defining the production costs that can allow the establishment of some broad-spectrum indicators, led to Direct-Costing.

Using this method involves determining the overall profitability or by activity types, products, s.o.

To determine product costs using the Direct-Costing method, extended version (considering sales volume), the production and sales process of an activity center were analyzed for a period of one month.

The results are summarized in Table No. 1.

Table 1. Determining earnings per activity center

Products	*Sales volume*	*Total expenses*	*Final result*
1	2	3	4 = 2 – 3
A	64012	44872	19140
B	9729	7414	2315
C	748477	632597	115880
D	112705	91938	20767
E	10105	7820	2285
F	4049	3142	907
G	23838	19920	3918
H	136	126	10

I	350	282	68
Total activity center	973404	808114	165290

Source: personal processing

According to data, the final result was obtained by deducting from the sales volume, the total expenditure incurred to obtain production for the period of calculation.

Based on the results obtained through Direct-Costing method (extended version), it can be determined the unit cost per product as a ratio between variable expenses and product quantity of the activity center.

The cost calculated in this manner is a partly cost because it includes in the calculation only the variable costs, fixed costs being included at the section level, which are not taken into account.

Unit costs per product of the activity center are determined in Table No.2.

Table 2. Unit costs per product determined with Direct-Costing method

Product	*Quantity (kg)*	*Total variable costs (ron)*	*Unit cost per product (ron/kg)*
1	2	3	4 =3/2
A	71.247	36.973	0,52
B	10.459	6.126	0,58
C	837.848	522.329	0,62
D	125.228	75.957	0,60
E	11.082	6.454	0,58
F	4.519	2.591	0,57
G	28.304	17.289	0,61
H	114	104	0,91
I	2.336	237	0,10
Total activity center	1.091.137	668.060	0,61

Source: personal processing

3. Activity center productivity through specific indicators of Direct-Costing method

Analysis of the correlation between activity volume, costs and profits can be achieved by means of some indicators such as:

3.1. Balance point (critical point)

Balance point is determined based on the ratio: $$P_e = \frac{C_F}{Cb_u}$$

where:

P_e – balance point;

C_F – fixed costs related to the activity center;

C_F – 140.050 ron;

Cb_u – gross contribution per unit;

$$Cb_u = \frac{M/Cv}{\sum Q} = \frac{305.340}{1.091.137} = 0.28 \text{ kg}$$

where:

M/Cv – gross contribution margin related to the activity center and variable expenses (M/Cv = 305340 ron).

$\sum Q$ - total amount of production obtained over a period of one month ($\sum Q$ = 1.091.137 kg).

Therefore,

$$P_e = \frac{140050}{0.28} = 500.178 \text{ kg}$$

From the calculation of balance point it results that the company should produce 500.178 kg product in order to obtain zero profit, i.e. incomes to cover expenses entirely.

For the sale of 1.091.137 kg products and getting a turnover of 973.404 ron, the total costs achieved are 808.114 ron of which 668.060 are variable costs and fixed costs of 140.050.

Therefore $\sum Q$ = 1.091.137 kg.

From the data:

C_T = 808114 ron;

$C_T = C_V + C_F$;

C_V – variable costs;

C_V = 668060 ron;

C_F – fixed costs;

C_F = 140050 ron.

Margin rate on variable costs is:

$$r = \frac{M/C_V}{CA} = \frac{305.340}{973.404} = 0,31$$

Variable costs rate is:

$$r^1 = \frac{C_V}{CA} = \frac{668.060}{973.404} = 0,69$$

The calculation of balance point is based on the assumption that all outputs produced

are soled and therefore the value of volume production coincides with the volume of dissolution.

Balance point calculated taking into account the equalities:

a. Calculation based on the ratio:

$CA = C_V + C_F$.

If sales line is denoted with y_1 and total expenditures line with y_2, then the equations of the two lines are:

$$\begin{cases} y_1 = CA \\ y_2 = C_V + C_F \end{cases}$$

Since $x = CA$, C_V is calculated according to the CA as follows:

$$C_V = r^1 \cdot CA = r^1 \times x$$

Therefore:

$$\begin{cases} y_1 = x \\ y_2 = r^1 \cdot x + C_F \end{cases}$$

It results that:

$$\begin{cases} y_1 = x \\ \\ y_2 = 0{,}69 \cdot x + 140050 \end{cases}$$

Balance point is determined by equalizing the two equations:

$$x = 0{,}69x + 140050$$

$$x(1 - 0{,}69) = 140050$$

$$x = \frac{140050}{0{,}31} = 451774$$

The solution of the system of equations represents the total sales to be made to cover total production costs, expressing the **value balance point**.

b. Calculation based on the equality:

R = 0 or $M / C_V - C_F = 0$.

Equaling CA to x, we obtein:

$$M / C_V = r \cdot x$$

Therefore:

$$y_1 = r \cdot x - C_F$$

It results that:

$$y_1 = 0{,}31 \cdot x - 140050$$

Balance point, in this case, is obtained from the equality:

$$y_1 = 0$$

Therefore:

$$0{,}31 \cdot x = 140050$$

Where:

x = 451.774 ron

The solution of this equation expresses the value of sales that cover the expenses incurred in obtaining production, i.e. the value balance point.

3.2. Safety range and dynamic safety index

To determine the safety range we used the dissoluion volume per product, presented in Table No. 3.

Table 3.Determination of dissolution volume per product of the activity center

Product	Quantity (kg)	Share of product in total products	The balance point afferent each product (ron)	Unitary price (ron/kg)	Determination of dissolution volume for each product (ron)
1	2	3 = 2/quantity	$4 = 3 \times P_e$	5	$6 = 4 \times 5$
A	71.247	0,0652	32.612	0.90	29.351
B	10.459	0,0095	4.753	0.93	4.420
C	837.848	0,7678	384.036	0.90	345.633
D	125.228	0,1147	57.370	0.90	51.633
E	11.082	0,0101	5.152	0.91	4.689
F	4.519	0,0041	2.051	0.90	1.846
G	28.304	0,0259	12.955	0.84	10.892
H	114	0,0001	50	1.20	60
I	2.336	0,0021	1.199	0.15	180
Total	1.091.137	1	500.178	-	448.691

activity center					

Source: personal processing

Selling the products at section level is:

$$dP_e = 448.691 \text{ lei}$$

Total dissolution is:

$$D_T = 973.404 \text{ lei}$$

Safety range is:

$$Is = D_T - dP_e = 973404 - 448691 =$$

$$= 524713$$

It results that production may decrease by up to 524.713 lei without affecting the balance.

Dynamic security index is:

$$Id = \frac{Is}{CA} \times 100 = \frac{524713}{973404} \times 100 = 54\%$$

Thus, dissolution volume may decrease by up to 54% without affecting the balance. If this percentage decreases more will reach record losses.

4. Conclusions

The calculations and analysis performed under cost-price-volume ratio are a joint management instruments that can be used to optimize the outcome of economic activities. This can be done by determining the influence it has on the outcome, by the changes of the factors that led to the establishment's (sales price, production volume, variable costs, fixed costs and production structure).

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Internal Audit and Fraud Prevention

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Abstract

Modern management of economic entities, regardless of the nature of society, whether it is a public or a private entity, cannot be developed without a rigorous and flexible control. Running a company requires a permanent and systematic control of the business.

Fraud in general can be defined as cheating, dishonest act committed by someone, usually to make a material profit from the rights of others, and act as thieves sum stolen by fraud. The emergence of fraud in a company is an issue that must not be lost of sight by the management entity. Fraud detection in time can have significant negative effects for the entity.

Some of the internal audit's role in the entity consist in proposals and recommendations to mitigate the risk of fraud. In this aspect, internal auditors must notify management at the first clues of a fraud existence and support management in their actions.

Keywords: internal audit, fraud, preventing fraud, internal control.
J.E.L. Classification: M42

1. Introduction

Patrimonial entities whose business is conducted in a dynamic and aggressive business environment have to be flexible, be able to adapt easily and quickly to these changes in order to survive, conduct an efficient activity and ensure that the principle of continuity activity is respected.

Economic entities operate in an aggressive competitive environment full of risks, with the final aim: profit. To be able to achieve this target, managers need to master and control the business in order to efficiently allocate resources for profit and to ensure continuous development of the entity.

2. Internal audit. Concept. Objectives and functions

According to IIA (Institute of Internal Auditors), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In the context of a challenging economic and financial environment, internal audit objectives are focused on some areas:

- ensure maximization of profit;
- eliminate any factors and causes that could lead to lower profits;
- ensuring the integrity of heritage;
- increase operational efficiency by limiting and /or exclusion of inefficient operations;
- increasing the fidelity and accuracy of accounting information;
- legal compliance and requirements management;
- ensuring a healthy climate, discipline, for the activity in terms of profitability and high efficiency;
- motivate and empower their employees,

resulting in improved business and assuring a real feedback.

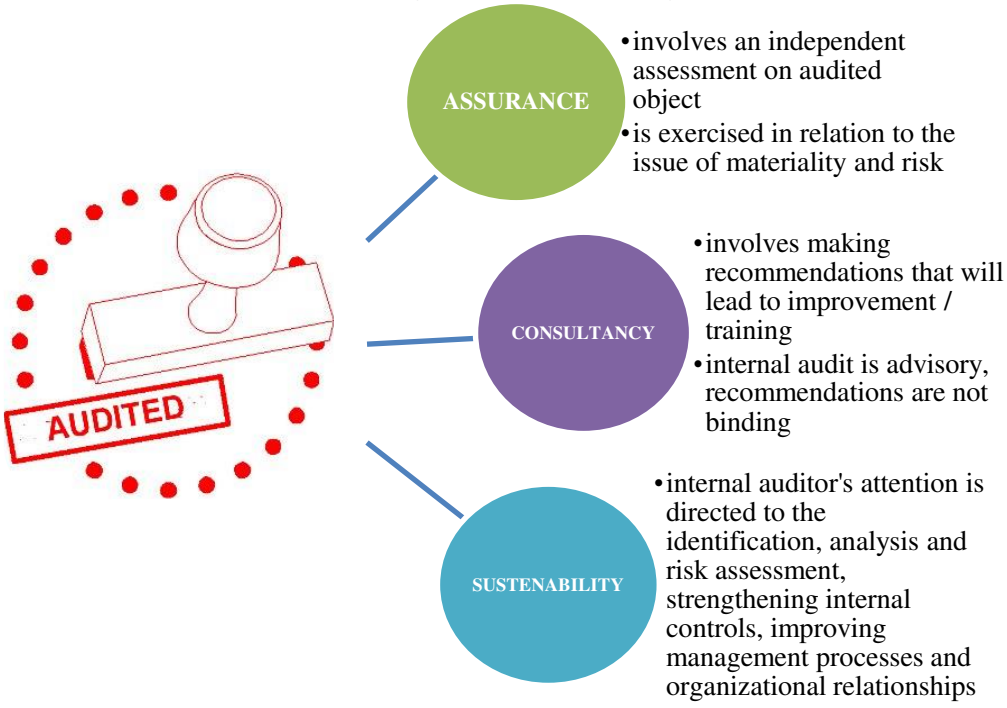
The Government Ordinance no.75/1999 regarding financial audit, establish also the main objectives of internal audit which are the following:

- verification compliance of activities in the economic entity audited with policies, programs and its management in accordance with the law;
- assessing the adequacy and application of financial and non-financial controls conducted by management in order to increase efficiency of the economic entity;
- evaluating the appropriateness of financial and non-financial data / information designed for an appropriate knowledge of the economic reality;
- protection of property and identifying methods to prevent fraud and losses of any kind.

Internal audit functions emerge even from the definition given by the IIA (presented above).

We briefly present the 3 functions of internal audit (Fig.2.3. Internal audit functions).

Figure 1. Internal audit functions



Source: personal presentation

3. The concept of fraud

Fraud in general can be defined as cheating, dishonest act committed by someone, usually to make a material profit from the rights of others, and act as thieves sum stolen by fraud.

In the economic sense, in business the concept of fraud is associated with the concepts of irregularities / irregularities / malfunctioning / deficiencies / irregularities.

Wrong concept refers to any deviation from the legality, regularity, any breach of the provisions of agreements.

The following terms, deviations/ deficiencies / malfunctions are considering non regulatory framework, procedural code violations, that it finds errors, omissions, willful misconduct.

We present some definitions of fraud:

- According to the Law 500/2002 regarding public finances, irregularities and fraud are all illegal acts committed with intent to deceive;
- Fraud shall mean any intentional act or omission in connection with the use or presentation of false statements or documents, incorrect or incomplete, including offenses [5];
- fraud is any illegal act characterized by

deceit, concealment or betrayal of trust that do not depend directly on the threat of violence or physical force [2];

- Any illegal acts characterized by deceit, concealment or betraying trust. These acts are not necessarily characterized by the use of threat of violence or physical force. Fraud is perpetrated by individuals and organizations in order to obtain money, goods or services to avoid payment or loss of services, or to secure personal or business advantage.[5]

Fraud can be committed in favor or detriment of the economic entity.[2]

Fraud committed in the benefit of the entity favors entity in an unjust way, represents an unfair advantage being capable to deceive even a third party. In this category of fraud fall fiscal fraud, illegal commercial activities, selling of fictive goods, s.o.

Fraud committed in detriment of the entity favors in general one or more of the employees, a third party or other entity directly or indirectly. In this category of fraud fall bribery, embezzlement of funds and assets, billing services or supplies that were not provided, omission of information with intent.

4. Internal audit and fraud

Based on internal audit objectives, we can say that from a conceptual perspective, in practice, there is an apparent mismatch between the intentions of managers for effective management and the means used to achieve it. This standstill agreement of management tools, (especially internal audit) that have not evolved since structural and functional changes of economic entities, although such a development would have been natural.

Internal auditors are in the position that provides support particularly important in the transition of the company from what was to implement a viable, efficient and effective control model, Companies that place a higher importance of internal control are the same trend in terms of internal audit. [3]

According to Internal Audit Standards, Section 1200 - Powers and professional conscientiousness, Subsection 1210 - Proficiency: 1210.A2 Internal auditors must have sufficient knowledge to identify signs of fraud, but that does not mean they must have the same level of competence as and a person whose primary responsibility is detecting and investigating fraud.

Also internal audit standards, respectively glossary of terms, find the term in the definition of fraud and internal audit mission, namely: the internal audit mission means a mission, task or activity specific review of internal audit, such as internal audit, a review of control self-assessment, investigation of fraud or a consulting assignment.[2]

The most effective tools that can be used to prevent fraud are management control and internal audit, the task management system being installed and processes to serve as preventing and discovering fraud within the company.[1]

In an entity where internal audit is as part of organizational culture, internal audit is accepted with interest, but in an entity experiencing significant potential risks, the lack of compliance with key regulations with reduced efficacy and its external fragility due to embezzlement of funds, assets is obvious that the manager will be judged and praised by the findings of the internal auditor.

A suggestive feature of internal audit is that the internal auditor has a degree of freedom offered by the mission plan, which situate him above routine concerns or stressful work of being regular.

Internal audit is not related to the entity's staff only if it participates in theft, fraud for which he is responsible and will make account, for the rest audit addresses how the structure of the entity meet its own rules.

Auditors contribute to the deterrence of fraud by examining and evaluating the relevance and effectiveness of the internal control system, considering the risk exposures of the entity specific to each area.

In this sense, internal auditors determine whether:

- Organizational environment stimulates awareness regarding the need for internal control;
- Are set realistic goals and objectives;
- There are written rules that describe prohibited activities;
- Communication system allows to obtain adequate and reliable data;
- Are established and maintained rules regarding authorization of operations and transactions.

In case of irregularities found, internal

auditor warns the entity's authority and may suggest fraud investigation, which is to carry out detailed research to determine whether there has been a fraud.

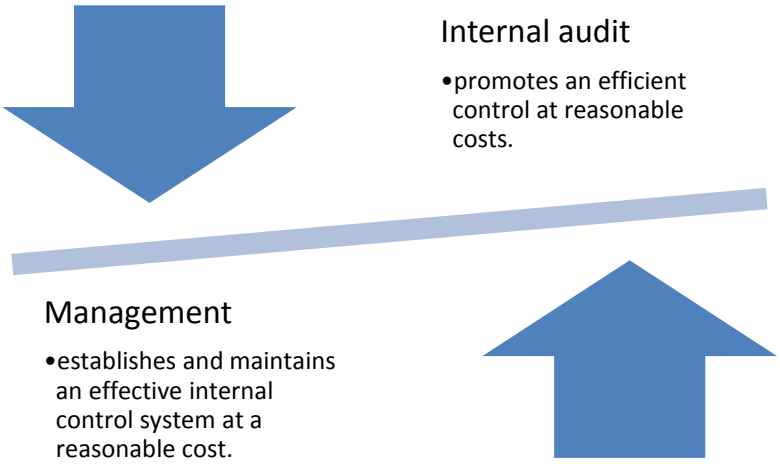
Auditing a fraud involves certain duties of the internal auditor, such as:

- Research and evaluation of existence and significance of possible complicity. This is essential for avoiding providing information to those involved in committing fraud;
- To determine the knowledge, skills and other competencies needed to perform an investigation with efficiency;
- Defining the procedures to be followed in order to detect fraud;
- Conducting investigative activities in compliance with management, legal counsel and other experts considered to be useful during investigation.

What's to be kept in mind is that the responsibility of the internal auditor regarding fraud detection and fraud prevention results from internal audit's first objective, that being to help members of the company to fulfill their tasks in an efficient manner by providing analyzes, evaluations and recommendations on the activities reviewed.

Both management and internal audit play a part in preventing fraud, but their roles are different. While the management of an entity has responsibility in establishing and maintaining an efficient control system at a reasonable cost, internal audit role lies in promoting the implementation of an effective internal control system at a reasonable cost.

Figure 2. Responsibilities of management and internal audit regarding the internal control system



Source: personal presentation

Internal audit department applies pressure on management through its role of promoting an efficient control of all activities and by implementing effective controls management will determine an increase of internal audit performance.

Internal auditors tests associated with reasonable controls conducted by management lead to improving the chances of detecting any hint of fraud and, if necessary deepening investigation. A well-designed internal control system allows to reduce the risk of fraud.

5. Conclusions

The internal audit task switch providing their assistance, assessing risks and control strategies, suggesting initiatives, solutions, proposals and recommendations to mitigate the risk of fraud and improve control strategies.

Internal auditors must at first clues of fraud to notify management to develop its own investigations and research on fraud certainty, persons involved and the size, but to oversee further the entire process and assist management to act in consequence. [4]

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Solvency Margin in Insurance Field – The Need for IFRS Compliance

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Abstract

The framework for insurance and reinsurance now in use needs updating. The proposal for a new solvency framework, called Solvency II, is introducing a risk-sensitive approach, taking into account optimal allocation of capital market, consistent valuation of assets and liabilities ("fair value" concept), timely calculations and more transparency, in accordance with the IFRS. The purpose of the paper is to offer a practical approach of calculation and reporting regarding the main liquidity and solvency indicators for implementing the Solvency II model at national scale. The study having a predominant methodological qualitative fundament based on casuistic and experience of national and multinational companies operates on the wide field of insurances. High value of the research is produced by the new approach of calculation and reporting solvency margin based on risk management, which is a beginning in Romania, lining up to international accounting insurances research.

Key words: *fair value, adequacy of capital, solvency margin, risk management , Solvency II*
J.E.L. Classification: G22, M40

1. Introduction

A particular characteristic of insurance is that the production cycle is inverted: insurers receive a premium up-front, but are only obliged to pay-out if the risk materializes at some future date. This is the main reason why States control insurance, because it exposes policyholders and beneficiaries of insurance contracts to loss in the event that an insurance company goes bankrupt. As a consequence, State intervention has tended to focus on introducing measures that guarantee the solvency of insurance undertakings.

This study is concerned with explaining how the Solvency II regulations will affect risk management in the life and non-life insurance industry, and whether these changes can result in opportunities for insurance companies. These are indeed contemporary events over which we have no control, referring to a "how" question. Thus, the method being used is *case study research*.

Since this study is not concerned with social critique, we will focus on the choice between a positivist and an interpretive perspective. The purpose of this study has emerged gradually through discussions with different stakeholders. The process has been iterative in the sense that new stakeholders have been contacted, our frame of reference revised and the purpose rephrased several times. Therefore, the aim when entering the field has been to test theories developed or discovered in the earlier stages of our thesis. Considering possible effects from Solvency II is not a new idea, although there seems to be lack of empirical evidence that supports it. Therefore, we think that a *positivist research approach* best corresponds to our needs.

One could argue that different stakeholders are likely to have different views on the complex subject we have chosen to investigate. As Lee [7] writes, an interpretive research approach acknowledges that one phenomenon can be interpreted differently by two individuals, and that this fact needs to be considered in the research. We have seen, for example, proof of interpretive research in the way we have dealt with changes to the purpose of the study

as well as conflicting opinion of interviewees. The main reason for doing so is that any current assessment of potential effects of Solvency II is deemed somewhat subjective. In five to ten years time, a purely positivist, and perhaps quantitative, study should be feasible, while it certainly is not today. In brief, this study is mainly guided by a positivist research approach, but it also has some elements of interpretive research.

2. The previous situation for the insurance supervision

The main elements of current insurance supervision in Europe are the Directives 73/239/CEE and 88/357/CEE, which correspond to the Non-Life Assurance Directive from 1973 and can be considered as the first generation of solvency guidelines. Furthermore, the second generation, the Directives 79/267/CEE and 90/619/CEE that are the Life Assurance Directives from 1979 came up. The third generation of directives is represented by the Non-Life Assurance Directive 92/49/CEE and the Life Assurance Directive 92/96/CEE. Those were established in 1992 and formed the foundation of the European domestic insurance market [2]. The essential improvements within these guidelines were the omitted preventive product control and the implementation of the principle of the member state of the head office, including mutual acceptance of harmonizing supervision rules as well as the creation of a sufficient solvency margin.

The first, second and third life and non-life directives commonly known as Solvency 0, specify which assets should be used for calculating the solvency margin. They also specify that the *required solvency* margin should be the greater of the *adjusted premium index* or the *adjusted claims index*.

In 1998 the Insurance Group Directive was adopted. Main elements of this directive were the calculation of the adjusted solvency of insurance groups. This should confirm the available equity as an actual state on the one hand and the determination of a target solvency as minimum of verifying equity on the other hand. In this way double gearing can be avoided. This directive was in most European countries established in 2001.

3. Solvency I

After the implementation of the European Single Market it became obvious that there has to be a rearrangement of the supervisory regulations. The first step was made in 1994 with formation of the Müller-Commission. Its task was a critical review of the previous situation within the insurance market and to compile realignments.

Consequences of the realignment were stricter requirements in order to ensure solvency. Now, according to the regulations solvency has to be guaranteed at every single point in time and not only at the end of the fiscal year. Resultant from this, insurance companies were forced to improve their information systems to provide reliable data on a daily basis [10].

From now on, a solvability margin was required to cover unexpected losses and future risks. The available solvency consists of free and not mortgaged equity without intangible assets. This is the basic capital, compulsory and free reserves and the retained earnings or debit carryover after deduction of distributed dividends.

The calculation of the capital requirement under Solvency I is relatively simple: a percentage of premiums and claims in non-life insurance and reinsurance and a percentage of technical provisions and of capital at risk in life insurance

The required solvency margin is specified as:

- the greater of the adjusted premium index and the adjusted claims index during the current or previous financial year,
- or the last year's required solvency margin multiplied by a ratio concerning outstanding claims.

To calculate the actual solvency within equity, several changes for Non-Life and Life-Insurance companies (Life and Non-Life insurance business have to be considered separately, since they face different maturities and types of insured risks), were established:

- as before, valuation reserves can be assigned to equity on application, but *now* there is also the possibility to assign them to guaranty funds.
- only on application 50% of the not deposited basic capital could be deducted from the actual solvency amount and

therewith lower the amount insurances have to provide, as long as 25% are deposited. The maximum deduction equals 50% of the solvency margin. Now, this border is also valid for lower-ranked liabilities [5].

The system is clearly outdated. It is retrospective and not prospective. It does not require management of insurance companies and insurance supervisors to look at the individual risk position of each insurer. It does not take account of a number of important risks, such as the asset/liability management risk, credit risk or market risk. Furthermore, it fails to provide insurance companies with the necessary tools to cope with increased international competition, with the emergence of new risks and with the growing pressure of capital markets. From an internal market perspective, it does not allow a real comparison between the financial position of insurance companies from different Member States, as the system fails to harmonize the most important element of an insurer's balance sheet, the technical provisions.

Finally, the development of new techniques, particularly in actuarial science, allow for a more accurate analysis of risks. Since the foundations of the current EU solvency regime were laid in the 1970's, the landscape surrounding solvency, including the insurance sector itself, financial markets, the approach to prudential regulation, techniques for risk management, actuarial methods and accounting standards have changed dramatically. The current solvency regime has been left behind and one of the most important consequences is a dislocation between regulatory capital and insurance companies' own assessment of the capital they need given the nature of their business

4. Solvency II

In 1999, the European Commission started the project SOLVENCY II in order to renew the actual insurance supervision and to harmonize it with the banking system within the EU member states. This project should be realized in two big phases and should find its completion due to an EU-directive that is valid for all member states:

- the first phase - **construction of the general conditions -** includes an analysis of the existing situation, a discussion about possible basics, principles and concepts as well as the commitment of the main features of the future system. Phase I was started in May 2001 and was completed with the document of the EU Commission: "SOLVENCY II – Reflections on the general outline of a framework directive and mandates for further technical work", on 19th September 2003.
- the second phase – **design and implementation.**

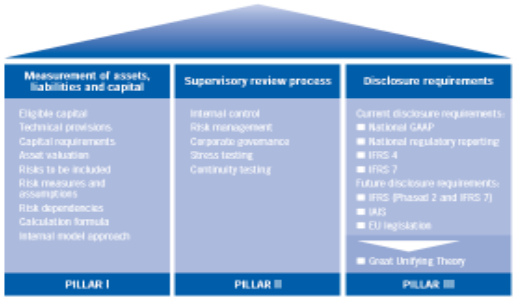
The new system should provide supervision authorities with appropriate qualitative and quantitative tools to assess and regulate the overall/total solvency of an insurance company. Furthermore, it should offer incentives to record and minimize risks. An efficient control belongs also to the target settings as the creation of equal/fair competition conditions.

All relevant types of risk should be regarded and a possibility to use internal risk management systems will be provided. Sufficient equity capital as protection of SOLVENCY I's preferential. Other aims are the protection of the insurance company, the avoidance of exorbitant complexity, the allowance of market developments, the definition of principles (without going too far into detail), and the prevention of overcapitalization.

The European Commission involved different international organizations and associations like the IAIS (International Association of Insurance Supervisors), the IAA (International Actuarial Association), the auditing company KPMG, and the national supervision authorities to develop SOLVENCY II in a proper and professional way. Due to this consortium, representatives of supervision authorities out of over 170 countries participate in this development process [5].

SOLVENCY II has got the same look as BASEL II – three pillars that should interact with each other without overlapping, to create a consistent framework.

Table 1. **The three pillars of Solvency II**



(*Source*: CEA, 2006)

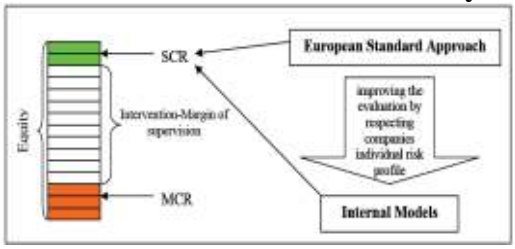
4.1. Pillar I

The first pillar of SOLVENCY II deals with the regulations concerning the financial resources. Those are supervisory specifications with respect to technical provisions, investments and solvency margins. Since SOLVENCY II wants to keeps the probability of insurer defaulting below 0. 5% within one year, certain capital restrictions/requirements are needed.

Particular important are the mentioned technical provisions. They have an extensive impact on the solvency requirements, since their calculation should be identical with the developments of the International Accounting Standards (IAS/IFRS). A detailed consideration of this point is here not possible, since there is not sufficient data available at this point in time.

The capital requirements of Pillar I (MCR and SCR) will capture and sufficiently measure all risks on the balance sheet. Within Pillar I MCR and SCR are the central elements. CEIOPS developed a Standard Approach to determine these requirements. The calculations should be based on "fair values" (market values) for assets and liabilities. However, this approach is not finalized yet and need still improvements. That is why also internal models should be developed to meet the specific needs of the company (see also Figure below).

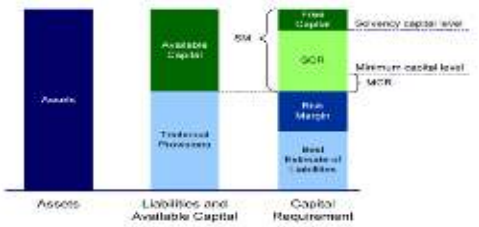
Table 2. **MCR and SCR under Solvency II**



(*Source*: Schubert, 2007)

The most important change according to SOVLENCY I is the market oriented evaluation of assets and liabilities. On the basis of this the equity requirements of Pillar I will be calculated [3]. It will be distinguished between Minimum Capital Requirements (MCR) and Solvency Capital Requirements (SCR). SCR could also be constituted as aimed economic capital.

Table 3. **Relating the MCR and SCR to assets and liabilities**



(*Source*: CEIOPS, 2006)

MCR defines that amount of capital on their shortfall the activities of an insurance company would have an unacceptably high risk for the insured person. If the capital of the company falls below the MCR ultimate supervisory actions shall be initiated. The MCR should be considered as a simple, robust and objective indicator [1].

SCR should warrant a capitalization that gives an insurance company the opportunity to absorb huge unexpected losses to provide the insured person an appropriate security that payments will be made if necessary. The SCR should represent that amount of capital, which is needed to fulfill all obligations within a certain time horizon to a particular confidence level [1].

A catalogue of different possible actions is available to the supervisory authority in case of a shortfall of the optimum level. These actions could be used before a definite intervention becomes necessary.

The calculation of the capital requirements could be performed either on basis of a standard model or through an internal approach, which has been developed by the company itself and has been investigated and permitted by the supervision authority. In this way it is guaranteed that also small firms can develop a risk management within their possibilities.

The standard approach should be a holistic method that contains all basic risk for both assets and liabilities.

4.2. Pillar II

The second pillar is constituted on the mentioned Sharma report for further qualitative elements of supervision. Among this belong the principles of internal control, proper risk management, and the formulation of combined principles and instruments of supervisory control [3].

The commission intends to develop a supervisory controlling procedure that is based on the actual directives and the fundamentals of BASEL II. For insurance companies this would led to a methodically administration, an appropriate internal control, and an obligation of disclosure to supervision authorities. On side of the authorities these rules bring along minimum competences to inquire, rights to intervene and specific operation barriers [2].

According to the principles of BASEL insurance companies have to have a measure to assess their equity configuration in relation to their specific risk profile, as well as a strategy to maintain their equity.

The supervisory authorities have to evaluate the quality of the internal assessment tools and the strategies to maintain equity, as well as the ability of the insurer to keep the predetermined minimum coefficients [1]. Furthermore, they have to be able to claim higher equity configurations for a company or a national market, if necessary, and they have to go after a precocious intervention to avoid non-sufficient equity configurations.

Additionally to the actual regulation for banks, also definitions about the amount of accruals and investment management have to be included [2].

Also clear regulations about risk evaluation methods and intervention rights with regard to target capital configuration are relevant. Also the harmonization of European statutory provisions plays a role. For that purpose a certain degree of analogy in interpretation and procedures of supervision authorities is needed. This becomes especially obvious while considering international insurance companies with subsidiaries that are controlled by a supervision authority [1].

4.3. Pillar III

The third pillar of SOLVENCY II will increase the market transparency and market discipline, due to an increase within the disclosure requirements [3]. The aim is to provide all market participants an insight into the solvency situation of a firm. This contributes to a corporate management that is effective and aware of risks.

The effort of the European Commission is thereby strongly orientated on the guidelines of BASEL II. This is done with respect to the fact that companies within the insurance sector do not depend on each other as much as in the banking sector.

The publication of supervisory information occurs next to the requirements of disclosure of financial markets, rating agencies and external accountants. The coordination of these information requisites is important, especially with regards to the continuous developments of the International Financial Reporting Standards (IFRS). For that purpose a consultation of the IASB is needed, to reduce the administrative burden for firms [7].

A fair balance between the public interest of information on the one hand, and the interest of competition of the insurer on the other hand, will be decisive for the future disclosure rules. However, unfavorable information of an insurer could aggravate an already bad situation of a company.

Due to fact that the obligations of the third pillar are pretty close to the procedures and measures of Pillar I and II, their detailed definition will be done during the work on SOVLENCY II.

5. Conclusions

The insurance market faces radical change due to Solvency II. Indeed, the French Society of Financial Analysts (SFAF) has called the new framework a "Revolution in value measurement and strategy" for the insurance sector. To fulfill the solvency requirements, insurance companies must review both the business processes and the profitability of their business lines. Certainly, Solvency II is revolutionary in that it provides:

- A better and more detailed measurement of risks;

- A global focus on enterprise risk management (not only technical risks but also financial, operational and other risks);
- The evaluation of company assets at market value according to IAS/IFRS accounting principles.

The impact of the Solvency II regime in Europe will be significant. It will not just change the regulatory capital requirements from the current, simplistic, Solvency I measures, but will fundamentally change the way that firms are required to look at their governance, risk and capital management processes. It will:

- Change the regulatory capital requirement by introducing a higher requirement based on a 1 in 200 (99.5 percent) confidence level over a one-year time horizon
- Change how firms calculate and manage their capital by requiring risk-based capital requirements and an articulated risk and capital management strategy
- Change how firms allocate capital within groups by setting out minimum capital requirements at both a group and solo level (currently subject to consultation), this will mean the European entity will be required to hold sufficient capital (what this means exactly is still under consultation)
- Increase the ability of analysts, policyholders and regulators to compare firms due to greater risk-based disclosures (currently subject to consultation)
- Increase the role of regulators by introducing a regulatory regime that focuses on risk and capital management while giving the supervisors greater powers of intervention, in particular in setting supervisory capital requirements
- Increase consistency between the supervision in different territories through application of a common framework, with peer review between supervisors to ensure consistent application. This should result in less ability for firms to undertake regulatory arbitrage, although many of the aspects of the current consultations suggest this harmonisation will take time to achieve.

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Features on Risk Assessment in Financial Audit

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Abstract

Auditing is a field of action in financial accounting.

Currently, audit means verification of audited accounts of enterprises, as the financial audit leading to certification.

The paper highlights the results of a study conducted by the authors on the literature review regarding the risk assessment in financial audit.

The main objective of this paper is to present some aspects related to audit risk assessment and also to analyse the three types of risks proposed by the International Auditing Standards.

Key words: risk assessment, audit, inherent risk, control risk, non-detection risk
J.E.L. Classification: M4

1. Introduction

The task of auditing financial statements requires taking some risks and their identification should be made as early as the planning stage works.

Risk identification is one of the main objectives pursued by the auditor during the audit mission.

Auditing financial statements must be made such a way as to provide useful information for taking concrete and real economic decisions, to decide when to buy or to sell a capital investment, to assess deficiencies in managerial responsibility, to assess the enterprise capacity of pay and other benefits to offer its employees to assess collateral for loans to entities, to determine taxation policies, to calculate profits and dividends.

The financial statements are presented annually for the common needs of a large mass of interested users. For users interested they are the only source of information on their needs.

In the audit engagement, the auditor aims at identifying and assessing the risks of material misstatement of the information contained in the financial statements to the extent that is due to fraud or accounting errors. Risk identification can be done by understanding the audited entity and the industry, considering internal control, which is an important basis for designing and implementing responses to the assessed risks of material misstatement [5].

The auditor should establish some risk assessment procedures to provide a basis for identifying and assessing risks of material misstatement in the financial statements significant precious and statements [5].

These procedures, however, do not provide sufficient appropriate audit evidence and a reasonable degree of certainty that they have been properly prepared in all their essential points, such as during an audit the auditor must form an opinion on the assessment of audit risk [5].

Given the existence of inherent limitations of the audit and any internal audit system, the risk is inevitable that some material misstatement may not be detected [3].

The purpose of the audit of financial statements is to establish guidelines for identifying areas prone to hazards, assessing the risk and its components which will reduce the risk to plan the audit to an acceptably low level.

2. Audit risk assessment

Audit risk assessment must be carried out for all audit activities in order to achieve an efficient and effective audit, the auditors

using professional judgment and appropriate audit procedures.

Risk assessment in the audit process is a systematic activity applied to assess the likelihood of non-compliance with the legal framework in force operations.

The risk in the audit process is the fact that the auditor, the decision will expose an opinion that accounting reports will be considered as true, transactions will be considered legal and regular and solid financial management, while such real situation does not exist there.

Audit risk is the likelihood of information, some errors or deficiencies in the audit of the audited entity financial statements which the auditor may not identify.

Audit risk is the possibility that relevant errors exist in the annual accounts and the auditor to issue an opinion wrong.

Thus, you have to limit auditor audit risk to a minimum [1].

The auditor should calculate the risk of such a degree audit assurance that material errors and deficiencies assume that existing financial entity's financial statements will not exceed the insurance policy established by audit.

Audit risk assessment, including the stage of obtaining the methods and techniques used in auditing financial statements, allow auditors to prioritize the implementation of the audit.

It reveals that auditors should be always ready to adapt to situations audit program setting the significant facts, which were known at the time the audit program.

From the point of view of the possibility of achieving the risk can be:

- Potential risks;
- Possible risks;

Theoretical potential risks are likely to occur if no control is exercised in order to prevent or detect them in order to correct the error that might occur, these risks are common to all economic entity subject to audit activity.

Potential risks can be identified in an economic entity when it has no means limited to them, so it is possible to produce a number of errors without them being identified. [4]

The International Auditing Standards identify three types of risks:

- inherent risk;
- control risk;
- non-detection risk.

Inherent reference to this error in accounts in case there were no internal controls [1].

2.1. Inherent risk

Inherent risk assessed by the auditor must be based on knowledge of the entity audited and the information collected from its management system, under certain circumstances, such as:

- the nature, the specific activities of the entity;
- the experience, honesty and knowledge management / people in charge, and changes in its composition for the period audited entity, eg. inexperience of management may affect the financial statements;
- factors influencing the industry in which the entity operates, for example, the state of the economy and competitive conditions identified by determining coefficients financial trends and technology and so on;
- the complexity of the legislative framework, transactions or facts which require specialized expertise;
- factors affecting the financial condition of the entity, eg. lack of funding to the established institutional structure complexity;
- the circumstances under which pressure management may be prone to distortion of financial statements, for example, the existence of insolvent companies in the branch.

If, in the company of the audit subject there is no internal control inherent risk can be found in an account balance or a class of transactions that contain significant errors, being found either individually or other errors calculated balances or classes of transactions.

In the assessment of inherent risk, the auditor must rely on personal judgment, considering the evolution of customer activity in recent years, but the business sector in general [6].

In assessing inherent allowed other factors.

2.2. Control risk

Control risk is due to the fact that there were no errors were discovered and corrected in a timely internal control [1].

Control risk assessment is carried out in two stages:

- assessment, which is the process of assessing the efficiency / effectiveness of the accounting and internal control systems in terms of preventing or detecting and correcting material misstatements;
- final evaluation, which is performed by the auditor before the audit and will confirm or not the assessment of control risk.

In assessing control risk, the auditor will consider a number of factors:

- conducting improper inspections due to human error as a result of reasoning or misinterpretations, committed negligence / carelessness;
- control environment, in particular the existence of managerial control;
- substantive procedures, the auditor plans to perform.

Inherent risks and related controls are in interconnection is preferable simultaneous evaluation of these two components.

If tied inherent and control risks are high, acceptable non-detection risk we must be low to reduce audit risk. If risks related inherent and control risks are low, the auditor may accept the risk of non-detection higher, but simultaneously reduce audit risk to an acceptably low level.

Data presented in accounting can be divided into three categories, each bearing specific risks:

- repetitive data resulting from the economic activity of the entity;
- data points, complementary to repetitive and that can occur from time to time (inventory valuation at the end of the financial year). These may be given significant risks if errors are discovered in time;
- data exceptional character appearing in exceptional operations (mergers, liquidations, review, etc.).

In these cases, the data are more prone to risk because staff may not be sufficiently prepared for these situations and there comparative elements [1].

Detection risk makes its presence felt in situations where errors were not detected by audit procedures [1].

Non-detection risk is the mutual dependence of procedures related to audit work. Control risk assessment with risk assessment influences inherent character, actions and procedures related to the volume of audit work that is performed to reduce detection risk, and therefore audit risk to acceptably low level.

To reduce the risk of detection (audit risk), the auditor will consider the following factors:

- timing procedures related to audit work, for example, at the end of the audit period and not once (period) term;
- volume of procedures related to audit work, for example, applying a larger sample;
- the procedures related to audit work, for example, application-oriented test taking evidence outside entity, not within it.

Some detection risk will always exist, even if the auditor will conduct a full audit.

The inherent risk and control related are higher, the more audit evidence the auditor should obtain to perform procedures related to audit work to reduce audit risk.

In an economic entity, regardless of the number of internal controls and auditor would apply whatever control techniques annual financial statements, however no absolute certainty that they do not contain errors [1].

Risk assessment audit in 1988 Accounting Principles and Auditing standards, proposed a method to determine the relationship between the three components [2].

This mathematical method has remained to this day and is calculated based on the following relationship:

$$\mathbf{AR = IR * CR * RN}$$

where,
AR represents Audit Risk
IR represents Inherent Risk
CR represents Control Risk
RN represents Detection Risk

Through this relationship can be expressed level of audit risk, which can be calculated both quantitative (percentage) or qualitative (low, medium, high) [2].

Calculating the level of audit risk in percentages assume that the auditor has determined if the level of trust inherent in economic operations by 100%.

In this case accounting error detection risk will be 10%. If you decide to assign and control risk rate of 100%, the risk of undetected errors will be 50%.

So, the more the audit detection risk is lower with the higher level of trust in

economic transactions subject to auditors audit activity.

Risks identified will underpin efforts auditor orientation to other areas where errors can lead to true image alteration financial position, performance and changes in financial position presented financial statements [1]

The audit risk detection means that the auditor must check carefully the financial statements they audit to avoid being put in a situation where inadequate to express an opinion when the financial statements are materially misstated.

To assess the risks in the business of auditing, the auditor should use professional judgment and to establish certain procedures that will achieve an acceptable level of detection risk.

3. Conclusions

Audit risk assessment process is a complex activity and systematically applied to assess the likelihood of non-compliance with the legal framework in force operations.

The risk in the audit process is the fact that the auditor, the decision will expose an opinion that accounting reports will be considered as true, transactions will be considered legal and regular and solid financial management, while such real situation there.

The calculation of standards based on the premise that the three components of audit risk are independent this is not reflected during an audit because the auditor may determine a level of control that can detect errors inherent generate risk [2]. Such separate risk assessment and risk control inherent will demonstrate a real level audit risk assessment.

To improve the risk assessment activities still hear, intend to make certain that you have software based on some theoretical models and to help auditors in obtaining easy solutions for risk assessment in auditing financial statements [2].

This software could help auditors that audit risk detection relies on the reasoning of professional and overcoming subjectivity in performing audits.

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The Effectiveness of the Financial Control and Factors Affecting It

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Abstract

The authors investigated the economic essence of the financial control effectiveness. Established that the resources consumed during the control procedures have a form and measure and can be identified quantitatively. Advantage as a result of the financial control can be expressed by a quantitative and attributive indication. Therefore, the financial control effectiveness as well as factors that influence are not confined by the economic component.

Keywords: effectiveness of the financial control, resources, advantage, action factors.
J.E.L. classification: M42 – Auditing

Problem statement. Nowadays the financial control is the function of an effective management. It is constantly developing on the basis of clarification of the theoretical data and improvement of the methodical techniques of practice. Today favourable conditions for the synthesis of scientific knowledge and creating theoretical construction of understanding the financial control effectiveness are created in Ukraine. In a practical aspect it is necessary to systematize factors which influence the parameters of the effectiveness. It is utterly important to take into account peculiarities of the control system of activities of Ukrainian enterprises.

The problem of improving the effectiveness of the financial control is actual in the Ukraine. The market environment of Ukraine has its own ways of development. Therefore, foreign methodology of developing and experience require substantial transformation and adaptation. And at the same time, it is unacceptable in domestic economic environment.

A lot of works of Ukrainian scholars such as B. Valuev, N. Vygovska [10] V. Maksimova, L. Napadovska, V. Panteleyev, S. Buchan, L. Sukhareva, V. Shevchuk are dedicated to the problem of understanding and measuring the effectiveness of the financial control in Ukraine. Most authors define "effectiveness" as the excess of benefits over costs [1, 8, 9].

Intensity of economic development in Ukraine requires the renewal of fools of the financial control. The Ukrainian market environment has its own ways of development. Therefore foreign methodical techniques and experience require substantial transformation and adaptation. And in some cases, the practical application of them is impossible in domestic environment.

Basic results of the research. ***Economic essence of the financial control effectiveness.*** Modern philosophical studies concerning the conceptual comprehension of the organizing measure confirm the existence and importance of the force of structure elements interaction: «activity – effectiveness – success» [7].

The theory of effectiveness distinguishes notions «effect» and «effectiveness». Obviously, the «effect» (from lat. effectus – performance, action) means a result, effect of a cause or action. An effect can be defined by mathematical, social, cost constituent. If the results of actions get a cost evaluation, an

economic effect is determined. Consequently, an effect is a result of operation or action.

Paul Heyne considers that «effectiveness is a positive factor that is much paid attention by the economists. No wonder that, «effectiveness» and «efficiency» are practically synonyms. Both notions characterize resulting quality of the use of facilities for achievement of goals» [4].

A. Azrilijan defines the «effectiveness» as to have an influence or to have / produce an effect. He also specifies the concept of economic effect as an effective result of economic activity which is usually measured by a difference between a money profit from activity and money charges on its realization. Economic efficiency is a major evaluation index of effectiveness of an enterprise activity. It forms by comparison of the results of activity [6].

S. Mochernj in his Encyclopedia of Economics gives the definition: «effectiveness is ability to produce an effect, effectiveness of the process, project and others like that, that is doing the things right to provide desired result» [3, p. 508].

Thus, economic effectiveness is correlation between the effect and the costs. An economic effect is the achieved result in different forms (as a rule, it is money). That is why, defining the economic effectiveness economists very often appeal to the system of analytic indices and financial coefficients [1, 8, 9].

In regard to the financial control effectiveness, we should not confine ourself to its economic constituent. Nowadays the main task of economic regulation is not only achievement of the goals by the state organs but improvement and harmonization of socioeconomic interests that will favour the self-development of market relations. Thus, the principals of the theory of the financial control effectiveness must be revised. One-sided treatment of the control effectiveness as a result of the control procedures-task ratio is inadmissible.

Analyzing the effectiveness of the production control the costs are implied as consumable resources (tangible and intangible, money, labour and intellectual asset, time, etc.). Resources have their own unit. It allows to compare costs between different options of procedures of the control and also evaluates the effectiveness of this control over time.

We believe that the value is not only the amount of consumed resources, but also their ratio. For example, when using an aggressive strategy by the business minimization of the time of its implementation is the priority, while spending financial resources is of minor importance. For the introduction of innovative technologies is justified by high cost of intangible assets, investments in intellectual assets. In the pre-crisis situation, resources limitation, preference is given to the available workforce, work skills, creativity, patriotism and corporate spirit.

Conventionally, this category should include forced costs associated with the implementation of control procedures themselves. In particular, the loss of trade during the continuous inventory of goods in stock and trading floor; holding control procedures that require the presence of staff in off-hour and so on.

So, in general, the costs in the context of the effectiveness of the financial control can be identified and quantified.

Identification of benefits requires comprehensive approach. A quantitative assessment is not only the priority, "values" description of benefits as a result of control is also very important.

Under the Law of Ukraine «About Financial Accounting and the Financial Reporting in Ukraine» an economic benefit is potential possibility of getting money by means if using an enterprise's assets [1, article 1]. On our opinion, the priority aims of the financial control effectiveness are not only quantitative estimation but also «value» evaluation of the benefit (the effect) according to the control results.

Whereas the effectiveness of control the absolute benefit is the level of gaining the aim of control, the completeness of tasks performance of it, enterprise management improvement, transition of management to a new qualitative level.

The criteria for advantages as a result of the control is to determine shortcomings in the organization of internal control, violations and persons responsible for them, and to establish the areas of risk for management.

So, at first glance, the idea that the effectiveness of the control is the excess of

advantages over costs is fair. However, to achieve absolute effectiveness of the control as mathematically maximal performance is impossible in practice.

The law of diminishing returns confirms that the best results can be obtained in conditions of not least costs. Positive synergistic effect is much paid attention under the dynamism of market processes. Obviously, the effect of synergistic effect is not predictable.

In addition, the adaptation of existing propositions in practice for running companies indicates the subjective performance criteria of financial control. Professor Vygovska N. proposes to apply the Delphi method for evaluation of the effectiveness [10]. In spite of the fact that the scholar offers quite clear evaluation criteria, peer review is the subjective a priori.

Investigating the effectiveness of management Podolchak N. underlines the importance of the perception of balance and imbalance interests of managers [8]. Thus, the different user groups serve different parameters of the control performance criteria. For example, for the accounting control the priority criterion is the legitimacy and credibility of mapping business transactions in accounting and reporting. For the control of the financial flows the priority criterion is an economic feasibility and legality of the financial transactions. For the monitor tax payments this criterion is completeness and timeliness of payments to the budget [5].

Thus, the concept of effective control should be considered from the standpoint of the theory and practice of management. According to the management theory the control of effectiveness is based on a combination of philosophical aspects of management:

- ontology – identifies the essence of effective control as an economic category, defines an object, subjects of the control effectiveness;
- axiology – identifies the goals and objectives of financial control, determines the desired / admissible ratio of costs and benefits of control effectiveness criteria, taking into account the interests of the user group;
- epistemology – explores the economic reality using the control procedures;
- praxeology – estimates the impact of control measures on the basis performance criteria of the control.

According to the practice of the control effectiveness it is the optimal control procedures in existing economic conditions. The effectiveness of control is being established by means of obtaining relevant information about the real conditions of management system and highlighting the segments of high economic risk.

The rate of the financial control effectiveness is influenced by the following factors:

- general principles of organization and financial control management in Ukraine;
- rationality of organizing the control in the company,
- effectiveness of instructional techniques.

Factors of an objective activity are relevant to the first group of factors that determines the effectiveness of the financial control in Ukraine. Thus, it shows the passivity concerning performance of them.

The special feature of the Ukrainian National Economy is fundamental changes in the control legislation. The danger of this factor requires immediate response management and rapid assessment of economic consequences. The existence of contradictions, inconsistent activities, lack of coordination between tax officials, subjectivity of controllers define the risk of financial and other losses of enterprises. It concerns not only the payment of fines, costs for challenging the results of inspections, but also the loss of business reputation.

The purpose of the Tax Code of Ukraine was to systematize the statutory provision in this field and approaches to the application of tax penalties. Approbation of these new rules in practice showed normative legal gaps that require urgent solution. This led to numerous changes in the Tax Code, but did not remove the need to develop internal regulations of the State Tax Service and introduce clarity into the specific control procedures.

State of the market dynamism is an external factor which can show up slowly. The development of the national market is closely connected with general economic laws of the world economy, but it has its own characteristics. The negative factors influence management are the following: reduction of types of business transactions,

lack of resources (money, labor), nonrelevant economic information for decision-making in crisis situation. To provide effective control it is necessary to be aware of a basic tendency of the national and international market development and their interrelation. If some negative long-term tendency occurs, it is in vain to expect financial favour in the market, even if the company is characterized by financial stability.

Many scientists focus on factors of internal control. We agree with the opinion of scientists who think that a major impact on the control effectiveness is a skilled personnel in the system of internal financial control. Besides in the conditions of economic relations not only professional competence, development of vocational competence, abidance by schedules and plans are important but also non-standard professional thinking, professional judgment and professional intuition and foresight, a comprehensive understanding of management. Incontestable reputation of the controller is also of great importance.

Lack of experienced personnel in the sphere of the control decreases effectiveness of the measures to improve the information system of the enterprise. It is very important for the personnel to have not only basic education and skills but also the ability and desire of self-improvement, professional competence, practical skills of working with documents, adaptation potential, resistance to stress. All these factors should be taken into account while selecting candidates for post. In addition, to maintain quality of skill level consistency in the training of personnel is necessary, ranging from university training to the professional development in the desired direction of the enterprise.

Disparity of an average salary in the country or region to qualification level is another side of the personnel problem. The reluctance of qualified personnel to perform duties for improper payments forces professionals to train for a new profession for getting higher wages. The system of motivation at the enterprise which include systematic moral and material incentives, social support of personnel, introduction of the productivity factor and others can overcome the problem.

Generally, the factors that determine the effectiveness of the control include the structure and function of internal control. Obviously, the regularity and complexity of internal control procedures improve the quality of the reliability of management information that is based on economic decision-making. Typically, the control performance criteria include the following formal features: the existence of the developed regulations on control department, job descriptions, plans and programs of inspections, the existence of the developed test methods and measures to coordinate activities of controllers who take into account the specificity of a particular market participant. Detailed elaboration of practical approaches to controlling positively influences its effectiveness. While drawing up a comprehensive plan and program of verification experts try to cover all areas of management focusing on segments of economic risk.

However, not always compliance with these criteria ensure the control effectiveness. For example, for the micro and small enterprises the internal financial control is usually embodied in one person. For the large enterprises with geographically branched structure, both the structure of the control and exchange of information on inspection results and the validity of decisions are of great importance.

The basis of the quality of managerial decisions is the quality of information of the control system. Simplicity and transparency of information links between departments and divisions, targeting and timeliness of disclosure management and violations have positive impact.

Of primary importance for the control procedures effectiveness for coverage of its management system is the measure of the use of special software. On the one hand, the intensity of professional automated programs contributes to the system of administration development in Ukraine. In addition, professional development, raising additional funds for the acquisition, software licensing and software renovation, are required within the enterprise. The introduction of automated management programs to order or improvement well-known software products (widening, deepening, or vice versa, simplifying functionality of modules) are the alternatives for improvement of management. The maximal adaptability of the program to

the internal and external environment of enterprise, responsibility of employees for the quality of products and servicing guarantee are doubtless advantages.

Relevant innovation is the introduction of electronic documents for the purpose of reporting that aims to improve the effectiveness of information processing. But not always perfect new technology, information resources, automated networks, servers, Internet connection, etc. increase the risk of late / incorrect reporting. Perhaps, with the lapse of time, these drawbacks will be eliminated. But now it is important to strengthen the control over the documents circulation, aimed at timely and efficient reporting.

In Ukraine, expert system programs are generally used in reputable audit firm. However, the problems of economic information security and unconscientiousness of its use are burning. Time limit on work in computer environment contributes to enhancing of the personalization of the responsibility.

To assess the financial control effectiveness it is important to assess the performance of controllers. In particular, the quality and completeness of proper control applications show the professional competence of a controller. It is necessary to check the order of procedures and time limit during this control. In some cases by means of interviewing participants of the control procedures.

The criterion is the assessment of the legality of commercial transactions under the control. In particular, this criterion is the completeness of coverage of legislation on management under examination, including sanctions for improper performance of them. Also, a legality verification procedures carried out by the controller of investigation is checked.

Completeness of the control plan fulfilment is a kind of an indicator of the performance of the controller. Factors of instructional techniques of the control effectiveness are usually determined by the results of operations and context of the certifications. Although the conditions for the use of the certain certifications including audit of the financial statements, sampling audit can have always the risk to be unreliable.

Conclusions of the research. Providing the activity of the financial control effectiveness takes place in the context of the management theory and practice development. According to the management theory the financial control effectiveness is based on the combination of philosophical aspects of management. A new review of the leading conceptions of philosophy of activity, their ideas, concept-category set and methodology give possibilities to describe, research and work out adequately the modern problems of the financial control effectiveness.

From position of the control effectiveness practice it is an optimality of the control procedures in existing business environment. The control effectiveness is not limited by the economic constituent. It implies obtaining relevant information about the real state of the control system including the problems of certain segments of high economic risk.

Identification of the factors which determine the constituents is very important for the estimation of the financial control effectiveness. Their descriptions will allow to set optimal / admissible / actual resources and benefits ratio to obtain a successful result.

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The Paradigm of Information Technology and CAATTs in the Modern Internal Audit

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Abstract

This paper evaluates the role of information technology and CAATTs and the way they could increase companies' effectiveness in the near future. Our study focuses on the global trend of adopting new technologies at a large scale in internal audit in order to produce high qualitative audit results. The present paper highlights the necessary changes faced by companies during the CAATTs' adoption process. Organizations arrive to change their conduct of business and to promote efficiency above all.

The conclusion of our study states that new technologies and CAATTs do have a significant impact on internal audit and risk management as well as on corporate governance as a whole. Moreover, our findings demonstrate that auditors should be prepared to use effectively those techniques and tools by increasing their skills and core competencies concerning auditing and data analysis and especially their capacity to understand and foresee risks.

Key words: internal audit, risk management, CAATTs, information technology, computerized audit
J.E.L. Classification: G34, M42, M49

Introduction

Current changes characterizing information technology and management practices influence directly the risk management which is seen as a tool for reducing risks. Under such circumstances, internal audit plays a vital role in managing risks by using newest auditing techniques and tools.

This paper contains the first results of a more extensive research performed with the aim to build a doctoral thesis. Internal audit does represent a constant in the research work. The motivation for this paper reflects our intention to investigate the impact of information technology and CAATTs on internal audit and risk management. During our research work, we have elaborated the concepts of internal audit and risk management, by mentioning some relevant definitions within a literature review. Then we have dealt with the connection established between those two concepts and the way by which they arrive to increase corporate governance effectiveness. In order to realize the current profile of internal audit focused on risk management, we introduced information technology and CAATTs' concepts that seem to be able to help auditors achieve better audit results. Even if CAATTs represent a paradigm studied long time ago, we highlight nowadays the urgent need for using those auditing tools and techniques within modern organizations. Finally we have formulated some conclusions, outlined a few limitations of our study and suggested further areas for research.

Internal audit and risk management as conceptual frameworks

In today's business environment, internal audit has become a vital factor for all companies. According to laws and regulations, financial reports must be audited periodically in order to ensure that those reports are fairly presented. Day by day, audit activities become more challenging for

auditors all over the world as well as for all market's participants. We believe that it is very important to give some definitions of internal audit and risk management in order to approach their contribution to the modern business landscape.

According to IIA's definition dating from 1999, internal audit is seen as "an activity which should evaluate and contribute to the improvement of risk management, control and governance". [1] Meanwhile, internal audit is considered also as an important means of enterprises for strengthening operational management. [2] Internal audit has constantly developed because of the social and economic overall evolution (Wang, 1997). [3] This is an important managerial control device directly linked to the organizational structure (Cai, 1997). [4] During this era of globalization and of complex changes, Jayalakshmy et al. (2005) highlighted the pressures auditors are facing in order to maintain trust and integrity. [5] Other authors have been interested in understanding internal audit new functions and also information technology's impact on internal audit (Staciokas and Rupsys, 2005). [6] These authors state that internal audit functions include not only the internal control, fraud investigation and advice, but also identification of organizational risks. In such circumstances, information technologies could support auditors in consulting management with regard to risk.

Therefore, our findings suggest that at present, internal audit's main objective should be that of understanding those areas representing greatest risks to the companies. Auditors should assess risks and find ways to communicate with management in order to build effective risk management strategies. Thus, internal auditing becomes an active factor interfering into risk management. It helps organizations achieve their objectives by bringing a systemic approach in order to improve risk management effectiveness and that of corporate governance as a whole.

Within today's governance models, a significant place is dedicated to internal audit and risk management functions. Some research papers have treated the relation between the two mentioned functions and nowadays, we can notice a deep interest concerning their integration at the organizational and operational levels. The responsibility for managing risks is now shared between management and auditors. However, risk management is perceived as a central task of corporate governance while internal audit should help management find solutions not just problems and difficulties. Meanwhile, management is expected to use internal audit as part of fraud's investigation and risk prevention.

Risk management is a concept designed for use by an organization in order to manage and control risk. The top 5 critical risks as they are seen by PWC (2012) are the following ones: fraud and ethics; mergers and acquisitions; long programs. [7]

Within this context, internal auditor's role becomes really clear. The "new floor" for an effective internal audit, as it is presented by PWC, consists in navigating the new risk landscape, thinking and acting strategically, aligning resource allocations, leveraging the second line of defense. [7] Moreover, internal audit should "assess the adequacy of the framework, the risk management processes and the control environment with a view to identifying where gaps exist" (Dickinson, 2010). [8] In such circumstances, communication becomes a critical component of an effective internal audit function. Auditors are supposed to communicate very closely with managers not ignoring shareholders' expectations and mainly the risks.

However, risk is usually defined as a concept used to express uncertainty about events. Risk is always aligned to change. Moreover, risk management covers the identification and mitigation of risks which may prevent companies from achieving their objectives.

The conclusion for this section of our research paper states that both internal audit and risk management have been considered as main elements of corporate governance. However, the relation created among these two elements remains confused. Nowadays, we are witnessing an urgent need for integrating them in order to increase governance effectiveness.

Information technology and Computer-Assisted-Auditing Techniques and Tools

Internal audit functions have expanded far beyond controls concerning financial

reporting. All market's participants feel nowadays a significant need for increased and relevant information. In such circumstances, IT proves an important impact on internal audit and risk management. Therefore, internal auditors should integrate IT in their activities in order to perform an effective risk-based audit. However, computerized audit has not been used at a large scale yet because of different kind of reasons. Only big companies use widely information technology in auditing because they do have the possibility to invest in IT and to support auditors in increasing their expertise and skills. For the moment, there are a lot of auditors that may not have the background and expertise to address significant risks over information technology.

Technological advancement plays an important role in internal audit. Optimizing information technologies and techniques, audit will change its operational perspective. It will require more sophisticated tools and applications as well as a relevant expertise and advanced skills. However, the proliferation of newest technologies has as a consequence the increase of risks such as: data protection, information security, privacy. Moreover, IT infrastructure proves often as relatively insecure. "Because of the nature of information, security risks is evolving continuously, internal audit function needs to stay ahead of the threat curve" (PWC, 2012). [9] Information technology's adoption is influenced by different factors such as cost, mentality, knowledge and skills, management support. Especially IT cost should not be ignored. It implies both money and effort. Therefore we consider that, by adopting IT in audit practices, companies will be able to reduce audit costs and increase its effectiveness. However, before introducing new technologies in audit activities, organizations should rethink all the significant aspects of auditing (Vasarhelyi et al., 2012). [10] A very important issue treated by some researchers refers to auditors' acceptance of information technology. As it was shown by Bagozzi (2007), the Technology Acceptance Model (TAM) is the subject of over 700 research papers. [11] Adopting new technologies, organizations should conquer their resistance to organizational change.

The definition given by Nazari et al. (2009), shows that information technology is "an instrumental in accessing what human knowledge has created". "It supports the gathering, organizing and sharing of knowledge assets". [12] In the literature concerning information technology, there are authors that highlighted the importance of organizational culture to information technology's development (Alavi et al., 2005). [13] According to Kim et al., (2009), information technology does have a significant impact on internal audit profession. Meanwhile, technology features will have an important influence on technology acceptance in this profession. [14]

Recent research papers have identified the impact of IT on internal auditing (Curtis et al., 2009). [15] A few years ago, some authors provided overviews of IT audit processes and tasks (Hall and Singleton, 2005) [16], (Petterson, 2005) [17]. However, we notice a restraint academic research on the IT audit processes especially that designed to highlight the factors influencing IT audit quality. Some authors treated the auditors' IT proficiency as a critical component for IT adoption in auditing (Leader, 2004). [18] Smith (2007) studied potential improvement opportunities for IT audit [19] and Dowling (2008) focused on IT implementation within internal auditing. [20]

We assume that technological advancements have increased the importance of internal audit and control. For such a reason, computerized audit could be seen as an effective audit strategy being able to improve audit quality and productivity and also to reduce enterprises' costs (Banker et al., 2002). [21] Computerized audit includes new technologies allowing the effectiveness of audit activity. The major advantage of such an audit strategy is that it could reduce costs and time auditors usually spent on manual examinations. Computerized audit could also enable auditors to better understand the internal control structure. We also noticed that computerized audit enables auditors to monitor organizations' systems and procedures, but also data's integrity. Furthermore, by leveraging technology, computerized audit could allow enterprises to produce immediately audited financial statements. However, it requires serious increases in investments for technology and

various new skills for auditors.

Nowadays, Computer-Assisted-Auditing Techniques and Tools are not accepted at a general level because of different reasons. Among the different modern categories of CAATTs, we remember the following ones: test data, integrated test facilities, parallel simulation, embedded audit modules, generalized audit software. We think that for the moment, only big companies show a great interest in adopting CAATTs because of their financial possibility to implement such technologies. As it was shown long time ago, CAATTs' investment decision is also influenced by other factors such as: technological, organizational and external environment of companies (Tornatzky, et al., 1990). [22] Moreover, the decision of accepting CAATTs or ignoring them is determined not merely by firms' perception, but also by the technology characteristic designed to fit with audit main tasks.

Coderee (1993) explained how CAATTs could automate some of internal audit functions. Firstly, the author presented CAATTs' benefits for audit planning and reporting. Among those benefits, we remarked: the increase of audit coverage, the improvement of audit skills, the increase of auditors' independence and credibility and the growth of cost-effectiveness. [23] However, in today's changing environment, audit tools and techniques are growing more complex and sophisticated.

As a conclusion of this section, we suggest that information technology and CAATTs could be able to help internal auditors in their activity. Over the years, auditors will use at a large scale various technologies such as: CAATTs, audit reporting, control monitoring. All these will support auditors in foreseeing future risks and preventing fraud which will surely improve audit's results. Using effective information tools, auditors will be able to monitor different risks. Therefore, we consider that internal auditors should increase continuously their skills and competencies in auditing, data analysis and data extraction.

Conclusions

The present paper gave us the opportunity to prove that new technologies, information systems and data processing have changed in time the way companies conduct their business and also the expected results. We revised the literature in the field in order to understand the impact of information technology and CAATTs on corporate governance as a whole. The accounting and auditing professions have to play an important role in improving the quality of information provided and in assuring its reliability. For such a demarche, we studied a wide range of articles and journals covering areas of internal auditing, risk management and corporate governance. Our findings state that internal auditors could be more helpful in detecting and reporting fraud, in preventing risks since they work with the management, as integrated functions. We also discovered some authors that had studied the way by which auditors used audit tools, software and technologies. We noticed a sort of auditors' resistance and also some limitations due to technologies' high costs, to companies' short-term needs and to the lack of significant skills.

As a main conclusion of our research, we assume that the introduction of those sophisticated tools and techniques would support internal auditors and managers to build a serious risk profile for the existing and future projects. Furthermore, new research papers will contribute to the generalization of more progressive auditing practices using information technologies among a large number of organizations all over the world. We also encourage future studies referring to organizations' needs to hiring high quality internal auditors, opened to changes and challenges of information society and technologies, able to increase corporate governance effectiveness.

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Convergences and Divergences between Cash Flows and Cash Flows Company

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Abstract

Within three decades has admitted that due to shortcomings in the profit and loss account is widely used cash flow statement, cash and payments respectively, to reflect the funds generated from current operations of an enterprise, as and major investments and financial transactions that occur during the year. The primary objective of the analysis is to reflect the performance of the combined effect of decisions, operational, investment and financing, and interpretation in parallel balance sheet and profit and loss account of the period may lead to better conclusions than separate analysis of consolidated these situations.

Keywords: statement of cash flows, balance sheet, profit and loss account.
J.E.L.: M41

1. Introduction

Information on the cash flows of an enterprise is useful to users of financial statements, placing them with a basis for assessing the entity's ability to develop cash and cash equivalents, and its needs to utilize those cash flows.[1] Economic decisions taken by users require an evaluation of the ability of the entity to generate cash and cash equivalents and the timing and certainty of their generation.[2]

Enterprise value in monetary terms should be viewed in terms of expected future results of further work which the financial plan assumes that any investment activity is justified only in the light of the expected benefits to be obtained, even if not in all cases the assessment relates only profitability criteria.

This idea is based on the anticipation that comes from the company believes that the estimated future benefits to be generated from property owned by the ability to generate income on capital, to produce profit and also to distribute dividends.

2. Cash flows of the company

Currently it can distinguish between static traditional financial analysis, based on synthetic accounting documents for the year, the balance sheet and income statement respectively, and dynamic financial analysis, showing past and projected development and targeting particular beneficiary capacity and financial flows.

Cash flow statement is presented using comparisons between opening and closing balance of the year and the use of key indicators of profit and loss, all interpreted in terms of uses of cash or resources:

- cash-flush activities absorbed the cost or at unprofitable;
- influence of changes in working capital requirements on cash;
- placing cash in investment in fixed assets or repayment or debt;
- reunification cash resources or through additional borrowing or by reducing existing investment in assets;
- impact of the issuance of new shares or redemption thereof on cash;
- within the volume of cash dividends paid to shareholders;
- corrections in the balance sheet or profit and loss account for depreciation, amortization or other items that do not generate cash;
- net impact of currency changes on the availability of the company accounts.

Therefore, the cash flow statement thus offers a panoramic related impact of currency movements on all management decisions of a period.[4]

Analysis of financial balance in terms of

cash flow leads to the estimation of future cash needs on the basis of the past, knowledge of which is useful both shareholders interested in the existence of sufficient cash to pay dividends and creditors interested in recovering loans.

At the same time, knowledge of the future cash flows of interest to potential investors updated cash flow method is one of the business valuation methods. This analysis is practiced in the Anglo-Saxon, yielding information on cash flows and the company's capacity, considered the main criteria by which investors (current and potential) base their investment decision.

The literature and foreign cash flow is defined separately.

Romanian authors believe that an important part of financial-economic analysis, is represented by the cash flow whereas economic practice is considered that any activity must release any money, resulting in a surplus of capital to invest in the business. A business can be profitable to make a profit, but not solvent, the lack of liquidity due to the gap between receipts and payments that you make in the financial cycle. From this we can conclude that financial flows highlights the money circuit in an enterprise.

The economic approach are reported are two schools of analysis of cash flow: French and Anglo-Saxon.

French current exhibit variation in cash flows (cash flow) due to the interaction between long-term equilibrium and short-run equilibrium, ie variation due to changes in working capital and working capital need.

Anglo-Saxon theory explains variation in the same net cash, cash-flow on account of the change in cash due to operations management (operational), including the need for working capital changes due to investment operations (only in fixed assets, intangible) and financing operations (through equity and borrowed capital.

Equality between cash flow and net cash variation is less forced, some specialists consider as net cash is a result of the company after deducting treasury short-term bank loans. That is why we believe that cash flow (financial) must be understood as treasury enterprise switching between two points, the end and beginning of the period studied. In favor of this assessment lies the fact that bank loans are the source of funds is found in the financing component flows, cash flow and therefore can not take the final calculation only one final source of funding sources neglecting the rest from operating activities or management and investment.

Although information on the cash flows are preferred by users because of the fundamental relationship receipts, payments and easy understanding of this type of information, the practice of accrual accounting makes it difficult to obtain them.

Whatever choice theory, as applied to process certain receipts and payments, and their record of operating, financing and investment, cash-flow information analysts considered absolutely necessary to assess a company's financial position and its ability to generate cash, changing financial position and determining future needs for liquidity, maturity and risk of future receipts.

Cash flow analysis is required both by managers to develop enterprise development strategy and investors to base their investment decisions. Cash-flow method is applied to both the current situation and to organize the company. Furthermore it is considered that policies can be developed to a company other than starting from cash flow. On the other hand, the financial strategy of the company, cash flow is the quintessence of any business plan and moving the cash flows are of great art of financial management.

3. Cash flow available

Attracted cash flows generated by the investment and support is quantitative methodology for evaluating the effectiveness of investment projects, for which knowledge of their characteristics is essential.

Financial management has established cash flow available (free cash flow) as cash flow more suitable for the evaluation of a project or investment.

Cash-flow is the cash available at any time available in stand company used to pay equity investors, ie shareholders or creditors, as the strategic future investment needs. Free cash flow (FCF) is an approach, developed specifically for this type of analysis value in practice being able to find some differences in the exact definition of this indicator, its application to specific situations.

Cash flow available (Free Cash Flow - FCF) of the company and its shareholders is cash flow emitted by conducting all business activities (operating, financing and investing), the result of the difference between revenue as inputs cash (cash inflows), and payments as cash outflows (cash outflows), performed by the undertaking during a financial year.

This indicator is determined on the basis of profit and loss forecast, drawn up following the completion of the new investment. In the income statement are projected sales of products and/or services and certain additional expenses incurred in the operation of the investment.

Analysis of cash flow available after its origin reflects liquidity surplus cash generated by operations after finance growth management of the enterprise (property changes and the need for working capital.

Under this analysis, it starts from the value of cash flow resulting from operating activities of the enterprise, will be reduced by the amount of cash allocations for the maintenance and development of existing production capacities and net working capital.

Analyzed by destination, the available cash flow consists of two components: cash flow available to shareholders and cash flow available for creditors.

The first component provides growth equity and pay shareholders by paying dividends, and the second component provides payment of interest and repayment of debt outstanding during the financial year.

Both ways of calculating the cash flow available lead to the same result, what differs is the perspective from which it is analyzed.

4. Cash flow of exploitation

Operating cash flow represents cash generated expression (or consumption) of all mining operations broadly. This reflects not only the flow emitted from the operation in the narrow sense but also financial flows generated by operations (excluding interest and tax) and extraordinary.

Under current accounting rules, the resulting cash flow of the business for the three activities:

- Cash flow from operating activities;
- Cash flow from investing activities;
- Cash flow from financing activities.

Cash flow from operations reflects the operating performance of the company form of a cash surplus or cash in the absence of contrary vulnerability available. In this case, it means that exploitation operations consume liquidity in place to exhale, payments or receipts are lower. Referring to the above, the company is unable to meet the needs of self-financing of investments (economic capital maintenance) to ensure its growth through new investment or to pay taxes or dividends. Long-term adverse circumstances jeopardize the company which is the consequence of poor economic profitability (surplus profit before deduction of income tax and interest expense) or unduly increasing financing needs of business operation (the huge increase need for working capital).

Exploitation operations resulting from the company's core business, resulting in cash flow from Exploitation (Operating Cash Flow, OCF) have the highest share in the operations management.

Therefore, the cash flow management is determined primarily by the size of cash-flow operation.

Cash flow from operations after deducting tax (Income Tax) of operating income, plus depreciation.

Cash flow from investment activities may be determined both by the direct method and the indirect method: via direct method is calculated as the difference between payments for the purchase of fixed assets and the proceeds from the sale or repayment and the remuneration of financial assets in the form of dividends and interest received.

A third component of the cash flow is cash flow from financing activities which encompasses both revenue streams and expenditure flows, generating payments. Proceeds from the capital increase transaction (by issuing new shares) and / or increases in financial liabilities (by contracting new loans or by issuing bonds of the company. Payments are in the form of reimbursements for medium and long term loans and sometimes the redemption of the stock market and outside of its own shares on account of net profit.

By adding the three components of cash flow (cash flow from operating activities, cash flow from investing activities, cash flow

from financing activities) to obtain the available cash flow of the company, previously.

5. Conclusions

Cash-flow approach in terms of boundaries implies that in terms of results, cash flow provides indirect and incomplete information on the slope of the company to make a profit, is used for this purpose, with caution. As expressed an approximation of the cash flow, cash flow proves its worth in terms of funding, which leads to a the ability of the company to distribute dividends and finance investment needs of any issue of shares or debentures, possible impairment adjustment for working capital and liquid, respectively treasury permanent situation.

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An Approach to Enterprise Risk Management for Archive Depos

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Abstract

ERM (Enterprise Risk Management) should be considered a solution to the inherent problems within the undertakings. Without deceiving, it really stands for an optimization and replacement of insurance contracts, as a method of potential risk transfer.

The way a manager deals with these realities is transposed in the final value-added framework for the stakeholders. As a consequence, his decisions are based on a prior debate with those involved (shareholders, creditors, insurance companies, market regulatory bodies, even partners).

This paper work debates the solutions for archive deposits from an ERM point of view, emphasizing the possible solution for risk mitigation.

It is also stated the importance of hierarchy of controls as an adequate method regarding the risk treatment. The debate underlines the necessity for rethinking the risk management according to domain specificity.

The solutions provided consider the fire risk for this legal entity, as the core cause for major prejudice.

Keywords: Enterprise Risk Management, risk mitigation, insurance optimization, risk program, risk control.
JEL Classification: G22, G32.

1. Introduction

Every legal entity needs protection against different types of risks, due to the fact that they jeopardize the business continuity. The easiest solution is to conclude an insurance contract, but the claim process and the prolongations of file closure represent possible impediments.

Sometimes, ERM is supposed to suppress the need for an insurance portfolio, but this is another point on the international agenda, because the risk manager or the risk officer had to take into account the alternative to merge underwritings techniques into the risk program as a whole.

The insurance market is under pressure from the global economic crisis, so insurance premiums reflect the best of underwritten risks extent. Insurers are required to provide evidence of underwriting risk capacity, while the biggest fears are related to their ability to pay benefits and indemnities to beneficiaries, insured persons and third parties that suffer a prejudice due to insured's action.

2. The ERM framework

The initial framework for this topic is based on different norms, regulations, such as [4]:

- ISO 31000;
- Sarbanes Oxley Act;
- COSO and COSO II.

ISO 31000 represents the framework for a successful enterprise risk management, because this comprises an improved perception for the risks affecting the company and by all means the strategic decisions are made in knowledge-based environment.

The Sarbanes Oxley Act, also known as Sarbox or SOX, has the following main topics: the compulsory accuracy of the financial information that is to be revealed and secondly stiff penalties for fraudulent actions.

COSO consists mainly in choosing the check-ups for the optimization of actions intended to fulfill the goals. These should be stated by the shareholders for a longer period

of time so as to permit effective adaptation to risk alterations.

3. The archive depos particularities

The risk management solution must be supported by the following aspects:

- Building architecture (pavement, cabling solutions, effective fire-prevention solutions, windows position);
- Personnel involved (adequate training to deal with specific problems).

The building is supposed to be of concrete and brick, with all utilities, air-conditioned system, humidity regulator and fire-prevention systems (sprinklers and fire extinguishers).

The main risks that can be identified are:

- Theft and vandalism;
- Fire;
- Water pipe and flood;
- Inappropriate temperature and humidity;
- Pests.

4. The hierarchy of controls for archives

Although it may seem like a forced comparison between the insurance and risk control, basically a reference from part to whole, it cannot be overlooked the need to be analyzed in parallel. Basically, insurance companies take those risks that risk managers or those entitled to handle the destinies companies wish to transfer to those who are specialize in underwriting. On the other hand, when we talk about risk management process, reinsurance is a small part of this complex process.

Risk elimination means either to actually eliminate the possibility of risk occurrence (which often is at least very difficult, if not impossible), either to subsequently cancel the adverse consequences of its materialization.

Risk substitution is considered to be the replacement of the analyzed reference with another object, process, with minor implications in terms of risk. Because we cannot bear in mind always about risk elimination, this step appears to be the optimal one.

Risk isolation. On this occasion we can discuss the way, although the risk occurs, we can take actions so that its materialization (possible in fact) doesn't cause further risks or it doesn't permit consequences seen as possible to affect the entity that was previously risk assessed.

Engineering. In this framework we talk about proactive measures through which we combat interaction with the generator of a possible the risk.

Addressing the need for administrative action. Following such a decision, we can discuss the implementation of a code of conduct at the concerned entity level, taking into account actions relating to employees who work in that area and procedures on how to operate and maintain the equipment.

In addition to the previous controls we could opt for PPE (personal protective equipment).

Risk management can consider all these options, but we knew that the most effective are the first. Unfortunately they are the most expensive, so the company's financial resources should be spent on a certain priority to cover major risks.

Subsequently determining hazards that may generate and spread the risk of fire, we have to proceed in order to assess the probability of this danger and also the assessment of the consequences which may arise from events previously associated. Thus, from the point of view of likelihood, we have the following patterns:

- very likely;
- likely;
- unlikely;
- highly unlikely.

5. Fire risk

The fire risk must be interpreted in the context of direct causes of happening, but also based on the aggravating factors that may occur when triggering it. In case that risk elimination or isolation is impossible, the solutions mainly refer to the possibility to mitigate the consequences they may feel throughout the company.

I identified some perils for the archive according to fire risk procedures:

- The raw materials used for the in building construction are unsuitable according to the actual destination provided by the landlord;

- The electric wiring is very old.

The measures undertaken for the first situation consisted mainly in the removal of stored papers and boxes that lay on the ladder between the floors and the attic (there is no elevator, due to the building height).

This proposition was made according to increased speed of propagation of fire and difficult access to the upper structure of the attic, hence the roof [5].

Another problem is emphasized as we take into consideration the persons. There a risk of trip and fall, both on the materials themselves, but also because it becomes impossible to view any cables that are found alongside the walls or the signs painted on steps.

But one should not attain a transformation of these perils in major tortious elements. In fact the fire risk can be caused not only by material clutter in a room (debris from different sources) and blocked access for fire patrol, but also the lack of normal functioning of fire prevention systems. The intervention could be done on fire escape, but this must be in a state of functioning and also to provide access to all levels.

For the second peril, the wiring will be replaced by a specialized company in the field, that will compulsory provide guarantees in this respect. The grounded extension cords that are used at the present time should be extended, in order to prevent heating due to the winding wire of the coil form.

The electrical installation should not be overstressed by the air conditioning system, which is preferably to be split on a separate circuit. Meanwhile, if this is impossible, we can call the mobile air conditioning, to be powered by the car battery, but this solution is one intermediate.

Of course the fire risk can start also from the non-compliance on smoking regulations as this is mentioned in designated areas or in accordance with the regulations of the employer. Smoking bans during rendering activity may lead to finding premises unfit for the vice, which ultimately trigger a large fire.

Polypropylene channel installation must be done in concrete floor, so to prevent further damage as a result of unanticipated events. Thus water infiltration through walls waterproofing will produce a lesser damage.

Obviously, this thinking should be considered in the broader context of risk management, as an effective control cannot be exercised only to the extent identified major risks. They can lead to consequences worthy of consideration or on the other hand some that have a major incidence by frequency of records.

6. Conclusions

I underpin the necessity to overcome the basic preoccupation for sophisticated software-based programs. In fact the risk control

In order to erect a successful risk program, we have to gather all the information the environment could provide.

Also one should emphasize that the solutions deemed to decrease the risk frequency and intensity, must be adequate in terms of costs compared to insurance conditions and premiums.

It's obvious that we have to protect our investments, but this could be done by the fulfillment of a few basic conditions:

- Check the insurance conditions, exemptions and deductibles that are stated in the negotiations with insurance undertakings. Special terms will have to be explained for the specific domain, otherwise the solution to cry off the contract is imminent;
- Insure you made a checklist for the risk stratification, because one must deal for the beginning with the most dangerous risks, no matter how expensive are the solutions;
- Assume and accept the workers 'opinions, due to the fact that they are dealing ceaselessly with risks.

Sometimes the risk managers are supposed to improve their understanding of business environment [1]. Ancillary risks, determined by an alteration of known factors, must imply new solutions.

As long as we postpone for good the treatment of these problems about possible future prejudices, it's normal to accept an increase in the difference (gap) between the value of a property lost and the expenses. We should have been taken a few steps to fight the risk.

In fact the risk manager wants to enhance the company strength on the behalf on shareholders.

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Economic and Social Mutations - Interacting with the Subject and Paradigms of Management Sciences

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Abstract

The purpose of this paper is to describe the social and economic mutations from the conceptual framework and the factors leading up to the occurrence of these mutations.

In this matter, the paper will approach areas in which social and economic mutations interfere and also getting to interact with the object of management sciences, modifying the current state of the concepts and processes involved in the development of knowledge, both tangential on certain categories of information and plenary over representative elements of management sciences.

Keywords: social and economic mutations, paradigms, knowledge, management science, interdisciplinary.
J.E.L Classification: A12, B41, F00.

Introduction

The economic-social mutations have a pronounced interdisciplinary character and are currently perceived as an evolutionary add-on in constructing the processes that energize every activity developed with the emerging purpose of locating in the reformed category of areas as a perfectly integrated element that globally excels because of the ease to line up and also adapt to a new dimensional the already existing information.

In this paper, the notion of "mutation" embraces the meaning of modification, transformation and preexisting element of correlative phenomenon.

This paper treats the management sciences as a table of domains that integrates accounting, management, audit, financial management and financial analysis of the company, focusing towards on seizing the existence of dominant theories in every discipline.

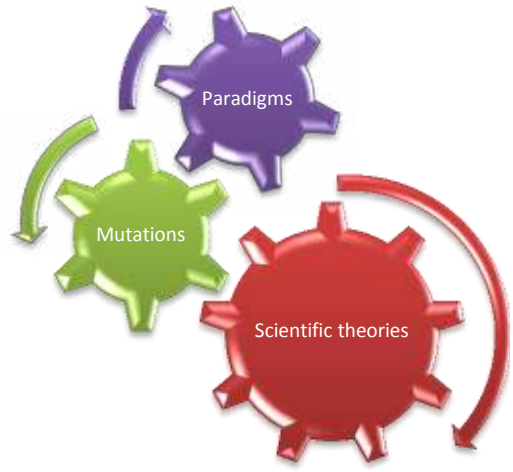
Paper content

In a personal sense of acknowledgement, the factors leading to the emerging of economic-social mutations are as follows:

- **Inherent evolutionary factor** – the factor that gathers an assembly of elements that do not allow to humans the modeling and manipulation of the social environment. Inside this group of factors a few examples are highlighted: the tangible effects of time passing, the global climate phenomenon that brings influence over the environment and leads to the necessity of adaptation to a newly created environment, the notion of "knowledge" being an extension of it.
- **The gnosiological factor** (base knowledge) refers to giving a full attention to native human characteristics valuation that through definition places the human as a central element in knowledge development throughout the "sin-qua-non" acceptation process of resulted changes.
- **The creative factor** – a factor born from the gnosiological factor that approaches the economic-social mutations through new ideas formed as a result of research by the academicians. The creative factor has a pronounced originality character and represents an important leaver for the

statutory elements of the future social environment.

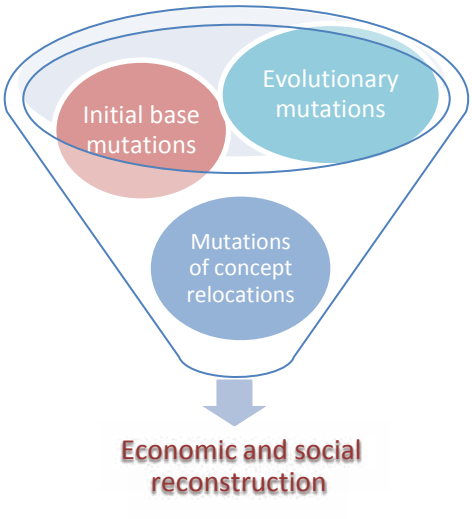
Figure no.1 Economic and social evolutionary mechanism



Taking into consideration the precursory factors to economic-social mutations, we propose the following classification:

- **Initial base mutations**: within this classification, the mutations refer to buildups that can start as principles, fundamental thesis, new paradigms, concepts or theories.
- **Evolutionary mutations:** this concept shares the notion of "change" in two visions:
  - **Exclusive vision** that aims the transformations in different environment changes, in which the human is regarded as an exterior element with a small influence on the emerged changes. In this category it is observed the self-regulation ability of the existing global resources.
  - **Inclusive vision** places the human in the center of the events, both directly involved in determination of environment change and active player with an important role in the adaptation to change process.
- **Mutation of concept relocation**: those mutations results from transmittance of particular sets of information from a domain to another and from adjusting this set of information and absorbing it in a new social buildup having as ground base the relevant takeover criteria of these concepts.

Figure no. 2 Economic and social reconstruction



These mutations certify the transversal character of domains and the extension through adaptation at environmental changes.

The proposed classification firstly describes in a relevant manner the extended character of all type changes that intervene as link points between the observable environment and the one that changes it at certain moments, and secondly, this classification allows to mutation classes to be absorbed by certain factors, to link and even evolve from a class to another.

Further, this paper aims to detail the conceptual framework of economic and social mutation classifications described at the beginning and exemplify each of the mutations categories on the quadrant that embeds the management sciences, offering for each of the disciplines a succession of explications.

Initial base mutations bring into discussion at an ideational level the concept of knowledge. Thus, at the base of environment's transformations lies an emerging ground, namely the punctually enounced theories that guide the transformations from any of presently identified domain.

When we say environment, we use a broad acceptation of this notion: the description of proper structure for the development of cultural, economic, social, demographic, academic etc. elements.

Knowledge at an ideational level is

described in a comprising manner by Professor PhD. Maria Niculescu as being "the process in which the human, in a specific context, gives meaning to the world (real or imaginary) based on representations (ideational – cognitive and axiological representations that give signification to our existence and generates attitude, engagements and behaviors). Knowledge reunites the assembly of knowledge, theories, beliefs, experiences etc. through which the human builds and rebuilds his future". [1]

Knowledge, reaching an uplifting place in the development of all domains at a global level, its conditioned by the existence of postulates, of setting up ground information, firm information regarding a higher form of scientific knowledge that reflects the reality, by the existence of a theory considered scientific. Taking into consideration these intersessions appeared the concept of "paradigm", concept that defines the prevailing theory in a certain historical framework.

The American philosopher and historian Thomas Kuhn used the concept of "paradigm" in his reference piece of work "The Structure of Scientific Revolutions" saying that a paradigm is described as "the practices that define a scientific discipline at a certain point in time." [2]

In accounting, among the various theories that enrich domain's specific practice and science we name the Positive Theory of accounting [3], Normative Theory of accounting [4]. From these theories an assembly of theories emerges, namely: the Theory of Agency, the Transactions Costs Theory, the Perfect financial markets Theory.

In the economic-financial analysis and the company's financial management the above mentioned theories find an extended applicability, to which other economic-financial theories are added: theories regarding the optimal share capital structure (the Theory of Games, the Theory of Signaling, etc.), company's organizational theories (the Theory of Hierarchical Funding, the Theory of Property).

About management, we point out some of the reference theories: the Theory of Scientific Management [5], the Theory of Bureaucracy [6], the Theory of Organization and Administration [7], etc.

In audit, various authors tried to develop scientifically theories regarding the audit activity, standing out were Tom Lee [8], David Flint [9], and Littleton [10]. Among the applicable theories in this domain, we name: the Theory of Agency, the Theory of Games, the Theory of Credibility, etc.

Evolutionary mutation with non-inclusive vision

For this type of mutations, in which there are mentioned the effects that are out of human control and in on self-regulatory of globally resources incidence, we exemplify the amount of modifications over specific domains.

The evolutionary mutation with non-inclusive vision over the global warming had as result the implementing of new regulations regarding green certificates, fact that started the adopting of these certificates into accounting.

These certificates refer to producing electrical energy from renewable sources (Aeolian, solar, geothermal, etc.) and are "bought by electrical energy suppliers and also by electrical energy producers for the energy related to final own energy consumption, other that own technological consumption or the energy related to consumers connected to direct lines from the power plant, profile companies being mandated to comply with a certain amount of renewable energy in the overall electrical energy supplied to final consumers." [11]

Romania assumed the commitment to sustain the renewable sources electrical energy by the adherence to the European Union process, looking into reducing the primary resources imports, development of new working places, protecting the environment and sustainable development encouragement.

This intercessions mark not only the accounting, but the other disciplines: the strategic management, the production management or operations management, the audit through the imposed control procedures on imposed regulations, the financial management and analysis through computing the performance indicators related to applicable regulations.

Another example of non-inclusive evolutionary mutation that emerged after the global warming is the re-settlement of

borders between several countries, for example the border between Switzerland and Italy, glaciers that mark the border between the two countries melted and there resulted the re-settlement of borders. [12]

Evolutionary mutations with inclusive vision

Having the human as central point, these mutations present the development of the principal domains over new branches, adapted to the environment, emerging several types of: accounting (creative accounting, banking accounting, etc.), management (project based business management, sustainable development management, etc.), audit (statutory audit, European funded projects audit, etc.), economic-financial analysis and company's financial management (through correlations with new added elements into the computing mechanism).

Mutations of concept relocation

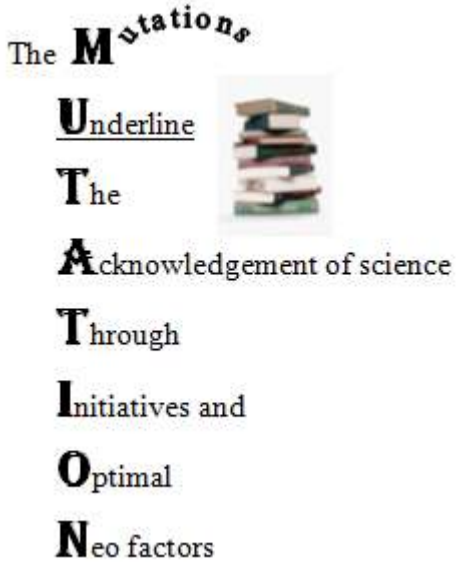
In the above mentioned domains, these mutations take the shape of sets of indicators: economic, demographic, social, monetary, financial etc.

We can affirm that the discipline of accounting represents a forming base for the financial statements (P&L, balance sheet, annexes). Throughout the phenomenon of concept relocation, accounting supplies information based on these financial statements to other disciplines like financial analysis, company's financial management, disciplines that use the amount of information in computing of some indicators, like the financial and operational balance indicators, the cascade of intermediary balances of management.

Another example of relocation of concept can be noticed in management, where the control-evaluation function represents a relocation base for the internal control system, concept used also in auditing through specific procedures and controls.

The mutations of concept relocation refer to a vast field placed into a continuous development. The society tries to adapt at current demands all fields of activity, as result a series of concept transformations take place (evolutionary mutations) that, later on, goes back from the base domain to other domains (mutations of concept relocation) where a viable applicability is found for the entire economical dimension.

Figure no.3 Mutations



Conclusions

Mutations are whether initial base mutations, evolutionary mutations or mutations of concept relocations represent a phenomenon that deserves to be debated and observed because, overall, describes a history of humanity, of the world. Those, whether that include or exclude the fully or tangentially involvements of humans are very important links to emerging global knowledge.

If we look into present mutations, as a result of previous mutations, we can only say that its generates effects also for future, therefore point out future directions of technological phenomenon, of predecessor mutations and the ability to adapt to newly created conditions of the global economic dimension.

Although transformations and general changes, rise, sometimes, a benefit of doubt, its sets a framework for supreme purpose mutations of the global economic dimension as basis element considered tangible and also intangible, timeless due to its continuous development, here, grouping the wonderful progress that humanity has achieved.

In the study "The dialects of modern scientific spirit" philosopher Gaston Bachelard alleges that: "there is no science but for what's hidden [...] to discover is the only active way of knowing. In a correlative manner, making someone to discover is the only mean of teaching him". [13]

Thus, we can say that mutations represent the creating force of the complex process of development for all existing domains and will always stand as basis for the universal evolutionary mechanism, gathering into the society answers to presently asked questions and therewith rising new questions that awaits the research intercession in order to get an answer.

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The Evolution of Public Debt in Romania in the Context of the European Fiscal Compact

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Abstract

The Stability and Growth Pact and recently, The European Fiscal Compact are based on the assumption that national tax policy Member States could have a negative impact on partner countries. Eurozone countries have pledged to respect the Stability and Growth Pact, its observance is an example of a fiscal rule enshrined in an international treaty that raises a delicate question: Can a treaty resulting from political compromise to include constraints economic, which are contrary to economic theory? Strong expansionary policy risk was considered, but not too restrictive and risk policies. Pact was revised in 2005, but his initial basic principles have remained unchanged.

Key words: stability and growth pact, public debt, fiscal policy, GDP.
J.E.L. Classification: G30, H61.

1. Introducere

European Commission's legislative proposals on strengthening the Stability and Growth Pact the "Euro Plus Pact" and The European Fiscal Compact are meant to force all Member States to introduce binding fiscal rules in their constitutions. EU authorities have not learned lessons from the disastrous management of Euro zone before the crisis, this management focusing on rigid fiscal rules and not on precise coordination of macroeconomic strategies and these increased disparities in the EU in the context of a moderate growth. Debt crisis has consolidated the perspective that automatic fiscal rules are necessary. Supporters of this rule can rely on arguments such as: the threat of financial markets, the need to reassure financial markets, the German force, and the growth of EU solidarity through SGP rules.

Supporters of stricter rules point out the threat coming from the financial markets and rating agencies. If a country does not include such rules in its constitution, it will lose the precious AAA rating. Thus, financial markets would borrow at reasonable rates only countries that do not tend to fall into debt. On one hand, countries which tend to accumulate huge foreign exchange reserves (such as China and oil-producing countries), pension funds, and insurance companies will want to have large parts of public assets. On the other hand, they refuse to lend without high risk premiums, countries wishing to duty and refuse to understand that their accumulation of liquid assets has a counterpart in terms of debt. These conflicting demands could cripple the world economy. In 2011, most Euro zone economies were close to a primary structural balance, in other words, their debt remained relatively stable even if they borrowed at an interest rate equal to the growth rate. In addition, the euro zone has a much higher interest rate than countries outside it, with smaller imbalances. Thus, there is a specific cost for the Euro zone countries.

2. Romania's public debt

During the period analyzed, Romania's public debt had a *continuously upward evolution*, reaching the amount of **222768, 7 million lei and 39.6% of GDP** at 31 December 2011, *being 3, 52 times higher than at the end of 2006*, as results from the

calculation performed based on data from Table. 1.

Table 1: The evolution of Romania's public debt and its components, in absolute terms, as well as their shares of GDP during the period 2006-2011

Nr.	Name	U.M.	2006	2007	2008	2009	2010	2011
1	Gross Domestic Product	mil. lei	344651,0	412762,0	514654,0	491007,5	511582,0	563100,0
		mil. Euro	101916,5	114332,2	129115,4	116088,4	119394,6	130356,3
2	Total Government Debt	Abs. val. mil. lei	59868,5	76149,7	100556,4	136493,9	182322,0	210235,0
		Abs. val. mil. Euro	17703,7	21092,9	25227,4	32271,1	42550,9	48668,9
		% of GDP	17,4	18,4	19,5	27,8	35,6	37,3
3	Internal Government Debt	Abs. val. mil. lei	25827,3	41827,5	61565,3	84349,7	109953,0	108115,2
		Abs. val. mil. Euro	7637,4	11585,9	15445,4	19942,7	25661,2	25028,4
		% of GDP	7,5	10,1	12,0	17,2	21,5	19,2
4	External Government Debt	Abs. val. mil. lei	34041,2	34322,2	38991,1	52144,2	72369,0	102119,8
		val. abs. mil. Euro	10066,3	9507,0	9782,0	12328,4	16889,7	23640,5
		% of GDP	9,9	8,3	7,5	10,6	14,1	18,1
5	Total Local Government Debt	Abs. val. mil. lei	3472,3	6174,7	9238,7	10835,2	11572,5	12533,7
		Abs. val. mil. Euro	1026,8	1710,3	2317,8	2561,8	2700,8	2901,5
		% of GDP	1,0	1,5	1,8	2,2	2,3	2,3
6	Internal Local Government Debt	Abs. val. mil. lei	1542,7	3296,6	5673,6	7043,9	7522,0	8147,0
		val. abs. mil. Euro	456,2	913,1	1423,4	1665,4	1755,5	1886,0
		% of GDP	0,4	0,8	1,1	1,4	1,5	1,5
7	External Local Government Debt	Abs. val. mil. lei	1929,6	2878,1	3565,1	3791,3	4050,5	4386,7
		Abs. val. mil. Euro	570,6	797,2	894,4	896,4	945,3	1015,5
		% of GDP	0,6	0,7	0,7	0,8	0,8	0,8
8	TOTAL PUBLIC DEBT	Abs. val. mil. lei	63340,8	82324,4	109795,1	147329,1	193894,5	222768,7
		Abs. val. mil. Euro	18730,5	22803,2	27545,2	34832,9	45251,7	51570,4
		% of GDP	18,4	19,9	21,3	30,0	37,9	39,6
9	Exchange rate at end of the reporting period	Euro/lei	3,3817	3,6102	3,9860	4,2296	4,2848	4,3197

Source: Ministry of Finance reports on public debt in the period 2006-2011 and own calculations

Government debt's share to GDP has recorded a continuously increasing evolution - from 18.4% in 2006 to 39.6% in 2011, but this curve *is flatter* than the evolution curve of public debt stock's nominal values, *as Gross Domestic product evolved uptrend* - from 344651.0 million lei in 2006 to 563100.0 million lei in 2011, the last value being 1.63 times higher than at the end of 2006.

In 2009, when the size of GDP fell to 23646, 5 million compared to the value from

the previous year, and the stock of public debt increased by 37.534 million lei, the debt-to-GDP ratio reached 30%, with a relative increase of 40, 85% from the share recorded in 2008 and 63, 04% of the share recorded in 2006, as shown in Table 2.

Table 2: Romania's public debt stock to GDP ratios and its relative increases in the period 2006-2011

Name	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1.Public Debt [% of GDP]	18,4	19,9	21,3	30,0	37,9	39,6
2.Relative increase to previous year [%]	**	8,15	7,04	40,85	26,33	4,49
3.Relative increase to reference year [%]	**	8,15	15,76	63,04	105,98	152,17

Source: own calculations based on the data from Table nr.1.

Given these data, we can say that **the evolution of Romania's public debt stock had an unexpected "outbreak" in 2009 [1] [8]**, due to the effective entry into economic recession.

A significant increase in public debt was also recorded in 2010 (46565, 4 million lei, compared to the December 31, 2009), but the relative growth rate to the previous year, as a share of GDP, declined to 26, 33 %.

In 2011, the relative growth rate of public debt's share to GDP over the previous year was greatly reduced, being only 4, 49%.

Obviously, if the accumulation of public debt would continue in the future at the pace recorded in 2009 and 2010*, the fiscal policy would become unsustainable* [2][13].

If in Romania there are no risks to fiscal regarding the sustainability of public finances on short-term, there is serious concern that existence of sound public finances can become a problem in the medium and long term.

Growth rate of public debt in 2009 and 2010 is dangerous in the absence of fiscal consolidation measures, currently the main problem being a consolidated budget deficit, both literally and structurally [10] [11].

In this respect, given the significant pressure imposed by aging on public spending and social transfers and implicitly on consolidated government deficit and public debt in the E.U. member states (including Romania), *the European Commission has proposed two indicators for monitoring the risk that public debt becomes unsustainable [3] [12]:*

- **S1**, quantifying the adjustment effort of the primary budget balance required in order to reach in 2060 a level of 60% of GDP for the public debt stock;
- **S2**, quantifying the adjustment effort of the primary budget balance required for meeting the intertemporal budget constraint.

Since it recorded a level of 6, 9% of gross domestic product (under an European average of 5, 4%) for S1 indicator and a level of 9, 1% of gross domestic product (under an European average of 6 5%) for S2 indicator, **Romania was included in the group of countries to which high risks of non-sustainability of public finances on long-term are associated [4]**, along with Greece, Ireland, United Kingdom of Great Britain and Northern Ireland, Cyprus, Malta, Spain, Netherlands, Slovenia, Slovakia, Latvia, Czech Republic and Lithuania.

A better correlation between fundamental macroeconomic indicators, including pressures coming from international financial institutions, will be required in the coming years to ensure public debt's sustainability and Romanian economy credibility [5][9].

In Table no. 3 are given the shares of local government debt and public debt - with its two components – in the total public debt recorded in late 2006-2011.

Table 3: The shares of local government debt, local public debt and their components in Romania's total public debt in the period 2006 - 2011

Name	U.M.	2006	2007	2008	2009	2010	2011
TOTAL PUBLIC DEBT	%	100	100	100	100	100	100
GOVERNMENT DEBT	% of TPD	94,52	92,5	91,59	92,65	94,03	94,37
Internal Government Debt	% of TPD	40,78	50,81	56,07	57,25	56,71	48,53
External Government Debt	% of TPD	53,74	41,69	35,52	35,4	37,32	45,84
LOCAL PUBLIC DEBT	% of TPD	5,48	7,5	8,41	7,35	5,97	5,63
Internal Local Government Debt	% of TPD	2,44	4	5,17	4,78	3,88	3,66
External Local Government Debt	% of TPD	3,04	3,5	3,24	2,57	2,09	1,97

Source: own calculations based on data from Table 1.

As can be noted, the *share of government debt in Romania's public debt is extremely high [6]*, and its progress has been decreasing in 2007 and 2008 compared to 2006 - from 94, 52% to 92, 50% and 91.59 %, and thereafter was slightly increasing, reaching 94, 37% at the end of 2011.

Consequently, *the share of local government public debt in Romania's public debt is relatively low*, with an upward trend - from 5, 48% in 2006 to 8, 41% in 2008 and a downward trend over the next three years, reaching just 5, 63% at the end of 2011.

Analyzed on all its components [7] [8], there is a continuous increase in the share of internal government debt by the end of 2009 - from 40, 78% in 2006 to 57,25% in 2009; that was followed by a slight decrease in 2010, to 56, 71% and even a sharper decline in 2011 (reaching 48, 53%).

Correspondingly, the share of external government debt has decreased from 53, 74% at end of 2006 to 35, 40% at the end of 2009, for next year to climb slightly to 37, 32%, and went upwards even more in 2011 , reaching 45, 84% of total public debt.

A brief analysis of EU Member States' shares of public debt in GDP, at the 31st of December 2011, **highlights the favorable situation of Romania in this respect.**

Thus, with the share of 33, 3% shown in this figure, **Romania ranks 4th** in order of increasing ratio of public debt in GDP, being preceded only by Estonia (6.0%), Bulgaria (16.3%) and Luxembourg (18.2%).

With large size public debts as a share of GDP and in absolute terms, the "top-ten" at the fall of 2011 is: Greece (152.4%), Italy (120.1%), Portugal (107 8%), Ireland (106.5%), Belgium (98.2%), France (86.0%), United Kingdom of Great Britain and Northern Ireland (85.3%), Germany (81, 2%), Hungary (80.8%), Austria (72.4%).

According to EU-ESA 95 methodology, it is estimated that during 2013-2015 the estimated level of government debt to GDP ratio will decline from 33.4% to 32.6%, according to data presented in Table 4.

If we take into account a relatively constant further development of local government debt, equaling the average share recorded over the period 2006-2011 (1.9% of GDP), it means that at the end of the four years of the 2012-2015 period, Romania's public debt will reach the level of 35.3% and 34.5%, **which is well below the standard of 60% of GDP set by the Maastricht Treaty**.

Table 4: Projection of Romania's government debt and its components ratios to GDP, for the period 2012-2015 **%**

Name	2012	2013	2014	2015
GOVERNMENT DEBT	33,9	33,4	32,6	32,6
Internal Government Debt	17,2	17,2	16,8	16,3
External Government Debt	16,7	16,2	15,8	16,3

Source: Report on the State Budget Law draft for the year 2012 and the horizon from 2013 to 2015

3. Conclusions

The levels of public debt *will be, without any doubt, sustainable and* will represent an advantage for Romania, given the new rules on levels of public debt and structural budget deficit introduced by the new *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* - which was signed by Romania on March 2, 2012.

Romania's public debt sustainability can be achieved through *a mix of fiscal and budgetary policies,* which aim to reduce budget deficits and increase primary budget surpluses, and *monetary policy measures,* meant to ensure the monetary stability and following the prospect of Romania's accession to the Euro zone.

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Case Study on the Accounting Policies Used by Companies Listed on the Bucharest Stock Exchange (BSE) Tier I

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Abstract

The study analyzes the differences between the accounting policies of the companies listed on the BSE group and showed that there are differences between the accounting policies used by companies in different fields of activity. Mainly, differences can be seen between companies providing financial and insurance services, on the one hand, and those working in industry, on the other hand.

Keywords: Accounting principles, accounting policies, impairment.
J.E.L. Classification: M40, M41.

1. Introduction

General rules have been developed so that everyone who keeps accounts and/or receives accounting reports can be able to interpret them fairly and correctly. These rules form the conceptual framework of financial accounting, generally called accounting principles.

Although each principle is governing a particular issue, all accounting principles form a coherent and unified system, meaning that there is interference and mutual ties of interdependence between all the principles, and no principle can be violated without the risk of affecting the others.

These principles are not similar to the immutable laws of nature in physics or chemistry. They are developed by accounting specialists to serve the needs of decision factors and can be changed each time when better methods arise.

Moreover, the choice and definition of accounting principles is considered to be the consequence and the demonstration of power influence. Building accounting information in an accounting system starts with the setting of one or more objectives and the establishment of accounting principles and rules. Definition, implementation and acceptance of these principles and rules gives objectivity to the chosen accounting system and provides a certain accurate, clear, sincere and complete image of the enterprise business.

Since there is more than one accounting system, the accounting principles are not absolute but relative. This relativity is given by the assumed objectives of accounting. In accounting theory and practice, the debate on the accounting principles resulted in different opinions, often contradictory on their definition, application, classification and interpretation. Lack of consensus on accounting principles and thus their relativity led us to the hypothesis that their choice, recognition and implementation is influenced by the objectives set by the accounting system, the economic and political environments and the types of company governance.

In this paper we present several accounting principles used for preparing and presenting the financial statements of the legal entities.

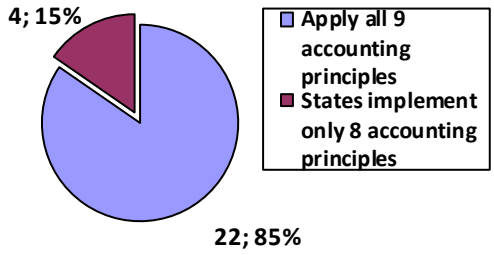
2. Major aspects of the accounting principles and policies

Through an analysis of the financial statements and notes to the financial statements of each company, we extracted principal accounting policies used by these entities.

Given that accounting policies incorporate essentially methods and procedures, basis of calculation, evaluation rules, and each entity's own practice, we tried a comparative presentation of these issues. We conducted/performed a comparative analysis of practices in companies listed on the Bucharest Stock Exchange (BVB) to better reflect applying of the accounting policies in the Romanian companies. In this study we included only Romanian companies listed on the BSE Tier I, comprising a number of 26 entities.

The characteristics of firms aspects of accounting policies used in the explanatory Note 6 entitled just "Summary of Significant Accounting Policies", with the exceptions of those whose main activity is financial service and insurance. These companies should disclose the accounting policies in the explanatory Note 1 to the financial statements.

Figure 1: Number and percentage of companies listed on the BSE First category (Tier I), stating that their annual financial statements are in accordance with those 9 accounting principles



Source: own

Companies that apply all 9 accounting principles (the principle of prudence, going concern principle, consistency principle-based accounting principle, separate evaluation of assets and liabilities principle, the principle of intangibility of the opening balance sheet, netting principle, the principle of substance over form and materiality principle) we actually included those that did not mention specifically the accounting principles applied for preparation their financial statements. Main reason for which we have included them in this category is that usually companies apply all the principles to provide users a better image on the elements of fortune. 11 companies included in the study did not specifically mention the principles used in the preparation of annual reports. This category also includes companies that provide financial and insurance services.

Biofarm SA, Antibiotice SA, CNTEE SEPS and Impact Developer & Contractor SA are the four companies that do not mention the full application of the 9 accounting principles.

Biofarm S.A. does not specify the principle of inviolability of the opening balance sheet. The other three listed companies have not considered being necessary the applying of the principle of materiality. However, their financial statements received agreement under accounting rules from an approved auditor.

Over 65% of companies listed on the BSE Tier I work in manufacturing or in financial intermediation. No more than three companies fit in every other category. Unless if OMPF 3055/2009 or its accounting policies requires the use of fair value, accounting records on which these financial statements have been prepared in lei (RON), usually at historical cost.

3. General accounting policy on property, plant and equipment

Property, plant and equipment are assets from which future economic benefits are expected to flow to the enterprise and are held for more than one year [3]. These assets are usually recognized initially at its acquisition or production cost.

4. Cost / valuation of non-current assets

Non-current assets are initially recognized at the acquisition cost, for the purchased against payment, the amount of contribution to the establishment of the contributed

capital, or at fair value at the acquisition date, for those received free of charge.

The initial cost of property, plant comprising its purchase price includes import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

5. Revaluation of property, plant, and equipment

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus. The value of that eventual uncovered difference is recorded as an expense.

Periodically, usually every 3 years, company buildings existing at the year-end are revalued to fair value at that date [1]. Fair value replaces acquisition cost and the resulting revaluation differences are reflected in the trial balance and annual financial statements for the year in which the development took place and it is accumulated in equity under the heading of revaluation surplus.

The following methods were used for revaluation:

- The market comparison method was used for the valuation of lands and buildings;
- The replacement cost method was used for other equipment.

At the balance sheet date, tangible assets are stated at the revalued amount which is their fair value.

6. Depreciation of property, plant and equipment

All tangible fixed assets, except land, are depreciated according to duration of life prescribed by law, as amended.

Depreciation is determined by applying of depreciation rates on the depreciable amount of tangible fixed assets. Depreciation is calculated from the month following its acquisition until full recovery of the input value of tangible assets. Depreciation of tangible fixed assets is determined and recognized in the financial statements as an expense using straight-line depreciation method. Depreciation of an asset begins when it is available for use until the full recovery of the input value. Economic life is the period in which an asset is expected to be available for use by an entity. By law, the Board of Directors sets out the depreciation method and normal useful life of fixed assets. Most companies determine depreciation making use of terms established by Government 2139/2004 for approving the classification catalog and useful life of fixed assets. Some of them chose the regulatory minimum depreciation periods as useful life of assets.

Depreciation is calculated on a straight-line basis reducing balance, although degressive depreciation or accelerated depreciation is permitted, over the whole useful life of asset. Land has an unlimited useful life and therefore is not depreciated. This complies with the legal stipulations regarding land regime. Assets under construction are not depreciated over time until the relevant assets are completed and put into operation [2].

Only three companies included in the study mention the application of a different method of depreciation. So over 88% of companies only apply straight-line method of depreciation. For some of the tangible assets owned, the three companies mentioned above apply also degressive depreciation regime, where regulations permit.

Regarding depreciation of plant and machinery, we can again make a clear separation between companies that offer financial and insurance services and industry. Companies in the first category have fewer tangible assets in this category that are often vehicles, whose impairments are short periods. In contrast, industrial activity requires technical installations. They are used in operating activities for a long service life, in more operating cycles. This explains the use of high use periods.

Furniture, office automation equipment and other tangible assets in this class, BRD stands out a fixed amortization period of 10 years. This is unusual for companies, considering the variety of property that may fall into this category. This variety may

explain the large variations in depreciation periods from other companies included in the study.
BRD provides financial services and this activity does not require ownership of more tangible. BRD actually has only items of furniture that fall under this section. This is why it chose a fixed amortization period of ten years.

7. Impairment of Assets

Property, plant and equipment are carried at acquisition cost less the accumulated depreciation and any cumulative impairment losses [3].

The company's non-current assets carrying value, other than inventories, is reviewed at each balance sheet date to determine whether there is value decreases. If such value is likely to decrease, the recoverable amount of that asset is estimated. An adjustment for impairment is recognized in profit or loss, if necessary.

Adjustment for impairment can be reversed if there was a change in existing conditions when determining the recoverable amount. Reversal of impairment adjustments can be made only in such a way as the net amount does not exceed historical net book value, taking into account depreciation and impairment before.

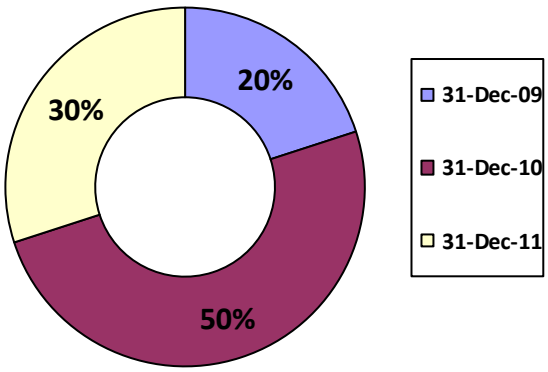
8. Other issues relevant to the accounting policies of tangible fixed assets

Accounting for tangible fixed assets is guided by categories and over individual items, by quantity and value.Limit value at which an asset is classified as tangible fixed assets is 1,800 Romanian lei, according to the Government Decision no. 105/2007 on setting input value of fixed assets. Assets whose values are below this limit are recorded as inventories. Some companies separate the gross carrying value of tangible fixed assets that are fully depreciated at December 31, 2011.

Land evaluation is carried at fair value. All companies in the sample perform regular revaluations of land, usually for a period of 3 years. A company included in the sample does not have land ownership.However, only 10 companies mention the exact date of the last land revaluation.

So, as you can see from the chart below, 50% of companies that indicated the exact date of the last land revaluation have done this operation in financial year 2010.

Figure 2: Classification of companies according to the date of the last land revaluation



Source: own

Construction evaluation is performed in the same way, that is the regular revaluation of buildings. However, the difference does how to deal with depreciation for buildings. There are two ways of handling this:

- Whether a reassessment is made both of the inventory value and the accumulated depreciation;
- Or give up to accumulated depreciation and add / subtract the difference to achieve fair value.

Based on the sample of companies listed on BSE, Tier I, we concluded that most companies turn to the first of two accounting options.However, companies focus more on building evaluation than to land evaluation; buildings' values are very large and have a great share of total tangible assets. Only a company included in the sample has not owned buildings.

Half of the sampled companies mention the exact date of the last buildings revaluation, as follows:

- 4 companies have reassessed building on 3 December 2009;
- 3 companies made the last assessment of buildings and special constructions at the end of the accounting year 2010;
- 6 companies have revalued buildings to present the fair value at the date of the last

financial statements i.e. those studied for this analysis, December 31, 2011.

Equipment, plant and machinery, but also furniture, office equipment and other tangible assets are valued by the majority of listed companies at revalued amount. However, some companies have preserved (at least three of them) net book value of these tangible assets at historical cost. Despite lands or buildings, revaluation of the above tangible assets can be made for longer periods of time. For example, SC Prefab S.A. has not reviewed this type of fixed assets at the end of the year 2008.

9. Conclusions

Accounting policies for assets should not differ greatly from one company to another, especially if you compare companies that apply the same accounting rules required for annual financial statements. Moreover, the companies included in this study are all listed on BSE, Fist Category. This makes us believe that the accounting policies should be very similar.

However, they are operating in different various fields. These differences entail distinctions between accounting policies and methods used in establishing tangible fixed assets value.

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Effects of the Option "Fair Value" on the Entity's Financial Position and Assets

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Abstract

The purpose of this article is to present issues of assessment and reassessment of tangible assets due to fair value in the context of harmonization of national accounting regulations with International Financial Reporting Standards. The main objectives considered when drafting the article are to identify both tangible Romanian accounting standards and according to the international presentation on the effects of fair value and their subsequent assessment of the entity's financial position and assets. The scientific approach is based on information from national and international literature and practice of documenting the company achieved at F.D.E.E. Electrica Transilvania Sud Distribution S.A. In preparing the paper, we chose the combination of quantitative research with qualitative research in order to achieve expected results from research undertaken research tools in the two categories of methods: literature review, the study acts, comparison, descriptive analysis, case study, data interpretation method.

Key words: tangible assets, fair value, assessment, reassessment, IFRS
JEL Clasification: M41, O13

1. Introduction

How an enterprise assesses elements that comprise the financial statements is vital as they fulfill a core function of financial reporting, namely a primary means of communicating financial information to outside entity. Moreover this information is useful only if they satisfy certain decision-making process to ensure quality reporting features.

Assets typically have a significant share in the total assets of the entity and have significant implications in presenting financial position because they are the main generators of economic benefits, being held for the activity for more than one year. The decision to invest in an asset is very important and has implications for cash flows of the entity and future expenses asset impairment.

2. Tangible assets - conformity of national rules with the rules of IAS / IFRS

Comparing the categories of fixed assets covered by OMFP 3055/2009 national and standards IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets internationally, we find that the main issues that require consideration include: recognition and measurement of assets, the determination of the carrying amount of assets, the depreciation charges and losses impairment to be recognized in relation to them; to ensure transparency in disclosure so that users are able to assume responsibility for decisions and their effects are adequately informed of the various categories of users of financial statements. The objective of IAS 16 Property, Plant and Equipment is to prescribe the accounting treatment applicable to tangible assets and to establish a uniform

basis for disclosure in the financial statements of parent companies so that financial statement users can easily understand tangible information society.

According to the same standards qualify for classification as tangible elements, elements [1] that: are held for use in the production or supply of goods or services, for rental to others or for administrative purposes, and is expected to be used during more than one period.

As recognition of the cost of an item of property shall be recognized as an asset if, and only if it satisfies the conditions reported in the next table:

Table 1. Highlighting the recognition of assets

Element	Recognition criteria met			Recognition
	Future economic benefits are probable for the entity	Cost of the asset can be measured reliably	Expected to be used over several accounting periods	
	X	**X**	**X**	**21xx**

Source: Projection realized by the authors

Nationally, the accounting regulations approved by Order no. 3055/2009 Romanian notice align with the accounting standard IAS 16 Property, Plant and Equipment, in terms of tangible recognition elements. We mention that, compared with the international standard where there is a limit value for the recognition of an item of property, the tax code provides condition limiting value (1,800 Ron - the limit set by Government Decision no. 105/2007), that is tangible recognized as fixed assets [2].

3. Effects of the option "fair value" in the subsequent evaluation of fixed assets in groups II and III

The company in the subsequent assessment presents in the balance sheet, a tangible input value, less cumulative value adjustments according to art. 109 accounting regulations approved by OMFP 3055/2009 [3]. On the other hand, the Tax Code provides in art. 253 paragraph 6 that the tax on buildings due to legal persons not revaluated in the last 3 years and 5 years prior fiscal year is based on the reference rate set by the local council decision, between 10% and 20%, respectively 30 % and 40%, applied to the building inventory value recorded in the accounts of legal entities under accounting regulations in force [4].

So the fact that national rules do not require all categories of tangible assets revaluation within an entity and facilitate the fiscally re just some of them (buildings) demonstrates, this time dependence tax accounting rules and accounting professional education not to deviate from the rules imposed by the state, even if the entity property image is damaged.

In contrast with this dependence of taxes, standard IAS 16 Property, Plant and Equipment, in the evaluation after recognition launches the choice between the cost model and the revaluation model so that after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

To show the size of the rules of IAS / IFRS we considered necessary the revaluation of fixed assets in groups II and III in order to highlight the effects of this option and "fair value" of the property company FDEE Electrica Transilvania Sud Distribution S.A. since the last review of these groups was made in 2008.

Evaluation of fixed assets belonging to groups II and II of FDEE Electrica Transilvania Sud Distribution S.A. was made based on the data provided by it and the observations made in the field. Thus, for determining the fair value of fixed assets evaluation methods were applied methodology of application which will be presented in the paper. So the approach is to update the carrying amount of special assets for the period 31.12.2008-31.12.2010

inflation index. The purpose of evaluation is to determine the economic value of the assets remaining updated in groups II and III for the month December 2010. Because in this case it's specialized assets whose technical characteristics (capacity, power, etc.). Could not be made available to us by the company proceeded to update the book value of the inflation index calculated for the period 31.12. 2008-31.12.2010 which is 1.1665 Ron, calculated based on the inflation index published by the National Institute of Statistics for the months in the period.

Table 2. Summary results of the calculation of fair value of fixed assets in groups II and III

-RON-

Asset	Revalued asset values	The difference in the value of inventory	The difference of accumulated depreciation	Revalued amount Remaining value	Remaining value	The difference between the revalued amount and the remaining value
Account 213	24.997.813,43	3.568.036,38	640.789,66	20.508.655	17.581.408,28	2.927.246,72
Account 214	255.715,85	36.498,67	9.895,23	186.365	159.761,56	26.603,44
TOTAL	**25.253.529,28**	**3.604.535,05**	**650.684,89**	**20.695.020**	**17.741.169,84**	**2.953.850,16**

Source: Projection realized by the authors

So, after reassessment process by updating the book value of fixed assets group II with the inflation index, the result is a positive difference from revaluation totaling 2,927,246.72 Ron, the difference is treated as an increase in reserves of revaluation - account 105, because we have no knowledge of the existence of a previous decrease recognized as an expense for the asset.

Accumulated depreciation on revaluation in the amount of 3,848,350.34 Ron was restated proportionately with the change in the gross carrying amount of the asset thus obtaining a difference of accumulated depreciation of 640,789.66 Ron. Therefore, the carrying amount of the asset after revaluation worth 20,508,655.00 Ron equals its revalued amount. Regarding, fixed assets revaluation process in Group III showed a positive difference from revaluation totaling 26,603.44 Ron, the difference is treated as a from revaluation increase reserve - 105 Revaluation reserve account. Accumulated depreciation on revaluation amounting to 59,454.77 Ron was restated proportionately with the change in the gross carrying amount of the asset thus obtaining a difference of accumulated depreciation of 9,895.23 Ron. Therefore, the carrying amount of the asset after revaluation worth 186,365.00 Ron equals its revalued amount.

We also recalculated on the revaluation of fixed assets in groups II and III, in proportion to change their gross value and accumulated depreciation to be recorded in the accounts as of January 1 of the year following that for which revaluation. In addition, we note that the situation will reflect balances as at 31.12.2010 together with differences persisting positive values, so for fixed assets account group II 213 Plant and machinery, vehicles, animals and plantations 24,997,813.43 Ron and Account 105 Reserves from revaluation 2,927,246.72 Ron. In the case of the fixed assets of Group III balance is account 214 Furniture, office equipment, equipment 255,715.85 Ron and 26,603.44 Ron account 105 Revaluation reserves.

4. Effects of adjustments to fair value of property in accounts 213 and 214 according to standard IAS 16 Property, Plant and Equipment on the entity's financial position and assets

As a result of the above data, following the revaluation of fixed assets in groups II and III at fair value were recorded positive differences on the inventory value and accumulated depreciation. So how presentation affects the fair value of the elements of accounts 213 Plant and machinery, vehicles, animals and plantations and 214 furniture, office equipment, financial position and performance of the entity is as follows:

Table 3 Influence of adjustments according to standard IAS 16 Property, plant and equipment on the synthetic balance at the end of financial year

-RON-

Account	Balance 31.12.2010		Adjustment IAS 20		According to IAS 20	
	Output	Input	Output	Input	Output	Input
105	0	351.971.804	0	2.953.850	0	354.925.654
213	623.497.544	0	2.927.247	208.351.589	418.073.22	0
214	3.798.532	0	26.603	1.639.309	2.185.826	0
2813	0	208.351.589	208.351.589	0	0	0
2814	0	1.639.309	1.639.309	0	0	0

Source: Projection realized by the authors

Table 4. Effects of of adjustments according to standard IAS 16 Property, plant and eqipment on the balance sheet and income statement

-RON-

Document summary	According to OMFP 3055/2009		According to IAS/IFRS	
	Name of item	Balance 31.12.2010	Name of item	Balance 31.12.2010
Balance sheet	Plant and machinery	415.145.955	Plant and machinery	418.073.202
	Other equipment and furniture	2.159.223	Other equipment and furniture	2.185.826
	Revaluation reserve	351.971.804	Revaluation reserve	354.925.654

Source: Projection realized by the authors

Therefore, further evaluation of initial recognition at fair value of fixed assets in groups II and III also increased position 08 Plant and machinery in the balance sheet by the amount of 2,927,247 Ron and position in row 09 Other installations, tools and furniture balance sheet to the amount of 26,603 Ron, while also increasing position 69 revaluation reserves total amount of 2,953,850 Ron. As for the account of result we mention that the calculation of depreciation in fair value will update as of January 1 of year 2011.

5. Conclusions

The analysis of tangible assets in the international accounting standards issued by the IASB, we find that the role of accounting rules have, and to provide, without much ambiguity various aspects of accounting practice in the transparency of financial accounting information. The empirical study presented confirmed Norm IAS 1, so that the analysis of documents of FDEE Electrica Transilvania Sud distribution differences were noted in the subsequent evaluation of fixed assets in groups II and III, the temporary difference between the carrying amount and tax base of assets. So these differences clearly highlights the absence of

compliance with international reference potential and highlights the link between national taxation and accounting rules underlying financial statements that are issued. So by translating financial statements in accordance with IAS / IFRS we tried to get a version of financial accounting information to meet information needs of external users, in particular, potential investors and / or creditors who wish to obtain information transparent and real as possible on the financial position and performance of an entity.

The existence of this relationship negatively affects the quality characteristics of financial statements so that they have different values depending on the referential elements that adopted. According to the teacher Horomnea E. "any information gains in value because it can be compared over time or space" [5], we believe the development of a solution for this condition image is to ensure disconnection of tax accounting and compliance of financial statements with the rules IAS / IFRS.

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Profitability of the Banking System in Romania

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Abstract

This paper is an overview of the literature regarding the notion of performance, especially in the banking system in our country, expressing my own point of view regarding profitability of the banking system in Romania once with the beginning global crisis.

Key words: bank, profitability, Romania
J.E.L. classification: M41, G21

1. Introduction

Once with waiving the centrally planned economy and with transition to a market economy based on competition, the term "performance" began to be used in the literature and mainly in the economic life of our country since 1990.

In terms of etymology, the term "performance" comes from the Latin "performare", which means to give full shape to something, respectively to fulfill a predetermined objective.

According to economics literature, the meaning of this word comes from English, from words "to perform"- which means to make something regularly and methodically, and "performance", which implies the result obtained after executing a task.

2. Bank profitability

The performance describes the evolution of the results achieved in a certain period because the "performance" term is the product of a comparison, whether it is a comparison with others for the same period, whether a comparison with himself at different times.

Of the concept of performance we can associate three other notions namely efficiency, economicity and effectiveness, widely debated in the literature in our country, from which we separated elements on which experts were agreed. [1]

Efficiency requires either minimizing resources to achieve a predetermined result, either maximize the results obtained with a certain amount of resources, in all cases by creating a report, a comparison of effectiveness (outcome) and effective effort (expense) to obtain the result by a system or process.

Economicity represents engaging resources at minimum cost.

Effectiveness is the quality of an action to produce the expected results and acts as a control criterion of the level and the degree of achievement of objectives.

In the specialty literature, there are several meanings of "performance", namely performance is success, the result of the action, or action itself. [2]

Information about the performance of an institution, especially on profitability, are useful to predict its ability to generate cash flows with existing resources, as well as to make judgments about the efficiency with which institution may use the new resources.

The diversity of definitions of the concept of performance shows that it is interpreted differently by users of financial and accounting information according to their interests.

In banking, however, performance is viewed primarily in terms of stability and efficiency and less in terms of competition, the latter being rather a consequence of the performance level. [3]

Bank profitability represents an important objective of bank management covering: [4]

- optimization of bank resources and of investments;
- optimizing intra and interbank settlements;
- rationalization of operating costs;
- on time collection of interest based;
- promotion of new banking products and

services;
- attracting new customers, profit, etc.

The concept of bank profitability can be defined both vertically, the territorial units (profit center) and horizontally, taking into account actual and potential effectiveness of a bank's business segment, these conceptual elements are included in the general version bank strategy.

Banks in Romania are organized into centers of activity, respectively territorial units and subunits that have resources and involve costs. Thus currently, some banks ask themselves if certain operational units in the country are effective or not. On the other hand began to be promoted decentralization elements such as increasing credit limits for operational units, free marketing and strategy for attracting new customers.

One of the basic requirement governing the organization and assess the profitability of a bank is the existence of an integrated information system that will lead to the submission and processing of data and information in real time and, in particular, the transfer of real-time price for deposits or investments.

The problem of principle for determining profitability is the actual cost of bank management. For an accurate reflection should seek financial management costs, reflecting all movements within the system (input and output sources).

The methodology for calculating profitability involves: [4]
- statements of investments and of resources in domestic and foreign currency and determining the interest on surplus or deficit of resources, taking into account at the same time the minimum reserves established in accordance with the rules of the central bank;
- correcting extra-profit accounting data determined from operative unit results in the previous paragraph;
- based on credit quality, proceed to include the costs and bear the results of specific risk provisions.

In conclusion, the preparation profitability models should comply with procedures that include: [3]
- calculate profitability at the center of activity;
- collect and evaluate calculations of cost and / or profit centers;
- monitoring the profitability of all centers of profitability, including those in center;
- methods of reporting analyzes carried out;
- achieve profitability analysis and presentation of results to bank management.

3. Indicators for appreciation bank performance

Indicators for appreciation bank performance have a high expressiveness, reflecting a multitude of aspects: the level of profit generation, operational efficiency and management, etc.. These indicators resulting from accounting data reflecting the period.

Bank balance, as in any other field, is the official document which includes bank management patrimonial situation (balance itself) financial results (profit and loss), annex with data supplements the information presented in the balance sheet and income statement, and the management report.

The content and structure of its balance sheet enables benchmarking and knowledge of changes in the composition of assets and liabilities, but at the same time represents the main tool for complete and clear analysis of the bank's assets, its financial situation and results.

In banking practice, banking performance evaluation is done using a set of indicators whose size is the result of comparing posts of balance sheet.

Analyzing bank performance indicators presented by western literature and Romanian banking theory and practice have made their grouping according to the main directions and objectives of the bank management, as follows: [4]
- indicators for assessing the overall effectiveness of banking;
- indicators of asset quality;
- indicators for assessing the solvency and liquidity;
- indicators for assessing profitability;
- indicators for the analysis of income and banking cost.

In my paper I stopped in analysis the indicator of profitability of the Bank sistem starting with the crises which started in the end of 2007.

4. Indicators of profitability

Literature and occidental banking practice for assessing the overall profitability of the bank include a number of indicators, of which: [4]

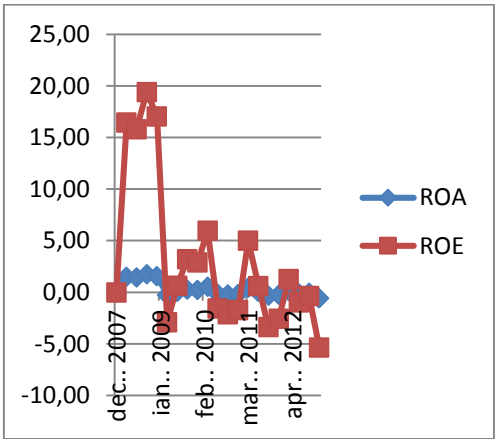
• The return on capital or equity (ROE-Return of Equity), measures the percentage yield of each monetary unit of equity:

$$ROE = \frac{\text{net income}}{\text{total own funds}} * 100$$

• The return on assets (ROA-Return of Assets), measures the net income generated by each monetary unit of assets:

$$ROA = \frac{\text{net income}}{\text{total assets}} * 100$$

Figure 1



Source: Personal analyzeof data from www.bnr.ro

Like we see in figure 1 in 2008, the profitability rates (ROA and ROE) continued their slightly downward trend, although the evolution of operational efficiency was positive in 2007, amid increased attention from credit institutions on judicious management of operational costs. Return on equity (ROE) had a slightly lower level than the previous year (11.44 percent in 2007 to 11.67 percent in 2006), while net profit dynamics comparable to that of equity.

In 2009, values for ROE and ROA at the end of December 2008, 18.1 percent and 1.7 percent, are comparable to those of the parent banking company with subsidiaries in Romania.

In 2010, ROE and ROA had a strong downward trend in 2009 compared to 2008 (2.7 percent and 0.2 percent, compared with 17 percent and 1.6 percent), due to lower growth in net profit compared to growth average aggregate assets and average equity.

In 2011, in the case of profitability indicators (ROE and ROA), downward trajectory continued in 2010 for the second consecutive year. In late June 2011, ROE and ROA levels are slightly improved from the same period a year earlier, moving in positive territory.

• Funds multiplier (EM), compares assets with its own funds, so that a high value of this indicator shows a high degree of financial leverage (Financial Leverage). This indicator measures simultaneously both profit and risk.

$$EM = \frac{\text{total assets}}{\text{total own funds}} * 100$$

Between the three indicators is a direct correlation, as follows:

ROE = ROAxEM

In assessing profitability can be used and the following indicators: [4]

- rate interest charges as a ratio of total spend interest and operating income;
- other expenditure rate, the ratio of expenditure other than interest and total operating income;
- provisions for credit outstanding rate, the ratio between total provisions and operating income:
- the tax rate, the ratio of income tax and total operating income, etc.

5. Conclusions

Measuring performance can be done using a complex set of indicators that can provide a complete overview: how resources were involved, how were risks controlled, the results obtained, the way in which to market received the products and services offered, especially if increased or not the trust capital enjoyed by the public.

Performance management is based on the information and in turn creates information where feedback does not work, performance will not pass a certain level.

Is indicated that bank performance is evaluated at short intervals during the international financial crisis, requiring a more

focused approach for supervision of credit institutions. In addition to the objective side, based on rigorous calculations and formulas, performance leaves much room for interpretation and subjective attitudes, depending on the perspective from which the performance is seen.

The actual international financial crisis forces banks to increase social responsibility and change their own behavior management, because when banks competed in spectacular performances, the State was not required to intervene, and today when states put taxpayers to cover huge losses, banks must show signs of recovery from within.

Financial performance of credit institutions in the international financial crisis will undoubtedly be affected by high levels of reserves established as a reflex to adapt to market conditions.

At December 31, 2011, the main indicators of profitability in the banking sector (financial profitability rate - ROE and economic rate of return - ROA) were negative, although slightly more favorable than in September 2011 (-2.6 percent - 3.4 percent and -0.2 percent from -0.3 percent). In late June 2012, ROE and ROA recorded slightly negative (-1 percent and -0.1 percent).

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Auditor's Role in the Use of European Structural Funds

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Abstract

Structural Funds audit is a requirement in the contract for financing the project and provides a range of activities such as:

- *analyze and verify the nature, legality and regularity of expenditure; verify the use of amounts received as advance;*
- *auditing of third parties, dealing specially designated expense accounts and budget project*
- *project monitoring income (including advances received from finance, interest on advances and other income generated by the project) etc.*

The objective of the mission is that the auditor agreed upon procedures apply audit procedures agreed upon nature auditor and the entity and any third party, and then to report the findings.

The audit report should describe the purpose and procedures in sufficient detail for the interested parties to understand the nature and extent of the work performed. The report is restricted to those parties that have agreed to the procedures to be performed.

Keywords: structural funds, eligible expenses, auditor, factual findings.
JEL Classification: M42, M49

1. Introduction

European Union acts by the Structural Funds, Cohesion Fund and other financial instruments to support the overall objectives (convergence, regional competitiveness and employment, European territorial cooperation), to eliminate economic and social disparities between regions, for the purpose of economic and social.

For the period 2007-2013 are three financial instruments known as Structural Funds that:

- The European Regional Development Fund (ERDF)
- The European Social Fund (ESF)
- The Cohesion Fund (CF)

and two complementary actions, namely:

- The European Agriculture and Rural Development (EAFRD)
- The European Fisheries Fund (EFF).

Increased access to European Union Structural Funds is a necessity in the current period, for at least two reasons:

- These funds can help reduce the gap between western Romanian economy and economy - European
- The training effect produced by European Structural Funds can lead to sustained economic growth, which can make the current recession of the past.

In 2007-2013, Romania is eligible for all three structural funds available for the implementation of European Union cohesion policy.

European Regional Development Fund finances activities of 14 key areas: research and technological development, computerization of society, transport, energy, environment, tourism, culture, urban and rural regeneration; support for companies and entrepreneurs; investment in social infrastructure, including the health and education.

The Cohesion Fund finances major transport projects (including projects for railway transport, multi-modal transportation and shipping).

For those familiar with waste and unreasonable use of public funds, access to European Union Structural Funds proves difficult because the justification of these funds takes place on a clear, both in terms of eligibility of expenditure and in terms of the rules related to public procurement.

A very important role is independent auditors called to express, on a contractual basis an audit opinion on how the funds were used and whether the conditions of the Grant Contract and whether the amounts requested

for payment is eligible expenses are true, accurate and payable.

2. Mission specific activities performed by auditors

The main activities [1] carried out by the audit team consists of:

- analyze and verify the nature, legality and regularity of expenditure;
- control use of amounts received as advance;
- auditing of third parties;
- reconciliation of expenditure with specially designated accounts and project budget;
- verification of income project (including advances received from finance, interest on advances and other income generated by the project).

The auditor should plan the audit [3] in a manner which ensures that the mission will be accomplished in terms of economy, efficiency, effectiveness and agreed term. The Auditor verifies that the information in the request for reimbursement of expenses are reconciled to the beneficiary's accounting system and records (e.g. trial balance, analytical and synthetic records of accounts):

- examining procurement rules that apply to each category of costs, types expenditures;
- check cash inflows of the project.

The auditor makes an analytical review of the expenditure headings request for reimbursement of expenses:

- check whether the budget request for reimbursement of costs reflects the budget financing contract (authenticity and authorization of the initial budget) and expenditures were made in the budget agreement financing;
- check that the total amount claimed for payment by the beneficiary does not exceed the maximum grant amounts provided under and by category of expenditure;
- check that any amendment to the budget financing contract complies with the conditions for such amendments (including whether need to apply an addendum to your agreement).

The auditor [4] develops and fulfills the verification work program in accordance with the objective and scope of this engagement and the procedures to be performed. During the implementation of these procedures the auditor [5] may apply techniques such as inquiry and analysis, (re) computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations. Following the procedures for verification of expenditures, auditors will have to determine whether:

- the expenses are accounted for in accordance with the purpose specified in the primary documents of the project expenditure categories;
- in terms of record keeping, to be active measures to ensure archival documents on 31.12.2021;
- project expenditure incurred in procurement contracts were necessary to conduct the project;
- all project expenses are recorded in the beneficiary's accounts based on documents that are identifiable and verifiable, and be backed by originals that have entered the code project and word Project funded by ROP;
- Separate accounting on the project, using different analytical accounts;
- procurement were assigned with respect Law 34/2006;
- the services were rendered, as each invoice is documented records partial reception/work statements certified by authorized personnel law.

Financial auditor [6] obtains sufficient appropriate evidence from these procedures to produce a report of factual findings. For this purpose, the auditor may use the guidance [7] [12] provided by the International Standard on Auditing 500 "Audit Evidence" and in particular paragraphs that refer to "sufficient appropriate audit evidence." Auditor exercises professional judgment [8] about what is appropriate and sufficient evidence if it considers that the guidance provided by ISA 500, the terms and conditions of the funding for this commitment is not enough. Indicative list of the types and nature of evidence that the auditor may find the verification of expenditure include:

- Accounting records (electronic or manual) from the beneficiary's accounting system, such as ledger, its chapters and all accounts of salaries, fixed asset registers

and other relevant accounting information;
- Proof of procurement procedures and tender documents, tenders for auction and evaluation reports;
- Proof of commitments such as contracts and order forms;
- Proof of service provision as approved reports, time sheets, transport tickets (including boarding passes) etc.
- Proof of receipt of the goods and receiving documents from suppliers;
- Proof of completion of works such as invoices and receipts;
- Proof of payment such as bank statements, notices of payment, proof of payment of the subcontractors;
- For petrol and diesel costs a summary list of the distance covered, consumption vehicles used, fuel and maintenance costs;
- Records regarding payment of salaries and related personnel and contracts, the payroll, time sheets. For staff recruited locally for a fixed period contracts, details of remuneration paid, perhaps those responsible locally, broken down gross wages, social contributions for insurance and net salary;
- Information on the precise location of premises where documents are originals in case verification by the European Commission.

The audit procedures were used as the basis of information in addition to the above evidence and a number of existing documents beneficiary's accounts [9], such as:
- accounting ledgers provided by Law no. 82/1991, as amended and supplemented by subsequent (electronic and / or paper);
- the beneficiary's own budget chapters, subsections, paragraphs, titles expenses, articles and paragraphs;
- checking balances analytical and synthetic (in electronic and / or paper);
- plugs account for various operations (electronic and / or paper);
- accounting notes (electronic and / or paper);
- contracts and order forms;
- invoices;
- statements of work and payment conditions;
- minutes of final reception and partial;
- minutes of commissioning;
- notes receiver and finding differences;
- bank statements and orders;
- contracts of employment between customer and employee;
- decision by which the employee is assigned to be part of the implementation team and its tasks in the project;
- time-sheet's actual time worked on the project (including part-time contracts) approved project manager;
- payrolls;
- other documents: consumer bills, roadmaps, airline transportation, auto fuel bills fixed quantities, travel orders, inventories, sheet asset etc.

Once you are satisfied that sufficient appropriate evidence obtained, the auditor shall prepare audit report in accordance with ISRS 4400 [10] and the contract concluded with the customer service.

Audit reports [13] prepared by independent auditors must fulfill the following conditions:
- be prepared in accordance with International Standards on Auditing;
- be based on sufficient evidence, relevant and solid;
- include all information necessary to ensure understanding of audit findings;
- include only findings that are supported by relevant and sufficient audit evidence . Audit opinion must be supported by evidence justifying the conclusions of the audit.
- be concise and contain only relevant aspects of the audit scope

3. Conclusions

Independent financial auditor's role in the projects financed from EU Structural Funds is to assess whether the expenses claimed by the beneficiary in the application for reimbursement were actually, accurate and eligible. Depending on the findings obtained by it, the beneficiary can obtain funds from projects financed by EU Structural Funds. Projects financed by European funds are conditional on fulfillment of criteria for reporting on how the project and its development.

Audit work of a project is essential for assessing the conduct of its correctness, and the way in which they were Europeans manages money. The audit report must include an opinion authorized the objectives

assumed by contract. The report shall be drawn from the results found by testing and auditing the auditor's judgment, while respecting auditing standards applicable international and/or national and funder requirements.

If the audit opinion is unfavorable, or assumed by contract funding targets are not met or are met without compliance beneficiary will be required to reimburse the European Structural Funds.

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The Analysis of the Economic and Financial Performance Based On the Rates of Return in Hospitality Industry Companies On the Romanian Seaside

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Abstract

This research uses the rate of return method in hospitality industry companies, regarding the theoretical bases and the meanings of the concept of performance, by analysing two hotel companies from the Romanian seaside. The analysis of the activity of the two hotel complexes reveals the impact that the development of the Northern and Southern areas of the Romanian coastline has on their performance. The use of the rates of return gives the possibility to obtain different information and creates the possibility to make a comparison in all three planes, i.e. rules, time and space, in terms of a company's financial and economic activity.

Key words: the rates of return, hospitality industry companies, the economic and financial performance.
JEL classification: M41

1. Introduction

"The rate of return is a ratio between an indicator of results (profit or loss) and an indicator that reflects a workflow (net turnover, resources consumed etc.) or a stock (equity, total assets etc.)" [11]. The main operational rates of return in the economic and financial analysis of a company are: the economic rate of return, the financial rate of return, the commercial rate of return, the rate of return on the resources consumed.

The research was conducted by analysing two distinct hotel companies and, ultimately, we have tried to correlate important aspects found in SC Complex Condor SA and SC THR Marea Neagra SA. It can be noticed that the activity of these hotel companies is clearly affected by seasonality, being open for a period ranging from four to nine months. In order to obtain a conclusive outcome of our research, we chose to report data from the annual financial statements at the average euro exchange rate set by the RNB (the central bank) for the income and expenses cash flows, from the income and loss account and, for the balance sheet items, we used the Euro exchange rate from 31 December, set by the RNB. We considered necessary the expression of data in Euro as reference currency, given the dynamics in the analysed time horizon and the influence it had in the development of revenue and expenditure, ensuring the comparability of results over time.

SC Complex Condor SA was founded in 1995, with the legal form of a joint stock company, the main activity of the company being "Hotels", located in Mamaia. The company has a 4 star rated hotel and a restaurant where: it provides services in the field of tourism, runs import-export operations and commercializes goods by its own units or employees.

Condor Hotel is located in Mamaia, at 50 m from the beach, in the Casino area. The hotel is built on six levels and has 272 beds in the 125 double rooms, 6 matrimonial rooms, 6 single rooms and 2 suites.

The core business of *SC THR Marea Neagra SA* is national and international tourism, catering and entertainment. According to the NACE classification, the main activity of the company is "Hotels". SC THR Marea Neagra SA is a legal entity registered in the Trade Register in 1991 and the company's shares are listed and traded on the Bucharest Stock Exchange since 2002, with the symbol "EFO".

The company's tourist supply is promoted and marketed both on domestic and foreign markets, the largest share being held by the domestic tourism (96%). The tourist package includes all services, i.e. accommodation, food, treatment, recreation, thereby aiming to attract different types of tourists. It appears that Romanian tourists 'motivation differs from that of foreign tourists, the latter's requirements being higher in the degree of the comfort provided. Due to the ongoing development of national and international tourism, the requirement for high quality services is increasing, thereby triggering measures to improve the service supply and the modernization of the material basis.

"The company has over 11,000 beds and over 16,600 public eating places located in several resorts, divided into units of 4, 3, 2 and 1 star, 2 aqua park sites with a total capacity of 650 seats and 3 treatment units with a capacity of 6,000 procedures per day.

SC THR Marea Neagra SA has about 12% of the total number of beds in the tourist reception structures from the tourist resorts on the Black Sea seashore and 2.2% of the entire tourism sector conducted nationwide. Of the total number of tourists registered in the company analysed, the share of foreign tourists is very small, i.e. only 0.02% tourists" [8].

2. Analysing the rates of return at SC Complex Condor SA

Table 1 contains the values of all the indicators necessary for the calculation models of the rates of return.

Table 1. Indicators used in expressing the rates of return at SC Complex Condor SA

Euro

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.Total assets	2229898	6278610	5890722	5727589	5645745
2.Equity	342550	418427	269414	221338	41227
3. Capital invested	2123079	6190702	5821538	5659036	5592766
4.Financial debt	84960	36412	1940	1731	1709
5.Net turnover	1024844	1204153	1221287	869379	702031
6.Current income (Total income)	1205353	1358056	1312356	1008113	758603
7. Operating expenses related to the turnover	789327	844793	1015925	787196	716379
8.Total operating expenses	789327	844793	1015925	787196	716379
9.The operating result related to the turnover	235517	359361	205362	82183	-14347
10.The operating result	259517	368522	212479	86727	-10395
11. Current profit	328671	452643	291543	220862	41961
12. Net profit	268220	388887	237885	171797	8633
13. Taxable profit	377820	398475	335365	306659	208299
14. Interest expense	5687	3903	3656	0	0
15. Profit before tax and interest	328671	452643	291543	220862	41961
16. GOS (gross operating surplus)	344489	500210	497851	304519	232948
17. Interest rate	6.69	10.72	188.46*	0	0

Source: Data processed and calculated from the financial statements of SC Complex Condor SA

** The interest rate in 2008 has an atypical value in relation to the remaining period due to the fact that the company prepaid the interest on the contracted loan.*

a. The economic rate of return (R_e) expresses the efficiency of the use of the asset in order to get profit. It is one of the most important rate of return and it measures the performance of the entire capital invested, materialized in the company's assets. For the company's activity to be considered effective, the indicator value must be higher than the inflation rate in the period analysed. According to specialist authors, there are more versions for the calculation of the economic rate of return at SC Complex Condor SA, illustrated in Table 2.

Table 2. The economic rate of return at SC Complex Condor SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.R_e=CP/TA*100	14.74	7.21	4.95	3.86	0.74
1.1. R_e=TI/TA*CP/TI*100	14.74	7.21	4.95	3.86	0.74
2.R_e=CP/C_{inv}*100	15.48	7.31	5.01	3.90	0.75
2.1. R_e=TI/ C_{inv}* CP/TI*100	15.48	7.31	5.01	3.90	0.75
3.R_e=GOS/TA*100	15.45	7.97	8.45	5.32	4.13
3.1.R_e=P_{bti}/TA*100	14.74	7.21	4.95	3.86	0.74
3.2. R_e=P_{bti}/ C_{inv} *100	15.48	7.31	5.01	3.90	0.75

where:

NP- Net profit;

TA- Total assets;

TI- Total/ current income;

C_{inv}- Capital invested;

P_{bti} - Profit before tax and interest;
E – Equity;
NT - Net turnover;
TP – Taxable profit;
IR – Interest rate;
FD- Financial debt;
ORRT- The operating result related to the turnover;
OERT- Operating expenses related to the turnover;
CP – Current profit;
OR – Operating result;
TOE - Total operating expenses.

Model 1. In 2007, there was recorded a rate of 7.21% compared to a rate of 14.74% in 2006, against the background of the increase in the current profit by 44.99%, but in a lower extent than that of the total assets, which increased by 181.56%. During 2008-2010, there was recorded a decrease in the economic rate of return to 4.95% in 2008 and to 3.86% in 2009, reaching 0.74 in 2010 due to a decrease in the current profit with 38.83 in 2008 compared to 2007, with 27.78 in 2009 compared to 2008 and with 94.98 in 2010 compared to 2009, while the total assets decreased by a percentage of up to 7%.

Model 2. In this case, the economic rate of return is influenced by the variation in the current profit, in the same percentages as in the model presented above, and in the invested capital, which grew by 191.59% in 2007 compared to 2006 and which, in the other years, decreased with up to 5%.

Model 3. We notice a significant decrease in 2007 compared to 2006, when the economic rate of return recorded a value of -7.48%, while the total assets increased by 181.56% and the gross surplus increased in the proportion of only 45.20%. In 2008, we note an increase in the proportion of 8.45% of this rate due to the decrease in proportion of only 0.47% of the gross operating surplus against a decrease of 6.18% of the total assets in 2008, compared to 2007. During the remaining period analysed, the indicator decreased according to the GOS decrease weights while the total assets decreased by a percentage of up to 4%.

In model 3.1. and 3.2., the economic rate variation is influenced by the variation in the profit before tax and interest, by the total assets and also by the invested capital, whose variation was significant in 2007 compared to 2006, when the capital invested grew by 191.59%, the total assets increased by 181.56 and the profit before tax and interest also increased by 37.72. During the remaining period, it decreased according to the weight of the other indicators analysed above.

b. The financial rate of return (R_f) - is the indicator in whose terms the capital owners assess the efficiency of their investments and, thus, the appropriateness of their maintenance. Usually, this indicator should have a higher value than the average interest rate on the market.

Table 3. The financial rate of return at SC Complex Condor SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.R_f=NP/E*100	78.30	92.94	88.30	77.62	20.94
1.1 R_f =TI/TA* TA/E*NP/TI*100	78.30	92.94	88.30	77.62	20.94
1.2. R_f = TA/E * NP/TA*100	78.30	92.94	88.30	77.62	20.94
1.3. R_f =TA/ E* NT/TA*NP/NT*100	78.30	92.94	88.30	77.62	20.94
1.4. R_f = TI/E*TP/TI *NP/TP*100	78.30	92.94	88.30	77.62	20.94
2. R_f =[R_c+(R_c-ID)* FD/E]*(1-tax rate/ 100)	2.51	5.33	3.54	1.28	0.62

In 2007, against the background of the increase in the net profit by 44.99% and of the equity by 22.15%, compared to 2006, there was registered a growth of the rate at 92.94% in 2007, compared to 78.30% in 2006. During 2007-2009, the rate variation was influenced by the variation in the net profit while the capital underwent insignificant changes, the rates reaching approximately equal values ranging between 77.62% and 88.30%. In 2010, compared to 2009, there was noted a significant decrease in the value of the financial rate of return to 20.94%, especially due to the massive fall of 94.98% in the net profit, due to the operating loss in 2010.

c. The commercial rate of return (R_C) - is the clearest expression form of the efficiency in the tertiary sector, including tourism, and, therefore, the most widely used.

Table 4. The commercial rate of return at SC Complex Condor SA during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1. R_C =ORRT/NT *100	22.98	29.84	16.82	9.45	-2.04
1.1 R_C =(NT-OERT) /NT*100	22.98	29.84	16.82	9.45	-2.04
1.2. R_C = (1-OERT/NT)*100	22.98	29.84	16.82	9.45	-2.04
2. R_C =NP/NT*100	26.17	32.30	19.48	19.76	1.23
3. R_C =GOS/NT*100	33.61	41.54	40.76	35.03	33.18

The commercial rate of return is influenced by the operating efficiency,

respectively by the policy of strictly tracking the expenses and of maximizing the turnover. However, in 2010, there was recorded a negative value of this rate, of 2.04%, due to the significant decrease in tourist flows but also due to the economic crisis, as a factor independent of the company's management; thus, there was recorded a negative operating result related to the turnover, which triggered a negative commercial rate of return.

d. The rate of return on the resources consumed (R_{rc}). If we take into account the values obtained according to the models used in order to calculate the rate of return on the resources consumed, included in the table below, we find the following: if we consider, as calculation elements, the indicators "operating expenses" and "operating results", the rate of return on the resources consumed record positive values (model 1) and, in the models where we take as calculation basis the operating expenses related to turnover and the operating result related to the turnover, we get negative values in 2010, due to the effects mentioned in the above cases .

Table 5. The rate of return on the resources consumed at SC Complex Condor SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1. R_{rc} =OR/TOE*100	32.88	43.62	20.91	11.02	-1.45
2. R_{rc} =ORRT/OERT *100	29.84	42.54	20.21	10.44	-2.00
2.1. R_{rc} =(NT-OERT) /OERT*100	29.84	42.54	20.21	10.44	-2.00
2.2. R_{rc} =(OR/OERT-1)*100	29.84	42.54	20.21	10.44	-2.00

3. Analysing the rates of return at SC THR Marea Neagra SA

Table 6 contains the values of all the indicators necessary for the calculation models of the rates of return.

Table 6. Indicators used in expressing the rates of return at SC THR Marea Neagra SA

Euro

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.Total assets	67600916	94811181	87743852	82473560	82438584
2. Equity	65698060	92993364	85863855	78373694	77092589
3. Capital invested	66456466	93582492	86321973	79033139	77887419
4.Financial debt	758406	589128	458118	659445	794831
5.Net turnover	11218475	12791815	10653211	7117604	5024864
6.Current income (Total income)	12538037	21471684	17236753	9791146	7596426
7.Operating expenses related to the turnover	9980818	11331018	9856058	7417380	5929406
8.Total operating expenses	10396458	15338320	13328807	8141842	6531703
9.The operating result related to the turnover	1237656	1460797	797152	-299776	-904542
10.The operating result	1994428	5616645	2994443	974745	646538
11. Current profit	2019006	6019892	3714218	1397796	793762
12. Net profit	1663730	5038991	3207362	1158500	486344
13. Taxable profit	2220473	6130633	3167849	1495603	1921364
14. Interest expense	22904	39898	40155	142443	179751
15. Profit before tax and interest	2041910	6059791	3754373	1540239	973513
16. GOS (gross operating surplus)	2465900	2893783	2255887	1245015	1023257
17. Interest rate	3.02	6.77	8.77	21.60	22.61

Source: Data taken over and calculated from the financial statements at SC THR Marea Neagra SA

Table 7. The economic rate of return at SC THR Marea Neagra SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.R_e=CP/TA*100	2.99	6.35	4.23	1.69	0.96
1.1. R_e=TI/TA*CP/TI*100	2.99	6.35	4.23	1.69	0.96
2.R_e=CP/C_{inv}*100	3.04	6.43	4.30	1.77	1.02
2.1. R_e=TI/ C_{inv}* CP/TI*100	3.04	6.43	4.30	1.77	1.02
3.R_e=GOS/TA*100	3.65	3.05	2.57	1.51	1.24
3.1.R_e=P_{bt}/TA*100	3.02	6.39	4.28	1.87	1.18
3.2. R_e=P_{bt}/ C_{inv} *100	3.07	6.48	4.35	1.95	1.25

Model 1. In 2007, there was recorded a rate of 6.35% compared to a rate of 2.99% in 2006, against the background of the increase in the current profit by 198.16%, at the expense of the total assets which increased by 40.25%. During 2008-2010, there was recorded a decrease in the economic rate at 4.23% in 2008, at 1.69% in 2009, reaching 0.96 in 2010, due to the decrease in the current profit by 38.30 in 2008 compared to 2007, by 62.37 in 2009 compared to 2008, and by 43.21 in 2010 compared to 2009, while the total assets decreased by up to 8%.

Model 2. In this case, the economic rate of return is influenced by the variation in the current profit, in the same percentages as in the model presented above, and in the invested capital, which grew by 40.87% in 2007 compared to 2006, and, in the other years, it registered a decrease of up to 8%.

Model 3. There was recorded a slight decrease in 2007 compared to 2006, when GOS recorded an increase by 17.35%, while the total assets increased by 40.25% and, during the remaining period, the indicator decreased according to the GOS decrease weights, while the total assets decreased by up to 8%.

As in the previously presented models, the variation in the economic rate is influenced by the variation in the profit before tax and interest and, to a lesser extent, by the total assets and by the invested capital whose variation is insignificant.

Table 8. The financial rate of return at SC THR Marea Neagra SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1.R_f=NP/E*100	2.53	5.42	3.74	1.48	0.63
1.1 R_f =TI/TA* TA/E*NP/TI*100	2.53	5.42	3.74	1.48	0.63
1.2. R_f = TA/E * NP/TA*100	2.53	5.42	3.74	1.48	0.63
1.3. R_f =TA/ E* NT/TA*NP/NT*100	2.53	5.42	3.74	1.48	0.63
1.4. R_f = TI/E*TP/TI *NP/TP*100	2.53	5.42	3.74	1.48	0.63
2. R_f =[R_c+(R_c-ID)* FD/E]*(1-tax rate/ 100)	2.51	5.33	3.54	1.28	0.62

Except for 2007, when the net profit increased by 202.87% and the equity increased by 41.55% compared to 2006, in the remaining analysed period there was registered an increase in the rate at 5.42% compared to 2.53%, the rate variation being influenced by the variation in the net income, while the equity underwent insignificant changes.

Table 9. The commercial rate of return at SC THR Marea Neagra SA, during 2006- 2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1. R_C =ORRT/NT *100	11.03	11.42	7.48	-4.21	-18.00
1.1 R_C =(NT-OERT) /NT*100	11.03	11.42	7.48	-4.21	-18.00
1.2. R_C = (1-OERT/NT)*100	11.03	11.42	7.48	-4.21	-18.00
2. R_C =NP/NT*100	14.83	39.39	30.11	16.28	9.68
3. R_C =GOS/NT*100	21.98	22.62	21.18	17.49	20.36

The commercial rate of return is influenced by the operating efficiency and, respectively, by the policy of strictly tracking the expenses and maximizing the turnover. However, in 2009 and 2010, when there was a significant reduction of the tourist flows because of the economic crisis as a factor independent of the company's management, there was recorded a negative operating result related to the turnover, resulting in a negative commercial rate of return.

Table 10. The rate of return on the resources consumed at SC THR Marea Neagra SA, during 2006-2010

%

Indicators	*2006*	*2007*	*2008*	*2009*	*2010*
1. R_{rc} =OR/TOE*100	19.18	36.62	22.47	11.97	9.90
2. R_{rc} =ORRT/OERT *100	12.40	12.89	8.09	-4.04	-15.26
2.1. R_{rc} =(NT-OERT) /OERT*100	12.40	12.89	8.09	-4.04	-15.26
2.2. R_{rc} =(OR/OERT-1)*100	12.40	12.89	8.09	-4.04	-15.26

If we take into consideration the values obtained according to the models used in order to calculate the rate of return on the resources consumed, included in the table above, we find the following: if we take as calculation elements the indicators "operating expenses" and "operating results", the rates of return on the resources consumed record positive values (Model 1.); and in the models where we take as calculation basis the operating expenses related to the turnover and the operating result related to the turnover, we get a negative turnover in 2009 and 2010, due to the effects mentioned in the above cases.

4. Conclusions

The research was based on the economic and financial information on the two hotel companies. Each economic unit analysed, i.e. SC Complex Condor SA and SC THR Marea Neagra SA, has its particularities and reach specific aspects met in the hotel industry activity.

Thus, SC Complex Condor SA has an activity that could be relatively characterized as linear, in the sense that it recorded a profit from its core activities in the first 4 years of the analysed period, experiencing the effects of the economic crisis only in 2010. It should be noted that this hotel company changed its management policy in the last three years of the analysed period, i.e. it became oriented towards the development of the accommodation activity at the expense of catering. This was achieved by restricting the space for catering because, once with the economic crisis, the tourists became oriented towards tickets including accommodation with breakfast only.

The external influences positively impacting the activity of this company refer to the location of this hotel in Mamaia, in the Casino area. The resort has seen in recent years the largest flow of tourists due to infrastructure and opportunities for leisure and entertainment, and also due to the diversification of services.

SC THR Marea Neagra SA is a representative company due to its presence in four southern seaside resorts but also due to its significant weight in the hospitality industry from the Romanian seaside in proportion of about 12% of total beds, and of

2% of the total beds nationwide. The company is listed on the Bucharest Stock Exchange and it recorded profit in each year of the analyzed period; however, its main particularity is that the recorded profit is not made from its basic activity but from the sale of assets.

Although our analysis of the rates of return for the 2 hotel companies is a unitary one, we can state that it is not relevant to compare the results obtained from this research as it would not be fair; the two hotel companies differ by their material bases and by the degree of the diversification of their services. From this research it is noted that, although there is a discrepancy between the values of the elements that led to the calculation of the rates of return between SC THR Marea Neagra SA and SC Complex Condor SA, the values of the rates of return are inversely proportional to the values of their components.

Regarding the calculation of the economic rate of return, we should note the following values for the period 2006-2010: at SC THR Marea Neagra SA, the total asset value was between minimum 67,600 euros and maximum 94,811 euros, and the value of the current profit – between minimum 794 thousand euros and maximum 6,019 thousand euros; at SC Complex Condor SA, the total assets value ranged between minimum 2,223 thousand euros and maximum 6,279 thousand euros, and the value of the current profit – between minimum 42,000 Euros and maximum 453,000 Euros.

The economic rates of return calculated for the analysed time horizon is as follows:

SC Complex Condor SA recorded a value of the economic rate of return of 14.74% in 2006, 7.21% in 2007, 4.95% in 2008, 3.86% in 2009 and 0.74 % in 2010, compared to SC THR Marea Neagra SA which, during the same period, recorded 2.99% in 2006, 6.35% in 2007, 4.23% in 2008, 1.69 in 2009 and 0.96% in 2010.

Except for 2008 and 2010, when there were insignificant differences, in the remaining period, the economic rate of return at SC Complex Condor SA was superior to the rate of return at SC THR Marea Neagra SA.

Regarding the financial rate of return, there were recorded the following values during 2006-2010: for SC Complex Condor, the value of the financial rate of return was: 78.30% in 2006, 92.94% in 2007, 88.30% in 2008, 77.62% in 2009 and 20.94% in 2010, compared to SC THR Marea Neagra SA which, in the same period, recorded: 2.53% in 2006, 5.42% in 2007, 3.74% in 2008, 1.48 in 2009 and 0.63% in 2010.

In conclusion, the rates of return reflect the reality of the activity of the two hotel companies in the sense that, although SC THR Marea Neagra SA recorded a profit in the annual financial statements, this profit was achieved from the sale of assets compared to SC Complex Condor SA which achieved profit from its current activities.

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Aspects Regarding the Relevance of the Performance Measurement Indicators

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Abstract

Traditional performance measurement indicators have the disadvantage that they provide information about the historic financial performance of the company and do not reflect de social and environmental performance.

From an economic-financial perspective, the traditional indicators highlight only the results of the capital use without taking into account its cost. Consequently, if we limit ourselves to the use of traditional indicators we can find companies that make a profit without creating value for the shareholder and consuming instead the existent one.

The emergence in recent decades of performance measurement indicators by the creation of value was a step forward both at theoretical level and in the company practice. The article aims at presenting the informational valences of modern performance measurement indicators.

Key words: EVA, MVA, value, performance
J.E.L. classification: M40, M41

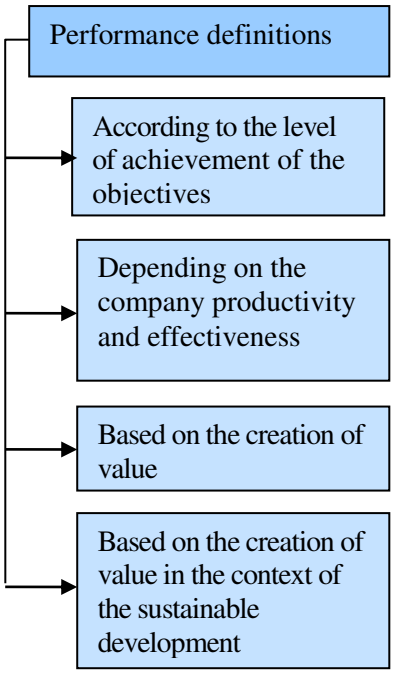
1. Introduction

The concept of performance is encountered in various fields of the human activity. Etymologically is derived from the Latin word "performare" meaning completing a certain intended activity. Over time, the term "performance" was used to assess the activity of a company and to assess its competitiveness. This explains the fact that, being assessed in a different way by the participants to the company's life, depending on their interests, performance can be studied from the perspective of each category of users of the accounting information [1]. Nowadays, company performance is no longer viewed only from the economic and financial perspective, but also from the social and environmental perspective as well.

2. Performance definition and measurement

Studying the economic literature, it can be noticed that in the definition of the concept of performance were outlined four main views. Performance definitions found in economic literature can be schematized as in Figure 1.

Figure 1. Performance definitions in economic literature



Source: Prepared by the authors based on [2]

The measuring of company performance is necessary [3] for:

- knowing the results obtained in all fields of activity and at the level of each of the company divisions;
- comparing the results with the proposed objectives;
- the justification of employing further resources;
- doing comparisons between the results;
- the elaboration of company overall diagnosis and establishing future actions in order to increase the performance.

The traditional indicators for the performance measurement have the disadvantage that they only provide information about the historical performance obtained by the company. These indicators do not take into account the cost of the invested capital but only highlight the results of its use. Consequently, if performance measurement is limited to the use of traditional indicators we can find companies that make profit but do not create value for their shareholders (consuming instead the existing value) [1] and companies that make profit but have no performance in social and environmental fields.

In the economic theory and practice several indicators are used that measure the value created by the company during an accounting period as compared to a reference period.

This category of indicators was designed to eliminate the disadvantages of the indicators determined based on accounting data, which not always take into account the cost of equity or the excessive use of rates. This category includes indicators such as: the economic value added, the market value added, the cash value added, and the cash flow return on investment.

3. Economic Value Added

The economic value added (EVA) is a modern performance measurement indicator representing the net operating profit after taxes diminished by the cost of capital [4]. EVA is a registered trademark of Stern Stewart & Co.

$$EVA = NOPAT - Cc$$

where:

NOPAT – net operating profit after taxes;

Cc – cost of the capital.

The cost of the capital is calculated by multiplying weighted average cost of capital with the total invested capital.

$$Cc = WACC\% x TIC$$

where:

WACC – weighted average cost of capital;

TIC – total invested.

The invested capital includes the equity capital and the interest bearing borrowed capital. Thus, the cost of capital in absolute value is the sum of the cost of the equity capital and the cost of the borrowed capital.

In order to determine the level of the economic value added we start from the operating result, without taking into account the result of the financial and of the extraordinary activities.

Within the concept of economic value added, the operating activity is considered as the only activity that creates value for shareholders. Financial and extraordinary activities are viewed as collateral. Consequently, the correct assessment of the net operating profit is essential for the calculation of a real level of the economic value added.

If we take into account the formula used to calculate the economic value added, we believe that in order to maximize the result, managers can act in several ways, such as:

- increasing the management efficiency in order to achieve a maximum level of the operating result;
- using capital as strictly necessary.

The use of the indicator EVA is advantageous for many reasons. The main advantage of EVA is the measurement of the value created by the company.

EVA reflects the actual economic profit made by the company, not the fiscal one and this aspect is important for decision makers.

It can be calculated both at the level of the whole company and at subunit level, according to the current information needs. This aspect is important in determination of responsibility for managers of each level.

Another advantage is that it has conceptual simplicity. Conceptual simplicity facilitate the calculation of the indicator at the level of the company using its own employees.

Motivation is a key factor for all human actions. EVA can be a mean of motivating company managers, who can receive bonuses according to its level.

Another important aspect is that using EVA will allow for the co-measuring of the value created in cash and not percentages.

In management theory is generally accepted the relationship between a manager`s authority and responsibility. EVA is based on items on which managers can act directly (such as invested capital and financial structure).

In a world in crisis and in an uncertain economic environment, EVA has also the advantage that is a strategic planning tool.

EVA also has disadvantages such as the high number of restatements and their high cost, capturing only financial performance (based also on the financial statements), and the need to implement an entire EVA philosophy, not only the tool (which is more difficult).

Experts from Stern Stewart & Co consulting firm deem that in order to achieve a level of the economic value added that should reflect the actual performance of the company it us necessary to make 160 accounting adjustments. In practice specialists in companies make only approximately 10-15 adjustments and calculation methodology varies from one company to another. In order to ensure comparability of data in time and space, it is necessary that whatever the methodology adopted in the company, it should be maintained for a longer period.

At the same time, the use of EVA has other limitations, such as:

- company performance is assessed only from the point of view of investors. Today a company with performance is one that meets both the expectations of the internal as well as those of the external environment;
- the indicator cannot be used on short term in the case of business sectors where investments are made on long-term;
- its use is hampered by the large number of accounting adjustments that are required and by the lack of a unitary methodology.

It should be taken into account that performance measurement must be made through several indicators (in order to diminish their limits), both financial and non-financial.

A multidimensional and flexible performance measurement system generates competition, performance remuneration and creation of value.

Therefore it is considered that it is good to use, in addition to EVA, a number of other indicators specific to the creation of value.

4. Market Value Added

The market value added (MVA) expresses the wealth generated by the entity for own shareholders, beyond the net book value of the company assets [4]. It is determined as the difference between the stock market value of the shares and the book value recorded for the equity. The calculation formula for MVA is:

$$MVA = MV - IC$$

where:

MV – market value;

IC – invested capital.

The stock exchange value of the shares is determined by market capitalization.

If MVA is positive it means the creation of wealth for shareholders by increasing the value of the invested capitals. If the value of MVA is negative, it means the reduction of the value of the stock capitalization under the value of the own capitals of the company.

The indicator itself shows how much value has been added or lost from the investment made by the shareholders according to M. Dincă [5] (profitable companies create market value added on the market, increasing the return on capital invested, and unprofitable companies will lose some of the value of the initially invested capital).

MVA does not take into consideration the opportunity cost of the invested capital and neither the sums distributed to shareholders, this being its main disadvantage. Unlike EVA, MVA cannot be calculated but at company level and not at the level of each division. This is a problem, especially for big companies, where is essential to know the contribution of each division to company performance.

The level of MVA depends on the level of the return on invested capital: when the economic rate of return exceeds the cost of capital, the market value of the shares exceeds the initial investment. We will find this situation in the case of EVA too, which if it is positive entails a positive MVA (the increase in the EVA leads to the increase in MVA).

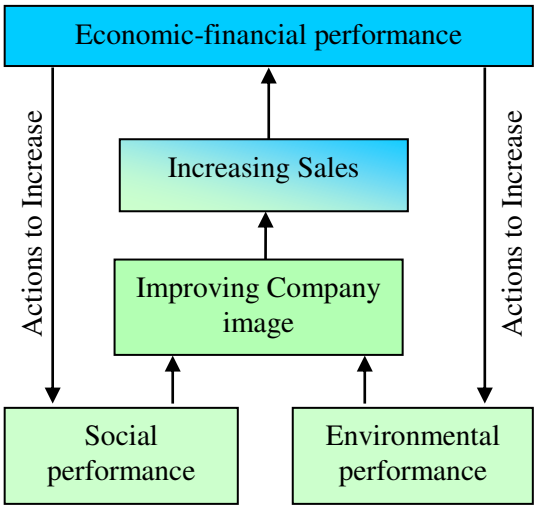
5. Performance management

Performance measurement is not enough, it must be one component of performance management.

Companies with remarkable social and environmental performance will obviously have a more favourable image among costumers and will also have a competitive advantage [6].

A modern performance management should take into account all kinds of performance, not only economic and financial one. There is an interdependence between the three types of performance, as shown in figure 2.

Figure 2. Relationship between economic-financial, social and environmental performance



Source: prepared by the authors

In the last three decades, the costs for the environmental protection and for social protection increased constantly.

An important part of performance management is the adoption of a system of indicators to reflect the performance. To be relevant and to receive the users` trust this system should be integrated and non-contradictory.

We consider that we can not speake about performance if it can not be measured. Performance exists if it can be described by a set of measures or indicators, more or less complex.

Professor H. Savall created "the hidden cost-performance method", also called socio-economic method wich seeks to reconcile the economic and social dimension of the company, with the purpose of increasing the efficiency of the management [7].

Revealing hidden cost of the company is a challenge for the managers.

Key performance indicators (KPI) enable measurement of the achievement of company objectives. KPI have the role to help the company management to define and measure the progress towards objectives. Each of the indicators should be selected so as to measure an aspect of business that is crucial for its success.

Informational limitations of outcome indicators were grouped by M. Siminică [8] as follows:

- limitations due to accounting system;
- limits imposed by nature indicators;
- limitations due to management actions.

In modern management of organizations we find three fundamental interdependent concepts: performance, value and cost. Company performance can not be analysed without taking into account the costs of the company and the value created inside it.

Clipici and Gâdoiu [9] consider that "the increase in the value of a company depends directly on its capacity to generate cash flows".

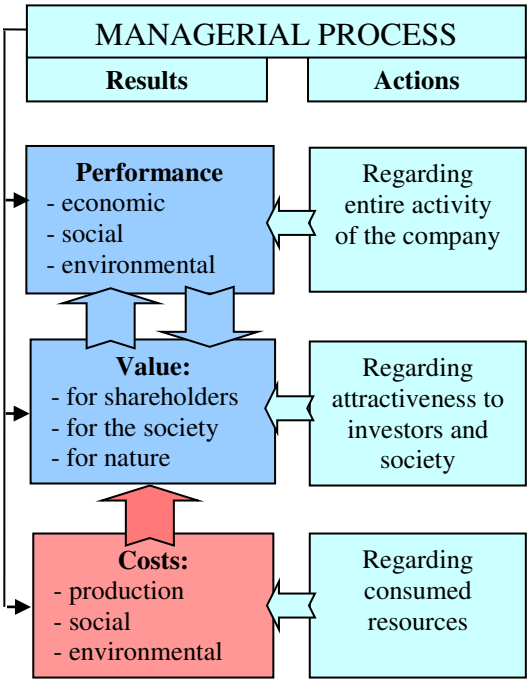
Lower costs have the effect of increasing the value created inside the company and also increasing company performance. A company with greater performance can act on the level of its costs. Managers can act upon each of the three variables: performance, cost, value.

All this three variables should be viewed in relation with the three main beneficiaries of company` activity: the shareholders (for the economic and financial aspects), the society (social aspects) and the nature (environmental aspects), as shown in figure 3.

There is a permanent need for a more precise and accurate knowledge of the costs at company level. This need results on the one hand from the limited nature of the resources, and on the other hand, from the desire to increase company performance.

In the absence of compulsory regulations, in most countries, the decision to report social and environmental performance is left to the company management. In the absence of standards for the elaboration of such reports, most companies choose to report only economic and financial performance.

Figure 3. Relationship between performance, value and cost



Source: prepared by the authors

The problem is not new. More than ten years ago, Tilt and Lubansky [10] concluded that "the distribution of power in society allows individual groups (such as corporations) to ignore their obligations without penalty". We consider that state involvement in this area is absolutely necessary.

In order to prevent a failure in the implementation of a system of performance measurement indicators, is absolutely necessary that managers have permanently in mind the needs of the company and its resources.

6. Conclusions

We consider that the use of modern indicators to assess performance does not entail giving up traditional indicators. These indicators can still be used but the company management must bear in mind that in order to achieve actual performance it is necessary to create value for shareholders.

In our opinion there is no single indicator that expresses the true performance of the company, because performance is a complex concept with multiple sides. Each indicator has its advantages and disadvantages. In order to assess performance, companies must use a set of indicators capturing performance in all its aspects.

The sustainable maintenance of any company on a competitive market cannot be achieved without the continuous concern for its performances, value and cost.

Performance measurement requires managers to consider that the concept of performance has many faces and the measurement should take into account the complexity and the peculiarities of the business activity.

The system of indicators designed to measure company performance has to offer a response to some challenges such as:

- reflecting not only economic and financial but also social and environmental performance;
- reflecting hidden costs and hidden performances of the company;
- measuring the value created for the shareholders;
- evaluating the risks assumed by the company in its attempts to obtain performance.

Regarding the modern indicators, it must be noticed that they are far from being the entire solution of the problem represented by performance measurement. The modern indicators were created in order to eliminate the inconveniences of traditional indicators, but trying to solve older problems, lose sight of others that became their own inconvenience.

Managerial decisions should be substantiated based on a set of reliable indicators able to provide the necessary information in at the right time. The quantity of information received by the manager should in excess. It should be metered to facilitate the management process.

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Analyzing Banking Risk

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Abstract

The banking activity focuses on achieving optimal results; however, like any other human activity, it is also susceptible to a broad range of risks.

Banking risk as a prospective and probable event whose onset is likely to inflict losses, can be induced by clients with whom the bank enters into contract agreements, by factors associated with the organization and the functioning of the bank's internal systems, by congruity issues between internal procedures and the general legal framework, as well as the environment in which banks operate.

Concisely, the wide range of risks associated with banking activities are caused by a series of variables brought about by the involvement of credit institutions within both local and international financial systems.

Keywords: banking risk, loss, banking activities, risk management, banking operations.

J.E.L. Classification:G29

1. Introduction

In any human activity, risk occurs in the form of an unwanted yet probable, either predictable or unpredictable event, which, depending on its magnitude, may cause financial losses or lead to failure to fulfil targeted goals.

Risk is defined as "an event with a negative effect upon the subject, the economic agent, respectively."[1]

Generally, risk represents a social, economic, political or natural category with the following characteristics:

- it represents an uncertain, yet probable event;
- it represents an event that materializes into losses or failure to achieve targeted profit;
- the effects of risk, once set in, may become difficult or impossible to eradicate;
- risk may occur within any area of human activity;

Banking activity as an integral part of human activity is liable to all kinds of risks, which grow in accordance to the rapid and highly frequent changes of social, economic, regulatory and technological factors.

2. Banking Risks

Banks play a crucial role within the framework of market economy. Economic activity and investments are unconceivable outside the scope of banks and that of the mechanisms of free economy. The entire activity of all the other economy actors is carried out through banks, which need to fulfil the following main functions:

- the function of acquiring excess resources available within the economy, by means of savings products;
- the function of mediating between economy actors that hold excess financial resources and place them in savings products, and the entities that suffer a deficit of financial resources thereby resorting to bank credits;
- the function of transferring funds within the economy.

Therefore, the main goal of banks is to attract deposits and other reimbursable funds from the public and to grant credits independently. [3]

Considering the importance of all these activities and the effects they have upon the entire economy, proper identification and assessment of underlying risks become crucial prerequisites.

Banking risk refers to "the entire range of risks which banks need to mitigate in order to carry out their current operations" [4].

Consequently, banking risk refers to the probability that a given transaction may fail

to yield its expected profit, or worse yet, to sustain a certain degree of loss. [5]

In light of that, the concept of risk becomes almost synonymous to the concept of loss, which is why identifying, assessing, monitoring and minimizing risks become crucial priorities in ensuring security and stability not only for individual banks, but for the entire banking system as well.

From this point of view, setting up an adequate system to mitigate risk scenarios requires thorough knowledge not only of banking activities, but also of the environment in which these activities are carried out, as well as of the beneficiaries of bank services and products.

The activity of identifying and managing risks is conceivable exclusively within the context of a proper evaluation of bank-specific internal activities.

Systematic analysis of banking activities requires proper identification of crucial activities, whose flaws or failures may hinder a credit institution's ability to fulfil its obligations stipulated in the regulatory framework, or even force that institution to discontinue its operations.

The process of identifying and assessing any risks related to crucial banking activities begins with a thorough analysis of internal factors (nature of the activity, flowchart, quality and complexity of processes, quality and complexity of systems, quality of the staff), as well as external factors (the local and international economic environments, technological progress, legal changes), which may amplify the effects of risk upon bank-specific activities.

The final step in the process of identifying and assessing risks is to identify controllable risks – which the bank may decide to arrogate or attempt to mitigate, depending on its strategies – and any uncontrollable risks within the scope of the bank, which the bank may decide to accept or eliminate by discontinuing any activities affected by those particular risks.

Monitoring risk begins by building a specific strategy, accounting for the bank's general strategy, the size of its funds, requirements of the regulation framework and the economic context in which that bank carries out its operations. Such a strategy should pinpoint all the major risks to the bank's activity, as well as establish acceptable margins based on the bank's performance and the evolution of the banking and financial markets.

All these activities aimed at identifying, analyzing, assessing, monitoring and controlling banking risks are generally handled by a an independent organism as part of the banking institution, whose objective is to track the levels of all major risks through means of analysis and control, so that the bank can fulfil its set goals at the projected level of profit while adhering to its own business strategy.

3. Classification of Banking Risks

Given the diversity and complexity of bank operations, banking risks can be classified into the following main categories [6]:

- financial risks,
- operational risks,
- business-specific risks,
- event-related risks.

3.1. Financial Risks

These highly intricate risks mainly refer to:

- liquidity risk,
- credit risk,
- market risk (interest rate risk, exchange rate risk, pricing risk).

3.1.1 Liquidity Risk

Liquidity risk refers to the risk brought about by inability of the bank to fulfil its obligations at maturity. Liquidity represents the ability of the bank to turn assets into cash in due time and with minimal expenditure so that it properly meets pending requests from business partners.

From this point of view, liquidity risk may refers to:

- inability by the credit institution to finance its asset stock on contract-established maturities and interest rates;
- impossibility by the bank to turn its assets into liquidities when needed and for a reasonable prices.

The main contributors to this risk are:

- the state of the real economy;
- media reports;
- inadequate development of the

financial market;

- client financial indiscipline;
- poor congruence between the maturity of deposits and due dates on credits and other bank products.

Identifying, assessing, monitoring and controlling liquidity risk mainly involve the following activities:

- in-depth analysis of acquired and placed funds;
- analysis of client behaviour and its impact on bank liquidity;
- assessing short-term, medium-term and long-term required liquidity size while accounting for records, seasonal factors, market evolution, legal rulings and payment behaviour of credit-holding clients;
- pinpointing liquidity-generating and liquidity-consuming elements.

3.1.2 Credit Risk

It occurs when a client of the bank, tied to a contract, is unable to fulfil his or her obligations in accordance to the conditions and deadlines stipulated in the contract, thereby causing the asset holder to sustain losses. These losses may be the result of bankruptcy, a temporary change in the market climate, or any other factors that may affect the debtor's payment capability. This risk is generally a consequence of incomplete payments, either on due date, or on any subsequently set date of payment. [9]

The credit risk is identified, assessed, monitored, controlled and arrogated by implementation at bank level of proper credit policies, which should account for at least three important chapters, such as:

a. A chapter addressing credit risk reduction, which should include prerequisites pertaining to:

eligible clients,
eligibility conditions,
acceptable collateral,
high exposures,
adequate diversification of credit risk.

b. A chapter dedicated to asset classification principles (handled placements) to establish the rules regarding the assessment of the counterparts' reimbursing capability, both prior to credit granting and subsequently, on a regular basis.

c. A chapter addressing the policies for establishing provisions to cover for any foreseen losses.

As far as credit institutions are concerned, credit risk arrogation is a process that involves going through a series of predefined stages to decide whether to approve or reject a client's credit request.

3.1.3. Market Risk

Market risk can be defined as the risk of loss or immobilization as a consequence of unfavourable evolution of market coverage.[10]

Considering the extremely tight bond between credit institutions and financial markets, these risks are believed to be very complex and likely to occur at any level of the banking activities. Under the category of market risks, interest rate and currency risks require the most attention.

Interest rate risk refers to the risk of sustaining losses or failure to yield targeted profits because of adverse interest rate changes within the financial market.

Identifying, assessing, monitoring and controlling interest rate risk requires completion of the following set of activities:

- selecting placements and fixed rate interest debts;
- identifying placements and interest rate sensitive debts;
- establishing an acceptable balance by the bank between interest rate risk and profit.

Exchange rate risk refers to the risk of financial losses or failure to yield targeted profits because of unfavourable fluctuations in the exchange rate.

Identifying, assessing, monitoring and controlling interest rate risk involves:

- identifying foreign currency assets and liabilities managed by the bank;
- identifying the currencies for which the bank is most liable;
- identifying the factors with greatest impact upon the evolution of the exchange rate;
- identifying the most adequate means of covering for the exchange rate risk;
- establishing an acceptable balance by the bank between exchange rate risk and profit.

3.2. Oerational Risks

These reresent a particular risk of loss determined by the employment of inadequate or inefficient processes, systems and human resources, or by external events and actions.[7]

Identifying, assessing, monitoring and controlling operational risk are aimed at insuring a series of processes, procedures and systems tailored to meet the level of complexity of the activities within a bank, as well as insuring human resources that possess the skill set needed to fulfil assigned tasks in an effective manner.

The category of operational risks includes the following events that negatively affect the credit institution:

- internal fraud – consists in damages caused by at least one individual within the bank that deliberately commits fraud, illegally seizes assets by infringing internal directives and laws, etc.;
- external fraud – consists in damages caused by theft, counterfeiting, etc.;
- staff recruitment and workplace safety policies and procedures;
- clients, products and services – refers to losses caused by transgressing obligations towards clients through misconduct or neglect;
- damages caused to physical assets owned by the credit institution following force majeure events;
- downtimes and/or improper functioning of the bank's internal systems – damages caused by improper functioning of applications that handle bank activities;
- process execution, delivery and management – losses caused by non-compliance with operation processing and banking processes instructions or delays.

3.3. Business Risk

It refers to the current or future risk of profit or capital losses determined by changes within the business environment or by unfavourable business decisions, inadequate implementation of decisions or lack of reaction to changes within the business environment. [8]

This category of risk affects the environment in which a bank operates, comprising the economic environment, the political environment, as well as the payment infrastructure and the entire legal framework.

3.4. The Risk of Unwanted Events

This particular risk encompasses all the events that may jeopardize not only the yielding of predicted profits, but the entire spectrum of bank activities. Such events include, but are not limited to economic, financial, political crises, etc.

4. Conclusions

Thanks to the intensification of the crediting activity, bank activities had been expanding constantly until the mid 90s relying simply on the intermediation of attracted deposits, which shifted the focus towards management of deposit-related risks.

Over the last decade, however, bank activities have become increasingly sophisticated, fuelled by the rapid innovations in the financial markets, the internationalization of financial flow, technological progress and, on a marginal level, by the current financial crisis which raises new challenges to bank managers, challenges that can only be overcome by effectively reducing risk (in all its instances) to increase profitability.

Under these circumstances, and considering that bank-related activities by nature cannot be divorced from various forms of risk, the main object of financial management is to keep such risks well under control.

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Radiography of The System of Credit Institutions in Romania

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Abstract

The system of credit institutions provides for any national economy an instrument which ensures a good circulation of the money flow, as well as a fundamental means for the achievement of the balance between the supply and demand of monetary funds, both components of economic development. An overall characterization of the system of credit institutions in Romania must take into consideration its capacity to accomplish its main attributes, namely attracting funds from physical and juristic persons in the form of deposits and granting loans in terms of bank prudence, to those who are interested.

Keywords: banks; the credit cooperative organizations; the saving and crediting banks in the housing sector; banks of mortgage credit; institutions issuing electronic currency.
J.E.L. Classification:G29

Introduction

The importance of each component of the system of credit institutions and of their totality has entailed the society's interest in legislating it in order to provide real levers for testing the manner in which banking activities are carried out and consequently for setting out specific methods for achieving control within the banking system. [1]

System of credit institutions in Romania

The system of credit institutions in Romania can be defined as the totality of credit institutions, of all types, organized within the framework of regulation and supervision by the central bank.

Within a more extensive analysis, the system of credit institutions can be considered as the totality of institutions functioning as banks, to which all the other authorized credit institutions, bank instruments and techniques will be added, as well as the regulations of banking activities. In view of the manner of operation and the activities they can accomplish, according to the authorization, we consider that the system of credit institutions consists on one hand of proper banks and on the other hand of the other credit institutions as they are defined by the regulations in force. In this context we can define the "bank" institution as the state-owned or private institution performing a banking activity of professional nature, for which it is authorized according to the law. Conformably to the legal provisions in force, the notion of banking activity refers but is not limited to attracting deposits or other reimbursable funds from the public and granting credits on its own account. [2]

In essence, the term of deposit as fundamental instrument of banking activities refers to a sum of money granted by a physical or juristic person to a credit institution on the following terms:

- that the sum be entirely repaid, with or without interest or any other facilities, at demand or at a time agreed by the depositor together with the trustee;
- that the deposit won't refer to transference of property, provision of services or conferring guarantees.

The notion of credit refers to any payment obligation for a sum of money in exchange for the right to a reimbursement of the paid sum, as well as the payment of an interest or of other expenses related to this amount or any other extension of the due date of a debt, and to any obligation of acquiring a bond which incorporates a debt or another right for the payment of a sum of money.

In order to determine if a crediting activity is carried out in a professional manner, the following points must be taken into consideration:

- performing the activity as an independent economic activity, aiming at obtaining regular income;
and
- the existence of internal structures specialized in the crediting field dealing with the management and analysis of this activity in a distinct manner, on the basis of pre-established rules and by taking into consideration the crediting activity for the planning of the company's budget or for making provisions regarding the company's general activity.The other credit institutions forming together with banks what is known as the system of credit institutions differ from banks in that they cannot carry out operations of attracting deposits or other reimbursable funds from the public as a professional activity. Taking into consideration that this field of economic activities has a fundamental role within the overall economic system, the conditions of access to these activities are strictly regulated, the carrying out of these activities being prohibited without a permit issued in this respect by the National Bank of Romania. On these grounds, it is stated that the system of credit institutions in Romania is a system organized on two levels, including on the first level the National Bank of Romania as a main factor of management of the monetary policy and on the second level the credit institutions with main object of activity consisting both in attracting funds from physical and juristic persons, as deposits or negotiable instruments, payable at sight or at term, as well as in granting credits and performing cash services in the case of banks, or granting credits inclusively the services due for their own members, crediting activities within the housing sector and the issue of electronic currency. The credit institutions represent the main financial medium of an economy, because according to the law they mainly represent entities carrying out the following activities of professional nature:

a) attracting deposits or other reimbursable funds from the public and granting credits on their own account;

b) issuing means of payment as electronic currency.

This definition achieves, in essence, an enumeration of the most important functions and operations of the credit institutions. Romania's EU accession and the adjustment of the financial-banking legislation to the European norms caused within the internal legislative provisions the substitution of the syntagm of banking institution by the notion of credit institution. Moreover, the Government Emergency Ordinance 99/2006 regarding the credit institutions and the adjustment of the capital regulates the legal conditions of the credit institutions, including in this category:

- banks;
- the credit cooperative organizations;
- the saving and crediting banks in the housing sector;
- banks of mortgage credit;
- institutions issuing electronic currency.

A concise analysis of these categories of credit institutions allows us to point out significant differences among credit institutions regulated and supervised buy the National Bank of Romania. In the specialized literature, the bank is defined as a state-owned or private financial credit institution also, its main roles consisting in:
attracting the temporarily
available financial means of the customers in accounts opened for them;
granting credits on various terms;
making transfers between customers' accounts and transfers between accounts opened at other banks;
issuing credit instruments and making transactions with such instruments;
sale and purchase of currency and other currency operations.

The legislative frame defines banks as the credit institutions that can carry out the following activities, within the limits set by the authorization they have been conferred [3]:

a) attracting deposits and other reimbursable funds;

b) granting credits, including, among other credits: consumer credits, mortgage, factoring with or without recession, financing of commercial transactions, including contractual ones;

c) financial leasing;

d) payment operations;

e) issuing and managing means of payment, such as: credit cards, traveler's cheque and the like, including issue of electronic currency;

f) issuing guarantees and assuming obligations;

g) transaction on their own's account and/or on customers' account, on terms of the law, with:

1. instruments of the money market, such as: cheques, drafts, promissory notes, deposit certificates;
2. currency;
3. futures contracts and financial options;
4. instruments based on the rate of exchange and the rate of interest;
5. real estates and other financial transferrable instruments;

h) participation in the issue of real estates and other financial instruments, by their subscription and investment or by investment and provision of services related to such issues;

i) consulting services regarding the structure of the capital, the business strategy and other aspects related to commercial transactions, services related to mergers and acquisitions and the provision of other consulting services;

j) management of portfolios and consulting services related to it;

k) custody and management of financial instruments;

l) brokerage on the interbank market;

m) delivery of services regarding the provision of data and references in the crediting field;

n) renting of safe-deposit boxes;

o) operations involving precious metals and gems and objects manufactured from them;

p) acquiring shares in the capital of other entities;

r) any other activities or services, if they are limited to the financial field, complying with the legal provisions which regulate the respective activities, depending on the case.

These are the activities which banking institutions in general can carry out, yet the impossibility of dividing these activities in all the above mentioned directions has entailed a certain specialization of them, thus the so-called specialized banks have emerged, which, in addition to the basic operations preponderantly carry out banking operations of a certain type or of a certain field. However, in view of the fact that a bank is an institution that has been given the right to make money transactions, its activity is subject to two great categories of regulations: on one hand we take into consideration the Statute of the National Bank of Romania (law 312 of 28th of June 2004) and on the other hand the Government Emergency Ordinance 99 of 06.12.2006 regarding credit institutions and the adjustment of the capital, approved with amendments by the Law 227/2007 which represents the legal operation framework. The same general legislative framework is completed by the norms issued by the National Bank of Romania on the grounds of the attributions conferred by the law number 312/2004 and not least by the provisions of the constitutive act of banking companies and of norms and internal procedures.

Thus, taking into consideration the provisions of the Government Emergency Ordinance number 99/ 2006 with subsequent amendments, **the credit cooperative** represents the credit institution set up as an autonomous association of physical persons voluntarily joined together to accomplish their needs and common aspirations of economic, social and cultural nature, its activity being particularly carried out on the grounds of mutual aid for its cooperating members. [5] We can thus determine as a defining characteristic of these credit institutions the fact that they are set up as a voluntary association of physical persons and that the banking activity within the credit cooperatives is carried out especially with and for the cooperating members. For all that, the law does not completely prohibit the provision of banking activities for other persons besides the cooperating members. In view of the above mentioned aspects we consider that the area of activities allowed for the credit cooperatives should be limited due to the fact that the essential purpose of these institutions is the mutual aid, especially for the cooperating members.

The saving and crediting banks within the housing sector represent credit institutions specialized in the long-term financing of the housing sector, with the main object of activity consisting in saving and crediting in a collective system for the housing sector.

In other words, the activity of these credit institutions is based on the essential element of saving and only subsequently on crediting. In conclusion, we can consider that these institutions carry out activities that are similar to those of usual banks, save for the

fact that they are limited to crediting within the housing sector.

Mortgage banks are, according to the legislative provisions in force, credit institutions with main object of activity consisting in granting mortgage for real investments and for attracting reimbursable funds from the public by issuing mortgage debentures. Under these circumstances, the essential element of the activity of mortgage banks consists in attracting and investing the resources on the basis of a mortgage guarantee, while not being entitled by the law to attract deposits from the population.

The institutions issuing electronic currency are credit institutions specialized in issuing electronic currency and respectively, providing financial and non-financial services related to the activity of issuing electronic currency and providing services of storing information on electronic medium on behalf of certain public institutions or other entities. In other words, the institutions issuing electronic currency can attract funds but only for the purpose of issuing electronic currency.

The non-banking financial institutions are entities, other than credit institutions, which carry out crediting activities of professional nature, complying with the conditions established by the law, being able to perform the following crediting activities:

a) granting credits, including but not being limited to: consumer credits, mortgage, real credits, microcredits, financing of commercial transactions, factoring operations, discount operations;

b) financial leasing;

c) issuing guarantees, assuming of guaranteeing obligations, assuming of financing obligations;

d) granting credits with reception of goods as pledge, respectively pawning by pawn shops;

e) granting credits to members of associations with no patrimonial object, set up on the basis of free consent of employees/pensioners, with a view to supporting their members by financial loans granted by these entities, set up under the legal form of mutual insurance;

other forms of financing of the crediting nature.

In essence, the syntagm of non-banking financial institutions includes the consumer credit companies, the financial leasing companies, the mortgage companies or pawn shops or mutual insurances. In actual fact, the non-banking financial institutions are like banks, which cannot attract however deposits or other reimbursable sources form the public. The financing sources result from individual resources or are borrowed from other credit institutions, from other financial institutions or, depending on the case, from other sources provided by the legal regulations in force. In consideration of the transposing and implementation within the national legislation of the Norm 2007/64/CE of the European Parliament and of the Council, of 13th of November 2007 regarding the payment services within the home market, the Government Emergency Ordinance number 113 /12.10.2009 was passed, regulating the conditions of access to the activity of providing **payment services and of its implementation on the Romanian territory**, the prudential control of payment institutions as well as the norms regarding transparency for the conditions and requirements for information with regard to payment services, the proper rights and obligations of users of payment services and of providers of payment services in the context of providing payment services of professional nature.This emergency ordinance applies to services provided by the following categories of providers of payment services:

a) credit institutions in the sense of article 7 paragraph (1) point 10 letter a) of Government Emergency Ordinance number 99/2006 regarding credit institutions and the adjustment of the capital, approved with amendments and supplements by the Law number 227/2007, with subsequent amendments and supplements;

b) institutions issuing electronic currency in the sense of article 7 paragraph (1) point 10 letter b) of the Government Emergency Ordinance number 99/2006, approved with amendments and supple ments by the Law number 227/2007, with subsequent amendments and supplements;

c) providers of giro mail services who provide payment services according to the applicable national legislative framework;

d) payment institutions;

e) the European Central Bank and the national central banks, when they do not act

as monetary authorities or as other entities involving exercise of public authority;

f) the member states or their regional or local authorities, when they do not exercise their function of public authorities.

The payment services which can be provided by authorized institutions, in the context of the previously stated law are the following:

a) services allowing depositing cash in an account of payments, as well as all transactions necessary for the operation of the account of payments;

b) services which allow cash withdrawals from an account of payments, as well as all other transactions necessary for the operation of the account of payments;

c) performing the following payment operations when the funds are not covered by a line of credit: direct debit, including singular direct debit, payment operations using a card of payments or a similar instrument, operations of transfer-credit, including operations with scheduled payment order;

d) performing the following payment operations when the funds are covered by a line of credit opened for a user of the payment services: direct debit, including singular direct debit, payment operations using a card of payments or a similar instrument, operations of transfer-credit, including operations with scheduled payment order;

e) issuing payment instruments and/or acquiring payment transactions;

f) money remittance;

g) performing payment operations where the payer's consent for the provision of a payment operation is given by any means of telecommunication, digital or computerized means, and the payment is effected to the operator of the computerized or telecommunication system or network, who acts exclusively as an agent between the user of payment services and the provider of goods and services.

Conclusions

As a conclusion we can state that, to a great or to a less extent, according to the conferred authorization, each of the institutions presented above can carry out one or more activities which are limited to banking activities. They have characteristics which essentially differentiate them from the proper banks, operating on a certain market niche and applying to certain categories of specific customers.

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Law 58/1998 regarding banking activity in Romania;

Government Emergency Ordinance nr. 97/2000 regarding the credit cooperative organizations;

Law nr. 541/2002 regarding saving and crediting in a collective system for the housing sector;

Law nr. 33/2006 regarding mortgage banks.

The Economical and Ecological Importance of the Environmental Impact Assessment

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Abstract

Balancing human needs of the immediate future with those of the distant future has led to the concept of sustainability, understood by the fact that economic activities should not be extended over the ability of total capital – including natural one –, keeping a stock of capital being a safe measure to ensure increasing sustainable benefits.

The world of business has learned that a primary purpose of obtaining short-term financial benefits, despite the sustainable benefits to maintain economic balance by even the ecological balance. Sustainability of resources ensures business continuity and hence the possibility of long-term gains. Even if their value varies in the short term, it is important to obtain their safety also in the future.

Keywords: environment, performance, EMS, EIA.
JEL Classification: M42, Q51, Q56

Introduction

Natural environmental degradation issues are increasingly globally addressed, particularly through the implementation of some collective actions. In 1972 at the Stockholm Conference were discussed factors that endanger the natural environment and its conservation needs. Following the discussions have resulted as possible solutions:

- *Stockholm Declaration*;
- *Action Plan* with three components:

– global environmental assessment program (Earthwatch);
– environmental management activities;
– support measures.

These are considered the basis of the first international framework for treating environmental problems. *Principle 13* (of the 26 principles of the Declaration) provides that for a more rational management of resources, which to lead to an improved environment, states should adopt an integrated and coordinated approach of their development plans to ensure that their development is compatible with the need to protect and improve the environment for the benefit of populations [3].

The efforts reorientation necessity for achieving the integration objective has materialized after eleven years after that event, in 1983, when the United Nations established the World Commission on Environment and Development, known as the Brundtland Commission. This committee has developed and published in 1987, after the ecological disaster at Chernobyl, the document *Our Common Future* (*Brundtland Report*), which was formulated within the next occurrence of Agenda 21 and the 27 principles of the Rio Declaration and which defined the sustainable development as the development that meets the needs of present generations without compromising the ability of future generations to meet their own needs. Two years later, UNEP (United Nations Environmental Programme) organized a workshop on environmental auditing [4].

In June 1992, in Rio de Janeiro was held the United Nations Conference on Environment and Development, which gathered the representatives of the most important countries. On that occasion, internationally, has been officially recognized the need to integrate economic development and environmental protection objective of sustainable development.

In 1997 was made an assessment of progress into the five years after the Rio

Conference, as highlighted a number of shortcomings, mostly related to social equity and poverty. These aspects were evidenced by:

- reduction of official assistance granted for development and increasing international debt;
- failure to improve technology transfer;
- institutional coordination failure and inability to reduce excessive levels of production and consumption.

As a result, was called for the ratification reinforcement and a stronger implementation of international agreements and conventions on environment and development.

The United Nations Summit on Sustainable Development held in Johannesburg from 26 August to 6 September 2002, reaffirmed sustainability as a central element of the international agenda and gave new impetus to implement comprehensive measures against poverty and the destruction of nature. Through the *Johannesburg Declaration* was assumed a collective responsibility to advance and reinforcement of the three interrelated pillars of sustainable development: economic, social and environmental development at local, national, regional and global levels [3].

1. Natural capital in the economic life

Natural capital represents a source of economic welfare and conservation of its resources is in fact providing benefits for entrepreneurs. If natural assets are not valued, just as those recorded in accounting accounts, this is directly reflected on the financial position and performance of entreprise. At the same time, in addition to their own needs, companies can help to support sustainable development, meeting obligations to future generations [7].

The american professor Lester Brown, who founded in 1974 the World Watch Institute, says in his manifesto *Ecoeconomia* that processes such as deforestation, over-exploitation of groundwater, favors the current yields but compromise productivity on long term.

Introducing the real value of natural capital and its consumption, contributes to a more accurate setting priorities, eliminating the major causes of environmental problems such as overexploitation of forests. As traditional accounts are using accounting policies, substracting amortization of assets to calculate income, so should be treated also the forests. If trees could be exploited in a way that allows a continuous growth rate, they would produce an annual income. Otherwise, an excessive exploitation, with no chance of regeneration, should be treated by accountancy as an impairment a fixed assets. For example, if into a region are two sawmills that cut in a short time the whole forest they have access to, the resulting production will bring the profits hoped. But, without complying with some criteria for rational exploitation, without reforestation actions to fill gaps left, the next production cycle will be compromised. Thus, it becomes necessary to seek new resources to resort to intermediaries, that will increase the existing costs. In these conditions, the profitability will decrease and will be impose measures such as increased selling prices, reduced wages or even staff, etc. Entrepreneurs will be pleased even with some earnings decreased, the survival on market will became their main propose. Is notes the risk that such a situation it requires on the continuity. Concluding this example, we can say that protecting natural capital shall ensure the future resources, obtaining economic benefits and most importantly, providing continuity in the market [5].

Assessing the costs of maintaining natural capital becomes more necessary as the main feature of the economic transformation is the irreversibility.

In 2008 he published a study entitled *Economics of Ecosystems and Biodiversity* (TEEB) initiated and funded by the European Commission in cooperation with Germany and other partners, which has been presented in Brussels. It sought an overall estimate of assessing the annual loss of ecosystem services to 50 billion euros. It is estimated that, in the absence of measures, affecting biodiversity could cost the European Union 7% of GDP by 2050, that would add more damage of the marine ecosystem. Thus it was proposed an economic assessment of ecosystem services and the value obtained being taken into account in all decision making levels [3].

Under certain scenarios, if the world's population would double by 2050 compared to 2000, GDP per inhabitant will increase by

2.5 times, but at the same time the demand for food would triple, energy consumption will increase by 2.6 times and water consumption by 1.5-2 times. Domain specialists show that if the growing trend of population, economy and consumption rate will continue as until now, the environment will be overloaded, which will more and more destroy the natural resources, implicitly life.

2. Environmental management system: certification and implementation

The evolution of concepts concerning the relationship between socio-economic and environmental activities in the context of sustainable development principles was made in two directions [2]:

- the first direction, comprising binding agents to achieve socio-economic development of opinions, agreements, permits operation with the authorities in relation to the environmental protection. In this situation the forms for assessing the environmental impacts are regulated by national environmental framework legislation and detailed secondary legislation and national tertiary in the field;
- the second direction of a voluntary nature, through the socioeconomic agents, stimulated by some potential advantages, is committed to increase environmental performance. In this case the environmental impact assessment forms are covered by the named standards (ISO 14000 and EMAS) with a European or international recognition.

Basic regulations of environmental management are made available to practitioners but the ISO 14000 series of international standards. Among these most are operated, published since 1996, others are in the planning stage. ISO 14000 standards cover a range of five directions [1]:

- environmental management systems;
- eco-audit;
- eco-marking;
- evaluate environmental performance;
- life cycle assessment of products and services.

A prerequisite for the functionality of such a system is the establishment of a scheme of documents consisting in procedures and instructions, prepared to be permanently implemented to ensure an effective and efficient communication. EMS provides a structured approach to planning and implementation of environmental protection measures that allow all entities to measure performance in relation to the environment and to periodically evaluate the improvements made by its protective measures. EMS scope can be extended at company level or at a site in accordance with recognized standards:

- ISO 14001 international standard;
- EMAS.

The enterprises have also the freedom to develop their own EMS, for their own activities, which do not necessarily have to be certified by international standards.

Establishing the procedure for organizing and coordinating the environmental management system was achieved for [2]:

- introduction in organizations carrying out activities with environmental impact a management and environmental system;
- evaluating and improving the environmental performance of organizations;
- providing environmental information to the public and other stakeholders outside the organization.

The objective of EMAS, to continuously improve the environmental performance of organizations is accomplished by [3]:

- development and implementation by organizations of environmental management systems according to ISO 14001;
- the systematic, objective and periodic evaluation of these systems performance according to ISO 14001;
- providing information on environmental performance and maintain a dialogue with the public and other stakeholders outside the organization;
- active involvement of employees in the organization and into their own training, adequate initial and advanced, enabling active participation in the development and implementation of environmental management systems.

The amount of decisions affected by the costs of interaction with natural environment is increasing, so that such a system becomes increasingly important, not only into environmental management as well as for other management activities such as designing processes and products, allocation and control of costs, supply process, price and performance evaluation policies.

3. Environmental Impact Assessment and specific indicators

A component of the sustainable development concept is to control the environmental impact of socio-economic activities. Controlling the impact requires detailed knowledge of the phenomenon, which involves the stages of identification, estimation, evaluation etc. Is what is intended by the general concept of Environmental Impact Assessment (EIA) [4].

At the level of international law are promoted, by the ISO 14000 series, the environmental management system or some other national legislation and concepts, including:

- eco-audit;
- life cycle analysis;
- evaluate environmental performance.

The type of used risk assessment depends on the nature and scope of the study, the amount of data available and other factors. Also the detail degree of risk assessment may vary from a simple qualitative to a semi-qualitative analyzes an and even entirely quantitative risk assessments.

Should be noted that EIA is not just about the primary indicators that describe the quality or the environment; they are analyzed in correlation with indicators that characterize the economic and social effects of pollution. In this case the principle that is used to estimate the cost is that of evaluation the cost of bringing the affected area to the situation prior to pollution or the cost necessary to prevent pollution.

Inserting an economic dimension to analyze pollution of the natural environment is difficult due to the great diversity of situations, but it can become operational for some specific cases and particular aspects. Cost of pollution can be divided into four categories [7]:

- damage cost, or the cost of direct losses (crops destroyed, occupational diseases, etc.);
- avoidance cost, i.e. economic and social cost of avoiding damages (air filtration equipment, protective equipment etc.);
- attenuation cost, i.e. the cost of resources needed to mitigate pollution and their inclusion in standards;
- tracking cost, the cost or resources required to design, planning, monitoring and controlling pollution.

Estimating these costs can provide an overall assessment of the pollution and only their fully treatment is able to reveal the real extent of pollution.

Environmental risk assessment is a scientific method for evaluation of risks associated to substances, activities, lifestyles and dangerous natural phenomena that may have detrimental effects to the environment or human health. In this respect, a distinction is made between the terms of:

- *hazard* – the possibility of consequences of an event or combination of circumstances that can harm human health and/or environment (for exempu, transport of oil by sea in tankers);
- *risk* – the probability of producing a specific effect in a given time and under given circumstances, or combination of consequences coupled with the likelihood of consequences.

Risk assessment area covers [1]:

- health and safety risk assessment (social risks caused by hazardous industrial activities);
- contaminated land risk assessment (risks to humans, ecosystems, property);
- pollution risk assessment (aquatic ecosystems, terrestrial and aerial);
- risk assessment of natural disasters (floods, earthquakes, volcanic eruptions).

The following table (Table no. 1) presents a summary of the stages to be taken in a chariot impact assessment of economic activities on the natural environment.

Table no. 1 – Stages of the EIA

No. crt.	Stages	Content
1.	Preliminary analysis	- setting objectives (identification, selection); - description of the study's objective; - EIA limitation.
2.	Identifying the effects	- analysis of the system and sub-systems generating impact; - analysis of the impact areas; - describe the impact effects.
3.	Estimating the effects	- estimating the size and importance of effects; - analysis the probability of showing the effects.
4.	Assessment of the effects	- defining the list of effects that can be assessed; - assessing the effects of various sectoral and global sets of criteria.

5.	Design actions and strategies	- identify actions to mitigate negative effects; - identify actions to stimulate positive effects; - evaluation of actions with alternative sets of criteria; - the design of action strategies (stage funds).
6.	Comprehensive assessment and action plan proposal	- timescale, budgets, responsibilities.
7.	Communication and dissemination of results	- social inquiry; - collection, selection, comments and suggestions.
8.	Completion and submission to factors decision	- tracking the effects.

The first step in analyzing an eco economic system in order to assess the state of the environment is to identify indicators that characterize the system. This identification process is difficult and its success ultimately depends on the experience of the analysts involved.

In general, for the overall environmental assessment both from an both ecological and socio-economic perspective, the indicators can be group in:

- environmental or ecological indicators;
- socio-economic indicators.

Ecological indicators can be grouped either in environmental factors (water, air, fauna, flora, etc.), or certain types of subsystems identified in the system. These types of subsystems (subsystem climate, terrestrial subsystems, sub-aquatic) depend on the type of proposed human activity and represent *second level indicators*. Selecting indicators must also take into account the degree of disturbance that can be tolerated and the type of options that remain open for a future use of these natural resources potential [5].

Should be considered certain elements strictly relating to feasibility of evaluation activity, including [3]:

- the cost of environmental impact assessment;
- preliminary duration of the study;
- the required database;
- the necessary training level;
- methodological complexity.

So that such an evaluation to be effective it is necessary to establish limits for investigating both the expansion and the deepening, which allows targeting to achieve significant results.

Conclusions

Environmental management system and, more recently, quality management system as defined in ISO 19011, provides information on how the management of an organization complies with all regulations, practices, procedures, internal organizational elements specific environmental issues. It aims to establish managerial and operational performance of the unit in relation to the environment.

The Environmental Impact Assessment is a scientific method for evaluating the natural risks associated to substances, activities, lifestyles and dangerous natural phenomena that may have detrimental effects to the environment or human health. EIA is not just about the primary indicators that describe the quality or the environment; also it requires an analysis about the correlation with the indicators that characterize the economic and social effects of pollution.

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An Answer to the Need for Businesses' Compliance with Green Demands – ECO-AUDIT

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Abstract

Integration of environmental policy objectives in middle of economic activities involves changing patterns of production and consumption. This change can be done by regulations, taxation, judicial decisions, demands from public etc. Involvement must come not only from the authorities and civil society, but also from economic environment implied.

Environmental audit represents a stage in the voluntary diagram of management and environmental auditing, based on a harmonized EU scheme called EMAS (Eco-Management and Audit Scheme). Eco-audit represents a response to the need for monitoring and control the impact of economic activities on the natural environment.

Keywords: eco-audit, environment, environmental auditor, EMAS.
JEL Classification: M42, Q51, Q56

Introduction

The economic practice has shown that speculative businesses are leading to tensions in relationship with social and natural environment, resulting in even endangering of the continuity. Economic prosperity can not exist without respect and concern for people, environment or community as a whole. Reporting social behavior of the company in a similar annual reporting of financial matters, supports the establishment of a social report (corporate social reporting) between the entity and the community to which it belongs.

Environmental protection expresses all the actions taken under internal and external regulations of the company, whether voluntary or compulsory. The compliance criterion is not an economical one, but is intended to prevent or reduce environmental impact [3].

The efforts reorientation necessity for achieving the integration objective has materialized after eleven years after that event, in 1983, when the United Nations established the World Commission on Environment and Development, known as the Brundtland Commission. This committee has developed and published in 1987, after the ecological disaster at Chernobyl, the document *Our Common Future* (*Brundtland Report*), which was formulated within the next occurrence of Agenda 21 and the 27 principles of the Rio Declaration and which defined the sustainable development as the development that meets the needs of present generations without compromising the ability of future generations to meet their own needs. Two years later, UNEP (United Nations Environmental Programme) organized a workshop on environmental auditing [7].

1. Eco-audit or environmental audit

The last years have been the period in which the eco-audit has consolidated its position as a voluntary instrument of self control of environmental management within an entity.

Eco-audit is an objective analysis multidisciplinary method of an enterprise performance of an undertaking in relation to the environment in which it operates. Audit covers manufacturing processes, materials storage mode, operating procedures and environmental management and aims to identify potential environmental impacts and liabilities arising thereof. More specifically, eco-audit is a methodical and documented verification process of evidence obtained and

evaluated objectively to determine whether the activities, events, conditions, environmental management system, or information related to these problems are in accordance with audit criteria, the results being communicated to the beneficiary. Typically, such an audit aims to facilitate management control of practices and possible environmental impact assessment of the policy environment, including environmental objectives and targets of the organization [4].

ISO 14010 defines this concept as a methodical and documented verification process of the audit evidence obtained and evaluated in an objective manner to determine whether the activities, events, conditions, the environmental management system and related information are in the accordance with audit criteria.

Improving the legislative framework for environmental protection had as result implementation of certain principles for damages recovery, such as the "polluter pays" and other economic principles regarding pollution. Environmental audit differs from other techniques for assessing environmental impact, having as main objectives [5]:

– evaluating if the ecological systems and equipments are operating at design parameters in accordance with the requirements of maintaining natural equilibriums;

– assess the fulfillment of company policy and regulations on environmental restrictions;

– assessing compliance with the laws and regulations established at national, regional and global level;

– reducing human exposure to the effects of environmental degradation.

The eco-audit of the organization defines in writing the objectives of each audit or audit cycle including the audit frequency for each activity. The purpose of each audit or each stage in the audit cycle, as appropriate, shall define and explicitly specify [1]:

- covered areas;
- audited activities;
- environmental criteria to be considered;
- the period covered by the audit.

Eco-audit includes analysis of factual data necessary to evaluate the environmental performance of the organization.

Advantages of the eco-audit consist in [5]:

– helps protect the natural environment;

– allows monitoring compliance with the rules in the field;

– helps to identify current or potential environmental problems;

– reduces risks of disputes, accidents as result of damages to the environment;

– allows the identification of opportunities for achieving certain savings through actions such as reducing waste volume;

– facilitates the exchange of comparative information between enterprises.

According to context of assessing environmental performance of an activity, the literature is noting three main types of eco-audit [4]:

- eco-audit prior purchase;
- eco-audit prior sale;
- transversal eco-audit.

The audit itself must be preceded by an environmental review outlining the forms of economic and social activity's impact on the environment. Each audit is planned and prepared in accordance with the objectives, in particular to ensure:

- appropriate allocation of resources;
- assuming the role and responsibility of each person involved in the audit process (including auditors, management and staff).

Preparing for audit should include familiarization with the organization's work and environmental management system established within the organization and evaluation of results and conclusions of previous audits.

Audit activities shall include [2]:

- discussions with staff;
- inspection of the equipment and operating conditions;
- analyzing records, written procedures and other relevant documentation in order to assess the environmental performance of the activity being audited and to determine whether:

– meet the standards, regulations, objectives and targets;

– the existing management system of environmental responsibilities is appropriate.

The practice of this domain develops five main types of eco-audit, each with their own ends, as shown in Table no. 1 [6].

Tabel no. 1 – The main types of eco-audit

Types of eco-audit	Aims pursued
Contaminated land audit	- identify responsibilities for contamination of soil and water in the area of a site or building; - determining the costs / benefits incurred; - establishing authority and sanctions.
Ownership transfer audit	- identify risks and responsibilities associated; - analysis of previous compliance.
Compliance audit	- analysis of current activities; - assess how they comply with the requirements of national regulations.
Environmental management system audit	- systematic analysis of the existing EMS; - testing and certifying compliance with ISO 14001; - ensuring a continuous operation.
Environmental management plans audit	- analysis of implementation of measures to reduce the effects on the natural environment; - monitoring the occurred effects.

Source: Ungureanu M., "Role of environmental audit in the modern enterprise", Annals of Tibiscus University of Timişoara, Economic Science Series, Vol. XVIII, pp. 88-96, Editura Mirton, 2012.

In certain circumstances, the audit types listed above can be combined. Detailed coverage sphere of audit varies according to specific objectives. Depending on the purpose of the audit, it can be done by specialists or independent consultants or persons with appropriate training, personnel belonging to the company or department subject to audit.

Among others should be also used random checks to determine effectiveness of the entire management system. The audit shall include at least the following steps [1]:

- familiarity with management systems;
- assessing strengths and weaknesses of the management systems;
- obtaining relevant evidence;
- evaluating audit findings;
- preparing audit conclusions;
- reporting audit findings and conclusions.

The audit or audit cycle is carried out, if necessary, every three years. The frequency with which any activity is audited will vary depending on:

- nature, scale and complexity of activities;
- relevance of associated environmental impacts;
- importance and priority of the problems detected by previous audits;
- history of environmental problems.

Complex activities with significant environmental impact should be audited more frequently. Organizations define their own audit programs and the frequency is taking into account guidance issued by the Advisory Committee EMAS.

2. Environmental auditor – a new profession in the modern business world

Eco-audits are performed by persons or groups of persons with experience in the audited areas and sectors, with relevant knowledge and experience including environmental, managerial, technical and legal and audit preparation and skills required to achieve objectives. Resources and time allocated to the audit are consistent with the goals and objectives. The organization's top management shall assist the audit process. According to purpose of the audit, it can be performed by independent consultants or experts or people with appropriate training, belonging to the personnel of enterprise or department submitted to audit [6].

Auditors should be independent of the activities they audit to make an objective and impartial evaluation. Accreditation bodies may accredit as environmental auditors persons, organizations or combinations thereof. Detailed procedural requirements and criteria for accreditation are defined and established by the accreditation body in accordance with the general principles of competence.

As a minimum requirement for such accreditation, may be listed the following skills that an environmental auditor must meet [5]:

– knowing and understanding the general functioning of environmental management systems, relevant standards and guidelines issued by the Advisory Committee EMAS and the accreditation body;

– knowing and understanding the legislative, regulatory and administrative requirements relevant to the activity under review;

– knowing and understanding environmental issues, including their size in the context of sustainable development;

– knowing and understanding the technical aspects relevant to environmental issues activity subject to verification;

– understanding the overall functioning of the activity subject to verification, to assess whether the management system is appropriate;

– knowing and understanding the eco-audit requirements and methodology;

– possession of knowledge about informational audit according to the environmental report.

Each candidate must demonstrate to the accreditation body the knowledge, relevant experience and technical capacities in the areas mentioned above.

An environmental auditor must have documented procedures and methodologies, including quality control mechanisms and confidentiality provisions for verification requirements. After consulting with the organization, he establishes a program to ensure that all elements required for registration with EMAS are verified in a period not exceeding 36 months. Information required by an environmental auditor are the ones from the entity's environmental report.

The auditor should ensure that the organization and its staff are not subject to any financial constraints, commercial or otherwise, which might influence their judgment or could damage trust in their independence of judgment and integrity in relation to their activities and to comply with all applicable rules in this area [5].

At the end of each environmental audit, auditors must prepare a written report, whose form and content must provide a full and formal presentation of all audit findings and conclusions to be officially communicated to the management at the highest level. This report provides an overview of the activities carried out in a company or institution, the main effects on the natural environment, the environmental context in which it operates and environmental program objectives. For each activity are reported the results of the environmental audit [4].

Fundamental objectives of a written audit report are:

- documents supporting the purpose of the audit;
- situation of compliance with the organization's environmental policy and environmental progress of the organization;
- providing to the management information about the effectiveness and accuracy of monitoring the environmental impact of the organization;
- documents supporting the need for corrective action, as appropriate.

The structure of the eco-audit report is generally seen, but may change depending on the specifics of each organization checked. Thus, in general, an eco-audit report has the following structure (Table no. 2):

Tabel no. 2 – The structure of the eco-audit report

I. GENERAL DATA	Name of activity
	Location
	Beneficiary of the study
	Activity profile
	Holder of study
II. DESCRIPTION OF THE ACTIVITIES	Purpose and necessity
	Authorizations owned
	Description of proposed activities
	Industrial processes involved
	Quality of environmental factors
	Environmental Impact Assessment
III. CONCLUSIONS AND PROPOSALS	

Eco-audit measures the environmental performance and environmental entity's position. In this way, the eco-audit provides a function similar to the financial one. An eco-audit report contains, ideally, a statement of environmental performance and environmental entity's position and can also determine what needs are to sustain and improve the performance and position indicators. It specifies the requirements for an environmental management system, delivering an organization's control framework fo the impacts of activities, products and services on the environment.

Conclusions

Eco-audit refers to an examination of how the activity has or has not a negative impact on the environment, although the specific elements of such an analysis; this analysis is based on an order for a specific customer who wants to be aware of of an organization's environmental issues.

Environmental management system audit and, more recently, quality management system audit as defined in ISO 19011, provides information on how the management of an organization complies with all regulations, practices, procedures, internal organizational elements specific environmental issues. It aims to establish managerial and operational performance of the unit in relation to the environment.

Eco-audit activities will identify whether an EMS is properly implemented, efficiently maintained and if provides useful information to management. Environmental risk assessment depends on the nature and scope of the study, the amount of available data and other factors. Also, the manner of the assessment can vary from a simple qualitative analysis, to semicalitative analysis and even to a purely quantitative assessment.

Rational consumption of natural resources is, in terms of accounting, primarily to reduce costs, increase the value of intangible assets, reputation, organizational culture, even human capital when it is considering the health of employees in particular and of the community in general. Involvement must come not only from the authorities and civil society, but also from economic environment involved. Eco-audit represents a response to the need for monitoring and control the impact of economic activities on the natural environment. Thus, implementation and expansion of environmental audit beyond the need to align with EU legislation represent a factor to achieve the overall performance of an entity (by economic, social and environmental objectives), including benefits to be achieved on medium and long term.

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Performance Analysis on Intermediary Balance Management Panel

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Abstract

The research focused on the use of an indicator system that allowed diagnostics company activity on the situation past, present and future. Stages of analysis consisted of data collection on the Company's business, examining financial information taken from the profit and loss of business making a diagnosis based on cause - effect relationship and take action to achieve superior performance in the future.

Thus, an analysis of the level and structure of turnover, production year and added value financial performance indicators relevant for establishing the financial performances and guiding the company's development strategy.

Keywords: intermediate management balances, added value
JEL classification: C50, M40, M41.

Introduction

In market economy conditions frequently occur changes in the number and structure of economic entities. Being in competition, the issue of comparing them, especially when it comes to external growth operations, the participation of a new partner or shareholder capital, fixing the insurance or guarantees for loans requested, unachievable goals in the absence of an anual financial statements that give a true and comprehensive global picture of the entity and the transactions in which they participate, based on relevant and reliable accounting information.

Getting information is not confined to recording data on phenomena and processes subject knowledge, but also includes all operations of information systematization, processing, analysis and interpretation. In present, problems of modern management involve the use methods and models, mainly statistical and mathematical (econometric) through which to obtain relevant indicators, for financial performance establishment and the company's development strategy guidance.

The intermediate management balances is a variant of the account's profit and loss. This shows the stages of making a financial training result.

These stocks, defined as margin (difference) can be divided into two categories:
- SIG – Activity;
- SIG – Profitability.

SIG – Activity, measures the level of operating activity (turnover, margin trading, production year, added value) and the use of material, financial and human resources in the business, while *SIG - profitability*, measured 'financial soundness of the business' through flow results achieved during the financial year.

SIG - activity characterizes economic performance while *SIG - profitability* characterizes the financial performance of the company. [1]

Analysis of intermediate management balances on the operating activities of the company

From the point of view of economic analysis, intermediate management balances characteristic for exploitation are indicators of production and marketing aggregating all business results, materialized in finished goods, semi-products, benefits, intended for market or use for their own interests, which are fixed by enterprise. [1]

Schematic SIG - activity presents data from the profit and loss account of SC AEROSTAR S.A. Bacău and is presented in Table no 1.

Table no.1. Intermediate management balances –S.C. AEROSTAR S.A. Bacău activity

Nr. crt.	Indicators	Financial year		
		2009	2010	2011
1	Sold production	154.174.520,00	156.168.035,00	156.287.925,00
2	Income from sale of goods	2.633.927,00	2.121.178,00	2.114.298,00
3	**Net turnover**	**156.808.447,00**	**158.289.213,00**	**158.402.223,00**
4	Expenses on goods	2.338.554	1.858.338	1.745.265
5	**Marketing margin (2-4)**	**295.373,00**	**262.840,00**	**369.033,00**
6	Income cost of production, works and services in progress	0	0	0
7	Production in own purposes and capitalized	1.243.304,00	2.117.222,00	1.307.998,00
8	**Production of the financial year (1+6+7)**	**154.469.893,00**	**156.430.875,00**	**156.656.958,00**
9	**Intermediate consumption**	**148.590.939,00**	**149.835.330,00**	**147.039.362,00**
9.1	Expenses for raw materials and consumables	50.949.227	54.498.964	38.746.854
9.2	Other materials expenses	4.341.903	2.896.780	4.168.893
9.3	Other expenses (energy and water)	5.665.342	5.666.362	7.307.017
9.4	Expenses on external services	87.634.467	86.773.224	96.816.598
10	**Added value (5+8-9)**	**6.174.327,00**	**6.858.385,00**	**9.986.629,00**

Source of data: *http://www.aerostar.ro/* (own interpretation)

From the data in Table no.1 were found the following:

All the intermediate management balances on operating activities increased in 2011 compared to 2010 and in 2010 compared to 2009. Turnover recorded an 0.94% upward trend in 2010 compared with 2009 due to increased of sold production with 1.29%, an increase in 2011 compared to 2010 by 0.07% due to increased of sold production with 0.08%, even if the income from the goods have been continuously decreasing.

In all three years analyzed, the highest share in turnover is hold by the sold production, reflecting the major contribution to the formation of turnover.

The increased production year by 1.27% in 2010 compared to 2009 was a result of the increased sold production by 1.29% and the production for its own purposes and capitalized by 70.29%, and moreover the increased production year by 0,14% in 2011 compared to 2010 was a result of increased sold production by 0.08%, output in its own purposes and capitalized registering a fall of 38.22%.

Added value increased year over year primarily due to lower intermediate consumption, which is observed in the last two years analyzed.

This increase in added value compared to turnover and production year is favorable characterizing the economic activity of the enterprise.

Turnover analysis

Turnover is the main indicator that measures the level of income, is at the same time one of the most important goals of any enterprise. The calculation of turnover is:
CA = sold production + Income from sale of goods – Trade discounts granted + Income from interest recorded by the entities in ongoing leases + Income from subsidies related to turnover.

Turnover is an indicator of economic performance, which characterize the volume of business conducted with third parties after the current activity of the company and represents the total amount of revenue from the sale of products, works and services and other operating income, less rebates, remises and other discounts applied to customers.

Turnover is an indicator of volume, but when seeking it's dynamic becomes performance indicator. [2]

Turnover must have a minimum share of 85% of total operating income and 75% of total revenues of the company so that they reflect a normal achievement of business.

Turnover of the company SC Aerostar S.A. Bacau is income from repair and upgrade services, support services and engineering, for platforms in the portfolio or expertise, as well as from the manufacture of assemblies and aerostructures parts, manufacture of landing gear, hydraulic components and systems and commercial aircraft maintenance services.

The level and structure of turnover

The turnover should cover operating costs and provide a benefit realization and present a real growth trend in the volume of the company's businesses. [3]

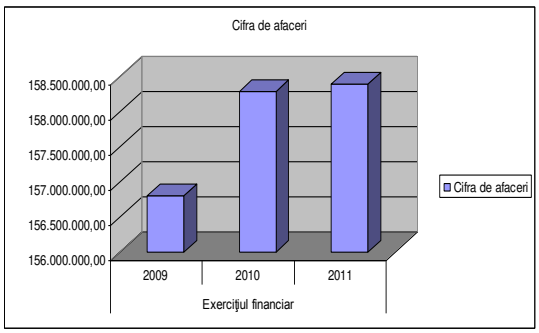
The study of turnover over a period of time, provide information about the company and its tendency, by its inclusion or the inclusion of its object of activity in one of the foundations of the life cycle: launch, growth, maturity, decline. Evolution of turnover is detailed in Table no. 8, the data being taken from Annex no. 1 "stock elements".

Table no. 2 The turnover evolution

Nr. crt.	Indicators	Symbol	UM	Financial year		
				2009	2010	2011
1	The turnover	CA	RON	156.808.447,00	158.289.213,00	158.402.223,00
2	Income from sale of goods	Vmf	RON	2.633.927,00	2.121.178,00	2.114.298,00
3	Sold production	Pv	RON	154.174.520,00	156.168.035,00	156.287.925,00
4	The growth rate of CA	ICA	%	100,00	100,94	100,07
5	The growth rate of the Vmf	Ivmf	%	100,00	80,53	99,68
6	Growth rate of the Pv	Ipv	%	100,00	101,29	100,08
7	Income from operations	Ve	RON	159.996.151,00	163.693.481,00	161.542.792,00
8	Total revenues	Vt	RON	165.996.704,00	171.391.988,00	169.100.194,00
9	Share of CA in operating revenues	CA/Ve	%	98,01	96,70	98,06
10	Share of CA in total revenues	CA/Vt	%	94,46	92,36	93,67
11	Share of revenues from sale of goods in CA	Vmf/CA	%	1,68	1,34	1,33
12	Share of production sold in CA	Pv/CA	%	98,32	98,66	98,67

Source of data: *http://www.aerostar.ro/* (own interpretation)

Fig. no. 1 The turnover evolution



(Own interpretation)

The turnover in 2011 slightly increased compared to 2009 of approximately 1.01% and 0.07% compared to 2010. In those three years analyzed the largest share in the structure of turnover is the sold production of approximately 99% which reflects the high importance given to core business namely manufacturing.

From the analysis results a normal in achieving activity because the turnover exceeds the minimum threshold of 85% of total operating revenues and 75% of total revenues.

Analysis of the production year

The production year is the indicator which measures the total value of the work done by the company in a financial year.

The production year consists of goods and services produced by the firm, regardless of the destination: sale, storage or immobilization, is regarded as the global production of the financial year. [4]

Pex = Pv + Ps + Pi

Analysis of the production year implies following aspects:

- The level and structure of the production year;
- Year production dynamics based on the inflation rate

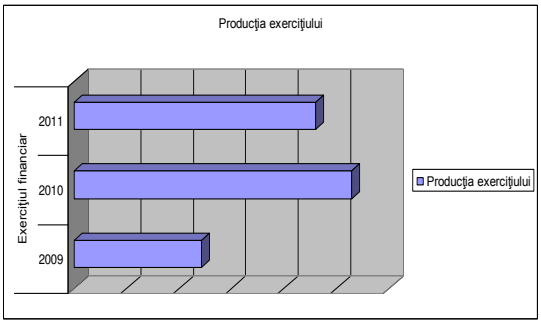
The level and structure of the production year

Table no. 3 The production year evolution

Nr. crt.	Indicators	Symbol	UM	Financial year		
				2009	2010	2011
1	Sold production	P_V	RON	154.174.520,00	156.168.035,00	156.287.925,00
2	Stored production	P_S	RON	0,00	0,00	0,00
3	Immobilized production	P_I	RON	1.243.304,00	2.117.222,00	1.307.998,00
4	Production year	P_{Ex}	Lei	155.417.824,00	158.285.257,00	157.595.923,00
5	Growth rate of the Pv	I_{Pv}	%	100,00	101,29	100,08
6	Growth rate of the Ps	I_{Ps}	%	100,00	0,00	0,00
7	Growth rate of the Pi	I_{Pi}	%	100,00	170,29	61,78
8	Growth rate of the Pex	I_{Pex}	%	100,00	101,84	99,56

Source of data: *http://www.aerostar.ro/* (own interpretation)

Fig. no. 2 The production year evolution



(Own interpretation)

During the review is found that in 2010 there was an increase of 1.84% of the production year, and in 2011 a decrease of 0.44% of the production year.

In all three years analyzed shows that production sold actually participate in the training exercise production.

This indicator determines the evaluation of the overall volume of activity and helps the calculation and analysis of the added value.

Analysis of added value

Added value expresses the company's capacity to create wealth, more accurate what the company adds by its own activity to the economic cycle.

Added value characterizes bulk activity undertaken by the company after deducting intermediate consumption. In other words, the enterprise produces goods and services but consume some other production companies and only the difference between what it produces and what it consumes for this purpose increases the value of their production. [4]

Turnover is not a good indicator to assess the size of an enterprise because it expresses only the revenues from sales of production.

It is noted that the work output will be higher as production factors are more modern and with a high degree of automation and higher efficiency equipment. [5]

However, the indicator must be interpreted cautiously and must be correlated with other indicators of performance, since an increase in added value can be the result

of the increase in stocks of finished products, because of the too high selling prices.

Analysis of the added value implies following aspects:

- The level and structure of the added value;
- Dynamics of the added value based on the inflation rate. [6]

The level and structure of the added value

Subtraction method for the added value analysis

According to this method, the added value expresses the difference between the production year (plus margin trade) and intermediate consumption (consumption of goods and services from third parties). [4]

$V_{ad}=P_{ex}+Mc-C_i$

Commercial margin is an element of the added value expressing the supplement value produced by the company throw marketing activities.

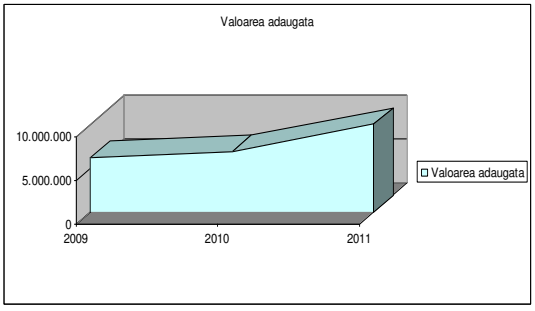
Intermediate costs deducted from added value represents the total consumption of goods and services provided by third natural or legal persons.

Table no. 4 The structure and the evolution of added value

Nr. crt.	Indicators	Symbol	UM	Financial year		
				2009	2010	2011
1	Commercial margin	M_c	RON	295.373	262.840	369.033
2	Production year	P_{ex}	RON	154.765.266	156.693.715	157.025.991
3	Intermediate consumption	C_i	RON	148.590.939	149.835.330	147.039.362
3.1	Raw materials and consumables		RON	50.949.227	54.498.964	38.746.854
3.2	Other materials expenses		RON	4.341.903	2.896.780	4.168.893
3.3	Energy and Water		RON	5.665.342	5.666.362	7.307.017
3.4	External services		RON	87.634.467	86.773.224	96.816.598
4	Added value	V_{ad}	RON	6.174.327	6.858.385	9.986.629
5	Growth rate of the Mc	I_{Mc}	%	100	-11,01	40,40
6	Growth rate of the Pex	I_{Pex}	%	100	1,25	0,21
7	Growth rate of the Ci	I_{Ci}	%	100	0,84	-1,87
8	Growth rate of the Vad	I_{Vad}	%	100	11,08	45,61
9	Turnover	CA	RON	156.808.447	158.289.213	158.402.223
10	Added value rate	R_{VA}	%	3,94	4,33	6,30

Source of data: *http://www.aerostar.ro/* (own interpretation)

Fig. no. 3 The evolution of added value



(Own interpretation)

The increasing of the added value throughout the period of analysis, reflecting an increase of wealth at the expense of enterprise resource. This is due to continuing production year on an upward trend. Intermediate consumption increased in 2010 compared to 2009 by 0.84% and in 2011 recorded a decrease of 1.87%. Also observed that the growth rate of production year (IPEX) is less than the growth rate of added value (IVAD) which means a lower degree of exploitation of resources, namely reducing the capacity to create wealth and represents a future warning.

Conclusions:

In order to improve a process or task, you first need to know the level of performance.

Performance measurement involves knowing objectives and comparison with the achievements. The assessment of it also implies some limitations because in the current environment the economic and technologically environment is complex and uncertain. [5]

A sine qua non condition for performance is to identify the types of risk faced by a business. Their evaluation provides useful information in finding the most effective tools for their management.

Analysis of revenues and expenses grouped by nature of their work was a starting point in assessing the performance of SC AEROSTAR S.A. Bacau. The analysis of data taken from the profit and loss account revealed a higher growth rate than revenue expenditure, this reflects positively on the company's gross profit, net profit and other economic and financial performance indicators.

Another method of analysis that characterizes the performance through the income statement is the development of intermediary balance management panel. [6]

All management interim balances on operating activities increased in 2011 compared to 2010 and is an increase in 2010 compared to 2009.

Turnover recorded an 0.94% upward trend in 2010 compared with 2009 due to increased of sold production with 1.29%, an increase in 2011 compared to 2010 by 0.07% due to increased of sold production with 0.08%, even if the income from the goods have been continuously decreasing.

In all three years analyzed, the highest share in turnover is hold by the sold production, reflecting the major contribution to the formation of turnover.

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Added value increased year over year primarily due to lower intermediate consumption, which is observed in the last two years analyzed.

This increase in added value compared to turnover and production year is favorable characterizing the economic activity of the enterprise.

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The Risks in the Insurance of Persons

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Abstract

The insurances of persons can be divided in two categories, depending on the insured risk in the base insurance: insurances of persons that cover the risk of death; insurances of persons, others than those of life, which cover in the main insurance the corporal integrity or the person's health.

At the production of the insured event, the insurant receives an insurance indemnification corresponding to the initialed established sum, sum covered according to the insurance contract. Additional clauses can be added at both types of insurances, which extend the cover through the main product in exchange of an insurance supplementary premium.

In the insurance practice, this carries the denomination of insurance of persons. The origin is in antiquity, being a prudence proof. Life and health insurances have been recognized as essential and necessary elements in the individual's and his family's financial program.

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Cuvinte cheie: insurances, annuity, the validity period, the contract, the payment.
Clasificare J.E.L.: A10, M20

1. Introduction

The insurances of persons have as object guaranteeing the payment of a sum to the insurer, in the case of the production of an event related to the insurant's natural persons: he's corporal injury, sickness, death or survival.

In the case of insurances of goods, the insurer is engaging not to harm the insurant for the suffered damages through the damaging or destruction of the insured goods as a consequence of the insured risk production. Having repairing character, the indemnification owed by the insurer cannot be bigger than the damage suffered by the insurant and neither than the insured sum.

In the case in which a natural or legal person had insured a good whatsoever, from error or with the intention for a sum bigger than the real value of this and has paid the insurance premiums afferent to this overestimated sum, at the destruction of by a catastrophe, the insurant has the right to a limited compensation at the value of the registered damage, without exceeding the insured sum of this.

Such is the case in the insurances of persons. Here the insured sum is established in a contractual mode by the insurant depending on his financial needs and possibilities[1]. The insurant can conclude more insurance contracts against the same event and for different sums, without being prevented by law or by the insurant to make this thing. At the production of the insured risk, the insurant or the beneficiary of the insurance has the right to collect the insurance rights from all insurants, because here it is not about the damage as in the insurance of goods. Not having a repairing character, the insurance of persons does not suffer restrictions at which the insurance of goods is submitted.

2. The insurances of persons

If after the production of the insured risk, the insurant has suffered a corporal injury or has contracted an illness, which has affected the labor power, he has the right to an insurance indemnification, which can make possible the restoration of his financial situation existent before the production of the accident or contraction of the disease.

The insurances of persons can classify depending on the insured risk, the moment of the premium payment, the moment of the

insured sum collection and the form that this dresses up.

We have seen that depending on the covered risk, the insurances of persons can be[2]:

- Survival insurances;
- Insurances of death;
- Mixed life insurances;
- Accident insurances;
- Insurances of sickness;
- Other forms.

In the survival insurances, the insurer engages to pay to the insurant at the expiration of the contract, the insured sum with the condition that this should be alive. In the validity period of the insurance, the insurant paying the owed premiums accumulates an amount of money at the insurer's disposal, the amount that becomes exigible at the expiration of the contract. The amount thus saved follows to be used by the insurant at the right moment, for the most different aims; to purchase a building, a motor car or other goods with big value or of prolonged use; to move with the family in a different region or country; to make a leisure, business and study travel, etc.

According to the contractual conditions, the insurant takes the possession of the insured amount, only in the case in which he is alive at the expiration of the contract. But if he had died previous to the expiration of the validity term of the contract, the insurer considers himself released of the engagement taken through the contract and he has no obligation towards the insurant's successors. The accumulated amount by the insurant during the validity contract remains as rightful to the insurer, after the insurant's premature decease.

Another survival insurance is the annuity insurance, according to which the insured amount is put at the insurant's disposal under the form of some periodical payments with the title of annuity.

The fund, from which the annuity is paid, is made on the account of a unique premium paid by the insurant at the conclusion of the contract, either on the account of the premiums gradually paid by the insurant on the validity period of the contract. The payment of the annuity can be made in two different manners: the payment of the annuity starts immediately after the concluding of the insurance contract, either from an ulterior date.

This is the most frequent form met in practice: o longer or shorter period of time, the insurant deposits the owed premiums for the constitution of the fund, from which the latter will bear the annuity.

In the annuity insurance, the insurer will pay the annuity only in the case in which the insurant is alive at the expiration date of the contract. The insurant's previous death sets free the insurer in front of the insurant's heirs.

A survival insurance, which has as consequence the loss of the right over the insured amount from the insurance beneficiary's side, in the case in which the insurant has died previous to the expiration of the insurance, is not too attractive and it does not stimulate the spirit of saving[3].

In order to avoid the loss of the premiums paid by the insurant, in the case of the death in the validity period of the contract, there are taken some measures in the international practice: for example – it is written in the contract the clause of counter-insurance, which allows the reimbursement of the premiums afferent to the survival risk; the insurer keeps the premium afferent to the risk of death. If at the expiration term of the insurance, the insurant is alive, he cashes the insured amount, while the premium for the risk of death remains as the insurer.

The insurance of death protects the insurant against the risk of death.

The insurants use different forms of insurance, which to satisfy the most different preferences, as death is a future and sure event, but uncertain about the date. In a formula, the insurance covers the risk of death at any date that this would happen.

For this purpose, the insurant engages to pay premiums all his life in order to beneficiate of such protection. It is also known the solution that limits the premium payments at a certain period of time: on duration of n years, until the date of x, until the insurant's retiring. In all these cases, we have to deal with a temporary insurance of death. It is also known the solution of transformation of the life insurance of death in an optional life insurance, which consists in the transformation at a certain moment, of the life insurance of death, in life annuity insurance.

The insurance of death on limited term obliges the insurant to pay the amount written in the contract, if after the insurant's death took place in the validity period of this. If at the expiration of the contract the insurant is still alive, the insurer is exonerated of any obligation towards the insurant, arising from the contract. So, the insurance of death is not an insurance of saving, but one of protection against a determined risk.

The two insurances of life, of survival and of death, each one covers in part a single risk, creating like this the impression that one of the parts is always loser. In reality, the survival and death, constituting alternative risks, it cannot ever produce simultaneously.

The mixed insurance of life. In order to make more attractive its reports with the insurants and in order to simplify under the organizational aspect, the insurer offers a product that covers both risks in a single contract, denominated mixed insurance of life.

By including two alternative risks in a unique insurance contract, the contradictory character of the two risks do not disappear, but it is created only the impression that the insurants gain in the case of production of any risk: in the case of insurant's death, the beneficiary of the insurance takes possession of the insured sum and in case of survival, the insurant personally cashes the insured amount foreseen in the contract. The insurant gains in both circumstances, but this thing is obtained with the price afferent to the covering of the two different risks, with the bearing of the premiums owed both for the risk of death, and also for the one of survival. If it would not tax each risk taken over, if it would not sell every guarantee against any risk that it is offered to an insurant, the insurer would not be able to equilibrate the cashed premiums with the owed indemnifications, the incomes realized with the assumed arrangements towards the insurants.

In the international practice, the mixed insurance of life knows different variants in what concerns the validity term or the form under which the insured amount is granted. Mixed insurances with long term are being practiced, at the expiration of which the insured amount is paid to the insurant, if this is alive or to the beneficiary, if the insurant had died previously. In any case, there cannot be perceived premiums in the account of the respective insurance from the insurant's death.

The insurances of accidents. They follow to protect the natural persons from the black-letter consequences of some unforeseen events, which affect life, the corporal integrity or the capacity to work. The injured persons receive with title of indemnification either a contractual amount, or more fractionary payments in order to insure the expenses with the medical care, restoration of health and compensation of the lost income. In case of permanent invalidity, the insurer owes to the insurant the whole insured amount or part of this depending on the degree of invalidity established by the commission of medical expertise.

In the insurance of the contract, the insurer can accept the renewal of this for a new period, eventually with a major premium or to reject it, if the injured person has suffered a higher degree of invalidity, which have reduced him, totally or partially, the capacity to work.

The insurance of disease has as object the protection of the persons that have suffered a temporary incapacity to work determined by disease.

Near the insurances of life, in the international practice are met other forms of insurances of persons among which the insurances of permanent health, of natality, etc.

The permanent health insurance follows to eliminate the poverty, often associated with a durable incapacity to work, provoked by an accident or a disease. From the moment in which an insurant was medically examined or accepted for a permanent health insurance, the insurance contract keeps its validity for a number of years (ex. the age of retiring) and cannot be canceled by the insurer. The premiums are annually paid and usually do not modify from a year to another. If the insurant has contracted incapacity to work after a disease or an accident, he has the right to an insurance indemnification, which is periodically granted as long as the incapacity state is maintained or until the insurant reaches the retiring age or has died.
The insured employees benefit from an indemnification on the permanent health insurance line in the period when they were

sick and which varies between a month and a year. This limitation is produced on the grounds that in the sick period the employees are entitled to a share of wages. The size of the indemnification granted by the insurer in the period of incapacity to work is established by the insurant together with the insurer, at the conclusion of the contract, but it cannot exceed 75% from the insurant's income realized before the rendering sick, from which it is deduced the amount received from public funds.

The permanent health insurance is practiced in Great Britain.

The dotal insurance is conceived as a modality to gradually constitute a dowery to a child until this reaches majority. The insurer honors this insurance, if the beneficiary of the insurance is alive at the date of reaching majority, when the insurance becomes exigible. In the hypothesis in which the beneficiary of the insurance has died previously to this date, the insurer is exonerated of any legal responsibility to that contract. If the respective contract foresees a clause of "counter-insurance" in the case of insurance beneficiary's premature death, the insurer is obliged to return the cashed premiums.

During the execution of some contracts of life insurances appear critical situations, which put some of the insurants in the impossibility to honor the assumed arrangements (the payment of the owed amounts) or have to cash in advance the insured amount or a share from this in order to get out from a deadlock. In the aim to solve such problems, the insurance contract is completed with certain provisions, which offer to the insurants supplementary guarantees. Ex.- how to proceed in the situation in which the insurant has arrived in the impossibility to pay no more the insurance premiums from independent causes of his will, how the insurant to be sustained after a serious accident and has lost the capacity to work or has died.

The insurance that contains such provisions determines the complementary insurance[4].

The concrete forms of life insurances differ from one country to another and even from a period to another.

Life insurances are concluded either in an individual way, or in group. There are special laws in every country, which regulate the way to conclude and to execute the insurance contract, incriminate the deviations from the legal provisions, establish the sanctions applied to those guilty of violating the legal dispositions.

3. Conclusions:

Concrete aspects of the relations between the insurer and the insurant find the reflection in the insurance contract, which contains the insurant's surname, first name and the date of birth, the insured risk, the validity term of the contract, the owed insurance premium and the date at which this becomes eligible, the insured amount and the modality to pay this. Life insurance can be concluded with or without the insurant's medical examination depending on the insured amount and on the object of the insurance.

On the grounds of the medical exam results, the insurer accepts (with the payment of a normal premium or an increased one) or to reject the insurance demand, due to the dragged risk, the high value that it presents.
The persons with a poor health, more vulnerable to diseases for their protection and of their families appeals to an insurance more frequently than those having a good health, which is also reflected in the individual financial results[5].

Together with the individual insurances, the insurance companies also conclude collective insurances. Ex.- when the personnel of a production section (mine, construction site, forestry operation, etc.) works in conditions having a high risk, the economic agent can conclude an insurance of accidents or of death for all the personnel from the respective section, when a commercial organization sells goods in installments, it can conclude a collective insurance for all its customers encountered in the same situation in order to place in safety in the case in which some of these would arrive in the impossibility to pay no more the installments due; a commercial bank that can provide consumer credits to some natural persons can appeal to the collective insurance of its customers.

The group insurance presents the advantage that there exists the selection of risks, which is met in the individual insurance and is less expensive than this.

In the collective insurance are included all the persons that make up the respective group with the condition that each part to express its agreement to this insurance. This, because a share from the insurance premium is borne by the contracting party of the insurance, and the other share is in the insurant's task.

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The Crisis and its Effects upon the Romanian Banking System

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Abstract

The crisis has been perceived as a tsunami wave starting from the United States and gradually affecting the countries in Europe and all over the world and advancing kilometer by kilometer. "When the crisis reaches Romania", "finally the crisis will hit us as well" or "the climax of the crisis will be reached in X month" are some of the useless phrases which we have heard and keep hearing daily in mass-media. Nevertheless, a closer analysis will reveal the fact that the economic disturbances generated by the subprime crisis in the United States are nothing but a facet of a much more complex relationship combining the external economic factors with other factors exclusively related to the Romanian environment. ID or any other type of loose crediting has been aggressively promoted in the local financial environment in spite of the repeated warnings of the National Bank.

Keywords: crisis**,** propagation channels, systemic risk, financing sources
J.E.L Classification: E52, E58

1. Introduction

The Romanian economy is exposed to the effects of the international crisis [1] out of two reasons. Firstly, over 90% of the assets of the Romanian banking system are held by foreign banks, with a high degree of concentration of the Austrian, German and Italian banks (together holding 70%), a thing which exposes the Romanian banking system to the same problems the banks in these three countries have. Secondly, over 90% of the RON transactions are made by non-residents (and they come to maturity in less than 7 days) exposing the Romanian national currency to large fluctuations on the short-term in case of some external shocks. Romania withstands the impact of the financial and economic crisis through two propagation channels: [2]

a) The financial channel determined by the credit restriction and appreciation on a global scale and leading to the following consequences:

- The rise of the costs of the credits taken by the population, firms and the state;
- The business model practiced by the banks in Romania and by other financial institutions according to the pattern "we borrow externally and credit locally" will radically change generating a lack of liquidity on the financial markets;
- Foreign investors give up to or postpone the decisions regarding certain investments they would have liked to make in Romania;
- The portfolio investments have been substantially reduced.

b) The economic channel determined by the economic contraction in the developed countries having the following effects:

- The decrease of the export;
- The reduction or cessation of the activities supplying components for the industries affected by the recession – auto, metallurgy, garments, constructions etc.;
- The decline of the money transfers in Romania made by the Romanian workers from abroad;
- The reduction of the rhythm of economic growth.

The economic contraction can lead to the impossibility of paying certain debts by physical and juridical persons and implicitly to the appearance of solvability problems for banks and other financial institutions as well as to social tensions.

There is an interdependent relationship between the two channels so that the Romanian financial system is affected by both the afore-mentioned channels because of the generalized liquidity crisis and the reliability crisis at the level of the population.

2. The concept of systemic risk

The financial crisis [3] started as early as 2007-2008 reveals new dimensions of the concept of systemic risk in the banking activity. Thus, "the risk of chain reactions leading to the bankruptcy of a number of interconnected institutions" is gradually extending threatening to encompass the activity of the "shadow banking system" – an unregulated sector created in order to avoid the strict regulation typical for the banks.

The evaluation of the systemic risk from the banking system in Romania remains traditional taking into consideration the fact that the level of development of the financial technologies and the risk tolerance are extremely low. Thus, those non-banking financial institutions which make up the shadow banking system and which by using sophisticated financial products with a high degree of risk have damaged the stability of the American financial system do not show any signs of concern in Romania.

According to the specialists, the contagion effect manifests itself through two channels:

The exposure channel – which refers to the potential for the emergence of the "domino effect", potential given by the real exposures on the interbanking markets and the payment and compensation/clearing systems

The informational channel – which refers to the massive and contagious cash withdrawals by the insufficiently informed deponents regarding the types of shocks affecting banks and the reciprocal physical exposures.

In Romania, the systemic risk is visible in relationship with the liquidity of the credit institutions as a consequence of the attitude of some banks to found their financing strategy of increasing the number of credits by attracting interbanking resources. The alert crediting dynamics, superior to that of the deposits attracted by the non-banking clientele has induced the increment of the value of the credit indicator on deposits from 91.1% in 2006 to 109% in 2007. Under the circumstances, the balance has been supported by the increase of the weight of the interbanking resources from 22.3% in 2006 to 28% in 2007 at the same time increasing the dependence of the Romanian banking system upon resources with a high potential of volatility [4].

The degree of concentration and their increasing value amplify the exposure of the crediting institutions to the liquidity shocks on the basis of eventual changes in a negative way of the feeling of the institutional investors regarding the placement perspectives in the Romanian banking system.

The structural analysis of the interbanking resources emphasizes the dominance of the external resources provoked especially by the mother-bank. Taking into account the fact that at the end of 2007 the sums attracted by the mother-banks represented approximately 70% of the total interbanking resources used by the credit institutions in Romania, the most probable risk scenario could be the situation in which the mother-banks would be affected by a shortage of liquidity. Even under such circumstances, they would restrict the financing of the branches in Central and Eastern Europe only on condition that the liquidity crisis is extremely severe because an important part of the profits of these mother-banks come from the respective branches. Taking into consideration the fact that the autochthon banking sector is dominated by banks in Austria and Greece which do not seem to face difficulties in the context of the present turbulences, the severity of a possible external shock is limited.

In parallel with the accentuation of the resources coming from the mother-banks the financing the internal market has increased. Testing the resistance of the Romanian banking system to the internal risk of interbanking contamination shows that triggering a chain bankruptcy process is the least likely since the autochthon interbanking bilateral exposures have generally been reduced in relationship with the funds and the liquid assets of the crediting banks.

The perspectives of the emergence of a powerful systemic process within the Romanian banking system are connected to an eventual generalization of the behavior of

the crediting institutions to finance the development of their crediting activity mainly from interbanking sources.

The changes at the level of the shareholding of the crediting institutions in 2011 and 2012 have not led to major mutations in the structure of the Romanian banking sector. As a result of the acquisition of the Anglo-Romanian Bank by BCR the number of the crediting institutions has been reduced to 41. The banks with a majority foreign capital have easily diminished their market share in the aggregated assets of up to 83% on 31 December 2011 and 82.5% at the end of the first semester of 2012, mainly on the basis of the immobilized and non-performing sales of assets. From the perspective of the percentage in the aggregated assets, the banks with Austrian capital keep holding the majority position with a market share of approximately 38%. The group of banks with Greek capital decreasing by 13.0% on 31 March 2012 (13.3% at the end of 2011) has witnessed a repositioning within the banking sector as an effect of the restriction of the local deposit basis in the context of the negative perception of certain deponents induced by the events in Greece being surpassed by the banks with Romanian and French capital holding a share of 17.5%, respectively 13.1% on 31 March 2012.

The degree of financial intermediation measured as a balance of the net banking assets of the GDP (61% on 31 December 2011) has remained under the European average with a level much lower in comparison with the one in 2010. The degree of concentration of the Romanian banking system (reflected by the balance held by the first five banks after the amount of the assets) has lightly increased until 54.2% on 31 March 2012 (54.6% at the end of 2011). A similar evolution manifested itself with respect to the credits and deposits held by the first five banks in the banking system which have reached 53.1%, respectively 53.1% on 31 March 2011 (the corresponding levels on 31 December 2011 have reached 52.3%, respectively 58% on 31 December 2011).

A special attention has been paid to the credit granted to the private sector which has risen in real terms to 3.3% on 31 December 2011 and by the end of the first semester of 2012 the annual dynamics has accelerated by 4.1%. The most dynamic component has been the short-term credit. The main segment of the credit destination has been that of the companies whose balance in the total assets has increased by 30.2% on 31 December 2011, a superior level by 4% to that registered by the credits granted to the population; the same structure has been maintained in the first semester of 2012 [5].

Even if the crediting in the national currency has been recommenced since the last semester of 2011, the crediting stock in foreign currency granted to the private sector has remained majority holding approximately 64% of the total credit portfolio on 31 March 2012 (63.4% at the end of 2011), especially on the basis of the financing directed towards the companies.

In the period under discussion, the manifestation of the disintermediation phenomenon as well as its impact upon the real economy has become a preoccupation at European level. At the level of the crediting institutions in Romania the process of disintermediation can materialize through the following channels:

- the reduction of the external financing as a result of the deterioration of the macro-economical conditions with effect upon the liquidity of the crediting institutions;
- the tendency of the foreign banking groups to diminish the exposure of the branches towards the non-governmental sector as a strategy to reduce capital demand at the group level (by diminishing the balanced exposure to risk taking into account the fact that the elements regarding the credit nature granted to the real sector have a high risk rate);
- the measures oriented towards the development of the exploitation activity (for example, the reduction of the exposure to certain sectors or categories of debtors, the sale of credit portfolios, the redimensioning of the expenses directly neglected by the earnings or even the restructuring of the territorial network).

Throughout 2011, the disintermediation phenomenon has substantially affected the Romanian banking system, the rate between the assets of the crediting institutions and the actual capital determined by the aggregated level registering a non-significant change (11.1 on 31 December 2011 in comparison with 11.2 on December 2010).

3. The perspective of the financing sources

From the perspective of the financing sources of the balance assets one can notice the following tendencies:

- the positive trend of the dynamics associated with the banking savings of the population in the second part of 2011 after the contraction in the previous four semesters;
- the ascendant trajectory of the inherent financing sources which ensure 17% of the financing demand on 31 March 2012 (16.2% at the end of 2011);
- the diminishing in real terms of the external liabilities. This category has preserved its second position in the classification of the financing sources (with a rate of approximately 26% of the total liabilities), the largest part of the financing of the banking assets (approximately 48%) being ensured by the internal deposit basis (resources attracted from the companies and the population).

The resident non-banking clientele [6] (companies and population) holds its net debtor position towards the Romanian banking system for the fifth consecutive year, the credits significantly surpassing the deposits. The structure of the aggregated balance keeps raising problems from the perspective of the correlation on maturity of the assets and liabilities but the same vulnerability is decreasing. The capitalization of the Romanian banking system has preserved a comfortable level throughout the entire period under discussion. The solvability indicator was 14.9% on 31 December 2011 and 14.6% on 31 March 2012, superior levels to the the prudential level of 10% recommended by the central bank together with the effects of the international financial crisis. The cost of the credit risk has represented a challenge for the maintenance of an appropriate capitalization compensated by the new infusion of capital exclusively got by the shareholders.

The actual level of capitalization ensures good conditions for the implementation of the new demands stipulated in the Basel III regulation during the following period. In addition, from the stress testing analysis periodically made by the central bank a level covering the capitalization of the banking sector has resulted in spite of the diminishing capacity of generating profit from exploitation against the background of the increase of the percentage of the instruments carrying a fixed interest with lower effects.

The National Bank of Romania ceaselessly makes evaluations of the crisis. According to the officials of the National Bank of Romania, this crisis will not affect Romania directly not because our country has a primitive financial system, but because Romanian banks have avoided the toxic crediting products and the crediting norms of the National Bank of Romania have been more drastic. The Governor of the National Bank of Romania has explained that Romania has a financial and banking system which has continuously evaluated from simple to complex, from weak to powerful and which at present has not by far those vulnerabilities specific to other countries.

4. Conclusions

The National Bank has an important role in the management of the effects of the crisis, its direct responsibility targeting two markets of major importance: the monetary market and the foreign currency market. It is certain that the measures of monetary policy have a positive or negative effect upon the entire economy. From this reason, the National Bank of Romania operates on a large scale. If alarming rumours invade the market it intervenes to calm the public. When the consumption demand dramatically exceeds the internal bid of goods and services it interferes in order to balance the market. As far as the two afore-mentioned markets are concerned, the monetary and the foreign currency market, all measures are taken in order to avoid any kind of side-slip from a correct evolution.

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Accounting Policies and Fair Value of Fixed Assets and Influence of Financial Results in Romanian Listed Companies

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Abstract

In the pages of this article, we shall present a study whose main objective is to reflect how financial period result is influenced by policies and accounting treatments applied within companies. To achieve this objective we considered the financial statements and audit reports for the financial period 2009 and 2010, 2011, of the following companies listed on Bucharest Stock Exchange : Alro SA Slatina; Alumil Rom Industry SA; Azomures SA; Transilvania Constructii SA; Mechel Targoviste SA; Prodplast SA Bucuresti;Mecanica Ceahlau SA Piatra Neamt;[1].

Keywords: accounting treatments, accounting policies, tangible fixed assets, evaluation, fair value.
J.E.L. Classification: M 41

Introduction

When applying accounting regulations compliant with European Directives, entities must develop own accounting policies which must be approved by administrators according to the law. For entities which do not have administrators, accounting policies must be approved by people who manage the entity. The accounting policies are not uniform or "standardized" because they must be adapted to the company's activity.

However, the rules and accounting treatment cannot be unitary or „standardized" because they must be provided in accordance with accounting regulations of the Fourth Directive of the European Economic Communities, approved by the Ministry of Public Finances by Order no. 3055/2009.

Given the possible implications of the accounting treatments under IFRS, the tax value determined under the provisions of these standards proposes the introduction of separate accounts highlighting elements such as impairment of intangible assets, derivative transactions, the value of assets, impairment of goodwill.

Also it has been brought some clarification regarding the accounting of the cost of consumption of stocks, property depreciation, interest expenses, personnel expenses, etc.. and which according to IFRS are included in the value of assets.

Accounting treatment regarding the initial recognition of tangible fixed assets

Tangible fixed assets recognition

Tangible assets are recognized as assets and included in the financial statements of a company (ie balance sheet), if they correspond to the definition of assets and fulfill the following conditions cumulatively: the possibility for the company to generate future economic benefits corresponding to these assets, the cost of the assets can be determined as fair as possible.

The first criterion is accomplished when a company establishes a certain degree of reliability by obtaining economic benefits as a result of asset holding. In addition, the company must take both benefits (future economic benefits which result clearly from destinations that these elements may have: direct or indirect) and asset risks. What do you think about security systems? Can they be considered tangible assets? (Since they protect production systems, they contribute indirectly to the achievement of future

economic benefits and thus they are considered tangible assets with useful life longer than one year. Let's think to losses which will occur during their absence).

The second criterion of recognition is usually achieved since at the time of tangible fixed assets purchasing, the cost can be clearly identified with the help of supporting documents showing the purchase. It is more difficult to determine the cost of tangible fixed assets produced by the entity, because not all costs can be capitalized and then we have to resort to the application of professional judgement for the correct capitalization of costs.

In terms of tangible fixed assets identification, if the components of an asset have different useful lives or provide benefits to the enterprise in a different way, they are accounted for separately, using different depreciation rates and methods. It is about the so-called "component approach" which IFRS requires for depreciation. For example: aircrafts and their engines, construction and heating systems for buildings or lands and buildings where these are located (the useful life of lands is unlimited, so that only buildings are subject to depreciation).

Evaluation of tangible fixed assets

Tangible fixed assets are valuated at cost at the time of their purchase, that means the entry value (accounting value).

Accounting value has different names, depending on the purchase way of tangible fixed assets, such as: acquisition cost for purchased goods; production cost in case of personal labor; contribution value for goods supplied to the capital stock; fair value for goods received free of charge and for those which are exchanged. In addition, tangible fixed assets can be purchased also by leasing, when the determination way of book entry value presents some peculiarities, as it is shown in IAS 17 "Leasing".

Regarding tangible fixed assets, the main problem which arises in this category is related to the fair value.

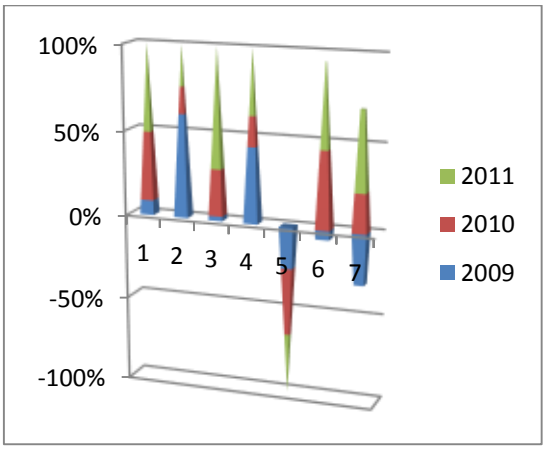
Fair value was considered the ''trigger'' of the financial crisis. Most specialists believe that such a serious crisis like the current one is not and can not be caused by a single involved party, but it involves the inefficiency of a whole ecosystem which failed to assess the risks implied by the fast growth of structured risks of mortgages, the other side of the coin in the increase of real estates prices and a lack of market liquidity without precedent. [3] Therefore, all these factors brought up an inappropriate behavior from the part of lenders, borrowers and investors, making them to ignore what the simple common sense would have indicated, that is never to forget to assess at fair value the true risk involved.

The support for the fair value concept didn't result from the belief that this is a perfect one, knowing that there will be a series of amendments to current standards which will be achieved in the future, as the IASB president suggested himself recently [2]. Nevertheless, the purpose assigned to the fair value accounting and market-based assessments does not seem exaggerated, however if we integrate it in the picture which presents the characteristics of financial markets in an emergent world, a picture which reflects also the lessons learned from past crises. A restriction of the fair value would not only heal the wounds of the current financial crisis, but on the contrary, would be likely to worsen them, reducing the level of confidence that investors and others, have in the financial statements of financial institutions [4].

We shall present further the evolution of the operating result, financial result, as well as the gross result during the period 2009-2011. The data have been taken from the financial statements of economic entities. In order to realize the charts more easily we assigned a number to each entity as follows: Alro Slatina - 1, Alumil Rom Industry -2, Azomures - 3, Transilvania Constructii - 4, Mechel Targoviste - 5, Prodplast Bucuresti - 6, Mecanica - 7.

In the diagram No. 1. it is shown the percentage evolution of the operating result. As can be seen from the chart, the company Mechel Targoviste is the entity which has the negative values of this indicator in the analysed period. At the counter pole, Alro recorded the highest increase of the operating result.

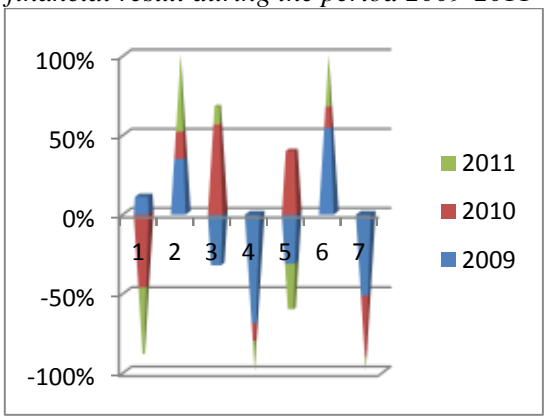
Diagram No.1 Evolution of the operating result during the period 2009-2011



Source: author's projection

The evolution of financial activity result is shown in the Diagram No 2. In this case we can see the effect of the financial crisis, the significant decrease of this indicator in most analysed entities. Transylvania Constructii and Mecanica registered a significant decrease of the financial result during the all analysed period. Alro Slatina and Mechel Targoviste managed to achieve a slight increase of the indicator in one of the three periods. Regarding Azomures, it seems that the financial crisis affected the financial result only in 2009 and then the entity registered a growth of the indicator in the subsequent years, the greatest evolution being in 2010.

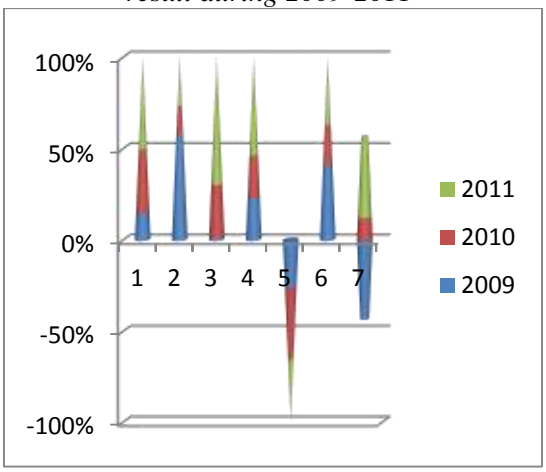
Diagram No.2 The evolution of the financial result during the period 2009-2011



Source: author's projection

In the diagram number 3, we present the evolution of the gross result during the period 2009-2011. Five entities from those analysed showed an upward trend of the indicator, while Mechel Targoviste showed a strong decrease of the indicator during the all analysed period . We can say that this entity has been the most affected by the global crisis from all analysed entities.

Diagram No. 3. The evolution of the gross result during 2009-2011



Source: author's projection

These results have been influenced mainly by policies and accounting treatments used by those companies.

Usually the fair value is determined through a reassessment made by an A.N.E.V.A.R. member appraiser[5].

According to the Tax Code, Article 54 paragraph [1] "building tax owed by legal entities which have not made the reassessment in the last 3 years previous to the fiscal year of reference, shall be calculated on the basis of the rate set between 5% and 10%, applied to the building inventory value recorded in the accounting of legal entities by the end of the month in which the first reassessment was made. By the first reassessment we understand the nearest reassessment to the fiscal year 2002. " All firms from the test object reassessed the tangible fixed assets in order to avoid this provision of the tax code. We shall present in the table below the year in which reassessment of tangible fixed assets was made to the following companies:

Table number 1. The year in which reassessment was made

Company	**Year when reassessment was made**
Alro SA Slatina	31.12.2008
Alumil Rom Industry SA	31.12.2009
Azomures SA	31.12.2010
Mechel Targoviste SA	31.12.2009
Mecanica Ceahlau SA Piatra Neamt	31.12.2010

Source: Financial Reports for 2010 and 2011

All companies which were subject to the study reassessed the tangible fixed assets, namely lands and buildings at a period of three years, only to identify themselves with the rules of the tax code[6]. The issue is also due to the financial crisis of the real estate market, since if this reassessment was done only every three years, there is a risk that in this period the fair value at the end of these years not to be close to reality. There are companies which have tangible fixed assets, namely, lands and buildings which are otherwise encumbered in the sense that they are mortgaged in favour of different credit institutions in order to guarantee certain loans. Usually these institutions update the values of mortgaged tangible fixed assets and prepare a reassessment report, which can be harnessed also by companies in order to reflect the value of these categories of tangible fixed assets as closer to the real value(fair) in the annual financial statements[7].

Another aspect worth mentioning is that of the valuation method used, namely the gross value method or net worth method[8]. The result of the financial period is affected by the revaluation method used in the sense that if we use the gross value method ,both the entry value and accumulated depreciation will be updated, affecting downward the financial period result and if we use the net worth method to reassess the tangible fixed assets, the result of the financial period will not be affected. The effect on the balance sheet is the same.

Table number 2. The depreciation method used

Company	**The Method used**
Alro SA Slatina	Gross value method
Alumil Rom Industry SA	Net worth method
Azomures SA	Net worth method
Mechel Targoviste SA	Gross value method
Mecanica Ceahlau SA Piatra Neamt	Net worth method

Source: Financial Reports for 2010 and 2011

Conclusions:

Accounting treatments and policies used by companies influence the result of the financial period, leading many times to a result which can be determined by the needs of the companies.

Tangible fixed assets accounting policies directly affect the result of the exercise. Some companies have adopted a policy of acquisitions of tangible fixed assets. This will affect the operating result in the next period, especially in companies witch do not have as main activity the manufacturing, decreasing this indicator.

Also all the companies which were subject to the study used the linear method of depreciation, although it could use a depreciation method that reflects the proportional utilization of equipments, for example the digressive or accelerated depreciation method.

According to many specialists in the field, the fair value evaluation of the balance sheet would be justified only for the elements which are meant to sale, marketing while those which are to be preserved, should be evaluated at the historical cost.

An important aspect worth mentioning is that information users must consider not only one indicator, but many indicators: turnover, operating result, total assets, net assets and every ratio that can lead to a real value of the company.

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Fair Value and Its Significance in Performance

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Abstract

Economic entities have a very important role in our daily life and for this reason performing companies are a key element for the development of a nation. Thus, many economists consider economic entities as an engine – in determining economic, social and political progress. In the context of the current economic and financial crisis it is highly important to know the factors generating success and how it can be measured. Changes in economic and social environment, technology improvement, need for relevant, reliable, timely and effective information in decision making in order to achieve performance goals have led us to think about performance measurement as a consequence of fair assessment.

Keywords: fair value, performance, market, financial position.
JEL classification: M41

1. Introduction

The goal of general financial statements is to provide information about: *financial position*; *performance and cash flows of an economic entity*, *useful for a wide range of users in economic decision making*. Financial statements also show the results of company's management of the resources entrusted.

Applying the *fair value in accounting* "seems" to enable the development of financial statements that give others better information on current and future performance of the company and therefore the possibility of substantiating their decisions. *By making such a statement we feel obliged to ask about the relationship between accounting results, in the broad sense of the term, and the company's market value.* Amid the exponential growth of financial markets, some foreign experts ask themselves the following question: *Is the recognition of balance sheets and past results likely to generate information on the evolution of future results?* [1].

2. Concept of performance

The meaning of the concept of performance has changed over time becoming a polysemous term with various meanings depending on the areas in which it is used. The word performance comes from Latin word "performare" and means "giving form to something entirely", but its meaning comes from the English verb "to perform" which means "to achieve something that requires a particular skill or aptitude" [2].

In the local literature we meet the noun "**performance**" which basically translates the manner with which an organization achieve the goals that have been proposed. [3].

Other meanings referred to in the literature [4] are common without reaching a universal definition of performance.

Performance means success. Performance does not exist by itself, being dependent by the representation of the success of the different categories of users of accounting information.

Performance is the result of the action. Opposite to the preceding, this sense does not retain the value judgment of external users. Performance measurement is understood as the "ex-post evaluation of the results obtained".

Performance is action. In this sense, the performance is a process, not an outcome that occurs at a time. If we refer to all of these

meanings we can say that performance can be defined by the users of accounting information in relation to their own goals.

Bunea Stefan, in his attempt to define this notion so "sweet" as meaning but "bitter" in its complexity, from the economic perspective, distinguishes three major guidelines [5].

Definition of performance based on the achievement of goals: from this perspective an entity can be considered efficient only if it achieves the goals set. In other words, the performance depends on a purpose, a goal originally set or a reference. Since purposes may be multiple - depending on the one setting this reference and the reason why it is set, performance becomes multidimensional. A performance itself *is not poor or good*, *it can be appreciated as a good performance when the goal is modest or as poor performance, if we are dealing with an ambitious goal.* [6].

Definition of performance based on value creation: for the economic entity, performance is what helps to improve value-cost relation and not just what helps to reduce costs or increase value. Creating value should be considered from the perspective of all those parties involved in the activity of the institution - shareholders, employees, customers and not least the environment in which the institution operates.

The concept of value creation is based on a worldwide admitted truth, regardless of geographic or economic boundaries: companies create value as long as provides remuneration of capital at a rate of return that exceeds its cost. In other words, it is not enough that an entity is recording accounting profit for it to create value. The concept of *value created* is linked, directly or indirectly, to the profit, but a profit, even very large, has no value in itself, but it must be judged in the light of efforts made to obtain it and in terms of resources used, which have a cost, even if we consider it virtual or of opportunity. Today, all economic entities responsible face the problem of value creation under the pressure of internal management aspirations, oriented either to increase the value or under pressure from financial markets that require a higher and faster yield.

Definition of performance based on profitability and efficiency of the economic entity: According to this vision, an economic entity is theoretically efficient if it is both profitable and effective [7].

Performance is the degree to which an entity manages to meet both the internal environment and the external environment requirements, through an optimal combination of effectiveness and efficiency.

According to Professor Maria Niculescu, performance "is a company's state of competitiveness reached by a level of effectiveness and productivity (efficiency) that ensures its sustainable market presence" [8].

You cannot win a race without knowing where you are going and under what conditions, without defining your path and resources you need to support the race, without being trained and motivated to win it! Without proper management, there cannot be performance, effectiveness. Therefore performance has its cost. Normally, costs should be lower than the results obtained, otherwise the economic entity does not generate a positive value.

Therefore, if effectiveness is a measure of what is being done, efficiency is a measure of how it is done. It is not the same thing if in achieving its objectives an economic entity generates a lower or higher value, and this value is manifested in many forms, sometimes tangible and other times intangible and it is provided to customers, shareholders, employees and partners. The entity will produce more value, the more it will have more resources available to invest in long-term competitive fight. It can be created a definition of performance starting from the following elements: achieving something for a given purpose (create value); result (which can be defined in different ways); achievement potential (creative ability, customer loyalty); comparing a results to a reference (internal or external, chosen or imposed); competition (applying the concepts of continuous improvement, doing better than last time); judgement; comparison.

3. Implications of using fair value on financial performance

Fair value represents one of the forms of assessment that make increasingly more presence felt both in the accounting language and accounting standards. Adopting fair

value as assessment basis in the financial statements has generated numerous disputes being considered one of the main triggers of the crisis [9].

In this respect, the arguments consist in his pro-cyclical nature and the insufficient information provided by the setters, for the assessment of financial instruments on inactive markets.

Regarding the fair value Gilbert Gélard, IASB member and representative of the French profession, interviewed by SIC magazine in March 2003, stated the following: *"The stake is changing the model of accounting from cost to value, having as corollary the volatility (...) is a major conceptual change facing many obstacles: habit, fear of systemic risk, absence of reliability – of fair value – (sometimes internally calculated without the possibility of being controlled too much), a management divorce..."*.

Dudian Monica and Huru Dragos stated that at the basis of the concept of *fair value* is the presumption that economic entities have an ongoing activity (the principle of continuity) without any intention or need to liquidate the business, significantly reducing the scale of its operations or undertaking a transaction on unfavourable terms [10].

Therefore, the fair value will not be the amount that the entity would receive or pay in a fortuitous transaction, forced liquidation or forced sale. However, the entity may be forced to consider its economic situation or current operations to determine the fair value of its assets and liabilities.

For example, the management's plan to sell an asset on an accelerated basis to meet specific business goals may be relevant for determining the fair value of that asset. Disclosure of assets, liabilities and specific components of equity may arise from both the original records of transactions and as a result of subsequent modification of values.

Assessments and disclosure of fair value are not assertions themselves, but may be relevant to specific assertions based on the applicable financial reporting framework. Many assessments based on estimates, including fair value assessment are inherently imprecise. In addition, there are some evaluation practices and disclosure requirements for fair value in specific sectors.

The best fair value impact on a business performance measurement is provided by IAS 39 *"Financial instruments: recognition and measurement"*. Certain assets and liabilities are included in the balance sheet at their fair value, meaning at the market price. Any change occurred in the fair value of recognized assets and liabilities is taken to income statement. This changes the nature of profit and loss account and requires rethinking performance measurement process as net income before tax is no longer the economic activity of the company, but it also includes the profit generated by the growth of the fair value of assets.

In other words, changes in market values will lead to changes in the results reported in the profit and loss account and under these conditions it will be difficult to attribute the performance to internal changes or external conditions (market).

If the use of fair values lead to a market price impact on revenue, and hence on the performance, then the income will become more volatile as a result. Using fair value involves a change in direction of profit and loss account towards a global income statement, as does the one developed by the United States.

There are two views outlined in this regard, namely:

Arguments against:

1. It is difficult for shareholders to assess the effectiveness of resource management by the company's management;

2. Profits arising from changes in fair value could be unrealized and the recognition of unrealized gains is inconsistent with the traditional conservative approach to accounting.

The pros:

1. Acquisition of assets whose value decreases is a clue of poor management that should be recognized in the income statement.

Reporting overall income in financial statements will involve the presentation of all the changes in the assets and liabilities arising from transactions other than with shareholders. This project intends to combine into a single statement called *"overall income statement"* all the currently elements recognized in the profit and loss account or the statement of changes in equity: *revaluation of fixed assets,*

investments in properties, goodwill, gain/loss on disposal of assets and net investments, fair value or cash flow covering etc. But this project has not yet been finalized and therefore we can say that the use of fair value in the absence of an overall income is not beneficial, especially in assessing performance. Currently, however, the fair value is trying to reduce the negative effects of historical cost. Once with the ever more powerful development of financial markets, fair value will have an *increasing* role.

4. Conclusion

Although international standard setters have wanted and still want to extend the practice of fair value of all balance sheet items, regardless of the scope of the entity, fair value assessment remains a very controversial topic.

The impact of assessment in fair values is significant, some authors considering that assessing the fair value of all balance sheet items leads to a result three times higher than the net result [11].

Therefore, the fair value assessment of balance sheet assets represents a risk of manipulation of the result as fair value is only an accounting estimation which leads to behaviours such creative accounting.

In addition, some experts believe that, in times of crisis, the fair value should not be determined based on the market value, but according to future estimates of cash flows to be generated by that item. Current experience related to capital markets falling provisionally stopped the trend of fair value assessment of balance sheet items. However, the fair value is considered to be the best method available to establish financial instruments and to reflect the financial position of an entity.

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The European Social Charter (Revised) and the Protection of the Human Rights

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Abstract

Between the moment of Convention for the Protection of Human Rights and Fundamental Freedoms (Rome, 1950) and The Treaty establishing a Constitution for Europe (Lisbon, 2007), the human rights - which have been the subject of numerous approaches and evaluations along the centuries, most of them considering the philosophical, juridical, and socio-political aspects - were taken into account in the pages of the documents elaborated by The Council of Europe. The texts of such documents are legally binding for all European Union members. One of these texts is also that of the European Social Charter (revised) published in Strasbourg in 1996, which contains general principles and norms of the European Union legislation on the juridical protection of the human rights. The output of the hermeneutic analysis of this Social Charter reveals that the member states of The Council of Europe, which included the protection of the human rights amongst their major preoccupations, brought an important contribution to the creation of the juridical framework for the affirmation and protection of the human rights.

Key words: Protection of Human Rights, Council of Europe, European Code on Social Security, Human Dignity
J.E.L. Classification: K33

1. Introduction

The European Convention, especially The European Social Charter, certifies that so far we can only speak about legislative reforms in the social construction and reconstruction of Europe on European and international level, not on national one, although these two documents enforced as obligatory juridical documents have been ratified by Romania as well. Therefore, we intend to present within the pages of this study – even it is a brief presentation – the provisions stated as principles in the text of The European Social Charter (Revised) with the hope that such provisions will not only remain in the ratified texts as "Pium Desiderium" (Pious Wish), but by contrary it the near future they will become real and translated into practical and effective measures, and into the day-by-day life of the Romanian citizens.

2. Analysis of the subject

The European Convention on Human Rights (ECHR) (formally the Convention for the Protection of Human Rights and Fundamental Freedoms) is an international treaty to protect human rights and fundamental freedoms in Europe[1]. Drafted in 1950 by the then newly formed Council of Europe, the Convention entered into force on 3 September 1953. The Convention, which established the European Court of Human Rights (ECtHR), it is still the only international human rights agreement providing such a high degree of individual protection.

On 6th April 1964, the member states of The European Council have signed The Code on Social Security [2], to which Protocol to the European Code of Social Security has also been attached ten days later on [3].

The text of The European Social Charter enforced in Turin on October 18, 1961 has been revised in Strasbourg in 1996, and

afterwards published as *The Revised European Social Charter* [4]. Romania ratified The Charter in 1999 (The Law n. 74, Published in The Official Gazette n. 193/04.05.1999).

In line with the provisions of Article 7 of the Code on Social Security, each State "... must guarantee the medical care of curative nature to the protected persons under prescribed conditions when they need preventive or curative medical care ...". The Code also enforces the obligation of the Parties to guarantee "unemployment support for the protected persons" (Article 19), "old-age benefits" (Article 25), "work accidents and occupational disease benefits" (Article 31), "medical care in case of maternity" (Article 49), "survivor's benefits" (Article 59), etc.

As regards the protection of the human rights the 1st Part of The European Social Charter (the revised version enforced in Strasbourg) includes numerous basic *rights and principles*, e.g.: the opportunity of any person to earn his living in an occupation freely entered upon; the right to just conditions of work; the right to safe and healthy working conditions; the right to a fair remuneration; the right of all workers and employers to freedom of associations for the protection of their economic and social interests; the right of all children and young persons to "a special protection" against the physical and moral hazards to which they are exposed. The children and the teenagers have the right to a fair social, juridical, and economical protection; the right of the woman workers to "a special protection" in case of maternity; the right of any person to appropriate facilities for vocational guidance; the right of any person to benefit from any measures regarding his sanitary situation; the right to social security; the right to social and medical assistance; the right to benefit from qualified social welfare services; the right of any disabled person to independence, social integration and participation in the life of the community; the right of the family to social, juridical, and economical protection; the right of any European citizen to engage in any gainful occupation in the territory of any one others Party that signs this European Charter, on a footing of equality with the nationals of the latter, "subject to restrictions based on cogent economic or social reasons" (Article 18); the right of migrant workers who and their families to social protection and assistance; equal opportunities and treatment in matters of employment and occupation without discrimination on the grounds of sex; the right of the workers to be informed and to be consulted, including the procedures of collective unemployment and to take part in the determination and improvement of the working environment; the right of the every elderly person to social protection; the right of all workers to protection in cases of termination of employment; the right of all workers to protection of their claims in the event of the insolvency of their employer; the right to dignity at work; the right of all persons with family responsibilities to be employed; the right of workers' representatives in undertakings to protection against acts prejudicial to them; the right of any person "to protection against poverty and social exclusion" (Part. I, Article 30); the right "to housing" (Article 31).

For the effective implementation of the above-mentioned rights, the Charter has also stipulated the obligations the Parties should be considered themselves as bound in. For example, with a view to ensuring the effective exercise of the right to work, the Parties must "recognize as one of their primary aims and responsibilities the achievement and maintenance of as high and stable a level of employment as possible," (Part III, Article 1).

With a view to ensuring the effective exercise of the right to just conditions of work, the Parties undertake – amongst others – "to provide for public holidays with pay"; to provide "for a minimum of four weeks' annual holiday with pay"; to eliminate "risks" in inherently dangerous or unhealthy occupations, etc. (Part II, Article 2).

With a view to ensuring the effective exercise of the right to safe and healthy working conditions, the Charter provides that the Parties are under the obligation in their policy to have "as primary aim to improve occupational safety and health and to prevent accidents and injury to health arising out of work,..." (Part II, Article 3, paragraph 1).

With a view to ensuring the right to a fair remuneration, the Charter provided the obligation of the Parties to recognize "the right of all workers to a reasonable period of notice for termination of employment" and

"to permit deductions from wages only under conditions and to the extent prescribed by national laws or regulations or fixed by collective agreements or arbitration awards" (Part II, Article 4, paragraphs 4 and 5).

With a view to ensuring and to protecting the union right, the Charter provided the obligation of the Parties to maintain this right unprejudiced by "their national laws and regulations" or the way this legislation is enforced (Part II, Article 5).

With a view to the right to bargain collectively "employees and employers" (see Part I, n. 6), the 2nd Part of the Charter provides the obligation of the Parties to promote "the establishment and use of appropriate machinery for conciliation and voluntary arbitration for the settlement of labour disputes" (Article 6, paragraph 3).

With a view to ensuring the effective exercise of the right of children and young persons to protection, the Charter provides the obligation of the Parties "to provide that the minimum age of admission to employment shall be 15 years" and "to forbid the employment of the children that are still included in obligatory educational process..." (Article 7, paragraphs 1 and 3).

With a view to ensuring the right of employed women to the protection of maternity, the Parties undertake amongst others to consider it "as unlawful for an employer to give a woman notice of dismissal during the period from the time she notifies her employer that she is pregnant until the end of her maternity leave,..." (Article 8, paragraph 2).

In order to ensure the effective exercise of the right to vocational guidance, the Parties undertake "to provide or promote, as necessary, a service which will assist all persons, including the handicapped...; this assistance should be available free of charge, both to young persons, including schoolchildren, and to adults" (Article 9).

As regards the right to vocational training, the European Social Charter (Revised) provides the same obligation of the Parties to provide or promote "the technical and vocational training of all persons, including the handicapped... and to grant facilities for access to higher technical and university education, based solely on individual aptitude...".

With the same view to ensuring the effective exercise of the right to vocational training, the Parties undertake "to provide or promote, as necessary, special facilities for the retraining and the reintegration of the long-term unemployed persons" and to ensure, "through adequate supervision", the efficiency "of adequate protection of young workers" (Article 10).

Amongst the measures the Parties should undertake in order to effectively promote the right to health protection, the Charter provides: the removal of the causes of "ill-health"; the creation of "advisory and educational facilities for the promotion of health and the encouragement of individual responsibility in matters of health"; the prevention "as far as possible of epidemic, endemic and other diseases, as well as accidents" (Article 11).

In order to ensure the exercise and protection of the right to social security, the Charter provides, amongst others, the obligation of the Parties to establish and maintain "the social security system at a satisfactory level at least equal to that necessary for the ratification of the European Code of Social Security...", and to apply for the citizens of each Party "equal treatment with their own nationals of the nationals of other Parties in respect of social security rights, including the retention of benefits arising out of social security legislation, whatever movements the persons protected may undertake between the territories of the Parties...".

With a view to ensuring the effective exercise of the right to social and medical assistance, the Charter requested the Parties "to ensure that any person who is without adequate resources... be granted adequate assistance, and, in case of sickness, the care necessitated by his condition...", and to provide that everyone may receive "by appropriate public or private services such advice and personal help as may be required to prevent, to remove, or to alleviate personal or family want..." (Article 13, paragraphs 1-3).

In this respect, the public institutions as Mayoralties, Social Assistance Organizations, Hospitals, etc. are under the obligation of providing both the needed social and medical assistance, and the

adequate material support to the persons with personal or familial needs.

The Charter provides also that in order to fairly apply the right to social and medical assistance the Parties should apply the equal footing with their nationals to nationals of other Parties lawfully within their territories "in accordance with their obligations under the European Convention on Social and Medical Assistance, signed at Paris on December 11th 1953" (Article 13, paragraph 4).

With a view to the right to benefit from social welfare services, the Charter provided the obligation of the Parties to promote or provide services, which would contribute "to the welfare and development of both individuals and groups in the community, and to their adjustment to the social environment" (Article 14, paragraph 1).

With a view to ensuring to persons with disabilities the effective exercise of the right to independence, social integration and participation in the life of the community, the Charter provided the obligation of the Parties to take "the necessary measures to provide persons with disabilities with guidance, education and vocational training..." and "to promote their full social integration and participation in the life of the community..." (Article 15, paragraphs 1, 3).

The Parties are also under the obligation to promote as well "the economic, legal and social protection of family life by such means as social and family benefits, fiscal arrangements, and provision of family housing, benefits for the newly married and other appropriate means" (Article 16).

With a view to ensuring the effective exercise of the right of children and young persons, the Parties engaged themselves to ensure: a) "...the care, the assistance, the education and the training they need", obviously "taking account of the rights and duties of their parents"; b) the protection of the children and young persons against negligence, violence or exploitation; c) the protection and special aid from the state for children and young persons temporarily or definitively deprived of their family's support; d) the free primary and secondary education to children and young persons, as well as to encourage regular attendance at schools.

The European Social Charter provides the obligation of the Parties to ensure both the right to engage in a gainful occupation in the territory of other Parties (Article 18), and the right of migrant workers and their families to protection and assistance on the territory of other Party (Article 19). The Parties should also "secure that such workers lawfully residing within their territories are not expelled unless they endanger national security or offend against public interest or morality" and "promote and facilitate, as far as practicable, the teaching of the migrant worker's mother tongue to the children of the migrant worker" (Article 19, paragraphs 8 and 12).

With a view to ensuring the effective exercise of the right to equal opportunities and equal treatment in matters of employment and occupation without discrimination on the grounds of sex, the Parties should ensure: a) "access to employment, protection against dismissal and occupational reintegration; b) vocational guidance, training, retraining and rehabilitation; c) terms of employment and working conditions, including remuneration; d) career development, including promotion" (Article 20).

The Charter has included the obligation of the Parties to ensuring the effective exercise of the right of workers to be informed and consulted within the undertaking. Based on this right, the workers should "be informed regularly or at the appropriate time and in a comprehensible way about the economic and financial situation of the undertaking employing them..."; and "be consulted in good time on proposed decisions which could substantially affect the interests of workers, particularly on those decisions which could have an important impact on the employment situation in the undertaking" (Article 21, paragraphs 1-2).

The Parties have engaged to promote measures aiming at: a) "the determination and the improvement of the working conditions, work organisation and working environment; b) the protection of health and safety within the undertaking; c) the organisation of social and socio-cultural services and facilities within the undertaking; and d) the supervision of the observance of regulations on these matters" (Article 22).

The signatory Parties of the Convention have also engaged themselves to ensuring and promoting the right of the elderly persons to social protection [5], in particular by means of "adequate resources enabling them to lead a decent life and play an active part in public, social and cultural life..."; at the same time, the Parties should enable elderly persons "to choose their life-style freely and to lead independent lives in their familiar surroundings for as long as they wish and are able..." (Article 23)

The Parties undertake to recognize the right to protection in cases of termination of employment (Article 24); to ensuring the right of workers to the protection of their claims in the event of the insolvency of their employer (Article 25); "to promote awareness, information and prevention of sexual harassment in the workplace or in relation to work and to take all appropriate measures to protect workers from such conduct" (Article 26); to ensuring the effective exercise of the workers with familial responsibilities to equal opportunities and treatment (Article 27); to ensuring the right of workers' representatives to carry out their functions, to guarantee "an effective protection against the facts that could lead to prejudice, including against unemployment procedure" and to create adequate possibilities to enable them to quickly and efficiently carry out their tasks..." (Article 28); to ensuring the workers' representatives the right "to information and consultation in collective redundancy procedures..." (Article 29); to ensuring the effective exercise "of the right to protection against poverty and social exclusion..." (Article 30); to ensuring the right to housing, hence "...to make the price of housing accessible to those without adequate resources" (Article 31).

Finally, the 5th Part of the European Social Charter restricts *expressis verbis* any kind of discrimination. "The enjoyment of the rights set forth in this Charter shall be secured without discrimination on any ground such as race, colour, sex, language, religion, political or other opinion, national extraction or social origin, health, association with a national minority, birth or other status" (Article E).

3. Conclusions

This specific Article of the European Social Charter (Revised) aimed to the reaffirmation of the principle according to which the affirmation and protection of the human rights involves the restriction of every single kind of discrimination[6] on any ground like race, colour, sex, language, religion, philosophical and political opinion, etc. Indeed, for the Party States of the European Council that ratified the Charter, the ethnical and social origin, the health status or the national extraction, the association with a national minority, etc. cannot represent grounds or conditions leading to the violation of the human rights. By contrary, the Charter provides the compulsoriness of ensuring the compliance all human rights recognized within its text.

The brief analysis of the Revised European Social Charter reveals that the Member States of the European Council put the legal protection of human rights on the first place in the list of their major preoccupations. Undoubtedly, through the enforcement of the human rights legal protection the States have reaffirmed the right to "dignitas humana" (human dignity) of each person, as expressly provided by the text of The Treaty establishing a Constitution for Europe (see Article 6).

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Specific Provisions on the Procedure for Judicial Cooperation in Criminal Matters

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Abstract

The phenomenon of globalization we are witnessing today determines the development of interstate relations by enhancing collaboration between them. If in the past globalization was achieved trough force, violence and terror, nowadays we all realize that, without the strong cooperation between countries in certain areas of social life, there would be no guarantee for sustainability.

Through the long and sinuous globalization process that underlies the international cooperation, states have imposed laws that have governed theirs relations, reaching an agreement on the means and instruments of establishing the relations between them. Of course, the aforementioned cooperation entails vast advantages, but, sometimes, there can be a number of problems and difficulties that should be regulated and granted mandatory force.

Key words: globalization, cooperation, criminal, regulatory harmonization
J.E.L. Classification: K14

1. Introduction

The European countries, as the whole world, are witnessing a major transformation. But what are the reasons for these changes? Since the beginning of the millennium, a sense of awareness emerged according to which, without permanent changes consistent with all the requirements of social life, there cannot be any achievement of full protection and safety within the community we live in. These changes refer to finding new ways to counterattack the nuisances of society. We address here the contemporary criminality as a phenomenon threatening the system of social values as states pillars [1].

It goes without saying that, in the fight against national and international crime, the best results cannot be obtained without the special cooperation between states.

The fight against crime is a major concern of all States and, above all, it is a priority over many other demands that society requires at a certain time. In these circumstances, states are forced to render mutual legal assistance, thus cooperating in the discovery, apprehension and conviction of all those who disobeyed in any way the criminal law [2].

This disturbing presence of crime in the international life entailed solidarity among the states aware of the need of cooperation, in order to prevent and fight against this phenomenon. Because of its scale, of its area of distribution and of its organized nature, it is obvious that international crime exceeds the states' capacity of response, and that a solitary fight cannot be carried out effectively.

Moreover, the Romanian legislator's concerns are to harmonize our legislation with that of European countries: the adoption of Law no. 302 of 28 June 2004 [3], amended by Law no. 244 of 01/06/2006 [4], demonstrates the awareness of the need for close cooperation between States in order to prevent and fight against acts hindering the rule of law.

In this respect, Romania has concluded several bilateral and multilateral agreements with a large number of states, entailing reciprocal assistance in criminal matters. The legal system is perhaps the most demanding area of social life, which has often raised issues for Romania at an international level.

Agreeing or harmonizing legal thinking is, at present, an element that requires great attention and concern for the deciding actors.

The globalization phenomenon we are witnessing is unfortunately fuelling the dimension of antisocial acts of repression, which exceeds the scope of a single state reaction. It is therefore imperative that the fight against crime states grants mutual aid.

This reciprocity requires similar or even identical perspectives on their reaction when faced with crime. We cannot speak of international aid since the two countries have very different legal backgrounds for sanctioning aggressive acts.

The parity of legal instruments against international crimes increases the state's reaction when confronted with a threat. The similarity of legal systems determines agreeing upon the legal and political aspects, so that we are now witnessing the emergence of a unified legal system at the continental level, and even at the global level.

From this point of view, Romania is making serious efforts in order to build a sustainable and well grounded system of legal rules which also meets international requirements. Of course, this transformation of the legal system is not easy to achieve in terms of the plurality of views, but many laws enforced after the events of 1989 and the fast changing rhythm of the Romanian legislative reveal the legislator's concern in harmonizing the Romanian legislation with the European and global ones.

Law 302/28.06.2004 on the international judicial cooperation in criminal matters is undoubtedly one of the most complete and modern settlement so far in this area, being also in line with the European legislation. The adoption of this legal instrument was strongly determined by Europe's critical attitude and it is ispired from the laws of other EU Member States.

The emergence and development of international cooperation was imposed not only by positive events but also by negative ones, entailing the need to find solutions to the problems that exceeded the singular capacity of a state. At the current stage of development, the contemporary international cooperation between sovereign and equal international actors is a reality imposed by objective needs [5]. The principle of cooperation is now widely accepted in the international relations among states, contributing to the mutual understanding among nations. The fundamental premise in the developpment of international relations must remain the respect of national sovereignty and independence [6].

International cooperation is thus a way of showing the existence of states in international relations, of respecting the national sovereignty and independence, based on consensual agreement and granting mutual trust in order to promote and protect common interests.

2. Institutions empowered in the international judicial cooperation in criminal matters

2.1. Romanian central authorities

According to article 13 of Law 302/2004, the Romanian central authorities must submit the requests in the areas covered by Titles II (extradition) and IV-VII (transfer of proceedings in criminal matters and the recognition and enforcement of judicial proceedings, transfer of sentenced persons, legal assistance in criminal matters) of this Law and transmit them through the following central authorities:

a) The Ministry of Justice, if they concern the extradition and transfer of sentenced persons or if they refer to the activity of judgment or to the stage of the enforcement of criminal court decisions;

b) The Public Prosecutor's Office attached to the High Court of Cassation and Justice, if they refer to activities from the stage of investigation and criminal prosecution;

c) The Ministry of Administration and the Interior, if they refer to the criminal record.

Most of cooperation forms require the appointment of one or more central authorities for the submission of requests and performance of other tasks. In Romania, as in most states, the Ministry of Justice is the central authority in the following matters: extradition, transfer of sentenced persons, transfer of proceedings, recognition of judgments and legal assistance during trial. The requests for mutual legal assistance during criminal investigation and prosecution are dealt with by the Prosecutor's Office from the High Court of Cassation and Justice; however, there are treaties (such as

the one with the U.S.) requiring, at this stage, the submission of requests through the Ministry of Justice. The Ministry of Interior is the central authority for all requests concerning criminal records.

On 1 December 2000, there was established the National Focal Point – a body subordinated to the Ministry of Administration and Interior of Romania, its main task being to ensure the operational cooperation between the structures with attributions in this field, from the Ministry of Interior and the Ministry of Finance – the National Authority for Customs and the corresponding agencies from the states part in SECI [7].

2.2. Foreign central authorities

The concern for the problem of international crime is relevant not only to states, but also to some important international organizations such as the United Nation Organization (now UN), the International Criminal Police Organization (INTERPOL) and the Council of Europe [8].

The idea of cooperation in the field of judicial investigation was, at the first, the subject of sporadic and isolated concerns, resulting in some agreements with a bilateral nature. In 1914, in Monaco, there took place the first International Congress of the police force, whose main concern was the centralization of documents related to the identification of criminals, the international research facilities to be provided and the procedure for extradition.

The contribution of the United Nations and of the Council of Europe in the fight against crime is not limited to drafting conventions, protocols and agreements, as these actors also give resolutions, directives and recommendations setting the major lines of action in the matter; they are also completed by the joint declarations of Heads State and the Government. The role of cooperation coordinators in Southeastern Europe is also played by several organizations including the Council of Europe, SECI, OSCE, UNICEF, and the Pact for South Eastern Stability by the European Task Force on Trafficking in Human Beings.

Good cooperation is achieved not only by Interpol but also by ENFOPOL (for central and Eastern Europe), by the National Anti-Mafia Directorate in Italy, and by the institutional twinning programs and by Romania-US Strategic Partnership (since 1998).

A specific form of cooperation between states in order to suppress certain categories of offenses is achieved by establishing several international courts, to prosecute the most serious crimes against humanity. Thus there were established:

• The Nürmberg International Military Tribunal for the prosecution of war crimes in Europe;

• The Tokyo War Crimes Tribunal for crimes in Asia;

• The International Criminal Tribunal [9] in Hague, whose jurisdiction is limited to crimes committed in the former Yugoslavia since 1991; it covers four categories of crimes: serious breaches of the Geneva Conventions of 1949, breaches of the laws and customs of war, genocide and crimes against humanity[10];

• The International Tribunal for Rwanda, in Arusha (Tanzania), which prosecutes the crimes of genocide, the crimes against humanity and the breaches of the Geneva Conventions, committed by Rwandans in neighboring states[11];

• The International Criminal Court, established on 17 July 1988 at Rome, by which there has been established the Statute of the International Criminal Court [12] in Hague; this court may exercise its powers in the territory of any State Party regarding: crimes of genocide, crimes against humanity, war crimes and the crime of aggression.

As part of the third EU pillar (the international cooperation in criminal matters), there are three agencies:

1. The European Police College (CEPOL) [13] aims to support the training of border police and of senior officers, by improving and strengthening the cooperation between institutes and national professional organizations;
2. EUROPOL;
3. EUROJUST.

At EU level, there are two institutions empowered in the field of international cooperation, namely Europol and Eurojust. An important contribution to the international cooperation was brought by the European Council [14], under which there were adopted, so far, over 160 agreements and

numerous recommendations that establish common action in economic, social, cultural, scientific, legal and administrative fields and that govern, among other things, a system of coordination between the European countries in the fight against crime[15].

I. Eurojust [16]: It was created by EU Council Decision of 28 February 2002 no. 2002/187/JHA OJE L 63/1, 6.3.2002, as amended by Council Decision of 18 June 2003 no. 2003/659/ JHA (OJE L 245/44, 29.09.2003). Since 1 March 2001, it provisionally operated in Brussels and, in December 2002, it moved to Hague.

Eurojust is the European body that serves to enhance judicial cooperation and coordination between Member States, by adopting structural measures at the EU level, in order to facilitate the optimal coordination of actions in the investigation and indictment of suspects in the Member States, while fully complying with fundamental rights and freedoms. The main objectives are: to boost the coordination between the competent authorities of the Member States in the investigation and prosecution in the Member States, to improve the coordination between the competent authorities of Member States, particularly in facilitating mutual legal assistance and the implementation of extradition requests, to support the competent authorities in the Member States in order to streamline investigations and indictments.

Eurojust (European Judicial Cooperation) is a new European Union body established in order to increase the efficiency of Member States' competent authorities when dealing with serious cross-border and organized crime.

The legal doctrine states that Europol and Eurojust are the third pillar in police and judicial cooperation in criminal matters. Europol and Eurojust are decentralized bodies of the EU. Eurojust and Europol signed an agreement for close cooperation on 9 June 2004. The cooperation between Romania and Eurojust started in 2002, by the resolution of complex cases of transnational crimes of human trafficking or drugs.

II. Europol (European Police Office) [17]. The idea of a European Police Office was first launched at the European Council in Luxembourg, on 28 and 29 June 1991. The plan had in view to establish a new body in order to provide a framework for developing police cooperation in the EU Member States, to prevent and combat international organized crime, including terrorism and drug trafficking. The Convention whereby the Europol was set up was signed in July 1995 and entered into force on 1 October 1998.

Coordinating the work of various national police service, Interpol does not intervene directly, as it has an operational service. Intervention takes place at the request of national central offices and it shall be made by the dissemination, in other national offices in the affiliated countries, of records on the wanted individuals, whose refuge is not known [5]. The scope of Interpol is limited to common law offenses [18]. Interpol's activity is not only procedural, but also informative, as it monthly publishes tables on the traffic of narcotic drugs and crime statistics.

The Treaty of Amsterdam gives Europol a number of tasks such as: coordinating and implementing specific investigations undertaken by Member States, developing specialized skills in order to assist Member States in their investigations into organized crime, establishing contacts with prosecutors and investigators specializing in fighting against organized crime.

From the perspective of its mission, Europol is the organization in charge of law enforcement in the EU, which operates with information about crime. Its objective is to improve the effectiveness and cooperation of the competent authorities of the Member States in preventing and fighting against serious forms of international organized crime and terrorism. Europol's mission is to make a significant contribution to EU action law enforcement against organized crime and terrorism, concentrating its efforts on criminal organizations.

Europol supports law enforcement activities conducted by Member States, in particular against: drug trafficking, illegal immigration networks, terrorism, counterfeiting money (euro counterfeiting) and other means of payment, human trafficking, including child pornography, trafficking in vehicles, money laundering. European officials acknowledge that the changes made in terms of policies, institutions and security instruments adopted

by the EU, and which are in the process of quickly adapting to the new challenges of the contemporary world, affect personal freedoms. But, at the same time, improving security measures at European level and achieving a safer environment fully justifies some shortcomings caused by the "freedom of movement".

Given that the activities related to international organized crime do not stop at national borders, Europol has improved its international law enforcement cooperation through the negotiation of bilateral or strategic operative agreements with other states and international organizations such as: Bulgaria, Colombia, the European Central Bank, the European Commission, including the European Anti-Fraud Office (OLAF), Eurojust, the European Monitoring Centre for Drugs and Drug Addiction, Iceland, Interpol, Norway, Switzerland, Turkey, the United States, the United Nations Office on Drugs and Crime, the World Customs Organization, Romania and Russia.

3. Difficulties of international cooperation in criminal matters

The overview of the concept and scope of international cooperation in criminal matters reveals the importance, needs and justification in the present context of international relations.

The aim of cooperation in criminal matters is very precise, contoured, many years ago, by those who became aware of the advances and perspectives of globalization. The international cooperation in criminal matters did not reach maximum maturity because, in practice, there are many problems that hinder cooperation activities. Among them, there are: the existence of different languages, of diverse judicial systems, the existence of different laws and of different criminal laws, the slowness of the mechanisms for the transmission of requests, the lack of monitoring and control practices regarding the requests for legal assistance, dual criminality, the defense of own citizens, the fact that the authorities control the State requested to respect procedural safeguards and the establishment of different ways of appeal: distrust, cooperation limits due to diffuse causes such as national interest or public order.

4. Conclusions

As we can notice, the activity of international cooperation in criminal matters is a major concern of competent state organs and, therefore, the Romanian legislator has made positive steps in order to ease international relations. On this occasion, we welcome the enforcement of Law 302/2004 (and of its subsequent amendments) on the international cooperation in criminal matters, which, by its content, brought an added value to the concept of interstate cooperation.

It is true that, at present, we cannot say that the laws in force have covered all the aspects of cooperation among states; however, we believe that, in the near future, all cooperation shortcomings or difficulties will be removed. The fact is this: without unions, states taken in isolation cannot cope with the new wave of international crime.

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