THE ANALYSIS OF THE OPERATIONAL FRAMEWORK OF THE
ROMANIAN NATIONAL BANK’S MONETARY POLICY, IN THE
CONTEXT OF THE EUROPEAN MONETARY INTEGRATION

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ABSTRACT
The monetary policy has an impact on the real economy through the financial markets and the anticipations on the ones participating on them. Therefore, the reactions triggered by the monetary policy decisions are felt, first of all, on the financial markets and, further on, having repercussions on the expenditure, the production, the labor force occupation and, finally, on the prices. In order to fulfill its fundamental objective of assuring and maintaining price stability, the RNB must dispose of a coherent and functional transmission mechanism and a set of monetary policy instruments, by which to influence the real macro-economical variables. The National Bank has the possibility, by the operational framework of the monetary policy and, especially by the monetary market operation, to influence the inter-banking interest rates which, at their turn, influence the interest rates practiced by the banks in the relations with the non-banking clients. The conclusions of the made research show out that the modifications made by the RNB at the level of its instruments aimed, on one side, to increase the role of the interest rates within the framework of the monetary policy transmission mechanism and, on the other hand, to harmonize them with the set of instruments and procedures of the European Central Bank, so to bring them close to equality. But, the functions, the characteristics and the efficacy of the monetary policy instruments used by the RNB are partially different compared to the ones specific to the ECB. In the following period, the RNB’s monetary policy mainly aims to gradually assure the nominal and real convergence with the EU countries, the main target being to include the national currency in the Exchange Rate Mechanism II and the adoption of the euro currency in 2015(…?).

KEY WORDS: Monetary Policy, the Refinancing Mechanism, the Open Market operations, the Minimum Obligatory Bank Reserves Policy

JEL: G18, G20, G21, G28

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1. INTRODUCTION

The operational framework of the Romanian National Bank’s monetary policy

The operational framework of the RNB monetary policy, made of the instruments and procedures by which the national bank implements its monetary policy, evolved in time, as consequence of a process of adaptation to the development of the financial markets and of the economy, and gradual alignment to the Central European Bank’s monetary policy.

In Romania, the reorganization of the banking system, on two levels (consequence of the legislative initiatives taken after 1991), the liberalization of loans and interest had serious involvements on the monetary policy instruments. As such, the direct monetary control instruments (loan planning, interest rate level establishment, etc.) became less operational, and the central bank no longer had the monopoly of distributing the loans in the economy.

In this context, the RNB gradually introduced, by elaborating specific regulations, the indirect monetary policy instruments: the refinancing mechanism; the minimum obligatory bank reserves; the open market, assuring the general regulation of the banking sector’s activity.

2. THE REFINANCING MECHANISM OF THE COMMERCIAL BANKS

The refinancing mechanism is a monetary policy instrument, by which the central bank exerts its final instance creditor function. The refinancing loans are short-term loans (90 days maximum), given under certain conditions (terms, interest, use), established by the RNB, and have as a purpose to supply, with money, the commercial banks. For these credits, the commercial banks have to create guarantees, differing from one type of credit to another.

In April 1991, the Romanian National Bank abandoned its lending limit for the commercial banks and introduced the refinancing of the banking companies, based on a global loan, within a limit that was established on a central level. In October 1991, the first refinancing regulation of refinancing the banking companies was approved, by the RNB, and stipulated the following credit types: the credit line (or structural credit), the auctioning credit and the fixed-term credit (special credit). In 1994, to the mentioned refinancing credits a new category was added, the overdraft. In 1995, the RNB emitted a new refinancing rule, creating the obligation, to the commercial banks, to make guarantees for the refinancing credit and introducing restrictions for the overdraft (renamed as lombard credit). According to the new refinancing regulation, four categories of credits given by the RNB were put into practice: the structural credit, the auction credit; the special credit; the lombard credit or the day-to-day credit. The credit categories put into practice by the RNB to refinance the commercial banks fluctuated significantly from one period to another.

According to regulation 1/2000 and taking into account the further modifications and additions imposed by the adoption of the new law concerning the RNB status (law 312/2004), the modification of the banking law (law 58/1998 regarding the banking activity was modified by law 227/2007 to approve the GEO 99/2006 regarding the credit institutions and capital adequacy) and Romania’s entering in the European Union, the permanent facilities to which the credit institutions have access on their own will is categorized as follows:
1. **The loaning facility** (the lombard credit) allows an eligible credit institution to get, from the national bank, a one-day credit in exchange for guarantees and predetermined interest rate.

The eligible participants to which the RNB gives permanent facilities and with whom monetary policy operations are made are: the banks, the mortgage loan banks, the central houses of building societies, the saving and loaning banks in the housing sector, Romanian companies and Romanian branches of all the credit institutions from allover the EU or third-countries, except the Romanian branches of the credit institutions that emit electronic currency.

The credit institutions’ loaning by the RNB is regulated also by the law regarding the RNB status, according to which the central bank can give loans to the credit institutions for 90 days at most, guaranteed with eligible assets (state titles, deposits made at the RNB etc). **The assets that are eligible** for transaction and guarantee are the state titles, the deposit certificates emitted by the RNB, other categories of eligible assets that are negotiable, set as such based on a decision made by the RNB Administrative Board.

2. **The deposit facility** allows a credit institution (in general, to the eligible participants) to value their liquidity excess by creating one-day deposits, at the RNB, at a predetermined interest rate.

The interest rates afferent to the permanent facilities delimit the variations of the overnight interest rates on the markets. The permanent facilities offered by the National Bank to the credit institutions serve to:
- ✓ absorb or provide with liquidity on short term (one day);
- ✓ signal the monetary policy orientation;
- ✓ contribute to the stability of the short term interest rates on the inter-banking monetary market, through the corridor made by the interest rates afferent to the loaning and deposit facilities. After February 2009, the RNB started a monetary policy relaxing process, materialized in the reduction of the monetary policy interest rate and of the interest rates of the permanent facilities, and the diminution of the obligatory minimum reserves’ rates, as consequence of the risk diminution at the address of the price stability and economical activity deteriorating, including the deterioration of the bank loaning activity (Figure 1).

![Figure 1 - The evolution of the RNB interest rates, from March 2008 to March 2010](source://www.bnro.ro/Rata-dobanzii-de-politica-monetara-si-ratele-dobanzilor-la-facilitatile-permanente-1744.aspx)
Analyzing the refinancing mechanism of the commercial banks by the RNB, the following aspects can be emphasized:

✓ the functioning and efficiency of the refinancing mechanisms were distorted by the fact that, in certain periods of time, both the refinancing volume and the interest rate afferent to it were influenced by Government Decisions or Parliament laws and were not established, independently, from the monetary authority. Under these conditions, the liquidity control from the banking system was tough to make, and by administratively establishing (by normative acts) the interest rates, these were, several times, located on the real-negative interval (the rates of the active interests of the RNB were situated, from 1992 to 2000, under the inflation rate), meaning the reduced use of the interest rate as a monetary policy instrument;

✓ giving credits based on normative acts and not market criteria favored, for that moment, certain banks (with state capital, especially Bancorex and Banca Agricola), who benefited of cheap resources without making any effort for them;

✓ the refinancing mechanism worked properly when the central bank acted as a last call loaner. Here, we are talking about the liquidity crisis faced by the Dacia Felix, CreditBank (1996) and Bancorex (1999) banks. By assuring the necessary resources for the mentioned banks, the national bank prevented panic appearing within the depositors and, as such, maintained the stability of the banking system.

3. THE OPEN MARKET OPERATIONS OF THE ROMANIAN NATIONAL BANK

The use of the open market policy by the RNB, in order to adjust the monetary mass, was conditioned by the emission of state titles. In the year 1994, the first emission of state titles was made, so being created the premises of the open market operations making.

In April 1997, a new Regulation became current regarding the state titles operations made by the RNB, acting as a state agent, and so was created the general framework both for performing its activity on the primary and the secondary state titles markets. As such, 1997 is the year in which the RNB initiated the first open market operations.

Within the state titles transactions, the highest average was held by the interbanking transactions and, within the banks, the overwhelming majority was represented by open market interventions of the central bank, made in order to fulfill its monetary policy objectives.

In the year 2000, the introductions of the new regulation concerning the monetary market operations made by the RNB, adapted to the norms used by the Central European Bank, allowed the central bank to use new market-like instruments.

The RNB monetary market operations are operations made on the central bank’s initiative, and involves one of the following transactions: repo/reversible repo of eligible assets for transacting; these transactions are also known as pensions or sale redemptions; collateral credit giving (guaranteed) with eligible guaranteeing assets; buying/selling transaction-eligible assets; emitting deposit certificates; exchange swap; attracting deposits.

The monetary market operations of the RNB are regulated also by the law on the RNB status, prohibiting the central bank from acquiring, from the primary markets of
debts of the state, central an local authorities, autonomous plants, national companies, national societies and other companies with major state capital.

In order to make the monetary market operations, the RNB uses two types of procedures: the auction and bilateral procedures.

*The auctioning procedure* (competitive multilateral bases) is used for all of the monetary market operation forms, except for buying/selling transaction-eligible assets. The making of the monetary market operations by auctioning, by the RNB, can be *at a fix or variable rate*.

*The bilateral procedures* (bilateral bases) are applied to the repo/reverse repo operations, buying/selling transaction-eligible assets, exchange swap and deposit attraction.

*The monetary market operations are the most important monetary policy instrument of the National Bank*, and serves to: orient the interest rates on the monetary market, managing liquidity on the given market and signaling the orientation of the monetary policy.

*The interest rate set by the central bank for the main monetary policy instrument* (monetary market operations), and for the main forms of the monetary market operations is named *monetary policy interest rate* or intervention interest rate.

Given the conditions of the structural liquidity excess of the Romanian banking system, the National Bank used, as a main monetary policy operation, attracting one-week term deposits from the inter-banking market.

Under the current conditions, taking into consideration the new position of the RNB- a net loaner compared to the banking system, *the main monetary policy instrument is represented by the repo operations*. As such, the monetary policy interest rate is, in present, the interest rate at which the RNB makes repo operations, by auction, with one week’s term (one month, until August 8, 2009).

Unlike the monetary policy interest rate, which is established by the central bank, varying with the orientations of the monetary policy, the reference interest rate is calculated (not established) and published each month by the central bank, being a market interest.

*The reference interest rate* (initially named directive/intervention interest) was introduced by the RNB starting with February 2002, instead of the official tax rate. Since February 2005, RNB announced a renaming of the intervention interest, into “*monetary policy interest rate/policy rate*”.

*The policy rate* is calculated and published every month by the RNB, as being *the average, weighted with the transaction volume, of the afferent interest rates to the market operations made by the central bank in the previous month*.

Up to February 2009, the reference interest rate was calculated as the average, weighted with the transactions volume, of the interest rates for the deposits attracted by the RNB and for the reverse repo operations of the month previous to which the announcement is made.

Starting with February 2009, given the consolidation of the RNB position as creditor, compared to the banking system and the growth of the liquidity injection operation volume (by repo operations), the RNB Administrative Board decided to adapt the calculus formula of the reference rate to the new situation.

In the opinion of certain RNB specialists, given the conditions of the de-inflationist process consolidation, the tendency of the central bank will be to unify the reference interest rate with the policy rate.
In conclusion, since 2000, the open market operations represent the most important monetary policy instrument the RNB has. Briefly, the main modifications brought to the monetary market operations’ plan are presented in table 1.

<table>
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<th>Table 1</th>
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The monetary market operations of the RNB from December 2000 – March 2010

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<tbody>
<tr>
<td>Transactions</td>
<td>145,7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>77,9</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Daily avg - mld lei</td>
<td>42,3</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>8,5</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Interest rate (% p.a.)</td>
<td>2,673,8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>228,6</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daily avg - mld lei</td>
<td>47,8</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>8,5</td>
<td>x</td>
<td>x</td>
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<tbody>
<tr>
<td>Transactions</td>
<td>38,6</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>381,0</td>
<td>449,6</td>
<td>303,3</td>
<td>27,3</td>
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<tr>
<td>Daily avg - mld lei</td>
<td>45,2</td>
<td>x</td>
<td>x</td>
<td>12,0</td>
<td>8,5</td>
<td>8,0</td>
<td>7,5</td>
<td>7,0</td>
</tr>
<tr>
<td>Interest rate (% p.a.)</td>
<td>2,520,8</td>
<td>-</td>
<td>-</td>
<td>2,283,5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Daily avg - mld lei</td>
<td>52,3</td>
<td>-</td>
<td>-</td>
<td>116,7</td>
<td>8,5</td>
<td>8,0</td>
<td>7,7</td>
<td>7,0</td>
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<tr>
<td>Interest rate (% p.a.)</td>
<td>303,3</td>
<td>x</td>
<td>x</td>
<td>141,8</td>
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<tbody>
<tr>
<td>Transactions</td>
<td>550,8</td>
<td>519,8</td>
<td>1193,4</td>
<td>381,0</td>
<td>449,6</td>
<td>303,3</td>
<td>27,3</td>
<td></td>
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<tr>
<td>Daily avg - mld lei</td>
<td>47,8</td>
<td>8,75</td>
<td>13,5</td>
<td>64,1</td>
<td>107,0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest rate (% p.a.)</td>
<td>2,520,8</td>
<td>-</td>
<td>-</td>
<td>2,283,5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daily avg - mld lei</td>
<td>381,7</td>
<td>9451,4</td>
<td>6653,7</td>
<td>45,0</td>
<td>227,0</td>
<td>314,0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest rate (% p.a.)</td>
<td>49,2</td>
<td>8,75</td>
<td>7,50</td>
<td>10,25</td>
<td>8,0</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Transactions</td>
<td>x</td>
<td>11,1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daily avg - mld lei</td>
<td>x</td>
<td>7,10</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Interest rate (% p.a.)</td>
<td>x</td>
<td>2122,7</td>
<td>324,1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daily avg - mld lei</td>
<td>x</td>
<td>8,61</td>
<td>6,96</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>


Analyzing the data from table 1, it may be concluded that: during the 2000 – November 2008 period, given the structural liquidity excess from the Romanian banking system, the national bank used as a main monetary policy instrument the monetary market operations of absorbing liquidities, especially materialized in attracting deposits from the commercial banks. Starting with the last part of the year 2008, given the change of the banks’ position from exceeding to liquidity deficiency, the monetary market operations of the central bank are mainly used in order to inject
liquidity, emphasizing the consolidation of the National Bank’s position as creditor of the banking system.

4. THE MINIMUM OBLIGATORY BANK RESERVES POLICY

The minimum obligatory bank reserves policy represents, as age, the second monetary policy instrument used by the RNB. The system of the obligatory reserves made in national currency has, as main functions: the control of the money debt of the credit institutions and, correspondingly, managing liquidity on the inter-banking monetary market, and stabilizing the interest rates on the given market. The minimum obligatory reserves made in foreign have the fundamental role of contributing to the diminution of the significant increase of the foreign currency bank loaning activity.

In present times, the obligation of the credit institutions to make minimum obligatory reserves in open accounts at the RNB is stipulated in law 227/2007, to approve the GEO 99/2006 regarding the credit institutions and capital adequacy, as in law 312/2004 regarding the RNB status.

In January 1992, the RNB emitted the first regulation on the obligatory reserves, having as main characteristic the tight sphere of the liabilities taken into the obligatory reserves’ calculus, and those being: overnights or in term deposits, in lei, of the persons and companies. In present, the legal base for the minimum obligatory reserves system is Regulation 6/2002, with its further modifications and additions.

The minimum obligatory reserves are calculated and maintained distinctively, therefore:

a) in lei, in the current account of the credit institution, opened at RNB, for the monetary means in national currency;

b) in euros or dollars, in the “LORO” account of the credit institution, opened at RNB, for foreign currency monetary means. The option for one or another is given to each credit institution.

The rates of the minimum obligatory reserves are established by the RNB varying with its monetary policy objectives and differ, varying with the constituent currency and the residual term of the elements included in the calculus basis (see table 2).

Table 2

The rates of the minimum obligatory reserves practiced in Romania at the 10th of April 2010

<table>
<thead>
<tr>
<th>Elements of the calculus basis</th>
<th>The rate of the minimum obligatory reserve (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities with a residual term less than 2 years from the end of</td>
<td></td>
</tr>
<tr>
<td>the observation period:</td>
<td></td>
</tr>
<tr>
<td>Liabilities with a residual term more than 2 years from the</td>
<td></td>
</tr>
<tr>
<td>end of the observation period: with clause of payback, transfer,</td>
<td></td>
</tr>
<tr>
<td>Liabilities with a residual term more than 2 years from the</td>
<td></td>
</tr>
<tr>
<td>end of the observation period: without clause of payback, transfer,</td>
<td></td>
</tr>
<tr>
<td>anticipate retreat: 0</td>
<td>since: 24.08.2002</td>
</tr>
<tr>
<td>Non-returnable loans</td>
<td>0</td>
</tr>
</tbody>
</table>

The minimum obligatory reserves are paid by the RNB with an interest rate at the level of at least the average interest rates for the overnights, practiced by the credit institutions. For the reserve excess, the RNB does not pay interest, and for the reserve deficit, a penalty interest is calculated and perceived.

The minimum obligatory reserves had, until present times, a significant importance in the RNB monetary policy, as consequence of the central bank’s position as net loaner to the banking system. The rates of the minimum obligatory reserves practiced in present can be seen in table 3, and the evolution of the time evolution is highlighted in table 3. For the economy and credit banks in the housing sector, the rate of the minimum obligatory reserves is 0 (zero) %.

In Romania, the general framework of the demands regarding the minimum obligatory reserves presents, for now, certain significant differences compared to the Eurosystem.

Table 3
Evolution the rate of the minimum obligatory reserves in Romania from 2000 - April 2010

<table>
<thead>
<tr>
<th>Moment of modification</th>
<th>Rate of the minimum obligatory reserves for lei deposits (%)</th>
<th>Rate of the minimum obligatory reserves for deposits in foreign (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1, 1999</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>No modifications occurred</td>
<td>No modifications occurred</td>
</tr>
<tr>
<td>July 1, 2001</td>
<td>27</td>
<td>20</td>
</tr>
<tr>
<td>October 1, 2001</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>April 1, 2002</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>November 24, 2002</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>2003</td>
<td>No modifications occurred</td>
<td>No modifications occurred</td>
</tr>
<tr>
<td>August 24, 2004</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>August 24, 2005</td>
<td>16</td>
<td>30</td>
</tr>
<tr>
<td>January 24, 2006</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>March 24, 2006</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>July 24, 2006</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>2007</td>
<td>No modifications occurred</td>
<td>No modifications occurred</td>
</tr>
<tr>
<td>November 24, 2008</td>
<td>18</td>
<td>40</td>
</tr>
<tr>
<td>July 24, 2009</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>August 24, 2009</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>November 24, 2009</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>March 24, 2010</td>
<td>15</td>
<td>25</td>
</tr>
</tbody>
</table>


Based on the data shown in table 4, modifications can be seen in the mechanism of the minimum obligatory reserves, during the analyzed period. By reducing the rate of the reserves, RNB wanted:

- to reduce the margin between the average asset and liability interest rates of the banking system. This measurement aimed, mainly, to reduce the asset interests as consequence of the de-inflationist process, slowing the interest reduction for the deposits on order to maintain attractiveness to save in national currency;
- improve the role of the minimum obligatory reserves mechanism in stabilizing the monetary market interest rates, encouraging the banks to efficiently manage the resources and avoid the temporary liquidity flows;
- to extend the use of the monetary market instruments in controlling the liquidity of the monetary market, in order to develop the market of the deposits and transactions with state titles.

In a meeting of the RNB Administrative Board, dated June 30, 2009, the reduction of the minimum obligatory reserves for the liabilities in lei was decided, for the credit institutions, from 18 to 15%. By his the central bank wanted to improve liquidity management on the inter-banking monetary market and to assure a sustainable financing of the economy, under the amplification of turbulences on the international financial market.

As for the rate of the minimum obligatory reserves for the deposits made in foreign, by significantly taking it up to a level of 40% and maintaining this rate until July 24, 2009, the Romanian National Bank wanted:
- to discourage the credits made in foreign currency. The significant raise of the credits made in foreign currency determined the amplification of crediting risks and, in the same time, created difficulties for the central bank in what concerns the control of the internal demand;
- to discourage the deposits made in foreign, by diminishing the interest rates offered by banks, and encouraging saving in national currency.

The decision of the National Bank to reduce the minimum obligatory reserves rate to 15% for the liabilities made in lei and to 25% for the liabilities made in foreign, with a residual term of less than 2 years for the credit institutions, was determined by the necessity of making the liquidity flows circulate, in the banking system, and gradually align to the standards of the CEB and supporting the banking credit giving activity, significantly influenced by the current international crisis.

Because this instrument has a quantitative effect, important on the volume of the commercial banks’ liquidity volume, the modification of the the minimum obligatory reserves percentage is still a monetary policy instrument that theoretically is very efficacy, but this efficacy is what makes this instruments to be less used. So, the central bank cannot modify too often the level of the the minimum obligatory reserves, because the impact of this measurement on the banking system’s liquidity makes the monetary balance of the economy to be extremely unstable, and has fast alternations of inflation and deflation, therefore being a instrument generating financial instability for the banking system and monetary instability for the economy.

5. CONCLUSIONS

In conclusion, the modifications made by the RNB at the level of its instruments aimed, on one side, to increase the interest rates’ role within the monetary policy transmission mechanism and, on the other side, to harmonize with the set of instruments the Central European Bank uses, up to being identical to them. But, the functions, characteristics and efficacy of the monetary policy instruments used by the RNB are partially different from the ones specific to the CEB.

The monetary policy promoted by the RNB, from 2000 to present times, had a determining role in the de-inflationist process, and the efficiency of transmitting decisions of monetary policy on the real economy was also improved, based on the
positive evolution seen in the national economy, in general, and in the banking system especially. The transmission of the monetary policy decisions the RNB makes, on the real economy, through credit and interest rates, is in consolidation stage but, for now, the efficiency of these channels is diminished by the economy liquidity excess, the high weight of the credits made in foreign currency and the moral hazard manifestations.

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ABSTRACT
The last decade has marked important changes in public sector. Citizens and businesses are more and more evolved in decision making process of different public institutions, especially in administration, information and communication technologies has an increasing role in almost every public or private entity and the entrepreneurial spirit squeeze slowly in the public sector, too. Public sector adopts private techniques in accounting, administration, public finances as well as in management. Springing from these issues the paper refers to financial management and control in Romanian public sector. The paper demonstrates that in terms of institutionalized membership the notion of financial management and control dates back from 1864.

KEYWORDS: financial control, management control, public sector, private sector, performance.

JEL: M14

1. INTRODUCTION
The eighties marked the blurring boundaries between the public and the private sector regarding the management and the administration.

Two main reasons explain the increasing use of management practices by public bodies: the firsts of them are of technical and environmental concern and regard various pressures for change that have occurred, endangering the existence and logic functioning of public organizations (fiscal pressures, low budget allocations, etc.). The second explanation, of ideological and theoretical concern, is linked to the growing influence of currents of thought which generalizes the idea that there is structural and managerial homology between all the organizations.
The control means, in the narrow sense, a monitoring action or a verification (Lecrere D., 2004). But in a broader sense, the control is seen as a process.

Between management and control there are always interdependencies. Indeed, the control makes sense only if the resources are managed. In addition, it is often impossible to manage without control. This point is crucial because it helps in understanding the nature of process management and control procedures role in this process.

Indeed, any management process is completed: the manager pursues a goal and gets a result. To do this, it must make decisions based on available information, and then implement these decisions. In an ideal world, managers would be able to set realistic and consistent, his information would be perfect, it is perfectly rational and capable of reasoning leads to optimal decision, and miraculously, no external event would not trouble implementing its decision. The results coincide perfectly with the objectives. And we do not need management control!

In reality, information is always imperfect, the manager's reasoning ability is limited and the action does not necessarily takes place in an environment where are other agents pursuing socio-economic objectives and carry out the opposition. It is therefore quite possible that the actual results to differ from goals. It is therefore necessary to periodically assess the gap between forecasts and achievements before taking further decisions.

2. THE EXTINCTION OF FINANCIAL AND MANAGEMENT CONTROL FROM PRIVATE SECTOR TO PUBLIC SECTOR

Historically, the financial and management control has been invented for private organizations. (Levant, De La Villarmois, 2001). Private organizations developed management control system devices to measure their performance.

From historical point of view, we can say that management control has been developed especially in large companies in North America after 1930 to meet a specific need in the responsibilities decentralization within the large industrial complexes, which want to "remote control" and to "control the numbers" and gradually to implement conventional procedures to control costs through standards and budgetary control. These procedures comprise what is often called the "Sloan-Brown," after the executive director of General Motors, which has experienced and popularized them.

In France, the introduction of some management control techniques was accelerated since the '50s, numerous study missions were organized across the Atlantic to allow leaders to learn management.

Currently, more than speaking of a management control and management accounting crisis, the classical techniques are considered by some authors irrelevant to the new competitive environment, and we are witnessing to a renewed approach illustrated, by example, by the ABC method.

Private organizations developed management control system devices to measure their performance. But, in public organizations, these systems have a different role. Historically, the semantics of the term - accountability (Mulgan, 2000) insisted on one essential aspect of the public management device: compliance with legal rules.

Gradually, a new objective has been added to the control of regularity: to assess the effectiveness of the public management (Berland N., Dreveton B., 2010).
The imperfections of the budgetary system and the lack of information in public accounting determined public entities to adopt new techniques (Demestère, 2002, 42-44).

Some countries (e.g., France, by DAGPB/AF2 Circular No. 2007-60 / 2007) have made major changes in public management based on performance logic. Thus, in France, the management control approach in public institutions has led to the expansion by each department of a development plan and management control by setting up a resource center dedicated to management control. Indeed, management control of the government department has specific characteristics because they largely relate to services that are distinct from industrial activities, for which management control was originally designed. However, the production of services is often the result of co-productions involving management and use (e.g., education system). In addition, some features related to the resources must also be taken into account: indeed, the resources are not necessarily managed and controlled by the controller who uses them (staff, for example). Finally, the management efficiency analysis assumes that there are references, including history, which did not come by itself when management control was implemented recently.

Also many public organizations realized important management changes; they have difficulties in implanting management control systems.

The implementation of the management control in public sector is therefore a major challenge.

3. METHODOLOGY AND RESULTS

In the international context we can say that there are changes in public sector financial and management control, the performance being one of the important objectives of these entities.

Starting from the theoretical background we want to find out if there is a history regarding the management control techniques in Romanian public sector.

In our paper we are based on an inductive research approach, based on a quantitative research methodology (content analysis). The data collection consists of archives and observations.

Financial and management control is only one way to control organizations and the boundaries between different forms of control are diffuse and include large areas of overlap, which makes us wonder:

*There is a history of the financial and management control and an evolution of the definition of this control?*

The control in public administration followed all stages of development the public sector. Both in theory and in practice the attempt to define and delimitate the various forms of control is hitting on conceptual and pragmatic difficulties. Thus, the drawing of some identification barriers between these elements is difficult, the interconnections between them making it more difficult to detach a clear picture of government control as one used in a coherent, efficient and effective manner.

However, at a public entity level, outside of the forms of control which are formalized (for which there are long-term plans, annual budgets, procedures for implementation of basic operations, a service of internal control, etc.) there are several
factors that influence decisions and actions such as education, national culture, religion, experience, personality traits, membership in a social or professional category, factors determining the existence of an invisible control.

Control, although initially appeared only in the form of error detection tool, has taken multiple forms of expression that can be used simultaneously, partially or totally, with a different degree of autonomy according to the information needs of users and the characteristics of the system under process.

In public sector the regulations represents the favorite mode of management. Usually they concern the central government. By their nature, they depersonalize the authority, which no longer occur as individuals, but as known rules. In any institution, employees can not live, and to work in a climate of confrontation.

The periodic updating of those rules serves to maintain for a certain period of time a peaceful climate. The rules are, in this context, guaranteeing peace armistices temporary (Bonis J., 1990).

We can say that activities in the public sector still needs formalization, but the rules and procedures should be concentrated and arranged to be applied.

A significant historical landmark is the year 1864 when, by approving the law on general accounting rule, there is establishing the financial and management control of state revenues and expenditures, representing a concrete form which was established for the continuous and unannounced assessment on accounting and cashier services for counties.

On 24 January 1864 Alexandru Ioan Cuza promulgated the law enacted to establish a new structure of financial control, High Court of Auditors “… wishing to give a guarantee that the use of public funds to be the subject of control seriously and independent of any suspicion from the officials responsible for budget manipulators” (Law of 24 January 1864). This law has been amended subsequent to 1874. 1886. 1895 and 1929. Since 1864, the control was organized on the principle of separation of powers with:

- control exercised by the legislature (Chamber of Deputies);
- control of the executive (administrative);
- review the High Court of Auditors.

By control of public finance management by the Court of Auditors, the aim was to make sure that public finances were managed lawfully, fairly and systematically to meet the general interests of the state.

Consideration of the law emphasizes that its design was at that time one of the modern developed from the European countries. Law originators were inspired by the example of the French system, to establish the control of the factual position, and from the Belgian administration to establish procedures for election and appointment of the Court.

In 1929 the Court was reorganized by law for organizing the High Court of Auditors on 31 July. By adopting this law is producing important innovations in the control of public finances, aiming notably the Court officials, in accordance with the Constitution of 1923, a reference in the constitutions of modern Romania.

In Romania, the preventive control was governed for the first time by the law on public accounting and budget control and public property from July 31, 1929. The emergence of this normative act was based on the principle that preventive control is exercised by non-specialized personnel units. Under this law, financial control is carried out by the High Court of Auditors, the supreme body of preventive and management of
public revenue and expenditure and is exercised by counsel - controllers that operate within each entity to manage and use public money for which budgets were voted or not by the Assembly of Deputies (ministries, autonomous administration, public services and public enterprises).

After the Great Union from 1918 the Financial Guard was founded and was dissolved in 1927, although as long as it worked this entity had an important contribution to the achievement of state revenues, especially those from indirect taxes. Financial Guard was reconstituted in 1932 under the Law of the alcohol monopoly.

Financial Guard was organized as a "militarized control body, whose main tasks consist in preventing fraud, abuse and tax violations, being empowered to confiscate objects and goods (material evidence) exempted from taxes.

Financial Guard functioned until 1948 when, like other financial control structure, was abolished, and its duties were taken over by the structures of Romanian People's Republic.

After 1944, the financial - accounting control, exercised both at the state level and at the trader level, took other forms, determined by the new political conditions by the laws of the whole economy.

In August 1944 the High Court of Auditors and the Financial Guard have been removed, giving up the financial control.

The new system of financial control has been placed solely on administrative databases, which consists of internal financial control, financial control and preventive control of the state.

The internal financial control, organized on the basis of Law no. 352 of May 2, 1945 for the establishment of civic control bodies. As a specialized control body subordinated to the direction or management accountancy service aimed, in particular, to:

- legal compliance by using the means allocated from the budget and its own programs and estimates the execution of work and payment of wages;
- compliance with financial and budgetary discipline;
- the availability, integrity, preservation and use of material and money;
- organization and correct management of accounts.

In 1957 the internal financial control has been organized on the principle of specialization, its activity being mainly oriented towards the management control. In order to strengthen the management control there was regulated the obligation to control all the units and economic management at least once a year.

In September 1949 the State Control Committee was established as a body of the Council of Ministers, who control the ministries and central institutions, enterprises and their subordinate units and nongovernmental organizations and cooperatives, but in terms of using state funds allocated. The basic tasks of this body related the evidence control, preservation and management of material and money, the enforcement plan of national economy, the state budget and the monetary system and the drafting of the report on budgetary execution account.

The period 1950-1972 is characterized by improvements in financial control organization and operation, among which may be retained on the activity of the Ministry of Finance. These include: improving organizational structure, specifying control tasks, rights and obligations of the controller and check, introducing new forms and new methods of recovery, such as mandatory provisions for removing irregularities found unlawful suspension of operations, locks etc.. The work of internal financial
control was improved by prohibiting the use of monitoring bodies in other work, further clarify the functions and control objectives. Also, it was introduced the responsibility of the institutions leaders for the control within the organization, establishing the obligation to ensure the preventive financial control, the organization and operation of internal financial control at all levels.

In 1959 it was approved the Regulation regarding the organization and implementation of preventive control in state institutions, enterprises and economic organizations, exercised by the head of the financial-accounting department and its delegates. The preventive financial control tasks passed in the responsibility of the accounting services leaders. They exercised the control over all the acts which authorized the expenditure or which derived directly or indirectly, from commitment. All the acts had to be presented for approval and signature to the service accounts leader.

In 1970, there was enacted the organization and operation of the internal financial control as well as the objectives of manager control (Law no. 5/1970), which sought also the records and control.

In 1973 through the Superior Court Law nr.2/1973 there was established the financial control body of the State Council of the Socialist Republic of Romania, which had as main objective the verification of the financial requirements of implementing a single national plan of social and economic development budget, and the use of credit and financial levers to economic management. Meanwhile, the High Court of Financial Control has been assigned with tasks in the coordination of all audit activities and bank accounts.

This institution of financial control by appointed financial state inspectors, exercised a preventive financial control on legal and cost efficiency of the funds managed by central state bodies.

This institution functioned until December 1989 when it was disbanded (Decree no.94/1990). Also the internal financial control and the preventive financial control ceased their activity.

After 1989, the financial-accounting control gained new dimensions as required by the exigencies of the market economy. New control structures were established, with targets generated by the transition to market economy.

So, by 1990, in Romanian public sector the control was represented by a well structured and large organizational network covering practically all fields.

After 1990 the effects of transition from centralized economy to a market economy occurred also in financial control. In this regard, the control unit has been reduced substantially in some sectors, in some of them being virtually abolished. Also during this period it was found, in fact, that the Romanian society will need a strong control of the state in economy.

Consequently, in 1992 through a special law (Law no.94/1992) the Court of Auditors was established as a result of the inclusion of this objective in the 1991 Constitution of Romania. The Court of Auditors has been defined as "...the supreme body of control and jurisdiction in the financial and execution control regarding the formation, management and use of financial resources of the state".

The New Public Management intends to modernize the administration and to take the best practices model of private sector management. Through this creative adaptation, concepts like financial control, internal control or auditing acquires new meanings (Law no.94/1992).
At present the Romanian public sector control through rules and procedures includes several types of controls, pursue appropriate strategies assuming the existence of control (Table 1).

### Table 1

<table>
<thead>
<tr>
<th>No</th>
<th>Components of financial control and audit system in Romania</th>
<th>Exercising entities</th>
<th>Legal framework</th>
<th>Control forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Financial control and ultimate performance audit</td>
<td>Court of Accounts</td>
<td>Romanian Constitution; Law no. 94/1992, republished, amended by Law no. 77/2002.</td>
<td>Post - external financial control; Performance control; External financial audit; Performance audit.</td>
</tr>
<tr>
<td>3.</td>
<td>Internal control and internal auditing of public institutions</td>
<td>Romanian Parliament; Presidency of Romania; Government of Romania; Ministries, bodies of public administration, public authorities and judicial authorities; Central and local state institutions.</td>
<td>O.G. no. 119/1999; Law no. 672/2002; O.M.F.P. no. 946/2005; O.M.F.P. no. 1389/2006.</td>
<td>Internal Control; Internal audit; Preventive financial control.</td>
</tr>
</tbody>
</table>

### 4. CONCLUSIONS

The historical approach on the evolution of public financial and management control in Romania, as shown in this paper allows us to conclude that financial and management control approach is, mostly, in terms of its membership to one of the forms of financial and administration control, institutionalized. In this context, it means that the exercise is done by institutions of state control and internal control structure of officers and autonomous. Thus, the control is focused on legal compliance regarding the
training and use of public resources and less as a way of performing administration of resources and of implementing the principles of strategic management.

If the applicability and usefulness of private sector management methods associated with transposing the public sector, it seems to be a reality rooted in the mentality that goes beyond fashion effects. But the overall scope is not all management functions, particularly in terms of strategic management. But this argument suffers from at least two weaknesses. First, it tends to eliminate the causal relationship between the operation of public organizations and their management methods. On the other hand, it tends to ignore strategic planning, methodologies inspired private sector voluntarily implemented by some public organizations in recent years.

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ABOUT OFFSETTING – A METHOD OF SETTLING OBLIGATIONS OF LEGAL ENTITIES IN ROMANIA

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Alin-Constantin DUMITRESCU

ABSTRACT

Offsetting is a specific method of settling mutual obligations, where the same persons are at the same time creditor and debtor one to another, and by means of which obligations are settled up to the smallest value. Offseting of mutual obligations is a common way of settling debts, especially in the economic crisis marked by lack of liquidity, among others.

There are different offsetting procedures provided by Romanian legislation, according to residence, size of offset amount and state’s involvement in the transactions. The analysis of each offsetting situations encountered in the practice of Romanian legal entities, highlights a series of particularities that should be properly considered for their validation.

KEY WORDS: offsetting, residents, non-residents, obligations

JEL: M10, M41

1. INTRODUCTION

In this article we aimed to analyse the possibilities by means of which a legal entity could reduce receivables / payables disclosed in the financial statements. The research method is based on relevant Romanian legislation and we aimed to disclose to stakeholders the range of tools available to Romanian legal entities.

We consider that our study is also useful in terms of lack of liquidity faced by legal entities in the context of the global economic crisis.

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2. DEFINITION OF OBLIGATION

The Romanian Civil Code (1865), as well as the inspiring European civil codes – the Austrian Civil Code (1811), the Swiss Civil Code (1907) or the Swiss Code of Obligations (1881 and 1911), do not provide a definition for “obligation”. However, there are many definitions in the relevant literature, as follows:

“An obligation represents a legal relationship between two or more persons, whereby a party called debtor undertakes to the other party called creditor to perform a positive or a negative activity, i.e. an action or an abstention.” (Constantin Hamangiu, I. Rosetti – Bălănescu, Al. Băicoianu - Tratat de drept civil român, [Romanian Civil Law], 2nd volume, Națională S. Ciornei Printing House, Bucharest, 1929)

“An obligation is the legal relationship whereby a person is pledged to give, to do or to not do something in favour of another person.” (Tudor R. Popescu, Petre Anca - Teoria generală a obligațiilor, [General Theory of Obligations], Științifică Printing House, Bucharest, 1968)

“From a legal point of view, an obligation is the relationship whereby a person called creditor may demand from another person called debtor the observance of a certain conduct.” (Renee Sanilevici - Drept civil. Teoria generală a obligațiilor, [Civil Law. General Theory of Obligations], Iași, 1976)

“From a civil point of view, an obligation is the relationship whereby a party called creditor has the possibility to demand from the other party called debtor the observance of one or more actions, such as giving, doing or not doing, usually falling under state compulsion.” (Liviu Pop - Teoria generală a obligațiilor, [General Theory of Obligations], Lumina Lex Printing House, Bucharest, 1996)

“An obligation is the legal relationship whereby a person called debtor is bound to another person called creditor to the duty of giving, doing or not doing something, under state compulsion in case the action is not executed voluntarily.” (Ion P. Filipescu, Andrei I. Filipescu - Drept civil. Teoria generală a obligațiilor, [Civil Law. General Theory of Obligations], Actami, Bucharest Printing House, 2000)

“An obligation is the legal relationship whereby a person called creditor may demand from another person called debtor the observance of a positive or negative conduct, and in case of breach, the creditor may demand satisfaction by constrain.” (Ion Dogaru, Pompil Drăghici - Drept civil. Teoria generală a obligațiilor, [Civil Law. General Theory of Obligations], All Beck Printing House, Bucharest, 2002)

“Broadly, an obligation represents the legal relationship which includes the right of the active subject called creditor to demand from the passive subject called debtor to give, to do or to not do something, and where the latter has the corresponding obligation to give, to do or to not do something, under state compulsion in case the action is not executed voluntarily.” (Constantin Stătescu, Corneliu Bîrsan - Drept civil. Teoria generală a obligațiilor, [Civil Law. General Theory of Obligations], All Beck Printing House, Bucharest, 2002)

Further to the definitions above it is admitted that the civil obligation represents the legal relationship whereby the creditor is entitled to demand from the debtor the observance of a determinative conduct of giving, doing or not doing something.

In terms of the existence of a general theory of obligations specific to commercial obligations, there are two main trends. Where autonomy of commercial law is not recognised, e.g. in English or Swiss systems, and where there is a unique “Code of obligations”, it is obvious that the existence of a separate and specific commercial
law obligations theory is not recognised. The French, German and Romanian legal systems provide separate legislation for commercial relationships in the form of “commercial codes”, which also highlight particularities of commercial obligations.

The Romanian Commercial Code contains a relatively small chapter called “General information on commercial obligations” (art.46-59), which comprises a series of rules that derogate from the civil law of obligations, especially related to contract execution. Apart from this brief regulation, the Commercial Code also contains a number of rules dedicated to certain contracts, such as sale-purchase agreements, mandate agreements, etc., which are known in civil law as well, but when tailored to commercial needs they show certain particularities. There are also some rules provided by special laws for certain contracts, which have a commercial nature due to their essence and purpose, and which represent an important source for commercial law, such as consignment agreements, leasing agreements, mortgages, franchises, etc.

During their activity traders conclude a number of legal documents or perform commercial activities by means of which certain rights and obligations arise, are amended or settled. Like civil relationships, commercial relationships are also private law relationships. Thus, both commercial and civil relationships are subject to the same general rules provided by the Civil Code. Nevertheless, there are also certain differences between the two legal relationships. These are governed by special rules included in Chapter V “General information on commercial obligations”, Book I of the Commercial Code. The regulation of commercial relationships by both Commercial and Civil Codes is based on art.1 of the Commercial Code, which states that this law is applicable to trade activities. The Civil Code is applicable where the latter does not provide any guidance.

Commercial obligations may arise from legal deeds or actions. Consequently, although commercial obligations may arise from all known civil law sources, contracts are the most important source.

3. METHODS OF SETTLING OBLIGATIONS

The Civil Code provides the following means of settling civil obligations: direct execution in kind (payment), debt execution enforcement in kind, indirect execution enforcement (by equivalent), offsetting, merger of rights, payment approval, discharge of debt and fortuitous impossibility of execution.

These methods of settling obligations can be classified by two criteria:

- By taking into account if obligations were settled with or without the parties’ will:
  - Voluntary means of settling obligations: discharge of debt, conventional payment and offsetting
  - Means by which obligations are settled without the parties’ will: fortuitous impossibility of execution, legal and judicial offsetting, merger of rights

- By taking into account if obligations were settled as a result of completion of creditor’s receivable:
  - Settling methods that result in completion of the creditor’s receivable: offsetting, merger of rights, payment approval
  - Settling methods that do not result in completion of the creditor’s receivable: discharge of debt, fortuitous impossibility of execution

Direct execution in kind (payment) represents the voluntary execution of an obligation by the debtor, regardless of its object, or an agreement between the person making the
payment and the one receiving the payment. According to article 1100 of the Civil Code, the creditor cannot be forced to accept something else than what is owed to him, even if the value of that thing would be equal or higher. According to this article, the debtor must pay exactly the goods or services owed.

Furthermore, according to article 1101 of the Civil Code, the debtor cannot force the creditor to receive a partial payment, even if the obligation is divisible. This means that payment must be made in full.

Debt execution enforcement in kind allows the creditor to resort on means made available by law in order to force the debtor who did not perform the payment voluntarily to fulfil his obligations, in principle, as it was undertaken, thus enabling the creditor to capitalize his patrimonial right. The debtor is pledged to actually perform the obligation that he has undertaken.

Should the execution in kind no longer be possible, then the execution by equivalent in the form of offsetting will be enforced.

Indirect execution (by equivalent) represents the creditor’s right to demand and obtain from the debtor the equivalent of the prejudice incurred due to non-performance, late or improper performance of the undertaken obligation.

This means that when it is no longer possible to execute the obligation in kind, the creditor is entitled to compensations or indemnifications, which represent the equivalent of the incurred loss.

Compensations or indemnifications are of two kinds:

- compensatory payments – the equivalent of the loss incurred by the creditor due to non-execution or partial execution of the obligation;
- equivalent compensations – the equivalent of the loss incurred by the creditor due to late execution of the obligation; these compensations may be cumulated with execution in kind, unlike compensatory payments that replace execution in kind.

Offsetting represents a specific method of settling mutual obligations, whereby the same persons are at the same time creditor and debtor one to another, and obligations are settled up to the smallest value.

Merger of rights is a method of settling obligations, whereby the same person is creditor and debtor of the same obligation. Merger of rights applies to all contractual or extra-contractual obligations between individuals and legal entities. It settles the obligation with all its guarantees and accessories.

Payment approval is defined as the method of settling obligations whereby, at debtor’s proposal, the creditor accepts to receive another benefit instead of the one undertaken at the conclusion of the agreement. According to article 1100 of the Civil Code, the creditor’s consent is required in order to proceed this way.

Discharge of debt means that the creditor gives up for free on his right to value the receivable against his debtor. In other words, discharge of debt represents a voluntary method of settling obligations, whereby the creditor gives up his right, with the debtor’s consent. Discharge of debt is covered in articles 1138 – 1142 of the Civil Code.

Fortuitous impossibility of execution by the debtor is a method of settling obligations, which operates due to the fact that the debtor is in absolute impossibility of executing his obligation out of force majeure reasons. This method of settling obligations is covered in article 1156 of the Civil Code.
4. PROCEEDURES FOR OFFSETTING MUTUAL OBLIGATIONS BETWEEN LEGAL ENTITIES

Mutual obligations between legal entities may be settled by offsetting. The actual transaction varies according to residence, the amount to be offset and the state’s participation in the transaction.

4.1. Offsetting between residents
4.1.1. Prerequisites

Offsets between Romanian legal entities are based on offsetting orders, according to Government Decision no. 685/1999 for approving the methodological norms for monitoring debts of corporate taxpayers that are outstanding at maturity date, in order to reduce financial blockage and economic losses (“GD 685/1999”), the Regulation for offsetting debts of corporate taxpayers that are outstanding at maturity date, respectively Emergency Ordinance no. 77/1999 on measures for preventing payment default (approved by Law no. 211/2001).

Offsetting of mutual debts is subject to offsetting regulations, based on offsetting orders. Before describing the offsetting procedures, we should clarify the following terms:

a) non-cash offsetting – settlement of mutual obligations between two or more legal entities based on offsetting orders, up to the smallest obligation.

b) offsetting of small amounts – cancellation of mutual payment obligations below RON 10,000.

c) closed successive offsetting – offsetting of obligations resulting from economic transactions of previous periods, which settles debts existing at a certain moment between the parties.

d) open successive offsetting – offsetting of obligations resulting from economic transactions between two or more legal entities, for existing liabilities recorded in accounts, except for those that have been brought in courts.

Debts outstanding at maturity date for invoices over RON 10,000 and older than 30 days can be offset only through the Offsetting Department of the Management and Informatics Institute.

For amounts below RON 10,000 inclusively, offsets between corporate taxpayers can be made also without the Offsetting Department of the Management and Informatics Institute, but only based on special offsetting orders.

The offsetting procedure presumes a couple of transactions to be performed by legal entities requesting an offset of obligations. They are required to use the internet or magnetic devices in order to send to the database of the Management and Informatics Institute the data regarding payments older than 30 days and with a value higher than RON 10,000, as well as the offsetting claims comprising the situation of outstanding receivables and payables. The transmission of data regarding payables and receivables can be made by using the internet addresses http://gama.imi.ro or www.minind.ro, and then they have to chose the menu “Hosted Pages – Portal on offsetting receivables”. For invoices that fall under these conditions the following information should be transmitted:

- tax code of the reporting legal entity,
• tax code of the legal entity - creditor/debtor - towards which the reporting entity has a payment/collection relationship,
• number and date of the invoice issued by the creditor/debtor,
• value of the invoice to be collected by the reporting legal entity from the beneficiary legal entity,
• value of the invoice to be paid by the reporting legal entity to the providing legal entity,
• volume of loans not reimbursed by financing banks at maturity date, including interest,
• volume of outstanding payables to state budget, local budgets, social security budget and special funds budgets, including late payment penalties, as appropriate,
• volume of receivables from legal entities that are fully or partially financed from the state budget,
• volume of loans granted by companies and not repaid at maturity date.

Legal entities that do not have receivables or payables older than 30 days and with a value higher than RON 10,000 lei are not required to send information, but if they want to register with the offsetting system they can also send invoices under 30 days, with values below RON 10,000.

Subsequent to introducing the data above in the system, legal entities must update all changes permanently, at intervals not exceeding 30 days.

4.1.2. Offsetting regulations

According to GD no. 685/1999 for approving the methodological norms for monitoring debts of corporate taxpayers that are outstanding at maturity date, in order to reduce financial blockage and economic losses, offsets are based exclusively on offsetting orders, which are special documents, numbered by the printing house, kept with strict evidence. In any case, regardless of the outstanding amount, it is forbidden to use other offsetting documents than those provided in the offsetting regulations.

Offsetting orders issued by the Offsetting Department represent supporting documents for registration in accounts of settlement of receivables and payables which have been offset (e.g. 401 Suppliers = 411 Clients). Offsetting orders are attached to accounting bills.

In order to accomplish offsets, subsequent to submitting the data to the Management and Informatics Institute (IMI), legal entities involved or IMI should find a circuit for settling mutual debts. The offsetting inspector appointed by the initiating legal entity by means of a proxy shall come to IMI for closing the documents.

The offsetting meeting takes place at IMI within 3 days after finding the offsetting circuits. The daily meeting ends by mentioning in the minute of meeting (as set out in appendix no. 2.3 of GD no. 685/1999) of all legal entities and amounts involved in the offsetting. The minute of meeting shall be signed for each circuit by the legal entities’ representatives and by the offsetting agent appointed by the Offsetting Department, and offsetting orders shall be prepared based on the appendix (as set out in appendix no. 2.1 of GD no. 685/1999). One offsetting order is sent to each legal entity, by mentioning the amount offset with each legal entity.
4.1.3. Records of offsetting transactions

This is done within the Offsetting Department by means of the Offsetting Transactions Register (as set out in appendix no. 2.4 of GD no. 685/1999). This register should contain chronologically:

- the offsetting date,
- the minutes of the meetings containing the legal entities involved in the offsetting and the amount offset for each relationship,
- record of offsetting orders issued to each legal entity, with their number and value.

4.1.4. Dispute resolution and error correction

Disputes shall be solved on days when offsetting meetings are scheduled, by offsetting inspectors who represent the legal entities in the dispute. A minute shall be prepared in order to foresee the measures to be taken by the parties.

Errors shall be solved at the request of the respective legal entity, by analysing the nature of the error and its financial impact for the petitioner. If the parties fail to agree on how to offset payment obligations, the offsetting does not come into effect. If the error impacts on more legal entities, the Offsetting Department will send to all parties involved the corrections to be made, as follows:

- typo errors (incorrect figures) - the document shall be presented in original for cancellation and another correct offsetting order will be issued;
- wrong name of the legal entity with which the offset was made – the respective offsetting order will be cancelled and another offsetting order will be issued.

Replacing documents are effective from the same date as initial documents. Correction documents shall be recorded in a special register by the offsetting agent, signed by the Offsetting Department and by two or more involved offsetting agents.

4.2. Offsetting between a resident and a foreign legal entity

4.2.1. Considerations on offsets between a resident and a foreign legal entity

Residents are defined as follows:

- individuals – Romanian nationals, foreign nationals and stateless persons residing in Romania, confirmed with identification documents issued according to the law;
- legal entities established in Romania, as well as individuals - Romanian nationals, foreign nationals and stateless persons residing/domiciled in Romania – who are authorised and/or registered to conduct independent business activities in Romania,
- branches, agencies, representative offices of foreign legal entities, as well as of any other foreign entities registered and/or authorised to operate in Romania,
- embassies, consulates and other representative offices and permanent missions of Romania abroad.

Non-residents are defined as follows:

- individuals – foreign nationals, Romanian nationals and stateless persons residing abroad, confirmed with identification documents issued according to the law,
• legal entities established abroad, as well as individuals - foreign nationals, Romanian nationals and stateless persons residing abroad – who are authorised and/or registered to conduct independent business activities abroad, as provided by the regulations in force,
• branches, agencies, representative offices of Romanian legal entities, as well as of any other Romanian entities registered and/or authorised to operate abroad,
• embassies, consulates and other representative offices and permanent missions of other states in Romania, as well as international organisations or representative offices of such organisations that operate in Romania.

Offsets of mutual payables/receivables between a resident and a non-resident legal entity do not fall under the provisions of GD no. 685/1999, and in these cases common law provisions of the Civil Code (art. 1091, art. 1143-1153) are applicable.

In order to register them in accounting, the parties should conclude offsetting transactions in writing. The document should contain the dates of the invoices and of other documents related to the amounts to be offset (offsetting order set out in GD no. 685/1999).

4.2.2. Reporting of performed offsets

Offsets of receivables between resident entities performing direct non-monetary transactions with non-resident entities (and not through financial institutions) must be reported to the Statistics Department of the National Bank of Romania. Such offsets are governed by Regulation no. 26/2006 of the National Bank of Romania on statistical reporting of data for the preparation of payment balances, with amendments provided by NBR Regulation no. 12/2009.

Such offsets are non-monetary transactions of the nature of payment balances, taking place without a transfer of funds (e.g. offset of exports with imports or the other way round), and reporting is done on a form for each transaction type.

4.3. Offseting of payables with receivables against state budget

The offset is accomplished when a taxpayer is both debtor and creditor in relationship with the state budget (Bunget Ovidiu Constantin, Pereș Ion – Control financiar, [Financial Control], West University Printing House, Timisoara, 2010). In other words, the offset is performed between the taxpayer’s receivables representing amounts to be reimbursed and the receivables managed by the Ministry of Economy and Public Finance, when in mutual relationships both parties are debtor and creditor.

The offset is done up to the smallest value of receivables and payables existing between the two parties and it can be initiated as follows:
• by the taxpayer at his request;
• by the tax authority automatically or whenever there are mutual receivables, except for negative VAT amounts without refund option; the legal provision on automatic offsets is not imperative, because according to the Tax Procedure Code, the tax control body “may” do such offsets; consequently, taxpayers should not rely on tax authorities’ initiative and it would be advisable to initiate the offsets themselves.

The following steps are made for an offset:
• payables to the same budget are offset first;
• subsequently, within the remaining difference, taxpayer’s payables to other budgets will be offset proportionally, in the following order:
  - state budget;
  - risk fund for state guarantees on foreign loans;
  - social security budget;
  - unique national budget for health insurance;
  - unemployment budget.

Tax receivables deriving from customs relationships are offset with debtor’s receivables representing amounts of the same nature to be refunded. Any remaining differences will be offset with other tax payables of the debtor, in the order required by law.

Regardless of how it was initiated, within 7 days the offset is followed by the written notification of the taxpayer on the measures taken in this respect (Government Ordinance no. 92/2003 on Tax Procedure Code, republished, art. 112, para. 7). Nevertheless, the Tax Procedure Code does not provide this obligation for automatic offsets.

4.4. Offsetting of payables with receivables against local budgets

Currently (June 2010), receivables/payables to the state budget cannot be offset with receivables/payables to local budgets.

However, in April 2010, the Romanian Senate adopted a bill for amending the Tax Procedure Code, which provides that certain amounts to be received by the taxpayer from the budgets of local public institutions/tax authorities will be offset with taxpayer’s payables, respectively amounts not paid by the state due to the fact that they were not transferred from the state budget to the local budgets (these amounts represent the value of goods delivered or services rendered by the taxpayer for public investments). This bill is currently with the Chamber of Deputies, and has already been approved by the Budget-Financing Commission.

5. CONCLUSIONS

The analysis of various situations in which legal entities can offset receivables with payables that they have against other legal entities (resident or non-resident) or against the state, makes us to consider that this transaction should be performed with courage, thus contributing to decrease of debts and financial blockage that occur during the current economic crisis. The set-up and development of a company implies contributions required for financial support of assets necessary for business activity based on strategic decisions. Usage of various financial sources based on their costs, access and availability, generates both direct (by size and duration of undertaken debts) and indirect (by resource costs) effects on net assets.

Without being considered a routine method of settling receivables and payables or a method that depends on barter economy, in the context of liquidity crisis, offsetting can be considered a customary method in the practice of legal entities in Romania.
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VIEWPOINTS ON THE ACCOUNTING CONVERGENCE IN THE PUBLIC SECTOR

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Daniela VITAN

ABSTRACT

Internationalization is a phenomenon that hasn’t spared even the public sector, so the issue of the accounting convergence has been raised even at this level. It is the reason why the aspects approached in this paper refer to the following: shaping the premises that led to the accounting reform in Romanian public institutions, the chronological history of the legal framework for the restructuring of the public institutions’ accounting (starting from the need of adding accrual accounting to the traditional cash accounting), the regulation of the financial reporting requirements through the International Public Sector Accounting Standards and the utility of converging the national accounting norms to these standards.

KEY WORDS: accounting convergence, sector public, cash accounting, accrual accounting, internationalization

JEL: M41, M48

1. INTRODUCTION

Laying down the internationalization strategy is based on the results of the opportunity and risk analyses, as well as on the results of the diagnosis analysis performed previously, having as reference point the experience of large entities, especially banks and insurance companies. Internationalization implies pooling resources and skills and teams concentrating certain activities. This process included both the public sector and the private sector. In this context it is justified to conduct a study on accounting convergence within the public sector in Romania, ranked second in the accounting internationalization process.

With reference to the subject of the paper, the research method is a cognitive approach of the perception phenomenon of the internationalization process of the public institutions accounting, a systematic approach of investigation of the reality around the convergence process with the international accounting norms. The working technique consisted of a sustained research of the literature, of the general accounting norms and the norms specific for public institutions, as well as the international accounting references that target the public sector.

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Globalization is an obvious reality of the contemporary world, a phenomenon that affects deeply modern economy. Because it initially affected the economic field, globalization promises a new reality with profound implications in the social, political, legal and cultural fields, thus inevitably affecting the public sector.

In this manner, the contextual framework for the affirmation of “the most international of all professions” – accounting – was created.

Chronologically, the globalization of accounting was supported by the following methodological trends: standardization, harmonization and convergence.

The essence of standardization is the development of accounting norms. The accounting norm represents “one or several rules set up as a reference system for the production of accounting information and the social validation of the financial statements” (Calin and Ristea, 41).

The result of standardization is the publishing of homogeneous accounting information, harmonized at national level.

As for international accounting harmonization, P. Holt and C. Heim believe it is a “process to reduce accounting differences, up to the limit of standardization. Harmonization allows accounting options and its effect is the increase of comparability between financial statements drawn up by companies from different countries” (Horomnea and Tabără, (2009), 98). Complementary, F. Choi and G. Meek place emphasis on establishing logic boundaries inside which accounting practices from different countries may vary (Horomnea and Tabără, (2009), 99).

The role of international accounting harmonization is to reconcile various accounting cultures on the background of the intensification of the efforts put in by the main bodies involved in developing and implementing a “universally understood accounting language”.

The aspects mentioned previously and the etymology of the word harmonization (the act of putting in harmony, of making it consistent) allow us to conclude that under the scepter of accounting the “accounting” harmonization implies the existence of a normative reference point (referential) to which the efforts of the national and international bodies of standardization and accounting regulation subscribe.

Transposed in accounting, the convergence aims to identify the objectives that the entities and accounting professionals from all over the world target as a final goal in the presentations of the information in the annual financial statements.

Our approach will consider the convergence process of the national referential with the international referential developed by IPSASB (International Public Sector Accounting Standards Board).

Convergence – as a process – may hustle against various thresholds, namely:
→ aspects specific for each country;
→ limiting access to some aspects of the international standards;
→ high costs regarding counseling for the implementation and practical application of standards (Tabără et.al. (2009)).

International accounting convergence must be the result of the efforts put in by all the involved factors, a multicultural process to which Romania can and must make its contribution.
By targeting clearly defined objectives, financial reports of quality, comparative financial reports obtained by using unitary norms in terms of content, public institutions hold a separate place within the accounting convergence process.

3. CHRONOLOGICAL REFERENCE POINTS IN THE REFORM OF ACCOUNTING IN ROMANIAN PUBLIC INSTITUTIONS

The fundamental rupture of the socio-economic system existent in Romania before 1989 imposed the reform of the accounting system, which, until then, was based on the information needs of the sole “existent boss” – the socialist government that managed the “fortune of the entire population” (Matiş et. al. 2005, 38).

The reform process, whose first result was the introduction of a new French inspired accounting system in 1994, made the following values known in Romanian accounting: generally accepted accounting principles, trenchant accounting dualism between financial accounting and management accounting, the priority of financial statements in relation to the use of the current accounts, etc.

In terms of public accounting, the accounting law included provisions that regulated the principle of cash accounting, namely the accounting recognition of transactions at the time cash inputs/outputs are generated. Therefore, the role of accounting is to supply the credit accountant with information regarding the budget execution and the preparation of the annual general execution account.

We mentioned the cash accounting principle, but what does it mean?

As mentioned previously, cash accounting or treasury accounting records in the category of expenses or incomes only the operations that were transacted through the treasury. Expenses were reflected only at the time of the payment, and the incomes only at the time of the encashment.

The complement or alternative of cash accounting is accrual accounting. This type of accounting requires that the effects of transactions or other events be recorded at the time they were generated, meaning when they occur and not when cash or their cash equivalent is encased or paid. Thus, the operations are not recorded when they are settled, but are recorded when they are generated, granting the opportunity to obtain information about future payment obligations and about resources for future earnings and not only about past transactions that involved encashment and payments.

Accounting in public institutions is a complex social practice, conditioned by economic, social, legal, political and cultural factors and restrictions, a system of description, shaping, informing and assisting for decisions and characterized by multiple social meanings.

The complexity of the economic and institutional reform started in the post-revolution period has had impact over the accounting area also. Thus, the old accounting system was adapted to respond to immediate requirements and the basic legal framework regarding the organization and management of accounting was elaborated.

Between 1994 and 1999, the necessity of a profound accounting reform was accepted in terms of doctrine and the accounting reporting system for public institutions was regulated, the main goal being to improve the legislations regarding the financing system of public institutions.

Starting from these viewpoints, continuing the reform in the accounting field was a necessity. Therefore, the Order of the Ministry of Public Finance no. 94/2001
approved the harmonization of the Romanian financial reporting with the Economic Directive and the International Accounting Standards, which was a significant step towards international accounting and towards creating an efficient accounting system. These regulations, as proof of starting an ample process of accounting harmonization/convergence, targeted only the entities created with the purpose of obtaining a profit and which were run on the principle of self-management.

A year later, public institutions entered in the line of the accounting regulator, which materialized in two normative documents that regulated the development and modernization of the public sector accounting (we are talking about OMPF no. 1792/2002 approving the Methodological norms regarding the hiring, liquidation, passing for payments and payment of public institutions expenses, as well as the organization, recording and reporting of the budgetary and legal commitments; and OMPF no. 1746/2002 approving the Methodological norms regarding the organization and governance of the public institutions patrimonial accounting, of the chart of accounts of public institutions and the monograph regarding the accounting of the main operations).

The 2002 version of the accounting law, republished, included the same provisions. The conclusion was that the provisions stipulated by OMPF no. 1792/2002 were not in sync with the accounting law, meaning the provisions of the latter referred exclusively to the budgetary execution.

Only in 2005 the republished version of the accounting law included provisions regarding the application of the accrual accounting principle in the public sector.

The table below shows the initial provisions of the accounting law and the provisions that regulate the accrual principle for the public sector accounting.

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<td><strong>Accounting law, 1994</strong></td>
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<td>The public institutions accounting ensures information for credit accountants regarding the execution of the revenue and expenditure budget, the patrimony under management, as well as the drafting of the annual general state budget execution account, of the annual social security budget execution account, special funds, as well as the annual local budgets execution accounts. (Art. 2, align. 2)</td>
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According to the provisions of the Government Decision no. 32/2002 regarding the approval of the Action plan for the years 2002 and 2003 of the governing program, the Ministry of Economy and Finances undertook the task of restructuring the budget accounting through the “the supplementation of the cash flow accounting with the commitment accounting”. To reach the mentioned objective, the government developed Norms regarding the organization and governance of the public institutions patrimonial
accounting, of the chart of accounts of public institutions and the monograph regarding the accounting of the main operations.

The Order of the Ministry of Public Finance no. 1746/2002 approved the Norms regarding the organization and governance of the public institutions patrimonial accounting, of the chart of accounts of public institutions and the monograph regarding the accounting of the main operations.

The Methodological norms regarding the closing of accounting accounts, the drawing-up and submitting of financial statements regarding the budgetary execution at December 31, 2003 stipulates that the provisions of OMPF no. 1746/2002, completed on the basis of the conclusions reached as a result of their experimental implementation during the first semester of 2003, were going to be finalized during 2004 and implemented in all the public institutions from January 1st, 2005.

The factual materialization and the generalization of the reforming intentions at the level of public institutions were accomplished only on January 1st, 2006.

2006 was the year when accrual accounting became operable in public institutions, following the entry into force of the OMPF no. 1917/2005, which had a similar title with OMPF no. 1746/2002. This was a huge step towards “restructuring budgetary accounting through the supplementation of the cash flow accounting with the commitment accounting based on transitory entries”.

“Restructuring” (a name taken from the normative documents issued before the end of 2005, which firmly announced the accounting reform in the public sector) must be understood as a replacement of the budgetary accounting with a different accounting that doesn’t relate exclusively to the budget and which also includes calculated elements beyond the revenues and expenses that generate cash (Cenar (2009, 15)).

Thus, we may say that for the Romanian accounting environment, the accounting reform in the public sector has taken substantive steps since 2002, after the approval of the accounting regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards for the private sector.

We are not convinced that we can talk about a hierarchy of reforming priorities, but it is certain that in this vast and complex process of public institutions it’s ranked second.

After an extensive changing process of the regulations that govern it, started at the beginning of the third millennium, the public institutions accounting faces today the challenges generated by the adopting of the accounting norms convergent with the International Accounting Standards, “imposed” by the need to remove conservatism, the clear definition of the obligations of financial communication.

4. CONVERGENCE OF THE PUBLIC INSTITUTIONS ACCOUNTING TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Considered “a management tool for the power of universal values and of the global economic processes” (Mates, 2006), globalization entails an accessible structure of financial reporting, identical for the entire accounting world.

The base of the public accounting convergence in Romania with International Public Sector Accounting Standards is represented by the financial statements, which are the interface with the internal, external, domestic and foreign users.
The general conditions for drawing-up financial statements, the recommendations regarding their structure and the minimum requirements regarding the content of the financial reports of general purpose, written on the basis of accrual accounting, are approached by IPSAS 1 “Presentation of Financial Statements”. It is applied to all the entities in the public sector, other than government business enterprises, so that comparability with the financial statements of the entity in the previous periods, as well as the financial statements of other entities is ensured.

The purpose of drawing-up financial statements by public institutions after conducting a centralized accounting is to obtain and supply useful information to decision makers and to justify how financial resources are used. The usefulness of the information is proved by its content: the nature of the resources and the method of attracting resources, the allotments made in accordance with the provisions of the approved budget, the use of resources, how the needs of cash were ensured, the coverage of debts and commitments, etc.

Financial statements can also provide information with a forecasting role, which contributes to the anticipation of the size of the necessary resources, as well as the resources that will be generated by continuing the activity under the influence of certain risks. In the event of non-compliance with the budgetary provisions, it is necessary to state some relevant details for this aspect, which will also be released with the help of the financial statements.

The International Federation of Accountants (IFAC) is the global organization of this profession, dedicated to serving the public interest by consolidating the profession and by participating in the development of strong international economies.

To follow the missions belonging to the International Federation of Accountants, the IFAC Board established the International Public Sector Accounting Standards Board (IPSASB). Its role is to elaborate high quality accounting standards to be used by the entities in the public sector around the world when drawing-up the financial statements of general purpose. IPSASB establishes the International Public Sector Accounting Standards (IPSAS) that regulate the financial reporting requirements for governments and other public sector entities.

The general purpose financial statements are financial statements for the users that can’t request financial information that will satisfy their specific informational needs.

The public sector includes national governments, regional governments (state, province, territory), local governments (for example, cities) and associated governmental entities (councils, committees).

IPSAS represent the best international practice of financial reporting for the entities in the public sector.

The adoption of accrual accounting by public institutions, based on a set of generally accepted accounting policies and principles, means assessing the legislation in force and thinking of the steps necessary to implement it. The major gain is satisfying the accounting needs and presenting the information at the level of the European Union and IPSAS.

Accrual accounting is a standard promoted by most public administrations in Europe. The European Commission is the promoter of this type of model together with the International Federation of Accountants (IFAC).

Thus, the European Commission has committed to modernize and improve the accounting system in the European Union in accordance with recent evolutions, which
place emphasis on transparency and accuracy. The reform consisted mainly in shifting from cash accounting to accrual accounting and in drawing-up financial statements on the basis of the International Public Sector Accounting Standards. The accrual model was implemented for the community budget starting with January 2005.

However, IPSASB also elaborated a standard for cash accounting – financial reporting according to cash accounting – which, in our opinion, approaches aspects related to the budgetary execution. In fact, the national accounting norms also present the budgetary execution (in a more hazy manner – accounting of budgetary revenue and expenditure, which will reflect the encashment of incomes and the payment of the expenses associated with the budgetary year) as a component of public accounting.

In the context of Romania’s accession to the European Union, in order to fulfill the undertaken commitments of convergence and implementation of the community acquis, the Romanian accounting regulators developed between 2002 and 2004 accounting regulations that allowed the gradual assimilation of the elements specific for the accrual accounting. This process has been generalized since 2006, at the same time with the implementation of the provisions stipulated by OMPF 1917/2005.

As for IPSAS, it should be mentioned that currently IFAC and the European Commission don’t have the authority to ask their implementation, but IPSASB acknowledges the right of national governments and regulators to establish accounting standards and guidelines for the financial reporting in their jurisdiction, encouraging the implementation of the “accounting policies appropriate for a stage of high efficiency and responsibility” next to shifting to accrual accounting (Drăgan, 2009, 17). IPSAS could help national bodies revise accounting principles in order to increase the comparability level and to significantly improve the quality of financial statements.

5. CONCLUSIONS

The public sector couldn’t be absent from the stage of reforming and internationalization. Arrived second at the door of accounting internationalization, the public institutions are subjected to extensive reforming processes generated by the implementation of accrual accounting, the perception of commitment in its real meaning, the improvement of the reporting system, flexibility in presenting additional information through explanatory notes to the financial statement, affirming the role of the professional accountant, etc.

From the above, we may conclude the following:

→ The reform in the accounting system has had influence over public institutions also, which was seen gradually during several financial years;
→ In the course of the public institutions’ reform, several stages were identified, which materialized in the development of a new accounting system, in the improvement of the reporting system, in generalizing the double-entry accounting and rounding the cash accounting with accrual accounting.
→ The accounting law, both republished and the old version, includes references to the content of public accounting.
→ Due to normative documents developed between 2002 and 2006, the accounting of public institutions adopts new methodological norms and shifts towards the convergence with International Accounting Standards regarding the organization and management of accounting, as well as the use of accrual accounting.
International accounting convergence implies (for now) the convergence to IPSAS (International Public Sector Accounting Standards). The base of the public accounting convergence in Romania with the International Public Sector Accounting Standards (IPSAS) is represented by the financial statements, which are the interface with the internal, external, domestic and foreign users.

In contemporary society, accounting interferes increasingly more visible with the management of the public sector, both still having many sides to explore, which challenges these two fields to develop new theoretical grounds and empirical validations, as well as to building new research perspectives.

It is the reason we don’t exclude the possibility of extending the convergence to the Governmental Accounting Standards, which the American are accounting referential for the public sector, developed by the United States Of America Governmental Accounting Standards Board – GASB.

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PROS AND CONS RELATED TO FLAT TAX

Emilia CLIPICI

ABSTRACT

Paper purpose is to answer the question “Which tax system is better, the progressive taxation one or the flat tax one?”. The method consists in studying literature in the field and realizing an analysis at the level of the countries that have adopted the flat tax system. The adoption of the flat tax should be accompanied by a decrease in the level of taxation, in order to achieve the desired effects. Although the government is the one who makes the decision to increase or decrease the fiscal burden, fiscal competition is the trendsetter in this area and subjects the state to constraints.

KEY WORDS: flat tax, progressive taxation, fiscal competition

JEL: H21, H30

1. INTRODUCTION

The notion referred to as “flat tax” in the Anglo-Saxon literature is not a fiscal policy innovation, since it was developed after one century of progressive income taxation. It had been used only in a few small states or fiscal jurisdictions, such as Hong Kong, Guernsey or Jersey. The idea of a proportional taxation (opposed to the progressive one) was again brought the forefront in the 1960s, when Milton Friedman (Friedman (1962)) proposed a 23.5% federal tax for USA. Hayek (Hayek (1960)) also brought arguments against the idea that progressive taxation would be indispensable for the provision of the redistribution of incomes in favour of the poor. Later, Milton and Rose Friedman (Friedman (1979)) would advocate a 20% federal individual tax.

At the beginning of the 1980s, two American economists, Hall and Rabushka, in their opinion, this proposal was justified by a peculiar feature of the American taxation system used at that time: “(…) the shocking fact that over half of all business income never shows up” (Hall and Rabushka (2007)). For this reason, they maintained the fact that this flat tax would not be more than the current tax system – due to the large scale tax evasion. Nevertheless, Hall and Rabushka failed to support their cause with conclusive arguments, since tax evasion is a reality all over the world.

2. FLAT TAX HISTORY

Their intention was to replace the progressive taxation system, which has shortcomings and deductions, with one equal tax for all incomes, applied one time only – the flat tax. Nevertheless, the flat tax “(…) is progressive where it counts most: for the poor” (Hall and Rebushka (1985)), in the sense that it would come with an exemption for incomes below a certain threshold. In fact, this means that there are two types of tax rates: 0, for all incomes below a certain threshold and another rate for all the other

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incomes. Exempting the poorest part of the population from taxation is probably a compromise for accepting what the authors acknowledge to be “(...) a tremendous boon to the economic elite” (Hall and Rebusku (1985)). In a revenue-neutral scenario, there are winners and losers of a flat tax reform; if the poorest are exempted, and the richest are definitely better-off, the tax burden moves upon the middle class. According to the authors’ calculations, the tax burden would be heavier for the persons with annual incomes between 30,000 USD and 90,000 USD, without calculating any inequality indicator.

Later, in 1996, a 17% flat tax was proposed in the USA by billionaire Steve Forbes. The former fantasy of the free market ideologists, the flat tax, started to become increasingly present not only in the EU leaders’ conscience, but also in reality. “Sunday Times” wrote in the summer of 2005 that the flat tax would be a solution even for developed economies. In the autumn of the same year, “Wall Street Journal Europe” insisted that the new member states of the European Union had started to adopt a less complicated taxation system involving only one tax, which put pressure on old Europe.

The flat tax did not catch the attention of many researchers even after being adopted by the Baltic States at the middle of the 1990s. These were small countries which had just won their independence, and their example was not followed by any other state until 2001. The adoption of the flat tax by the Russian Federation was a real turning point: starting from that moment on, almost every year, at least one country adopted the flat tax. Consequently, what had previously seemed to be just a “Baltic experiment” came to be viewed as the starting point of a fiscal revolution.

In Hall and Rabushka’s proposal the flat tax is actually considered as a consumption tax (due to the fact that all new investments are exempted from this tax base), which should lead to a decrease in consumption, therefore creating “incentives to save and invest” (Hall and Rebuska (1985)). In the initial research the flat tax should stimulated the supply side of the economy. The practice evidence shows that, in the countries where the flat tax has been introduced, this condition was not met, since all new investments were not exempted from the tax base.

“Which tax system is better, the progressive taxation one or the flat tax one?” That is the question that has preoccupied and continues to preoccupy the specialists in this field. Some specialists agree that taxation should be appreciated first of all from the ethical perspective. Only by subordinating the efficiency criterion (what is better to be done) to the ethical one (what is fair), the scientist will be able to acquire correct knowledge (Marinescu (2005)).

According to Etatist doctrines, taxation represents an exchange between citizens (taxpayers, those who “contribute”) and the state, in other words, taxation would appear to be, in fact, a voluntarily act. According to this point of view, the government is created as a mutual insurance company, to which all taxpayers adhere voluntarily (the constitutional phenomenon).

According to Lysander Spooner, the government is like a “highwayman”, with the essential difference that the latter admits to the robbery and to the lack of legitimacy of its actions. And “the money or your life” is by no means an exchange. In the public opinion, the ascension of the Etatist system undermined the understanding about the fundamental truth about tax and state. If a “roving bandit” settles down and takes its theft as a regular taxation, it will paradoxically claim to be a protector, and try to derive its legitimacy propagandistically (Olson (1993)). It turns into a protector by force, because people do not pay taxes voluntarily, pretending that sacrificing part of their
property in favour of the Government would be the best investment they can make. In this case, the government is the one that decides, in fact, how much everybody should pay for their own safety and for other “public interests” invented in favour of some, and generally at the expense of others.

The Austrian economic school shows that the “contractual version” of the Etatist phenomenon, and consequently, of taxation, is completely wrong. Rousseau’s “social contract” with no legal value is a mere utopian exercise, which has supported collectivism and the ascension of the state. Only the private property order is voluntary in nature and is therefore contractual, because is essentially based on social cooperation, production, an exchange on legitimate rights of property. Any other institutional arrangement is the result of the partial abolition of natural rights, by the institutionalization (coercive) of a policy of aggression, expropriation and exploitation of legitimate property. This policy does not bear the imprint of market relations, but represents the defining attribute of power (political). Moreover, that the state „the organization of political means” of acquiring the wealth in society, meaning the organization which has a comparative advantage in violence, and consequently the monopoly of taxation in a given geographical area (Oppenheimer (1922)).

Taxation represents the best example of institutionalization of the state coercion in the society, which draws the attention on the lack of legitimacy of the tax, and therefore of the Government.

The authors admit that taxation divides the society into two main social contestant categories. Even if, formally, we all have the quality of “taxpayer”, however, economically, some are more taxpayers than others. We are talking, on one hand, about those who acquire their incomes from the private sector and who depend on the market, and on satisfying their customers’ preferences (net taxpayers) and, on the other hand, about those who are paid from public budgets and those who obtain their incomes by “making business” with the state, who are not subordinated to the market, but to the preferences of the state bureaucracy (net tax consumers). For example, a main budget administrator paid with the net salary of 5,000 RON per month returns to the government 16% of the gross payment, which does not signify that this administrator pays taxes “as anyone else”. As a matter of fact, this is a mere settlement between the government employees and the government budget, in the amount of 800 RON/month, which is of no economic importance: what is relevant is that the Minister in question obtains 4200 RON/month from the tax collections to the state budget on the account of the net taxpayers.

The overall tax burden was not taken into account in the assessment of the taxation system. In other words, we should also consider the number of plucked feathers (the overall level of taxation), and not so much the way in which the goose is plucked (the nature of taxation). Famous economists agree that the flat tax implies the lack of discriminations, imposing a lower level of taxation, meant to stimulate saving, developing capital and entrepreneurial activity, which would therefore lead to the increase in economic performance, which cannot be mentioned in relation to progressive taxation that discourages investments, reduces the number of jobs and slows down the economic growth due to its high marginal rates and discriminatory taxation. However, this advantage is not the equivalent of fiscal neutrality, and the elimination of the fiscal discrimination does not improve the above-mentioned ethical criterion either. This would be like claiming that uniform expropriation were “more ethical” that the discriminatory one; ultimately, what is really important is that the goose should be
Daniel Mitchell describes this taxation system as a “simple and honest one […], which treats all taxpayers equally” (Mitchell (2005)). Nevertheless, the recognition of additional administrative simplicity does not justify sharing the other features of the flat tax, out of ethical and economical reasons.

Some economists believe that, since the reason for taxation would be to provide the means of financing public goods then the fiscal system should be subordinated to the need to make public goods. For example, Richard Epstein shows that taxation should be more proportional than progressive, because people do not benefit from public goods in a progressive manner (Epstein (1985)). However, public goods are never used progressively or proportionally with each individual’s income, they are used identically by everybody, which leads to a calculation of the tax that can be mad by dividing the public goods production costs by the number of persons from the relevant community. The fact that each person should pay the same amount as tax would significantly decrease the retributive reason on which the government’s social actions are based, as well as setting the tax based on and the “payment capacity” of the poorest members of the society, and thus the government should make do with the money obtained by this algorithm, which would make the social optimum impossible to achieve.

Excessive taxation designates a broad wealth redistribution scheme in the society, and one of the consequences implies diminishing the “social pie”, by enriching the incentives which support the productive effort and consequently by deviating the entrepreneurial activity from the economic area (of the market) into the political one (of the state). On the other hand, the smaller the tax burden, the better the promotion of the economic freedom and prosperity.

In conclusion, depending on the general level of taxation, the progressive system of taxation may be better than the proportional one. This would be like saying that the budget deficit may be more beneficial than the budgetary balance. It depends on the level of the budget at which it is made: for example, a 1.5% deficit – when the budget represents 23% of the national production – describes a situation that is preferable in comparison to the budgetary balance present at the level of 65% of the same production.

The flat tax is imposed to each taxpayer equally. The state decides a threshold above which each participant to the system of taxation pays a fixed tax on their incomes.

Although it had been used in the industrialized states in the 19th century, the flat tax was reborn in 1991, when Estonia started the process of reintroducing the flat taxation system in Europe. Than it was also introduced in Latvia and Lithuania, Russia in 2001, Serbia in 2003, Ukraine and Slovakia in 2003, and Romania in 2005.

Although the flat tax is not viewed as a panacea for all the economic problems, an ever increasing number of European states, among which there are also the new members of the European Union, introduced, or are about to introduce the flat tax. Most of these states are confronted with significant budget deficits, and many have to observe the standards imposed by the euro area.

Among the benefits brought by the flat tax there are the decrease in bureaucracy and in the inequity of the tax system, keeping tax evasion and other offences under control, encouraging savings and investments, which can even lead to an „economic mini-boom”.

A major argument of the advocates of the flat tax is that it could help improve collection by decreasing tax evasion and by expanding the tax base, thus increasing the
budgetary incomes. The authors of a study, Keen, Kim and Varsano (Keen, Kim and Varsano (2006)), prove that, show that, in the first year after the introduction of a flat tax, budget revenues from personal income tax (as a share in GDP) dropped in Estonia, Georgia, Romania, Slovak Republic and Ukraine, while they increased in Latvia, Lithuania and Russia. For Latvia and Lithuania the explanation is that in these countries the flat tax rate was set at the highest marginal tax rate prior to reform (which is, in fact, quite contrary to the flat tax logic). According to an econometric study made by Ivanova, Keen and Kleem in Russia, the strong increase in revenues from the income tax can not be attributed to the flat tax, but to an increase in real wages unrelated to the flat tax reform (Ivanova et al., 2005).

Regarding the Slovak Republic, Golias and Kicina (Golias and Kicina (2005)) they presented detailed data on budget revenues in the first year of the flat tax. Revenues from personal income tax and from corporate income tax decreased significantly, as a share in total revenues, from 18.3% to 14.6%, respectively from 15.4% to 12.5%; moreover, they also decreased in nominal terms. These losses were more than compensated by the increase in VAT revenues (as a share in total revenues) from 41.9% to 44.9%; overall, the budget revenues increased by 7.4% in nominal terms.

Economists have drawn the conclusion that the efficiency and success of the flat taxation system are strictly dependent on the current rate of taxation: the lower the rate, the more efficient it becomes.

Experts also draw then attention to the fact that the competitiveness of an economy id determined by a large number of factors designed to support the increase in investments, besides the flat taxation system. While a low level of taxes allows for the circulation and the investment of the money and to be invested, and the flat tax encourages the population to pay taxes, low taxes may also cause low budgetary incomes. Moreover, the leaders of the strongest European economies, like the former German chancellor Gerhard Schröder and the Swedish prime minister Goran Persson, stated that the Eastern “transition” economies can afford to decrease taxes because any income deficit is more than compensated by consistent subventions granted by the European Unions. This argument was often criticized by the “transition” economies.

Katinka Barysch’s statement, from the Centre for European Reform, stated that „In the run-up to accession, the European Union asked the newcomers from Central and Eastern Europe to phase out all discriminatory tax, incentives, in particular those for foreign investors. To keep their economies attractive, many of the new members have responded by cutting overall tax rates for both domestic and foreign investors. Since these cuts are not discriminatory, there is nothing the EU can or should do about them. So why are some old EU members so upset about East European taxes? Perhaps some governments want to divert attention from the pressing need to clean up their own tax systems”.

In the opinion of the European Commission, it is not necessary, for the moment, to use a uniform system of taxation in the member states of the European Union. If the member states transpose and implement the regulations adopted at the level of the community in a correct manner, they will be free to choose the system of taxation they deem as the most appropriate for their economic situation. At least 11 of the 27 member states of the European Union have implemented or intend to implement such a system of taxation. Hungarian Socialist Laszlo Kovacs, the Commissioner responsible for Taxation and Customs, described the flat tax – the same threshold for individuals and companies - as “absolutely legitimate“ and stated that many states in the Western
Europe may be tempted to adopt it. The European official’s comments have fuelled the criticisms of those who claim that the new Eastern Europe’s economies with low costs and tax rates affect the economic growth of the “old” EU members. In 1994, Estonia was the first European country which adopted the flat tax, immediately followed by Lithuania and, after one year, by Latvia. In Slovakia, the adoption of the flat tax was correlated with an increase in direct foreign investments. The adoption of the flat tax in the three Baltic states and in Slovakia, who became EU members in 2004, was the main reason due to which they had a sustainable economic growth and created new jobs. Only French politicians denounce what they refer to as “social dumping” and the risk of such taxation system on the social standards of the respective country. others claim that such a taxation system in which a rich individual and a poor one pay the same tax level cannot be deemed as fair; it is a real heresy that a billionaire and a sweeper pay the same level of taxes... The supporters of the flat tax claim that it eliminates bureaucracy and encourages work, while other critics view the flat tax as a “voodoo economy” phenomenon, by which money is stolen from poor employees and is cut off public spending, while the gap between the rich and the poor grows.

In the last few years, the reaction of Western Europe was rather strange. Apparently, the flat tax is appropriate for those countries which are rebuilding their system of taxation from the ground, but not for the more sophisticated, developed economies. The Czech Republic, Cyprus, Ireland, Malta, Poland, and Hungary have already implemented the flat tax. This idea is not a matter specific only to the new member states, since it is also debated by politicians from Greece, Germany, the Netherlands, Italy, and Spain; the first and the last of these countries have already submitted plans for the tax simplification and decrease; the Greek Government mentioned adopting a 25% flat tax which is to replace current 15%, 30% and 40% taxes. The income tax varies between 15% and 42% in Germany, too. This country with a strong economic growth also referred to the “EU locomotive”, is expected to change its fiscal philosophy – instead of the progressive taxation, a 25% flat income and profit tax will be introduced. Germany has started to decrease its taxes. The exemption of people with annual incomes between 10 and 20 thousand euros from paying taxes was also taken into account, this model being proposed by Democrat Kirchhof, in order to eliminate the negative consequences of the flat tax on people with small incomes. Initially, Angela Merkel, the Christian Democratic Union leader, succeeded in including Paul Kirchhof, one of the supporters of the flat tax, in her staff. But then, he gave up this plan. Nevertheless, there are suspicions that the flat tax system would be eventually adopted in Germany.

Setting a 16% flat tax over another value is subjective in nature, not an objective one. it is not meant to provide for the “the smooth” development of the economy, nor is it meant to decrease tax collection costs (optimum tax), as it is so zealously claimed sometimes by the fiscal authorities. Only the private sector is interested in saving these costs, due to the fact that waste is only penalized under market conditions, by losses and eventually by bankruptcy. In the public sector, the government bankruptcy version due to high tax collection costs does not exist. On the contrary, governments prefer systems of taxation the tax collection costs of which are relatively higher, but which also provide for higher net budgetary incomes, to the detriment of systems of taxation the tax collection costs of which are lower, but which also generate lower net budgetary incomes. The conclusion was that, as a result of excessive taxation built up over time, especially in the 20th century, when the profound change in the social relation structure
was made, together with the technological “revolution” and which was referred to as the “new economy”. In our opinion, the system of taxation is inevitably subordinated to the discretionary budgetary requirements and political interests, and there is nothing “optimum” about the relative dimension of the public sector. The impossibility to make an economic calculation in socialism lays at the basis of this explanation, since the public sector is primarily a “socialism island”. In the absence of the market and of the prices, the allocation of the “socialized” property by means of government budgets is a political one, a variability of which is impossible to verify when it comes to people’s needs. If we keep following the line of this analogism, then the same happens in the case of the flat tax, too. Even if the government limited itself to protecting the individual and the property, and the tax were also limited to such protection service, then how would the government decide what level of protection it must provide and what tax it should collect?

As Rothbard put it, “…protection” can mean anything, from a policeman for the entire country to an armed guard and a tank for each citizen …Who decides on the degree of protection, because, obviously, everybody will be better protected against theft and aggression if they had a guard? On the free market, each individual’s voluntary purchase will determine the quantity and quality of the goods and services that are provided; but what criterion can be applied when these decisions are made by the government? The answer is that that no criterion can be used and that such governmental decisions are purely arbitrary. Consequently, the factors that determine the degree of protection and the tax rates are not economical calculations, but political interests.

In a debate organized by “Wall Street Journal“, Vaclav Klaus, the President of the Czech Republic, (and also the architect of the 2008 fiscal reform) drew the attention on the fact that proportional taxation cannot be a solution for all the problems with which an economy is confronted. Gary Becker, who was awarded with a Nobel Prize in economy, and who was present to the debate, agreed to him, and warned that “a flat tax so not so flat”, in reference to the double taxation and the taxation of special interest groups. The American economist concluded that it would be recommendable to use a low tax rate, not necessarily a flat one.

3. CONCLUSIONS

The arguments in favour of the flat tax are direct and convincing. Its adoption will lead to the simplification of the fiscal system which will thus be easier to administrate and understand.

The flat tax is simpler and more efficient and stimulates the economy; these are the conclusions of a survey made by George Osborne. “It is a competition and in the fiscal area”, said Erik Nielsen, an economist of the Investment Bank Goldman Sachs, in relation to the game of attracting new companies in the economic mechanism, by deciding a low level of taxation as compared to the neighbouring countries. He also added that he believed that this tendency reflected a change in the attitude in Europe, towards a more limited acceptance of higher tax levels. Eamon Bultler, the Director of Adam Smith Institute in London, underlined that the Eastern European countries show that additional incomes to the budget due to the flat tax “can change the taxpayer’s behaviour”.

Taking into account these laws in the payment of taxes, the EU member states,
such as Germany, Italy, Austria, Finland, Denmark and Greece, decided to decrease taxes and duties paid by their citizens and their companies, with the purpose of stimulating investments and increasing consumption. The wave of the flat tax adoption was and is still experienced from the Eastern towards the Western Europe.

In our opinion, the adoption of the flat tax should be accompanied by a decrease in the level of taxation, in order to achieve the desired effects. Currently, the national economies are exposed to the globalization process, and the capitals and labour migrate towards the jurisdictions in which the tax burden is as low as possible. Our conclusion is that, although the government is the one who makes the decision to increase or decrease the fiscal burden, fiscal competition is the trendsetter in this area and subjects the state to constraints. The generalization of fiscal competition among the systems of taxation generates the tendency to diminish the fiscal pressure on taxable bases with a higher mobility and to increase it for the factors of production and for less mobile activities. Much like globalization which reduces the possibility to preserve monopoles on various markets, competition has similar effects, in other words, it also determines the limitation of the fiscal power of national governments, which leads to the need for fiscal reforms.

In order to determine whether the implementation of the flat tax in Romania had the desired effects, I will study the statistical data bases of 2005 (the year of the adoption of the flat tax) – 2008 (the year when the financial crisis emerged).

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FINANCING THE PUBLIC UNIVERSITY EDUCATION IN SOME OF THE EUROPEAN COUNTRIES

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ABSTRACT
This comparative study on the financing of the public university education tries to highlight the main financing mechanisms and patterns employed in some of the European countries in order to create a better financing model in Romania. This model is meant to improve the way in which the Romanian authorities distribute the public funds for the university education. It is meant to increase the level of transparency when it comes to the spending of the public funds for universities in an objective manner.

KEY WORDS: financing of the university education, research financing, performance criteria, input criteria.

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1. INTRODUCTION

In the majority of the European countries the financing models are based on some input criteria which refer to the volume of the institutional activities estimated by the volume of some of the university resources: number of students, the personnel employed, salaries, facilities etc. In some of the targeted countries, the financing models include some performance criteria too, which refer to the universities’ educational outcome. These performance criteria could be a perfect incentive for the institutions to rationalize their expenditures and resources.

2. THE FINANCING OF THE PUBLIC UNIVERSITY EDUCATION IN DENMARK

In Denmark, the university education in its majority is financed by the state. The Danish state employs even 3 state departments to govern the university education system:
- The Ministry of Education which manages the short term education institutions;
- The Ministry of Culture which governs the education institutions of Art, Film and Theatre;
- The Ministry of Science, Technology and Innovation which governs the activity of the Danish universities.

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The performance conventions between the state and the university institutions stipulate their strategic objectives, means and interests. These are grouped in 4 main categories of activities, which are: the education, the research, the dissemination of the information and the information change. However, the universities’ results on the educational matter which were stipulated in the contracts have no influence or whatsoever on the amount of the financing. Planning and evaluating the improvement of the financing system are stipulated in the performance contract. Up to this moment, the allocation of funds for the universities has been based on the number of current students and those who promote their exams. As you can see, the institutional financing in Denmark is oriented towards the outcome.

In Denmark, the allocation of funds for the education is separate from the allocation for research. The educational and research institutions benefit from separate budget allocation.

The Department of Education in Denmark uses the principle of the “taxi cab” which relates the financing to the number of the promoted students (active students). The state allocates a certain amount of money for every promoted student. The total number of the so-called active students determines the allocated budget. In such a system every exam gets a point.

This type of the allocation varies according to the field of study and has three components (Vossenstien H., (2003)):
- educational expenses and equipment funds
- administration funds
- practical work funds.

The annual budget of education (T) for the Institution in a determined year t is calculated based on the following formula (Maasscn P., (2003)):

\[
T_{ist} = A_{i1st} \cdot (TT_{1st} + TO_{1st}) + A_{i2st} \cdot (TT_{2st} + TO_{2st}) + \ldots + A_{inst} \cdot (TT_{nst} + TO_{nst}) + PR_{i1st} \cdot TP_{1st} + \ldots + PR_{ipkst} \cdot TP_{pkst} + PGE_{ist} + (TTE_{i} + TOE_{i}) + PGN_{ist} \cdot (TTN_{i} + TON_{i})
\]

*where:*
- \( T_{ist} \) - The budget for the i institution for the t year;
- \( A_{ijst} \) – The number of the promoted students in the i institution for the j field of study (j=1...n) in year t;
- \( TT_{jst} \) – the rate/active student for the j field of study in year t;
- \( PR_{ijhst} \) – The number of the active students who carry practical work in the h field of study (h=1...k) in year t;
- \( TP_{hst} \) – the rate for the practical work necessary for the h field of study (h=1...k) in year t;
- \( PGE_{ist} \) – the number of the graduate students in fields which need experimental work in labs in the i institution in year t;
- \( PGN_{ist} \) - the number of the graduate students in fields which do not need experimental work in labs in the i institution in year t;
- \( TTE_{i} \) – The rate for the graduate students in fields which need experimental work in labs in year t;
- \( TOE_{i} \) – The extra charge rate for the graduate students in fields which need experimental work in labs in year t;
- \( TTN_{i} \) - The rate for the graduate students in fields which do not need experimental work in labs in year t;
TON$_t$ - The extra charge rate for the graduate students in fields which do not need experimental work in labs in year $t$.

The research in the Danish universities benefits from financing based on grants. Alongside this main allocation, the universities can compete for supplementary financing of the projects submitted to the Danish Research Councils and the Danish Research Foundations.

3. THE FINANCING OF THE PUBLIC UNIVERSITY EDUCATION IN GREAT BRITAIN

The Councils for Financing the University Education in Great Britain have been responsible for budget allocation since 1992.

Every academic institution is allocated a part of the total public funds for universities according to some factors. The universities are granted a certain amount of money in the form of a subsidy, which they will have to spend according to their own needs and priorities. These will have to relate to the teaching and research activities in accordance with the council’s provisions. Every three years, the British government sets the level of the public expenses for every department.

The universities receive the public funds only after the respective university and the HEFCE sign the financing contract which provides a series of requirements which the universities must obey in order to get it. Such provisions refer to the efficient usage of the funds and only for the intended purpose.

In Great Britain the universities are granted public funds to cover even some occasional expenses, such as debts made by the previous administration under the local authorities, expenses of the libraries, museums, art galleries, operational costs in the London area etc.

The Academic Financing Regional Council grants the universities an annual sum of money according to a determined financing mechanism. The amount of money is granted in the form of a global financing which is distributed internally in an autonomous manner.

In Great Britain the education and the research departments are allocated separate funds. The Council for the University Financing grants funds for education and research broken into 4 main categories:
- the financing of the education based on a student registration formula. The number of the enrolled students is set in an accord signed between the university and the Govern (as a result of an auction process);
- the research financing;
- special allowance for project proposals granted on a competitive procedure;
- allowance for capital expenditures.

The allocation mechanism is based on 4 stages (Theisens H., (2003)):
- data collection and determination of the standard resources per institution;
- the determining of the resources for the institution;
- the comparison between the first and the second stage results;
- the determination of the final grants for the academic education.
Data Collection and the Determination of the Standard Resources per Institution

The determining of the standard resources is made for each academic institution based on the number of students and the education profile. The exact number of students for a university is determined by the number of students who attend classes on a regular basis.

The distance learning student is taken into account by comparing his educational activity with that of a student who attends classes on a regular basis. Students who carry practical work for at least one year outside the university are rated 0.5 points in comparison with a regular student. For determining standard financing per institution for the next year, the British government takes into account the existing students plus the prospected students for the next year.

The frequency type of the students and their field of study determine a different level of resources, so every student is financed in a different manner. Based on such factors, every institution is granted bonuses which take into account:

- the field of study;
- the student;
- the institution.

The total amount of grant for every institution is determined by the number of students who attend classes on a regular basis quantified by price groups, the amount of the institutional bonuses and the amount of the students’ grants. The standard resource for an institution represents the total number of the regular students multiplied by the base price.

The Determination of the Assigned Resources

The assigned resources are based on the previous academic year grants for the higher education and are accommodated with the inflation and the Council’s estimation on the total revenues of the university from the tuition taxes. The starting point for financing every academic institution is the previous year grant, adjusted to the following factors:

- inflation;
- the completion of the requirements provided in the financing contracts. This is due to the fact that many times the academic institutions cannot support the number students the allocation was granted for in the respective academic year.
- The increase of the allocated funds in case of a supplemented number of students. The government wishes to expand the higher education area. The supplemented number of students is financed in accordance with the standard resources (tuition taxes excluded) by the Council for the Higher Education Financing.

The Comparison of the First and the Second Stage Results

At this stage, the granting authorities compare the first stage results, of the standard resources and the second stage results, of the assigned resources. The percentage difference (PD) is calculated as follows:

\[
PD = \frac{(the \ assigned \ resources - the \ standard \ resources)}{the \ standard \ resources} \times 100
\]

The percentage difference between the two types of resources has to be no higher than 5%. The financing method is based on the financing of the similar activities in all the universities and colleges. Therefore, the government does not intend to
allocate more or fewer money than the standard resources. At the same time, the Council of the Higher Education Financing allows a certain deviation from the standard level in accordance with different circumstances and classes content in different academic institutions in order to eliminate certain standardization between grants to different universities.

*The Determination of the Final Grants for the Higher Education*

The last stage represents the subsidy for every university. There is however a mention that says that for the universities which outrun the 5% tolerance rate, the financing or the number of the equivalent students must be adjusted, so that these two factors stay in the limit of the tolerance rate in a certain period of time.

In case that the difference between the standard and the actual resources is higher than 5%, the Council passes the grant to the next years. In other words, the Council will allocate the amount calculated in the second stage without the estimated tuition revenues.

The majority of the allocated funds for the research are distributed selectively between higher education institutions in accordance with certain national and international standards. The Council of the Higher education Financing allocates funds for the infrastructure, the permanent academic personnel salaries, libraries, for the research and the new researchers’ instruction costs.

4. THE FINANCING OF THE PUBLIC UNIVERSITY EDUCATION IN ROMANIA

The financing of the academic institutions in Romania is made through the following fund categories:
- The main allowance fund
- The complementary Financing Fund
- Other financing sources fund.

The Main Financing Fund is constituted in accordance with the number of tuition waiver students and post graduates and with other specific indicators of the teaching activity and its quality. The Department of Education, Research, Youth and Sports will assure the financing of the public universities through study grants which are equivalent to the medium cost per student per domain per teaching cycles. The grants will primarily be allocated for those domains which could assure the competitive and sustainable development of the society. As much as a specific domain is concerned, the grants will be allocated for the best programs. The universities will have the right to administrate the grants according to their own rules.

The Complementary Financing will be granted by the Department of of Education, Research, Youth and Sports to the public universities based on the institutional development projects at the CNFIS recommendation. CNFIS selects and recommends for complementary financing only the viable institutional development projects and monitors their implementation.

The Complementary Financing is granted on a competitive basis or according to an additional contract. The Fund must cover for investments, capital repairs, for research and didactic equipment or for development projects (new majors, new forms of education), as well as for scientific research projects.
Extra Budgetary funds (interests, donations, sponsorships, taxes paid by other people or legal entities, external credits, free financial subsidies), including taxes paid by the foreign students, are constituted according to the universities’ rules. The budgetary funds for the main financing scheme are allocated differently per every higher education institution according to the following criteria:
- the unitary number of the equivalent students (70%)
- quality indicators (17 structural indicators grouped in 5 parts) for every institution (30%).

The institutional contract concluded between the university and the Ministry of education stipulates the main funding, funds for both social protection and stipends, and investment funds. The unitary number of the equivalent students is calculated for every university and field of study separately, as follows:

$$SEU^U = \sum_{d=1}^{D} C_d \times SEU_d$$

where:

$SEU^U =$ The unitary number of the equivalent students of the $U$ university;

$C_d =$ The cost coefficient for every field of study;

$SEU_d =$ the number of students in the $D$ field of study of the $U$ university;

$D =$ Total number of the fields of study financed by the state.

The quality indicators are used for the ranking of the universities and for allowing a better correlation between the budgetary allocation as a main financing scheme and the way in which the needs of the universities are covered by the budgetary allocations and other revenues.

The Government had established a number of 17 indicators, divided into 5 groups, as follows (Damian R., (2008), The Higher Education System Financing in Romania, P.5):

*Quality indicators related to the didactic stuff (8.5%)*

The didactic stuff represents the main resource of an institution capacity to create and disseminate knowledge. For that reason, salaries constitute the most important component of the main financing fund (mostly 80% of the total) and the main source of saving of the university.

*Quality indicators related to the scientific research impact (9%)*

The scientific research impact, targeted by the second group of the indicators, represents a specific component of the higher education, especially when it comes to its financing. Its outcomes convey the quality of the didactic stuff. Its task is to disseminate the information, but most importantly is to actively participate in the information creation process. A very important aspect of the research activity is the team working. This aspect applies especially to the senior undergraduates in their research preparation, as well as to the graduate and postgraduate students.

*Quality indicators related to the logistic base (3.55)*

Logistics, which is targeted by the third group of the indicators, is an essential resource of a university. Without it, performance could hardly be attained in an academic institution. That is why, logistics is an important component of the Main Financing Fund.
Quality indicators related to the academic management (9%)

The quality of the academic management (CNFIS (2009), The quality indicators’ impact on the universities’ financing in Romania, in figures and data, P. 10), targeted by the last group of indicators, has a major impact on the quality of the teaching and learning process. That is why, the universities’ management has to take a great responsibility towards assuring the quality of the didactic process and attaining performance.

Permanent education (0% - pilot programme)

According to this funding system, the Ministry of Education takes no responsibility in distributing the universities budgets with its major components. The Ministry of Education can no longer grant the universities a high level of financial autonomy. Such a global financing system provides that the universities should shift the accent from financing input to financing the output.

5. CONCLUSIONS

This study focuses on the higher education financing system in three European countries. Its findings reveal that the public subsidies for the higher education system take the form of global budget allowance with a large autonomy. This means that the universities can spend their allocations according to their own needs and priorities.

The majority of the European universities use different formula for calculating the amount of the allocations. The allocations are granted for didactic activities, operational activities, and in some cases for research.

The financing formula uses the input criteria which refers itself to the institutional activities. These activities can be estimated by the volume of the resources employed, such as: the number of students, the number of the educators, salaries, facilities etc. In some countries, the financing schemes include performance criteria which refer to the universities’ educational results.

Some countries (e.g. Denmark) use financing schemes which have no relation to the parameters used in the financing formula. These schemes include the possibility of keeping the same amount of money for the next years by taking into account the previous costs.

This financing solution uses input criteria which differ from one country to another. The most used criterion is the number of the registered students in the on-going year or the previous one, according to their field of study. In some cases, also the case of Romania, the number of students of an institution which comply with the public financing criteria is determined by the national authorities and the university’s decision makers in advance. The number of students must correspond to the budgeted seats available in an institution or to the number of students that can register in accordance with the number of prospected graduates set up by the contracts between universities and public authorities.
Table 1
Input criteria of the Higher Education Institutions’ Financing Schemes in Some European Countries

<table>
<thead>
<tr>
<th></th>
<th>Romania</th>
<th>Denmark</th>
<th>Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of registered students in the current or the previous year</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>The number of the state budgeted seats available in an institution</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other indicators of the institutional activity volume</td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>


There are also performance indicators to be utilized alongside input criteria. More than the half of the European countries use performance indicators which refer to the students’ educational results. These indicators determine the volume of the granted funds for the academic institutions. The most used performance indicators must show the students’ results and their graduation situation. Some countries use different indicators (in addition to the number of graduates, for some countries).

The number of students who pass their exams is the most used criterium in Denmark. In Great Britain, the number of registered students has little importance in the financing solution, but the ones that really count are students who successfully pass to the next year of study.

Table 2
Performance Criteria used by some of the European Countries in their Higher Education Financing Schemes

<table>
<thead>
<tr>
<th></th>
<th>Romania</th>
<th>Denmark</th>
<th>Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students performance indicators</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Diminution of the personnel costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of qualification of the didactic stuff</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Institutions Evaluation results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The quality of the infrastructure, management and services offered to the academic community</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In Romania, the performance criteria refer to the quality of the university’s management and didactic stuff. The current performance criteria have no reference to the students’ results.

Some countries use social and academic criteria in their financing solutions for calculating the quantum of the allocation for such institutions which help governments to complete certain national objectives.
In England, for instance, the supplementary costs taken by the universities which register social need based students represent a reliable criteria in the financing scheme. Analyzing the financing mechanisms of the higher education institutions in some of the European countries, one could conclude that there is no perfect financing system. It corresponds to a number of various historical, social, legal and economic factors.

REFERENCES

Damian, R. (2008) „The Higher Education System Financing in Romania. Public Universities (state owned);

ABSTRACT
Sources of attractiveness and local competitiveness have an important role in the economic development of local communities. Local governments can make an important contribution to public welfare through the execution of local government policies and the delivery of public services that are important to the local citizens. In this respect, through the local budgets are funded the public goods that are selected to be more important.

But if the own revenues of the local budgets are low, local authorities depend on the central ones, which affects the allocation of resources by the destinations, or have to reach alternative sources of financing. In order to attract additional resources, the local governments resorted to bank loans, loans from the capital market, leasing, using some collaboration formulas with the private sector, like public-private partnerships and other financing forms. The paper underlines the advantages and disadvantages of these sources of financing.

Loans from the capital market are one of the most important sources of financing local investment if the own revenues are low. In an analysis on Romanian case, we show that a number of local communities raised money from capital market in order to create key success factors for economic development.

KEY WORDS: capital market, local governments, bond, financing

JEL: G10, H74

1. INTRODUCTION

The involvement of the State in the modern economy is undeniable and its actions have the role to improve market conditions for individuals and companies involved in economic interactions, in producing public goods, in redistributing the incomes, in assuring the social security simultaneously with expressing the consumer’s role.

Now, local and regional governments perform three roles (Council of European Municipalities and Regions, (2009)): - they promote a sustainable and successful development of their territory, in the interests of their citizens;
- they organize, commission, finance and deliver essential public services, both universal and targeted to those most in need;
- they act as the democratic voice and advocate for their communities.

2. LOCAL GOVERNMENTS AS ACTOR OF LOCAL DEVELOPMENT

In their evolution, local governments assumed extensive and complex tasks and responsibilities which generated a considerable growth of the financial resources volume necessary for covering the public expenses imposed by accomplishing these tasks and responsibilities.

The local authorities’ involvement in the socio-economic area is highlighted by the share of the local expenditures in the GDP.

<table>
<thead>
<tr>
<th>% of GDP</th>
<th>% publ. exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EU 27</td>
<td>15,7</td>
</tr>
<tr>
<td>- local sector alone</td>
<td>12,7</td>
</tr>
</tbody>
</table>


At the extent of the EU27 countries, there is a share of 12,5% of GDP, respectively 27% of the total public expenditure. The local governments’ involvement is materialized by providing local public goods (infrastructure, primary and secondary education, health, specific regulations etc.), which are at the disposal of a certain collectivity from a specific community or area. The appearance of local public goods is based on the fact that these goods can be supplied to additional consumers without affecting the benefits of the present consumers only when a certain limit is reached (Kraan (1996)). By providing the local public goods, the authorities aim to realize the local economy development and to contribute to the improvement of the communities’ economic competitiveness.

As far as the EU member states are concerned, different situations from country to country can be noticed. The share depends on the breadth and the type of competences that sub-national entities carry out. So, there can be seen an extremely reduced share of the local governments’ expenditure in the southern countries of EU (Cyprus, Greece, Malta), a relatively reduced weight in the case of many new member states or small states in EU (Bulgaria, Slovakia, Slovenia, Romania, Lithuania, Ireland, Luxembourg, Portugal), but also a higher share in the case of the northern states (Denmark, Finland, Sweden).

As each community presents unique local conditions which are in favour or against the economic development, the local authorities play the role of realizing the SWOT analysis in order to identify the actual problems (weak points), the potential problems (generated by the identified threats which can have the origin in the external factors), the basic points in approaching the future (strong points) and the favorable conditions to be exploited (opportunities). Based on the SWOT analysis, the local
authorities have to realize the strategy of local economic development which will contribute to the necessary measures in view of the local economic development: infrastructure investment, human capital investment, promoting activities in the requested economic branches, policies that favor research and technology development, promoting the small and medium-seized businesses (Matei (2005)).

The main areas of sub-national public sector expenditure of EU27 countries are shown in table 2.

Table 2
Main areas of sub-national public sector expenditure
- % of budget -

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Education</th>
<th>Social protection</th>
<th>General services</th>
<th>Health</th>
<th>Economic affairs</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EU 27</td>
<td>2006</td>
<td>21,2</td>
<td>19,6</td>
<td>15,5</td>
<td>12,6</td>
<td>11,9</td>
<td>19,2</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>20,8</td>
<td>19,0</td>
<td>15,7</td>
<td>12,9</td>
<td>12,0</td>
<td>19,6</td>
</tr>
<tr>
<td>- local sector alone</td>
<td>2006</td>
<td>19,8</td>
<td>18,9</td>
<td>13,6</td>
<td>15,0</td>
<td>11,9</td>
<td>20,7</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>19,6</td>
<td>18,8</td>
<td>13,9</td>
<td>14,8</td>
<td>12,0</td>
<td>20,9</td>
</tr>
</tbody>
</table>

Other – housing and communities amenities, public order and safety, recreation and culture, environment and defence.

The main involvement areas of the local governments are education (around 20%) and the social security (around 19%). Other relatively important areas refer to general services, health insurance and business environment.

Table 3
Public investment of the sub-national public sector in the EU27

<table>
<thead>
<tr>
<th></th>
<th>% of GDP</th>
<th>% of total public investment</th>
<th>% of sub-national expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-national</td>
<td>1,7</td>
<td>1,7</td>
<td>1,7</td>
</tr>
<tr>
<td>Local sector alone</td>
<td>1,6</td>
<td>1,6</td>
<td>1,7</td>
</tr>
</tbody>
</table>


The importance of the local governments for development can be accurately noticed in table 3. So, one can see that generally speaking on the EU27 countries, the local governments have a weight of more than 60% from the total investment made in the public sector. Furthermore, there are significant differences among countries.

The economic weight of local public investment is particularly heavy in Scandinavian countries (especially Denmark and Finland), in the regionalized States (Spain, Italy) and most of the rest of EU15 countries (Germany, France, Ireland, Netherlands, Portugal, United Kingdom). Also, there are some new EU States which
have an important share of public investment made by local governments such as Latvia, Poland, Slovakia and Slovenia. In countries that are less decentralized, like Malta, Greece, Cyprus, local public investment are about or less than 20% of total public investment. Between these two extremes and just below the EU average lie most of the new Member States and a few EU15 countries.

Thus, the local authorities aim to create conditions that favor the appearance of human and material resources for the community and the business environment, finally aiming to improve the life quality of the entire local community. There will be created a real competition between the local governments. Competition among jurisdictions would allow for a variety of bundles of public goods to be produced, and individuals would reveal their preferences for those public goods by migrating from one area to another (Rubinfeld (1987)).

The local authorities’ permanent involvement needs raising financial resources. As a consequence, the ordinary sources of income for local governments, namely taxes and duties combined with income from its enterprises and properties, became insufficient compared to the monetary resources needed by the local governments. So, local governments have to find alternative sources of financing.

3. THEORETICAL ASPECTS CONCERNING THE ALTERNATIVE FINANCING SOURCES OF THE LOCAL PUBLIC SECTOR

In order to attract additional resources, the local public sector resorted to bank loans, loans from the capital market, leasing, using some collaboration formulas with the private sector, like public-private partnerships, foreign equity capital and other financing forms.

The bank credit is the obligation of a local public authority towards a financing institution to repay the loaned capital, as from the bank’s point of view the loan is a direct investment and this justifies the tendency of the financing institution to be directly involved in monitoring the activities of the loaner. However, we must mention that the bank credit can be used according to the law, only by the public local authorities as well as by the trading companies with public capital.

An advantage of the bank credit is given by the fact that the creditors can structure the credit so that it responds to the needs of the borrowed, offering different forms of loans, the most frequent being the credit line which presumes that a qualified local authority has access to a certain maximum amount of credit. The local authorities have access to these commercial capitals if they demonstrate the capacity and will to repay the credit. Once the local authorities have a crediting relation with a bank and they show good performances concerning the repayment, the access to credits is easier and the costs can be reduced. On the other hand, the difficulties when repaying the credit, which is possible in economic crisis conditions, can lead to a rise in the price of the future loans, but also the creditors can request the situation of default by the respective authority. Even so, the main disadvantage that the bank credits have is the granting term as the granting period is usually of 5 years which, if these loans are for financing the investments, can lead to the impossibility of exactly foreseeing the investment’s financing.

As the bank credits, the issuing bonds are forms of loan. The main difference refers to the market’s conditions, as well as to creditors’ categories that can be interested to invest in the respective instrument. Therefore, a municipal bond is the
obligation of a local public administration to repay the loaned capital, having the advantage to attract a larger group of institutional investors, natural or legal persons. Besides the classical credit institutions those investors are passive, not getting involved in activities of inspecting the loner. Another advantage is that of establishing the loan’s technical conditions by the loaner, an essential aspect when there are large resources volumes. The local public authority establishes the loan terms (loan value, interests level and refundment calendar) in accordance with the local opportunities, but different from a bank credit, when the bank can introduce restrictive conditions and even prohibitive interests several times. This fact allows the authorities the opportunity of choosing the most efficient structures in accordance with their needs.

The municipal bonds have many other advantages, such as:

- accelerating the local development. By accessing this type of financing, the projects from the investments priority list will be finalized in advance and the local community will benefit from these projects. Once finalized, the investment will produce earlier benefits for the local community and will also allow a better spacing out of the capital expenses. As a rule, «the administration’s investments attract private investments», i.e. the infrastructure investments carried out by the public local authority attract other investments from the private sector.

- Reduced costs. The total costs due to the financing through obligatory loan are more reduced then the costs implied by a bank loan.

- Ending the projects already started. The possibility of ending some large projects whose direct financing would involve special efforts that will significantly influence the balance of the local budget or whose spacing out in time would involve high maintenance costs. Besides, by reducing the project’s execution time the maintenance costs are saved.

- Equity between generations. The principle of public finances equity can be achieved by increasing the maturity of the loan -”Those who benefit of a project must pay for it”.

- Reducing the financing costs. The positive evolution of the local financial market, mirrored through the decrease of interest rates and the increase of loan’s maturity, now allows the procurement of some credits whose financing costs are more reduced then in the previous years.

- They are financial instruments which, from the natural person’s point of view are free of tax regarding the incomes from possessing the state securities and/or bonds issued by the territorial-administrative units. The incomes obtained from dealing the state securities (capital gain) are taxed.

- A better communication between the local authority and it’s citizens and the population’s participation to the municipality investing project. Due to the fact that the population can purchase bonds, the citizens will be co-interested in realizing projects’ of local interest.

- Profit for citizens. The profit resulting from the interests paid by municipality will reach directly to those citizens who invest in bonds and not to the commercial banks like in the case of the bank credits.

Therefore, the municipal bonds have a number of potential advantages for attracting the capital, but they also have disadvantages i.e. they can not be used by the municipalities with a poor financial management, and in the countries in which the local administrations are relatively weak or face poor management.
There are a series of essential conditions for the municipal bonds market to work:

- The existence of an active and functional capital market which can be accessed by the local authorities;
- The existence of some institutional mechanisms for evaluating the credit’s rating;
- In order to issue bonds, public local authorities must have a sufficient capacity and credibility.

A method which leads to increasing the municipalities’ credibility is the possibility to contract insurances for bonds, through which the insurers guarantee the payment of the interest and the main if needed.

A joint between those two credit modalities is represented by an integrated mechanism that consists of a bond issuing pre-financed by a bank credit line - „bridge loan”, mechanism which takes into account both credit and bonds advantages as the municipality loans are concerned.

The characteristics of this mechanism are the following:
- the credit line has the role of pre-financing the investment during the entire period of performing, so that the issuer will drag from the Bridge Loan bank credit until the maximum level of the credit is reached;
- before reaching the maximum level of the credit, the procedure of issuing bonds starts;
- the Bridge Loan credit line will be refunded exclusively from the funds resulting from bond certificates.

In order to minimize the costs, the credit line can be revolving, and the bond issuing can be done in series, each series being designed to full refinance of the sums engaged and spent from the Bridge Loan credit line. This mechanism is adapted to the situations generated by cash-flow syncope, which can appear in the case of stage discounts for the multiple projects financed by the European Commission in the case of a single beneficiary. Due to the „bridge loan” line, there is performed not only the co-financing activity necessary to these European projects, but also a supplying fund used in the stages from pre-financing to discounts.

Among the advantages of this mechanism, one can notice that the loan designed to re-finance the Bridge Loan bank credit offers the issuer a special mobility in structuring the financing process according to the local needs and the untapped potential, because these terms are established by the issuer and they are not considered to be rigid terms, like the usual bank ones. Re-financing through long-term bonds distributes and minimizes the issuer financial effort, thus assuring total equity in financing the investment objectives.

Another financing source for the local public sector is represented by the financial leasing. This is useful when the institution or the economic public agent can guarantee with an active for a bank credit and can immediately benefit of it. The municipality does not have the ownership on the guarantee until the credit is paid and all the other conditions are fulfilled. The financial leasing can be used especially for purchasing the means for public transportation, the informatics infrastructure, the vehicles fleet etc., both by the public administrations and the public trading companies.

Another possibility to develop the tasks which the public sector assumed in the conditions of some limited financing resources is represented by the public-private partnerships which suggests a cooperation between the public authority and the private
sector, respectively non-governmental organizations, associations of the businessmen or companies in order to deliver some quality public services. Fundamentally the public-private partnership assures totally or partially the public service depending on the private funds and it calls for the know-how of the private sector.

The cooperation between the public and the private sectors can take different shapes, from the simple relation between the buyer and the seller of a good to mixed companies with a complex structure. Nevertheless there can be pointed out certain characteristics common to the public-private partnership projects (http://discutii.mfinante.ro/static/10/Mfp/PPP/definitie_PPP.htm#_ftn3):

- The contract between the public and the private parts for the infrastructure’s development and management;
- Dividing the risks between the two partners – the risk is assigned to the part which has the capacity administrate it better thus minimizing the costs;
- The need to use the management and experience of the private sector;
- PPP is an umbrella notion which covers a variety of economic activities and is in a continuously evolution;
- PPP is a partnership between the public and private sectors in order to deliver a project or a service assured traditionally by the public sector. „PPP” best illustrates the way in which both the public and the private sector has certain advantages in relation to the other in the performance of fulfilling certain tasks/objectives, allowing each sector to act as efficiently as possible, thus the public services and infrastructure being assured in the most efficient and economic way;
- „PPP” is a generic term for the relations created between the public and the private sectors often used to include the resources of the private sector and/or the expertise in order to help the insurance of public sector’s goods and services.

PPP bring together, for the mutual benefit, a public organism and a private company in a long term joint venture for delivering some high quality public services. Attracting the best from the public and private sectors, the PPPs assure additional resources for the reorientation of the investments in different branches of the public sector and the efficient management of the investment.

The advantages of public-private partnerships are multiple: different solutions for private financing the public projects, reducing the costs for the central or local administrations, using the know-how and the private managements within public projects, high efficiency in developing the project, a smaller implementation period, technical innovation and a higher quality of the delivered services. Additionally, a part from the project’s risks is transferred to the private partner: besides the construction risk, the private partnership can assume the exploitation risk, or the risk of availability.

In some states there were created a series of other financing mechanisms of the local development, those being reunited under the generic name of municipal developing funds. Thus, there are four large institutional models for municipal developing funds (Davey, (1996)):

- municipal lending and developing funds which function like revolving credits and are financed by governmental funds or by internal or external donators;
- development banks specialized in municipal loans;
- grants and loans for the municipal infrastructure given by investment funds controlled by the pensions, insurances or economies companies;
- autonomous institutions which provide loans and technical assistance.
Most countries from Western Europe created institutions which give credits for investments to the local authorities. Other institutions give credits to different public or private economic agents, including the local authorities.

In the Western Europe the municipal funds were highly financed by the financial markets. The market’s financing mechanisms were different. For example in Austria, Belgium, Germany, Italy, Portugal the most important was the direct deposits of private economies. In other countries, the financial institutions – pensions funds, insurance companies, commercial banks – were the most important sources (by contrast, the newest municipal development funds from the developed countries were highly financed with public funds). (Lazăr and Inceu (2003)).

4. LEGAL ASPECTS CONCERNING THE FINANCING THROUGH THE CAPITAL MARKET OF THE LOCAL PUBLIC SECTOR

The first law of the transition period which tried to define the terms and conditions in which the State can contract loans, law number 91/1993 regarding the public debt, came into force in 1993. But concerning the possibility of the local administration to call on to resources from the capital market, the first reference appears in law no. 189/1998 and it stipulated that the local or municipal councils can approve the contracting of internal or external loans, for medium and long term, for developing public investments of local interest; the instruments of the public debt are generally securities or loans from the commercial banks or other credit institutions. Subsequently, the law no. 215/2001 of the local public administration deliberately stipulated that the local autonomy is administrative and financial, being exercised according to regulations, the local authorities having the right to attract their own financial resources.

The Government Urgency Order no. 45/2003 takes over the prerogatives of law no. 189/1998 and establishes a precise limit when contracting and assuring loans by the local public authorities: the total of the annual debts must be lower than 20% of the own incomes total. Law no. 273/2006 takes over the prerogatives regarding the instruments of the local public debt, but increases the limit up till which the local public authorities can contract and assure loans – 30% from the own incomes total.

The Urgency Order no. 64/2007 regarding the public debt, defines the local public debt as the sum of internal and external financial obligations of the local public administrative authorities, at a certain moment, that derives from loans directly contracted or assured by those from the financial markets. The same law stipulates that the local public administrative authorities can contract or assure internal and/or external loans, on short, medium and long term in order to develop public investments of local interest, but also for refinancing the public local debt, only with the notification of the Local Loans Authorization Commission. These loans are a part of Romania’s public debt, but do not represent obligations of the Govern and the payment of the public debt due to these loans will be made exclusively from the local budgets or from loans for local public debt refinancing.

According to a significant purview introduced by regulation no.46/2007, loans committed and/or guaranteed by the territorial-administrative unities for assuring the pre-financing and/or co-financing of the projects benefiting of nonrefundable external funds are not taken into consideration when this limit is determined.
5. THE ANALYSIS OF FINANCING FROM THE CAPITAL MARKET OF THE LOCAL GOVERNMENTS IN ROMANIA

Local public authorities launched bonds for the first time in 2001, and in order to have the guarantee of a success they practiced an attractive output. The local administrations generally used a coupon in three months (like the ROBID+ROBOR/2 inter-banking rates), to which they added a risk bonus of 2-3%. This is the reason for which, although the risk degree of the municipal bonds is considered a little low, the outputs of the corporative bonds are superior, a somewhat atypical situation. The attracted resources were used for financing different investments of local interest.

The first municipal bonds, listed at BVB at the end of 2001, were issued by the local administrations from Mangalia and Predeal.

Table 4
Issue of municipal bonds (2001-2009)

<table>
<thead>
<tr>
<th>The emission year</th>
<th>The number of emissions</th>
<th>Total value (RON)</th>
<th>Maturity (min-max)</th>
<th>Risk bonus attached to the new bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2</td>
<td>1.500.000</td>
<td>1,5 – 2 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2002</td>
<td>8</td>
<td>21.650.000</td>
<td>1 – 3,5 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2003</td>
<td>13</td>
<td>46.504.600</td>
<td>2 – 5 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2004</td>
<td>9</td>
<td>36.716.000</td>
<td>2,5 – 4 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2005</td>
<td>6</td>
<td>38.750.000</td>
<td>6 - 20 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2006</td>
<td>9</td>
<td>84.650.000</td>
<td>8 - 20 years</td>
<td>Public investment for local necessities, Repayment of bank credit for local investment</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>155.000.000</td>
<td>18 - 21 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>236.000.000</td>
<td>17,5 - 20 years</td>
<td>Public investment for local necessities</td>
</tr>
<tr>
<td>2009</td>
<td>10</td>
<td>258.500.000</td>
<td>16,5 – 20 years</td>
<td>Repayment of bank credits, Public investment for local necessities</td>
</tr>
</tbody>
</table>

Note: the different portions were considered different emissions.
Source: authors’ processing after the dates provided by www.kmarket.ro.

From the dates in the table we can see the fact that at the beginning (2001-2004) the bond emissions had a reduced maturity (1,5 – 6 years), with a risk bonus attached to the basis interest of 2 – 3%, and starting with 2005, once the municipal bonds’ market...
and the ascendant evolution of the Romanian economy matured, their term gradually increased, reaching 21 years (2007 – municipal bonds issued in Iași, of 200,000,000 RON), and the risk bonus dropped. Another characteristic of the municipal bond issues are the rise of the amount and the type of bonds, which is general obligation bonds.

The most common destinations of local loans are those in the area of infrastructure, namely the flow net, sewage system, junction block or road construction. Except these aspects, we can also mention other investment objectives from the area of culture and education: institutions of culture, swimming pools and schools. As we were trying to underline, the local authorities tried to benefit from the local advantages; in this respect the City Hall of Predeal invested a lot in the skiing area, and this is a remarkable example to be mentioned. In the same time one can see that those 70 bond issues belong to a much smaller number of municipalities– 38 territorial-administrative unities- as result of the fact that a series of local governments have accessed more times this financing source (Alba Iulia, Cluj Napoca, Târgu Mureș, Bacău, etc.).

It is also noticed the fact that since 2006, loans through bond issuing have appeared, and these have been used for the refundment of bank credits for investment in local objectives. In fact, the local authorities have adopted the solution of the financial mechanism built of a “bridge loan” and a further bond issue.

So, even if the bond issues have been considered as a main interest for the Romanian local authorities, the existence of bond and insurance rating agencies has also been taken into account, for a clear and functional market.

6. CONCLUSIONS

In order to attract more resources for development, local governments have to mobilize private individual and institutional savings. These savings should be generally domestic ones, because without the necessary complement of domestic resources, foreign borrowings might not be a sustainable funding source for many local governments. One way to attract supplementary resources is from capital market, by issuing bonds in order to finance investment. In order to develop such an approach, there are some conditions to carry out: local governments have sound institutions, predictable fiscal relations with the central government and an efficient organizational setting for services delivery. Municipal credit markets also require adequate legal and regulatory frameworks covering supervision, disclosure and debt issuance, settlement and repayment (El Daher (1997)). As far as the situation of Romania is concerned, there is an evolution of the amounts derived from the local bond issues, the destinations being represented mainly by objectives related to infrastructure, but the number of the local governments having accessed this modality remains a reduced one. A solution for improving the market functionality is provided by the existence of rating agencies for bond issuing and specific insurance.
REFERENCES

THEORETICAL CONSIDERATIONS ON THE RELATION BETWEEN PUBLIC EXPENDITURES AND GROSS DOMESTIC PRODUCT

Liliana DONATH¹
Marius Cristian MILOŞ²
Laura Raisa MILOŞ³

ABSTRACT

In this paper the authors realize an overview of the most recent theoretical and empirical papers that have analysed the connection between public expenditures and the gross domestic product. The time evolution of public sector’s size confirms the diversity within the states. In the last decade, there has been a descendant trend at the level of public expenditures by comparison to GDP for most countries under analysis.

KEY WORDS: public expenditures, financial sustainability, gross domestic product

JEL: H50, H11

1. INTRODUCTION

The economic theory offers two main categories of arguments that explain the size difference of public sectors in different countries (Holsey and Borcherding (1997) and Peacock and Scott (2000)).

The first category of arguments relies on Wagner’s law according to which the weight of governmental expenditures in GDP increases by an improper proportionality degree if the GDP grows (improper elasticity). As states become richer, the demand for public goods increases in parallel with the increase of capacity to collect income. Examples of factors that are the bases of a greater demand of public goods are a higher urbanization degree or an ageing of population. It has been given also an explanation from the point of view of supply, known as “Baumol’s disease”. It states that the weight of governmental expenditures grows because the salaries in public sector increase more than its productivity while the demand of public services is relatively non-elastic according to the price.

The second category of arguments has a political nature. In order that the government is reelected, public policies especially those concerning governmental expenditures, tend not to comply in time with the economic evolution, being oriented towards greater deficits and inclusive public sectors. This trend is as powerful as the number of parties that make up the government is greater, as the frequency of elections

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is greater, and as the election system is proportional and does not rely on majority (Persson and Tabellini, 1999, 2002). Another argument of political nature believes that the size of administrative sector depends on the existence of some persons that have the objective of acquiring additional income by manipulating governmental expenditures and subsidies and that support the existence of some greater public sectors in order to profit from the income redistribution (Shleifer and Vishny, 1998).

Aside of these arguments, the size of public sector is in the end the result of political options. The volume of public goods and services offered (for example, public infrastructure, environment protection, national defense, justice and public order) and the manner for approaching the market failures and the externalities depend on the circumstances specific to each country and that are in part the result of policies led in the public area (for example, regulations in the area of competition or income redistribution) and partially the result of some exogenous factors (for example, the geopolitical situation or some social and cultural traits). A classic case is represented by different social models that offer enhanced social protection and that contribute to a more equitable distribution of income, but at the expense of a greater fiscal pressure on economy.

2. THEORETICAL AND EMPIRICAL BACKGROUND

The time evolution of public sector’s size confirms the diversity within the states. In the last decade, there has been a descendant trend at the level of public expenditures by comparison to GDP for most countries under analysis. But, in these last years may be found also states where the public expenditures by comparison to GDP increased and, as general observation, there may be said that most states under analysis follow a concave curve with a peak in the first half of the 90s. Nevertheless, public sectors continued to be greater during 2003-2007 by comparison to the period 1980-1984 in most economies under analysis. At the same time, the public sectors in the old EU member states remained significantly greater than those of countries that accessed the EU recently or those of states not members of the European Union, the size differences varying between 8% and 12% of GDP.

The econometric studies confirm the mixed evidence concerning Wagner’s law (Table 1). They tend to discover the improper ratio between the weight of governmental expenditures in GDP and GDP per capital only for some countries and for certain periods (Table 2).
### Table 1

Changes in the importance of governmental expenditures in GDP in the 2003-2007 period comparative with 1980-1985 period

<table>
<thead>
<tr>
<th>CHANGE Level (2003-2007)</th>
<th>GROWTH With more than 5% of GDP</th>
<th>GROWTH With less than 5% of GDP</th>
<th>DECREASE With more than 5% of GDP</th>
<th>DECREASE With less than 5% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35% of GDP</td>
<td>Japan</td>
<td>Ireland</td>
<td>New Zeeland, USA</td>
<td></td>
</tr>
<tr>
<td>Between 35% and 45% Of GDP</td>
<td>Cyprus, Greece</td>
<td>Australia, Austria, Luxembourg, Norway, Spain, Switzerland</td>
<td>Canada, Sweden</td>
<td>Great Britain</td>
</tr>
<tr>
<td>Over 45% of GDP</td>
<td>Portugal</td>
<td>Finland, France, Italy, Malta</td>
<td>Belgium, Netherlands</td>
<td>Denmark, Germany</td>
</tr>
</tbody>
</table>

Source: Schaechter and Barrios (2008)

### Table 2

Empirical studies realized in connection with Wagner law: a resume of the conclusions

<table>
<thead>
<tr>
<th>AUTHORS</th>
<th>ANALYSED COUNTRIES</th>
<th>ANALYSED PERIOD</th>
<th>CONFIRMATION OF THE WAGNER LAW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arpaia and Turrini, 2008</td>
<td>UE-15 countries</td>
<td>1970-2003</td>
<td>Just for under average income countries and a rapid process of aging of the population</td>
</tr>
<tr>
<td>Akitoby et al. (2004)</td>
<td>51 developing OECD countries</td>
<td>1970-2002</td>
<td>Yes</td>
</tr>
<tr>
<td>Kolluri et al. (2000)</td>
<td>G7 countries</td>
<td>1960-1993</td>
<td>Yes</td>
</tr>
<tr>
<td>Payne and Ewing (1996)</td>
<td>22 industrialized countries and developing countries</td>
<td>1950-1994</td>
<td>Just for 6 out of 22 analysed countries</td>
</tr>
</tbody>
</table>

Source: Schaechter and Barrios (2008)
3. FINANCIAL SUSTAINABILITY OF PUBLIC ACTIONS

Application of programs in the public area is achieved with the help of public expenditures. Of course, the financing resources are limited and the matter of public expenditures sustainability occurs thus that the deficits accepted not to be surpassed. For supporting the financial sustainability of public expenditures, the concept “operating margin” is used that, although used broadly, is not fully clarified. The operating margin refers to the government’s ability to initiate new public expenditures without them affecting its solvability, this being without affecting its current and future ability to pay its debts (World Bank, 2006). In other words, this term designates the fiscal sustainability of public expenditures increase. Because the resources that the public sector may use for paying the debts are represented first by fiscal resources and acquiring loans, the solvability imposes that the current value of fiscal resources plus the income achieved from the sources mentioned to be at least equal to the nominal value of its debts. Thus, the operating margin represents the difference between the present level of expenditures and the maximum level of expenditures that a government may commit to without this affecting its solvability.

The most efficient manner for financial sustainability is to maintain the loan existing parameters by (World Bank, 2006): (1) increasing the efficiency of public expenditures; (2) increasing the mobilization degree of resources; (3) obtaining subsidies. Additionally, another theoretical possibility is issuing currency but, for most states, it is not an option due to the negative effects it creates.

1. Increasing the efficiency of public expenditures. Except for subsidies, all other possibilities for insuring the financial sustainability involve in the end a social cost under the form of greater fiscal pressure or of diminishing some expenditures now or in the future. Diminishing the inefficient public expenditures should be a priority, because the elimination of waste within the state budget releases resources directly, thus that they may be granted to efficient public expenditures, as well as indirectly, by increasing the government’s credibility and thus, its ability to acquire loans.

Reallocating expenditures thus that their utility increases improves also the total efficiency of public expenditures. The governments may create also an operating margin by increasing the technical efficiency insuring, for example, that the resources are granted to objectives declared publicly and that these objectives are reached with minimum costs.

2. Increasing the resources mobilization degree. From this point of view, governments may create an operating margin by increasing income, using fiscal and non-fiscal instruments. However, it would have a positive influence on the welfare only if the collection costs and the costs induced by the higher taxation levels and fiscal pressure are below the social benefits of public expenditures. Thus, the fiscal reforms that improve the management manner of taxes and diminish the importance of inequitable drawing will enhance the attractiveness of using the income increase from taxes for generating the necessary operating margin.

3. Acquiring subsidies (non-reimbursable funds). If this matter is approached only from the point of view of solvability, granting subsidies is a very attractive manner of financing efficient public expenditures because it allows making public expenditures without any effect on government solvability. A series of problems occurs here: one of them is the possibility that the funds available do not suffice (from the point of view of present value) for financing the desired public projects. If this is the case and if costs
corresponding to some additional financing sources of a certain project prove to be prohibitive \textit{ex-post}, the projects financed by subsidies may remain unfinished becoming thus a waste of resources. Thus, even where the subsidy funds are available, the value of operating margin that may be created by subsidies will depend on the predictability degree of these subsidies and the degree to which these resources may be completed with resources coming from other financing sources.

The financial sustainability of expenditures and thus, the operating margin that the authorities have depend intrinsic of individual circumstances from each country. The measure to which a state has financial sustainability for its public approaches depends on the initial economic conditions, the force of its institutions, especially of institutions that influence the quality of its expenditures. Thus, if the government can build and maintain the infrastructure efficiently, increasing the loans in order to finance an infrastructure that would generate high benefits will lead to the government’s solvability increase. As well, if the government can offer efficiently health an education services, it is reasonable to increase the fiscal income for expanding the services supplied – if their expansion is required. Nevertheless, if the indebtedness is already high or if the level of taxes and charges is already high, these possibilities must be analyzed with their costs.

Different manners of creating the necessary operating margin may be expressed visually with the help of “operating margin diamonds” (World Bank, 2006). The diagram below (Figure 1) offers a visual representation by using the 4 axes for describing the 4 options – income increase (R), loans increase (B), accessing external subsidies (A) or generating fiscal savings by increasing the efficiency of expenditures (E). Each of the 4 axes may be measured in GDP percentages (in current values) and it describes the potential of a country to generate the operating margin it needs according to the initial position of government. The “fiscal diamond” is a simplified representation because all 4 quantitative elements are connected by the solvability constraint. If the taxes increase, so does the government’s ability to obtain a loan. Figure 1 shows synthetically the alternatives that may be considered for insuring the financial sustainability.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{operating_margin_diamond.png}
\caption{Options of the operational margin}
\label{fig:operating_margin}
\end{figure}

The financial sustainability is conditioned by macroeconomic sustainability. It exists when a state may use the increase of public expenditures without affecting its short-term macroeconomic stability. The value of public expenditures that a government may make depends on the public sector’s solvability as well as on the macroeconomic stability that is a supposition of some stable financial resources.

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THE DYNAMIC RELATION BETWEEN THE STOCK PRICES AND THE EXCHANGE RATES FROM ROMANIA DURING THE GLOBAL CRISIS

Ramona DUMITRIU1
Costel NISTOR2
Razvan STEFANESCU3

ABSTRACT
This paper approaches the interactions between the stock prices and the exchange rates from Romania during the global crisis. We employ the Johansen cointegration and the Granger causality tests for three stages of the global crisis. We found the relation between the two variables as being influenced by some specific circumstances.

KEY WORDS: Stock Prices, Exchange Rates, Global Crisis, Cointegration, Granger Causality

JEL: F31, G01, G15

1. INTRODUCTION

The relation between the foreign exchange market and the stock market is one of the main topics of the financial theory. It is taken into consideration in designing the monetary policy or in forecasting the financial markets evolution. In the specialized literature there are two main directions to explain the interactions between the stock prices and the exchange rates: the traditional approach and the portfolio balance model. According to the traditional approach the depreciation of the national currency increases the competitiveness of the domestic firms, leading to a raise in their stock prices (for example, Frenkel and Rodriguez (1975)). The portfolio balance model stipulates the increase of the stocks prices raises the demand for money, which determines the appreciation of the national currency (for example, Branson and Henderson (1985)).

The relation between the stock prices and the exchange rates was approached in several empirical researches with mixed results. Bahmani – Oskooee and Sohrabian (1992) proved bidirectional causality between the stock markets and the foreign exchange market. Hatemi – J and Irandoust (2002) found for Sweden a unidirectional causality from the stocks prices to the exchange rates. Bartov and Bodnar (1994) studied the interactions between the exchange rates and the US stock prices and they found no significant relationship. Hooi - Hooi et al. (2005) studied the relation between the

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exchange rates and the stock prices on the seven Asian countries badly hit by the Asian Financial and they concluded the interactions strengthen during the turbulent periods.

Since 2008, the global crisis affected both the stock market and the foreign exchange market from Romania. Between January 2008 and February 2009 the BET-XT, a reference index for the Bucharest Stock Exchange (BSE), experienced a drastic descendent trend. In the next fourteen months the stock prices exhibited an ascendant trend, although they didn’t regain the values before the crisis. Between April and August 2010 BET-XT experienced again a descendent trend (Figure 1).

![Figure 1 - Evolution of BET-XT index from January 2008 to August 2010](image)

The global crisis increased the volatility of the foreign exchange rates. The peak of the turbulence was in the second semester of 2008, when the Romanian national currency depreciated sharply (Figure 2).

In this paper we investigate the relation between the foreign exchange market and the stock market from Romania during three stages of the global crisis:

- a first stage from January 2008 to February 2009, when the stock prices from BSE fell sharply;
- a second stage from March 2009 to April 2010, when BET-XT exhibited an ascendant trend;
- a third stage from May to August 2010, when the stock prices decreased again.

The rest of this paper is organized as follows. In the second part we approach the data and the methodology, in the third part we present the empirical results and in the fourth part we conclude.
2. DATA AND METHODOLOGY

In our investigation we employ daily values of BET - XT, provided by BSE, and the nominal exchange rates of euro against the Romanian national currency, provided by National Bank of Romania (NBR). Our sample of data covers a period of time from January 2008 to August 2010. We split this period of time in three sub samples, which correspond to the three stages of the global crisis:
- first sub-sample from January 2008 to February 2009;
- second sub-sample from March 2009 to April 2010;
- third sub-sample from May to August 2010.

We use the following notations:
- neer\(_i\), as the natural logarithm of the nominal exchange rate RON / EUR for the sub-sample \(i\);
- betxt\(_i\), as the natural logarithm of the BET-XT for the sub-sample \(i\);
- d_neer\(_i\), as the first differences of neer\(_i\);
- d_betxt\(_i\), as the first differences of betxt\(_i\).

We employ the Augmented Dickey – Fuller Test to study the stationarity of the two variables. We use three criteria: the Akaike Information Criterion (AIC), the Hannan & Quinn Criterion (HQC) and the Schwarz Bayesian Criterion (SIC) to choose the number of lags.

We analyze the cointegration between the variables by employing the Johansen procedure in which the number of lags is chosen by three criteria. Finally, we study the
interactions between the exchange rates and the stock prices using the Granger Causality Test.

3. EMPIRICAL RESULTS

We employed the Augmented Dickey-Fuller Tests to investigate the stationarity of the time series. For the level values we chose, based on the graphical representation, the constant and the trend as deterministic terms. The results, presented in the Table 1, indicate that all the variables are not stationary in the level values.

Table 1
Augmented Dickey-Fuller Tests for the level values

<table>
<thead>
<tr>
<th>Sub-sample</th>
<th>Variable</th>
<th>Lagged differences</th>
<th>Test statistics</th>
<th>Asymptotic p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2008 - February 2009</td>
<td>bettxt1</td>
<td>AIC:2</td>
<td>-1.40574</td>
<td>0.8597</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HQC, SIC:1</td>
<td>-1.40647</td>
<td>0.8595</td>
</tr>
<tr>
<td></td>
<td>neer1</td>
<td>AIC:2</td>
<td>-0.997494</td>
<td>0.9428</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HQC, SIC:1</td>
<td>-1.23541</td>
<td>0.9024</td>
</tr>
<tr>
<td>March 2009 - April 2010</td>
<td>bettxt2</td>
<td>AIC, HQC, SIC:1</td>
<td>-2.711</td>
<td>0.232</td>
</tr>
<tr>
<td></td>
<td>neer2</td>
<td>AIC:6</td>
<td>-1.97011</td>
<td>0.6171</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HQC:2</td>
<td>-2.09104</td>
<td>0.5503</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SIC:1</td>
<td>-2.36693</td>
<td>0.397</td>
</tr>
<tr>
<td>May - August 2010</td>
<td>bettxt3</td>
<td>AIC, HQC, SIC:1</td>
<td>-2.38261</td>
<td>0.3887</td>
</tr>
<tr>
<td></td>
<td>neer3</td>
<td>AIC, HQC, SIC:3</td>
<td>-2.82154</td>
<td>0.1893</td>
</tr>
</tbody>
</table>

For the first differences values we chose, based on the graphical representation, only constant as deterministic terms. In the Table 2 there are presented the results of the Augmented Dickey-Fuller Tests, which indicate that all the variables are stationary in their first differences values.

Table 2
Augmented Dickey-Fuller Tests for the first differences values

<table>
<thead>
<tr>
<th>Sub-sample</th>
<th>Variable</th>
<th>Lagged differences</th>
<th>Test statistics</th>
<th>Asymptotic p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2008 - February 2009</td>
<td>betxt1</td>
<td>AIC, HQC, SIC:1</td>
<td>-11.1324</td>
<td>0.000001</td>
</tr>
<tr>
<td></td>
<td>neer1</td>
<td>AIC, HQC, SIC:1</td>
<td>-11.5118</td>
<td>0.000001</td>
</tr>
<tr>
<td>March 2009 - April 2010</td>
<td>bettxt2</td>
<td>AIC, HQC, SIC:1</td>
<td>-12.1526</td>
<td>0.000001</td>
</tr>
<tr>
<td></td>
<td>neer2</td>
<td>AIC:2</td>
<td>-9.93702</td>
<td>0.000001</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HQC, SIC:1</td>
<td>-12.2071</td>
<td>0.000001</td>
</tr>
<tr>
<td>May - August 2010</td>
<td>bettxt3</td>
<td>AIC, HQC, SIC:1</td>
<td>-6.96391</td>
<td>0.000001</td>
</tr>
<tr>
<td></td>
<td>neer3</td>
<td>AIC, HQC, SIC:3</td>
<td>-5.9554</td>
<td>0.000001</td>
</tr>
</tbody>
</table>
According to the results of Johansen Cointegration Tests, presented in the Table 3, only for the second sub-sample the exchange rates and the stock prices are cointegrated.

### Table 3

Results of the Johansen Cointegration Tests for the three sub-samples

<table>
<thead>
<tr>
<th>Sub sample</th>
<th>Number of lags</th>
<th>Rank</th>
<th>Eigenvalue</th>
<th>Trace test</th>
<th>p-value</th>
<th>Lmax test</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2008 - February 2009</td>
<td>AIC: 3</td>
<td>0</td>
<td>0.011946</td>
<td>4.5641</td>
<td>0.8492</td>
<td>3.3651</td>
<td>0.9098</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.0042730</td>
<td>1.1990</td>
<td>0.2735</td>
<td>1.1990</td>
<td>0.2735</td>
</tr>
<tr>
<td></td>
<td>HQC, SIC: 2</td>
<td>0</td>
<td>0.017368</td>
<td>6.0380</td>
<td>0.6943</td>
<td>4.9233</td>
<td>0.7513</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.0039590</td>
<td>1.1147</td>
<td>0.2911</td>
<td>1.1147</td>
<td>0.2911</td>
</tr>
<tr>
<td>March 2009 - April 2010</td>
<td>AIC, HQC, SIC: 2</td>
<td>0</td>
<td>0.019762</td>
<td>10.135</td>
<td>0.2754</td>
<td>5.7884</td>
<td>0.6455</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.014877</td>
<td>4.3468</td>
<td>0.0371</td>
<td>4.3468</td>
<td>0.0371</td>
</tr>
<tr>
<td>May - August 2010</td>
<td>AIC, HQC, SIC: 1</td>
<td>0</td>
<td>0.086997</td>
<td>16.086</td>
<td>0.1692</td>
<td>8.5555</td>
<td>0.3326</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.035834</td>
<td>6.0640</td>
<td>0.1240</td>
<td>6.0460</td>
<td>0.1240</td>
</tr>
</tbody>
</table>

In the Table 4 there are presented the results of the Granger Causality Tests. For the first sub-sample we found a unidirectional causality from the exchange rates to the stock prices. From March 2009 to April 2010 stock prices Granger caused the exchange rates. Finally, no causality was found for the third sub-sample.

### Table 4

Results of the Granger Causality Tests for the three sub-samples

<table>
<thead>
<tr>
<th>Sub-sample</th>
<th>Null hypothesis</th>
<th>F-statistic</th>
<th>P-value</th>
<th>Causal inference</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2008 - February 2009</td>
<td>H0: &quot; bettx1&quot; do not Granger-cause &quot; neer1&quot;</td>
<td>1.6022</td>
<td>0.1724</td>
<td>&quot; bettx1&quot; do not Granger-cause &quot; neer1&quot;</td>
</tr>
<tr>
<td></td>
<td>H0: &quot; neer1&quot; do not Granger-cause &quot;l bettx1&quot;</td>
<td>3.2454</td>
<td>0.0120</td>
<td>&quot; neer1&quot; Granger-cause &quot;bettx1&quot;</td>
</tr>
<tr>
<td>March 2009 to April 2010</td>
<td>H0: &quot; bettx2&quot; do not Granger-cause &quot; neer2&quot;</td>
<td>4.5116</td>
<td>0.0114</td>
<td>&quot; bettx2&quot; Granger-cause &quot;neer2&quot;</td>
</tr>
<tr>
<td></td>
<td>H0: &quot; neer2&quot; do not Granger-cause &quot; bettx2&quot;</td>
<td>0.6310</td>
<td>0.5325</td>
<td>&quot; neer2&quot; do not Granger-cause &quot;bettx2&quot;</td>
</tr>
<tr>
<td>May - August 2010</td>
<td>H0: &quot; bettx3&quot; do not Granger-cause &quot; neer3&quot;</td>
<td>0.2297</td>
<td>0.8756</td>
<td>&quot; bettx3&quot; do not Granger-cause &quot;neer3&quot;</td>
</tr>
<tr>
<td></td>
<td>H0: &quot; neer3&quot; do not Granger-cause &quot; bettx3&quot;</td>
<td>1.9283</td>
<td>0.1270</td>
<td>&quot; neer3&quot; do not Granger-cause &quot;bettx3&quot;</td>
</tr>
</tbody>
</table>

### 4. CONCLUSIONS

In this paper we investigated the dynamic relation between the stock prices and the exchange rates from Romania during the global crisis. We analyzed the
cointegration and the causality between the two variables for three stages of the global crisis.

For the first stage, between January 2008 and February 2009, when the BET-XT index exhibited a sharply descendent trend, it resulted there was no cointegration between the two variables. Instead, we found the exchange rates Granger caused the stock prices.

In this period of time the main factor of the BSE decline was the contagion from the foreign stock markets. In such circumstances many investors and speculators were concerned about the evolution of the foreign exchange market. Instead, NBR maintained a significant intervention on the exchange rates, so they were not very sensitive to the stock prices variation.

During the second stage, from March 2009 to April 2010, when BET-XT index experienced an ascendant trend, the two variables were cointegrated and the stock prices Granger caused the exchange rates. The main explanation could consist in the relaxation of the NBR control on the exchange rates. Moreover, in the context of an ascendant trend of stock prices, the investors were less concerned on the evolution of the foreign exchange market.

For the third stage, between May and August 2010 when BET-XT index exhibited again a descendent trend, we found no cointegration and no causality between the two variables. In this period of time the stock prices decline was provoked mainly by the information about the situation of the Romanian national economy and by the effect of the severe austerity measures introduced by the authorities, so the investors were not very concerned about the evolution of the foreign exchange market. Moreover, NBR had an active role on the foreign exchange market in order to defend the national currency.

This analysis of the relation between the Romanian stock market and the foreign exchange market should be continued for the next stages of the global crisis. It could also be extended, by taking into consideration other factors of influence on the exchange rates and on the stock prices evolution.

REFERENCES


THE IMPORTANCE OF BANKS. IMPLICATIONS FOR THE STABILITY OF THE FINANCIAL SYSTEM

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Oana MIRU\textsuperscript{2}

ABSTRACT

Banks perform various roles in the economy. Although the range of their activities has changed, due to the financial globalization process, their primary role is still the same and has not diminished, i.e. channel funds from subjects with surplus to subjects with deficit of financial resources. After 1980, many countries have started to encounter problems in their banking systems. These experiences have shown the fact that weaknesses of the banking system can have significant costs, thus illustrating the importance of a sound banking system both for the macroeconomic stability of a country and the efficiency of the stabilization programs.

KEY WORDS: financial system, intermediaries, banks, globalization, innovation

JEL: E40, E44, E51, G21

1. INTRODUCTION

The financial system channels funds from subjects with a temporary surplus of financial resources to subjects that have a deficit, hence spend more than the available income and are in need of borrowed funds in order to finance this deficit. There are two ways of allocating these funds: directly, through the capital markets, or indirectly, through financial intermediaries. Regarding this demarcation we consider that the direct financing does not assume the disappearance of financial intermediaries, but more a reintermediation, a switch from classical banking intermediation to a non-banking intermediation, due to the development of the financial system and the financial globalization process.

However, though there is a reintermediation tendency regarding the financial resource allocation process, banks have not disappeared and nor are they likely to in the near or distant future. Despite the trend of globalization in recent years, the importance of banks in different economies varies significantly.

In bank-based financial systems, banks play a key role, being leaders in what concerns capital allocation, financial decision surveillance and in supplying risk management procedures, while in market-based financial systems capital markets and banks share the same role of allocating excess financial resources to investments, exerting corporate control and facilitating risk management. The theoretical debate regarding the relative efficiency of the two types of financial systems in supplying financial services prevents the formation of solid policies in this direction.

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Understanding the many roles that banks play in the financial system is one of the fundamental issues in theoretical economics and finance. The efficiency of the process through which savings are channeled into productive activities is crucial for growth and general welfare.

2. THE EVOLUTION OF THE BANKS’ IMPORTANCE TO THE FINANCIAL SYSTEM

Although the activities of banks vary from country to country, their characteristics are the same. While the role of the banking system is declining in some countries, in most developed countries and those in transition they continue to dominate the financial systems. Due to the important roles that the banking system plays in an economy, i.e. financial intermediation roles, ensuring the conduct of payments, credit allocation and, maintaining financial discipline among borrowers, it is necessary, in any country, the banking to be stable, robust and, able to cope with any external or internal shocks.

In transition economies and developing countries with less developed financial markets, banks are often the only institutions that produce the necessary information for financial intermediation, ensure appropriate portfolio diversification to reduce risk and help in monitoring corporate governance. Even in economies with developed financial markets, banks remain the center of economic activity in general and especially financial ones, distinguishing from other institutions through their role as providers of payment services, important element to the implementation of the monetary policy carried out by the central bank. Another important role of commercial banks in an economy characterized by two-tier banking system is linked to their role in the money creation process.

Figure 1 shows a comparison of the long-term financing structure of the Euro area, the U.K., the U.S., Japan, and non-Japan Asia in 1995 and 2003.

It can be seen from Figure 1a that in 1995 the Euro area had small stock markets but large bank loans and in that sense could be considered as bank-based. However, it also had a significant bond market both in terms of public and private sector debt. The
UK was significantly different with a large stock market and bank loans but a small bond market, particularly in terms of private sector debt. In some sense it seems to be both market-based and bank-based. The main features of the US financial structure are a small amount of bank loans, a significant stock market and a much larger bond market than any of the other areas in relative terms. It is the most market-based economy. Japan has significant amounts of finance in all categories. It is very much a bank- and market-based economy. Non-Japan Asia is more similar to the UK, bank loans and the stock market are important but the bond market is not.

Figure 1b shows the situation in 2003 several years after the Asian crises. It can be seen that the structure is basically the same. The main difference is that Japanese government debt has increased significantly. It can be observed that the financial structure in non-Japan Asia has not changed significantly despite the Asian crises. The implication of Figure 1 is that banks are still important in any kind of economy, though their roles are significantly different in different economies.

Some authors bring as an argument in favor of bank-based systems, the fact that banks allow various informational problems to be solved (Allen and Carletti (2008)). One important problem is if borrowers must take some action to make proper use of the funds they have borrowed. This action could be the level of effort or choice of project from among various different risky alternatives. The borrower can always claim that a low outcome is due to bad luck rather than from not taking the correct action. Lenders cannot observe the borrower's action unless they pay a fixed cost to monitor the borrower. In a financial market with many lenders, there is a free-rider problem. Each lender is small, so it is not worth paying the fixed cost. Everybody would like to free-ride, leaving it to someone else to bear the monitoring cost. As a result, no monitoring will be done.

A possible solution is to hire a single monitor to check what the borrower is doing. The problem then becomes one of monitoring the monitor, to make sure that she actually monitors the borrowers. Diamond (1984) develops a model of delegated monitoring to solve this problem, thus illustrating how banks have an incentive to act as a delegated monitor and produce the information necessary for an efficient allocation of resources.

Boot and Thakor (1997) assume there are three types of information problem. The first is that there is incomplete information about the future projects a firm has available to it, the second problem is that lenders cannot observe whether borrowers invest the funds in a risky or safe project, while the third problem is the likelihood that borrowers will have the opportunity to invest in a risky project. The authors are able to show that the first problem can best be solved by a financial market and the second and third problems can best be solved by intermediaries. They argue that banks will predominate in an emerging financial system, while the informational advantages of markets may allow them to develop in a mature financial system.

The evolution of the banking system, at a global level, shows that its significance has not been reduced, although the activities undertaken by banks have changed, under the impact of the financial innovation and globalization.
Figure 2 - The evolution of bank assets (the biggest 1,000 banks), at a global level, between 1998 and 2007 (USD trillions)

Source: International Financial Services London (IFSL), 2008: 3

Figure 2 shows that the assets of the biggest 1,000 have risen with 16.3% in the period 2006-2007, as compared to a growth of 5.4% in the previous period. Banks in the European Union hold the highest share, i.e. 53% in 2007 and, 43% in 2006, while the US has maintained around the level of 14% (IFSL (2008)). Regarding their clients’ deposits, it can be observed that the banking system in the UK is second after the U.S.A, but ahead of both Japan and the other countries considered as the biggest banking centers, i.e. Japan, Germany, France, Italy and Switzerland (Figure 3). However the first positions occupied by U.K and the U.S.A can also be explained through the position of these two countries as international financial centers.

Figure 3 - The importance of banking centers, according to their client deposits

Source: International Financial Services London (IFSL), 2008: 3

Regarding the number of banks, by region, one can see here the U.S’s dominance (Figure 4). The large number of banks and branches of the U.S. can be explained as an indicator of the geographical dispersion and regulatory system, which results in an increase in the number of small and medium sized banks. In Europe,
France and Germany are ahead of Great Britain and Switzerland in this regard, Germany standing through the highest number of employees in this sector.

![Figure 4 - Number of banks and subsidiaries among countries](image)

*Figure 4 - Number of banks and subsidiaries among countries*

*Source: International Financial Services London (IFSL), 2008: 3*

- Regarding the commercial banking sector overall, in 2006 it registered an increase in profits and assets, based on the increased availability of funds and on a higher efficiency. The profits of 180 commercial banks selected for analysis by Scorpio Partnership (IFSL (2008)) increased by 24% in 2007 and total assets by 14%.

- All these developments show the importance of the banking sector still high in the financial system, even in developed economies, where there is a trend of development of services offered by banks and their combination with other specific service areas as capital market and insurance sector, because of the disintermediation (reintermediation) and the financial innovation process.

- Given the importance of banks in the financial system, one must acknowledge that the vulnerability of banks is a point of interest for economic policy, because of the negative externalities associated with bank failures. These externalities arise when the effects of bank failures spread to other banks, harming them, as well as other businesses.

- Banks perform an important role in terms of maturity transformation. They collect demandable deposits and raise funds in the short term capital markets and invest them in long term assets. This maturity mismatch allows them to offer risk sharing to depositors but also exposes them to the possibility that all depositors withdraw their money early. Runs can involve the withdrawal of funds by depositors or the drying up of liquidity in the short term capital markets For example, in the case of the run on Northern Rock in the UK in late 2007 both occurred, causing a serious shock to the British financial system (Bordo (2007)).

- Banks are also exposed to problems of informational asymmetry. It has been shown in several recent contributions on the US economy, that this may have consequences for the reaction of banks to monetary policy. Essentially, it has been shown that a change in interest rates can lead to distributional effects across banks that are informationally opaque to a different degree. For example, smaller banks have been found to be more affected by monetary policy tightening than large banks, and as such
have been forced to restrict their lending more strongly. Similar effects have been shown for banks with different levels of liquidity and capitalization (ECB (2001)).

The impact of macroeconomic conditions on the banking system should also be treated with caution for two reasons: first, a healthy banking system that works well is very important for the effectiveness of economic policies and, second, vulnerabilities that arise in the banking sector, if overlooked and are not addressed, may threaten the economic stability of the whole country.

3. CONCLUSIONS
Financial institutions have diversified their activities and range of services moving from traditional banking services, to new, more diversified activities. Currently, institutions like insurance companies, pension funds, hedge funds and hybrid financial-nonfinancial institutions, (Schinasi, 2005, p.80) provide each different and diverse financial services. It may be noted that there is a tendency of a shift from traditional bank intermediation, to non-bank intermediation. However, regardless of this shift, banks do not have a diminished role and, as showed they still continue to dominate financial systems in both developed and development countries. What is true is the fact that the nature of their activities has greatly diversified due to the financial innovation and globalization process.

Banks are involved in a wide range of activities, mostly related to providing financial services in their own name and that of its customers. However, whatever the degree of involvement of banks in financial activities and investment, the banking system plays an important role in the economy. Thus, the effects of bank insolvency should not be allowed to continue to spread and neither is it possible not to intervene to support depositors in the event of systemic bank failures. Thus, banking is an activity that should be considered for prudent macroeconomic policies.

REFERENCES
IMPLEMENTATION OF OPERATIONAL PROGRAMS THREE YEARS AFTER ACCESSION TO EUROPEAN UNION

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Adela BREUER
Dorel JURCHESCU
Petria JURCHESCU

ABSTRACT

This paper aims to present the current state of structural funds absorption through operational programs, in Romania, and as case study we shall present the implementation status of projects financed through structural funds in Caraș-Severin county.

As research methods we shall process the statistical data of the problem studied, but we shall also realize a quantitative research on issues identified during the three years after structural funds accession.

Some of the problems raised so far have been solved by measures taken at government level, but there are, however, a number of problems which still persist at nearly half the programming period (2007-2013).

KEY WORDS: operational programs, structural funds, absorption rate, economic growth, impact.

JEL: O11, C13, H83

1. INTRODUCTION

Romania’s relations with the European Community date back to 1967 when the first agreements were concluded at the level of technical sectors. The formal request for Romania's accession to the European Union is submitted to June, 22nd, 1995 and negotiations were started in 1998. They are officially closed at the Brussels European Council in December 2004, and Romania signed the Accession Treaty in April 2005. After the ratification of this treaty, along with Bulgaria, Romania became the member of the European Union since January the 1st, 2007 (Matei et al. (2007)).

Since the date when Romania became an EU member, priority policies at EU level and have become national priorities. Romania has to face new challenges arising, on the one hand, from the gaps in relation to other member states, and, on the other hand, from the problems at national level (national disparities), such as competitiveness

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and low administrative capacity, insufficient human and physical capital and low
innovation capacity (regional disparities).

To tackle these problems, the EU membership allows accessing the funds
allocated to Romania by the European Commission through structural instruments, but
having the responsibility to provide a framework of integrity in the administration of
these funds, that is why, during the pre-accession period, Romania benefited from EU
grants in order to constitute this institutional framework.

Structural instruments are a form of grant, but operate on the principle of co-
financing. Projects are financed mainly by public funds of the member state, but they
can also be private funds (Ciocan, Tăut and Emil (2007)).

For the 2007-2013 programming period, the EU cohesion policy will have three
instruments: the European Regional Development Fund, the Cohesion Fund and the
European Social Fund, instruments that will fund the three objectives mentioned above
(convergence, regional competitiveness and employment and European territorial
cooperation). The three instruments will be used as before to help reduce disparities in
economic development between various regions of the European Union, with an
emphasis on knowledge and innovation, on creating more jobs and better work
conditions, cooperation between regions and on transforming the regions into attractive
places to invest and work.

These funds are designed to improve, directly or indirectly and on long term,
various areas such as research and technological development, transportation, energy,
environment protection, tourism, culture, urban and rural development, support for
companies and entrepreneurs, access to stable work places, social inclusion for
disadvantaged people, human capital development and investment in social infrastructure.

2. THE STAGE OF IMPLEMENTING OPERATIONAL PROGRAMS
IN ROMANIA

2010 was considered, ever since accession to the EU, as being the year when the
first effects of structural funds absorption can be measured, and that is why, at the
beginning of the year, The 2009 National Strategic Report on the implementation of
Structural and Cohesion Funds was elaborated. This report presents the socio-economic
situation of Romania, as well as the stage of implementation of operational programs up
to September, 30th, 2009. Based on this report and the latest information released by the
ministries to undertake tasks of Managing Authorities for Operational Programmes, we
shall present the absorption status of these funds in mid 2010.

Regarding the funds allocated for operational programs under the Convergence
Objective, which implement the National Strategic Reference Framework 2007-2013 is
worth 19.213 billion euros from the Structural Funds (European Social Fund (ESF -
3.684 billion euros) European Regional Development Fund (ERDF - 8.976 billion
euros)) and the Cohesion Fund (CF - 6.552 billion euros), plus an estimated national co-
financing estimated at 5.6 billion euros.

From a chronological point of view, 2007 was a transition year, when they
founded the institutional framework, a single Managing Authority - the Regional
Operational Program Authority -, called for projects, launched in autumn 2007, which
addressed to regional infrastructure. In May 2008 there were launched more than 30
lines of financing through European structural funds programs. Some of them were
released at the date previously announced, for many projects the date was not clearly announced, while other projects were released later than announced (Morovan (2010)).

The projects approved, on July, 31st, 2010, count 18,649 and their value exceeds the EU financial allocation for the period 2007-2010 with over 8.6 billion euros (37.92 billion RON). The problem is that not all these projects are financed, the number of projects approved for funding is 4,510, and other 5,622 projects are under evaluation. For 3,266 projects the financing contracts have been already signed and the first payments were made (pre-financing or reimbursement of expenses) amounting to 4.037 billion RON, that is only 10.31% of the financial allocations for the period.

Even if the structural funds accession is a priority at Government level and it represents an important source for economic recovery, the statistics published by the Management Authorities show a reduced ability to absorb these funds. The annual statement on the seven operational programs is as follows:

Table 1
Comparison of absorption of structural funds

<table>
<thead>
<tr>
<th>No.</th>
<th>Projects submitted</th>
<th>No.</th>
<th>Projects approved</th>
<th>No.</th>
<th>Contracts/financing decisions</th>
<th>No.</th>
<th>Payments to the beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total amount (billion Euros)</td>
<td>Total amount (billion Euros)</td>
<td>Total amount (billion Euros)</td>
<td>Total amount (billion Euros)</td>
<td>Total amount (billion Euros)</td>
<td>Total amount (billion Euros)</td>
<td></td>
</tr>
<tr>
<td>La 30.06.2009</td>
<td>17951</td>
<td>40,08</td>
<td>4179</td>
<td>9,60</td>
<td>3068</td>
<td>6,20</td>
<td>0,903</td>
</tr>
<tr>
<td>La 31.12.2009</td>
<td>14800</td>
<td>29,73</td>
<td>3072</td>
<td>6,27</td>
<td>2224</td>
<td>3,85</td>
<td>0,593</td>
</tr>
<tr>
<td>La 31.12.2008</td>
<td>7235</td>
<td>12,55</td>
<td>423</td>
<td>2,14</td>
<td>190</td>
<td>1,36</td>
<td>0,180</td>
</tr>
<tr>
<td>Progress 1st semester (absolute and relative values)</td>
<td>3081</td>
<td>10,31</td>
<td>1307</td>
<td>3,33</td>
<td>844</td>
<td>2,35</td>
<td>0,310</td>
</tr>
<tr>
<td></td>
<td>+21%</td>
<td>+35%</td>
<td>+36%</td>
<td>+53%</td>
<td>+38%</td>
<td>+61%</td>
<td>+52%</td>
</tr>
<tr>
<td>Progress 01.01.2009 – 30.06.2010 (absolute and relative values)</td>
<td>10716</td>
<td>27,51</td>
<td>3756</td>
<td>7,46</td>
<td>2878</td>
<td>4,84</td>
<td>0,723</td>
</tr>
<tr>
<td></td>
<td>+148%</td>
<td>220%</td>
<td>+888%</td>
<td>+349%</td>
<td>+1515%</td>
<td>+355%</td>
<td>+401%</td>
</tr>
</tbody>
</table>

Source: *** Ministry of Finance, Authority for Structural Instruments

As one can see, the number of projects submitted increased by 21% and by 36% of those approved. Even if the value of payments made to beneficiaries increased by 52%, the low share of these payments in relation to financial allocations highlighted the existing problems in the absorption of these funds. Making a comparison among the seven operational programs, the most favourable situation is to be found, as expected since the inception of these funds, to the Regional Operational Programme, where, on
July 31st, 2010, the proportion of payments made to beneficiaries is of 20.32%. In contrast, the most pessimistic situation is found in the Transport Operational Programme where payments were made only at a rate of 1.77% of financial allocations allotted for the program.

3. COMPARATIVE ANALYSIS FOR THE ABSORPTION OF EUROPEAN FUNDS (PRE-ACCESSION – POST-ACCESSION)

To make a comparative analysis on the absorption of EU funds in the two periods (pre - post-accession), we have made reference to the pre-accession funds acquired between 2004-2006 and 2007-2009 post-accession period, that is in the last two years before accession and the first two years post-accession. In this context, we shall present a simple study based on statistical data which aim at achieving a comparison between the absorption rate of pre-accession funds and structural funds. In this study we considered the amounts of pre-contracted programs, including amounts paid after accession, irrespectively for PHARE - 31/11/2008, SAPARD - 31/10/2007 (contracts), 31/12/2009 (payments), ISPA - 31/12/2010 (payments).

Between pre-accession funds and structural funds there are connections determined by their objectives, namely:

<table>
<thead>
<tr>
<th>Pre adherence</th>
<th>Post adherence</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHARE – Economic and social cohesion</td>
<td>European Regional Development Fund</td>
</tr>
<tr>
<td>PHARE – CBC</td>
<td>European Regional Development Fund - European territorial cooperation objective</td>
</tr>
<tr>
<td>ISPA</td>
<td>Cohesion Fund</td>
</tr>
<tr>
<td>SAPARD</td>
<td>European Agricultural Fund for Rural Development</td>
</tr>
</tbody>
</table>

As a candidate to the European Union, Romania has received financial instruments for the states in Central and Eastern Europe for their preparation for accession; these funds could be accessed through community programs: PHARE (Poland and Hungary Assistance for the Restructuring of the Economy), ISPA (Instrument for Structural Policies for Pre-Accession), SAPARD (Special Accession Programme for Agriculture and Rural Development) and TF (Transitional Facility).

The EU financial package allocated to Romania during 2004 - 2006 was established since 1999 in the European Council in Berlin through the programme Agenda 2000:
Table 3
Budget 2004 – 2006

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PHARE</td>
<td>1,360,53</td>
<td>1,056,82</td>
<td>980,09</td>
<td>169,05</td>
<td>-</td>
</tr>
<tr>
<td>TF</td>
<td>46,50</td>
<td>23,25</td>
<td>23,25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ISPA</td>
<td>527,39</td>
<td>400,20</td>
<td>398,33</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SAPARD</td>
<td>1,040,57</td>
<td>294,87</td>
<td>294,12</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>2,975,00</td>
<td>1,775,16</td>
<td>1,684,81</td>
<td>169,05</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Status of implementation on UE Funds in Romania on 31st July 2009;

Regarding the financial package for post-accession period, irrespectively for 2007-2009, it was approved by the National Strategic Reference Framework, which is no more than part of the National Development Plan, namely those objectives to be financed through structural funds.

Table 4
Budget 2007 – 2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FEDR</td>
<td>2,616,00</td>
<td>807,882</td>
<td>93,098</td>
<td>93,098</td>
<td>5/5</td>
</tr>
<tr>
<td>FSE</td>
<td>1,084,85</td>
<td>331,573</td>
<td>0,335</td>
<td>0,335</td>
<td>2/2</td>
</tr>
<tr>
<td>FEADR</td>
<td>2,589,55</td>
<td>561,575</td>
<td>0,730</td>
<td>0,730</td>
<td>N.A.</td>
</tr>
<tr>
<td>FFE</td>
<td>66,44</td>
<td>37,285</td>
<td>-</td>
<td>-</td>
<td>1/0</td>
</tr>
<tr>
<td>Total</td>
<td>6,356,84</td>
<td>1,738,32</td>
<td>94,16</td>
<td>94,16</td>
<td></td>
</tr>
</tbody>
</table>

Source: Status of implementation on UE Funds in Romania on 31st July 2009;

Figure 1 - Graphic visualization of the amounts allocated and absorbed by European funds (pre-accession period (2004-2006) post-accession period (2007-2009))
Regarding the differences that arise between the allocation of structural funds and the pre-accession funds, we can mention:

- allocation of multi-annual programs;
- decentralized management (national) of funds;
- significantly higher amounts allocated;
- implies a greater co-financing;
- operates on the principle of reimbursement of costs;
- the n+3 / n+2 rule.

During the pre-accession period there can be seen a significant uptake of funds, over 50%, unlike the post-accession period when the rate of absorption of structural funds is around 10%, some explanations can be found in the differences previously reported.

4. STRUCTURAL FUNDS ABSORPTION IN CARAS-SEVERIN COUNTY

In order to formulate pertinent conclusions on the impact of structural funds on economic and social development, we considered necessary to conduct an analysis of the absorption of these funds at a county level, in our case Caras-Severin county.

Regarding the public sector in the county there have been submitted by end of August 2010, a total of 174 projects totalling 518.54 million euros, out of which 156 projects of local authorities (335.60 million euros) and 18 projects (182.93 million euros) of other public institutions. 77 projects were approved, worth 183.77 million euros, out of which 62 projects were realized by the local authorities (116.45 million euros) and 15 projects belonged to other public institutions (67.32 million euros).

By the end of August, in Caras-Severin county, 57 financing contracts were signed, worth 157.43 million euros, out of which 49 contracts worth 103.56 million euros belonged to the local public authorities, and the other contracts, worth 53.87 million Euros, to other institutions.

As regards payments made to our county, the payments were made for six projects worth 43.27 million euros, of which for the local public authorities payments were made for two projects totalling 1.15 million euros, irrespectively 42.12 million euros for other institutions, for four projects.

Regarding the absorption of structural funds by businesses, the situation in Caras-Severin county is critical, because according to the information released by the Managing Authority on beneficiaries of the projects financed, only five financing contracts were signed (POSCCE, ROP, PNDR), their value being reduced. We should also emphasize the absence of statistical data on the absorption of grants by the private business, as well as examples of good practice, which shows the lack of communication and transparency from Intermediary Body (IBs).

At the moment, there are four projects for which the risk of losing funding is taken into account; for these projects, with a total of 209,286.33 thousand euros, the main problems identified were:

- lack of documents, notifications or studies necessary to implement the project;
- problems with VAT payment, too much time until VAT is refunded, thus causing financial blockage;
- non-compliance with procurement procedures;
• lack of communication between donors, applicant and beneficiaries of funding;
  • failure to comply with deadlines set in the grant application annexed to the grant contract;
  • large number of complaints regarding the public procurement procedure, impediments caused by legal provisions;
  • lack of staff, insufficient personal involvement of the implementation team;
  • problems encountered in obtaining pre-financing;
  • the existence of an excessive fee charged by the Guarantee Fund of Rural Credit;
  • lack of staff of Management Authorities or Intermediary Body (IBs), irrespectively Payment Centres;
  • discrepancy between the solutions given by the representatives of the Intermediate Body and the Managing Authority;
  • the absence of example documents in the implementation manual and the guide for completing the application form.

5. CONCLUSIONS

The overall conclusion is that progress has been achieved for all operational programs, but this progress is not at all a significant one in relation to allocated funds. The large number of projects in 2009 and first half of 2010 may constitute favourable conditions for increasing the absorption for the next period, but a series of measures have to be taken in order to solve the problems faced by beneficiaries up to now. Among these problems, some have also been identified by the Managing Authorities:
  • the first problem can be identified from the very moment of launching the funding, i.e. there is not a schedule for applications, and if there is, it is not respected. In this context we can also recall the delay that a number of funding lines were released in the first half of 2008; however, there are also lines which have not yet been opened up to now;
  • delays that occur during the selection and evaluation of projects such as delays of the deadline for submitting applications for funding, as well as failure in respecting the deadline for the assessment period (this period is between 6 and 10 months);
  • changes in the applicant’s guide while the funding stream is open, the so-called corrigenda to the applicant’s guide;
  • changes in national legislation in a certain field, which caused either delays in applications, or changes in funding guidelines;
  • the bureaucracy existing both at the level of applications, and during the implementation of the projects declared eligible;
  • problems encountered by the beneficiary during the project’s implementation which cause delays in the reimbursement of eligible expenses, which explain the low value of payments made to the beneficiary. For example, we can mention the following categories of problems: poor organization of the procurement procedure (absence of a practice guide, the lack of model contracts, the existence of complaints), delays in implementing the project’s activities due to the beneficiary’s fault or to his collaborators, misinterpretation of the law, etc…

Some of the issues which have risen so far were solved by measures taken at government level, some of these include:
• changing public procurement legislation, namely diminishing the bidding periods and making the process more flexible by using an accelerated procedure for bidding;
• providing government guarantees for loans in order to ensure the financial resources necessary for co-financing and project implementation;
• giving a percentage is 15 to 35% of the project’s eligible value as pre-financing;
• reducing the number of documents requested at the time of application, because some of them being also required when signing the contract;
• elaborating the beneficiary’s manuals containing models of documents to be issued by the beneficiary during the project’s implementation, as well as organising training sessions for the staff responsible with the project (project manager, legal or financial responsible).

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EMPIRICAL ANALYSIS OF THE GOVERNMENT DECISIONS SUSTAINABILITY REGARDING FISCAL POLICY: THE CASE OF ROMANIA

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Nicoleta MOLDOVAN²
Cristina NICOLESCU³
Sebastian RĂDUCANU⁴

ABSTRACT

Fiscal policy is one of the instrumental variables that have public decision makers, and its action on endogenous variables in the economy or objective is achieved through the tax system, otherwise we can estimate that the fiscal policy is carried out structural modeling of the tax system and ensure its operation in order to achieve the desired objective of public decision-makers in the economy. In this respect, Romania has developed the Government's fiscal strategy for 2011-2013 period, built on the basis of indicators who show that, since 2011, Romania should be a model for economic recovery.

Knowledge of the structure and characteristics of a tax system involves a value judgments on how taxpayers should be treated according to their sources of wealth, reflecting the view on whether more or less legitimate an activity, of an income or of an accumulation of wealth, but also a community tradition and mentality. Furthermore, based on the idea that a software system should require dissociating between what is objective and what can conceive, develop and deliberate, we consider necessary to reflect the empirical record regarding fiscal adjustment periods in our country and, also, the structure of taxation, since its operation must take into consideration a relatively stable behavior of the elements within it, as a tool, a economic leverage.

KEY WORDS: fiscal policy, sustainability, budget revenues and expenditures

JEL: H20, H63, C22, C32

1. INTRODUCTION

In this paper we define fiscal policy through the totality of government decisions in which it builds and shapes the state's fiscal system, in line with the financial - monetary objectives and expectations, drawing on the resources needed to cover public expenditure. Also addressing the tax policy, will take into account the decisions manifested in the socio-economic plan, on the correction and guidance of market

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mechanism and influence the redistribution of gross domestic product, in a desired
direction of the economic behavior of various categories of taxpayers but with certain
limits.

Changing, in the time scale, of the tax system elements is constituting a logical
process, the objective nature of these structural changes are determined, as revealed in
the literature, by developing some activities faster than others activities, by the different
rhythms growth rate due to differential action of the forces that influence behavior of
public authorities.

2. EMPIRICAL ANALYSIS OF THE GOVERNMENT DECISIONS
SUSTAINABILITY REGARDING FISCAL POLICY

2.1. The theoretical framework of fiscal policy sustainability

Reflecting the sustainability of fiscal policies must be based on the features
induced by country-specific economic systems, along with using debt financing by
issuing currency, current account deficits and more. Therefore, the sustainability of
fiscal policy depends on measures taken to limit or to stabilize, the public budget
deficits, that failure or success rates.

But tax policies of stabilization are several types, depending on the category of
automatic stabilizer, which according to Keiser N.F., (Keiser N.F., 1956) are:
- automatic stabilizers, which currently operates in the economy, in order to
increase income in case of economic decline, and decrease that, in case of
economic boom (fiscal automatic stabilizers such social insurance payments,
taxes on income and profits);
- stabilizers with flexible formula who action at the appearance of a signal of
danger (fiscal flexible formula stabilizers such as a automatic tax rate change);
- discretionary stabilization policies (such as credit control by the central bank);
- institutional stabilizers (such as the Central Bank increased the power of unions,
review tax structure, etc.) which tend to strengthen the economy.

On emphasis on automatic fiscal stabilizers because they act faster than other
tools, because it implies stability "inside lags" (refers to the time needed to implement a
policy change), which usually meet discretionery changes in fiscal policy, and "outside
lags" (refers to the time needed for transmitting the effects in the economy) are lower
than for monetary policy. Furthermore, in support of these allegations, come also
numerous studies in order to demonstrate the effects of automatic fiscal stabilizers:

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<th>Author</th>
<th>Survey</th>
<th>Conclusion</th>
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<td>Christiano and Harrison (1999)</td>
<td>a simulation model for a real business cycle</td>
<td>the benefits of automatic stabilizers in the tax system is mainly due to their effects to reduce the volatility of gross domestic product. automatic fiscal stabilizers contribute 0.85% of GDP growth rate. income tax system with progressive</td>
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2.2. Empirical investigation of fiscal policy decisions

In developing countries there is still a perception that a relaxed fiscal policy, with large budget deficits, is necessary for economic growth, however, both economic practice and the literature, as well, shows without doubt, that a discretionary fiscal policy increase the volatility and uncertainty of the future evolution of gross domestic product, a demonstration that we aim to achieve in this paper on the case of our country.

![Graphs showing tax revenues, public expenditures, and budget balance](image)

Figure 1 - Share of tax revenues, public expenditures and budget balance in GDP

It is noted that the tax revenue ratio to GDP (Figure 1) is low, around 30 percent in all years of analysis, demonstrated and explained by the following factors:

- low level of tax collection of taxes was due to the inefficiency of tax administration;
- exceptions and exemptions from taxes, granted to encourage investment, decreased the tax base and have resulted in additional pressure for maintaining and expanding facilities;
- cancellation and rescheduling of taxes, which led to the emergence and growth of moral hazard behavior and fiscal indiscipline;
- the existence of high tax rates on contributions to social security, encouraging tax evasion.
Also there is a change to the structure of tax revenues by changing the ratio between direct and indirect taxes, a trend observed throughout the period of analysis. This phenomenon can be explained by higher efficiency and simplicity of indirect taxation collection and greater certainty of their collection, but the consequences are of social nature, since moving the tax burden to consumption, which is "cumbersome" for those with low or fixed incomes.

Given that direct taxes are characterized by a high degree of sensitivity to the changing economy and, increasing the share of indirect taxes in total revenue, shows that when the economy does not work, because economic and social bottlenecks, the most reliable source of income for the state, remains the consumption tax, especially since this is the only way to create income, because the underground economy can be taxed. This kind of tax is preferable because, in a low wealth and income individuals and businesses, can have a high tax efficiency, but also due to convenience and relatively low cost of their collection, veiled nature of indirect taxes is another reason why they are preferred to direct tax.

Developed countries have not only economic objectives but also social objectives, as we said, that is involving public expenditure, and the purpose of each tax system is accumulating capital to finance these public expenditures.
Thus, if the tax system gives tax incentives, economic agents’ behavior will be affected, and consequently will be affected the economic efficiency. Then, distribution fees raise fairness and equity aspects among the population, impact weigh heavily in most countries. Another factor is the strengthening of fiscal discipline and voluntary compliance costs for taxpayers, both issues having major impact on the efficiency and accuracy of implementing a tax system. Therefore, when deciding to change the tax system, governments need to balance those three factors.

The tax system has as characteristic the development of economic sectors through levers that influence the economy increasing production and efficiency at the microeconomic level. Also, the tax system should be characterized by placing the tax burden and the principle of social fairness without any discrimination between taxpayers.

Repeated changes in tax legislation, in the direction of achieving a certain level of revenues, as a result of measures and commitments, not merely that to increase “tax burden” in Romania and deepen distrust business and predictable nature of the tax system, and predictable nature of the tax system is just a constant target hard to achieve. If the initial priority was to ensure efficiency of the tax system to finance public needs, then, the priority has become the proper functioning of the economy to sustain economic growth and social stability. Social and economic choices of governments, subordinate the general purpose, will generate increasing or decreasing the effects of the tax system.

Measures taken so far, in our country, had a limited effect, because no account was taken to the link between social security contributions and actual benefits, therefore, Romania’s commitment to reduce the tax burden to 25% by 2012 is impossible. European Commission recommendation made to Romania, to avoid pro-cyclical fiscal policy and expansionary, as before, shows once again, targeting of the goals unachievable in the new economic context.

Aware of the taxation consequences, the administration decide the structure for modeling the effects of the tax system, in line with the desired objective, thus, extent of the aims pursued influence the technical characteristics of taxes, with beneficial effects.
at the micro level that ultimately affect endogenous macroeconomic variables (Corduneanu, 1998).

In 2009, in Romania was identified a number of 558 taxes, and only 74 are tax, remaining 484 non-tax fees and charges, the administration of which costs more than collecting them. At the same time, a number of solutions found, not yet implemented, in part, by the government for crossing that times of crisis refer to: the simultaneous attempt to ban pension - state salary; the introduction of the solidarity contribution amount 90%, both for public sector salaries and pensions exceeding in value the net salary of the president; the introduction of flat tax to replace income tax losses for companies; granting a bonus of 5% reduction from tax natural and legal persons who shall pay at least ten days before the deadline; deduction of 20% of expenses in calculating taxable profits for companies that invest in research and development; the microlevel of taxation has increased from 2.5% 3% of revenue since 2009; the VAT for homes delivered to the local institutions in order to transform them in social housing, homes, orphanages or foster recovery was reduced to 5%; for individuals the income from interest on term deposits and other savings instruments will be considered free of charge; the increase of share social contributions; dividends will not be taxed if they are distributed and reinvested in the same company or work in a Romanian companies; the increase of local taxes by about 24.3%; draw up a legislation to address fiscal responsibility, to limit the budgetary adjustments made during the year and a single law on salaries in the budget sector.

A logical approach, relating the events of recent decades will be to address each of the criticisms of tax policy, one by one. For example, how bad were synchronized policy changes?, How reliable measures have been taken?, To what extent fiscal policy changes corresponded to predictions and actual needs of the economy?, To what extent have sustainable fiscal policy measures? Behavioral responses may differ from predictions, because we use the wrong parameters in our behavioral equations, but they may also vary, as a policy is seen as less credible than the models proposed. (Lobont O. et al., 2008 )

In this respect we present the distribution histogram, mean, median, minimum and maximum values, standard deviation, coefficient of asymmetry, kurtotica Jarque-Bera test series for the instruments of fiscal policy, tax revenue and public expenditure in analysis period, during 1993-2013:

![Chart 1a](chart1a.png)

**Chart 1a** - The distribution of tax revenues and public expenditures under test Jarque-Bera
The tax revenues asymmetry coefficient (skewness) is 0.04, and the public expenditures asymmetry coefficient is -0.16, kurtosis value is 1.83 and it shows that the distribution is platikurtotic, therefore, the likelihood of an event is extremely low probability of occurrence of the event involved a normal distribution, and the distribution is a non-normal distribution with the "stretching the left."

![Chart 1b - The distribution of tax revenues and public expenditures under test Quantile](image)

By this methodology are plotted quantile theoretical distribution (normal) versus quantile distribution of tax revenues and expenditures, points highlighting, once again, a positive asymmetry distribution without major deviations from normal distribution.

3. CONCLUSIONS

In conclusion, fiscal policy, subsumed on financial policy, has a direct, active influence on financial stability as part of general economic equilibrium.

In order to achieve financial equilibrium, state at a time, and the dynamics also, a public authorities is necessary to combine fiscal and budgetary policies in a rational way, based on the facts of the economy, and use as targets full employment and inflation reduction, as prerequisites for increased welfare. In recent years, in Romania, we notice that there is a growing tax burden greater, therefore, government authorities have stated that they don’t realized that a high tax burden, is risky for productive effort, involving fraud, evasion and inflation through taxation.

Fiscal sustainability should take into account the possibility of continuing the current fiscal policy in terms of a sustainable policy, therefore, taking into account the demographic factor is extremely important, aging represents an important restriction for policymakers in the coming decades in order to amend the level of social spending. (Balassone F. et al., 2008) As observed from the evidence already played in this empirical work and taking into consideration the studies in the literature, we believe that in coming years will be required fiscal adjustment period basis of growth of budgetary expenditures and restrictive fiscal policies.
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THE NECESITY OF ACCOUNTING INFORMATION IN THE MANAGEMENT OF THE COMMUNITARIAN SERVICES OF PUBLIC UTILITIES

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Gheorghe Claudiu FEIES²
Nicolae Paul VIRAG³

ABSTRACT

We presented in this work the way in which the information furnished by the financial-accounting information system is used in the decision making process of the management of the operators of communitarian services from public utilities. Also, the implications of the accounting information in the planning and accomplishing the investments within the infrastructure necessary for the services of public utilities are presented. The financial-accounting information is created with the purpose of answering the requests of the management to fundament the decisions but also to satisfy the information needs of the other external or internal users. Regarding this, the financial-accounting information specific for the operators from the system of communitarian services of public utilities is presented and also the qualitative characteristics and the way the accounting information is gathered in order for it to have real value for planning, control and decision making.

Also, are presented the situations with financial and performance indicators that are requested by ANRSC in order for the services of public utilities to be licensed, indicators calculated with the help of the data received from the financial situations.

KEY WORDS accounting information, communitarian services of public utilities services, financial-accounting information system

JEL: M41

1. INTRODUCTION

In the process of decision making of the operators of communitarian services of public utilities we are interested in the technical and economical information.

The latter are very important for the accounting. In this category we can include the accounting information. This is usual by its methods, procedures and instruments of economical data processing. It is the most real, precise, complete and operational information because it represents the support of the managerial process, a large part of the decisions that are taken in the process of management of public services have as background the information obtained from the accounting.

In the management system of an operator of public utilities services, an important component is the informational financial-accounting circuit. The purpose of this circuit is to furnish accounting information to the management in order to adopt

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some decisions related to the organizing of the activities and planning of the investments.

The informational financial-accounting system includes informational activities represented by the production and utilization of information by the users. More precisely, there are three types of activities related to the economical information:
- Searching for private information that are not available to the public;
- Analysis, processing and interpretation of information with the purpose of prevision (predictive analysis);
- Analysis of the past performances (retrospective analysis)

At the level of the operators of communitarian services of public utilities the financial-accounting information, in the form of specific data, is obtained from some internal and external sources and serve for the communication inside the organization with some receivers.

In order for the accounting information to be useful in the managerial system, it needs to have four main qualitative characteristics: intelligibility, relevance, credibility and compatibility.

The accounting information has the quality of being credible when it doesn’t contain significant errors, is not partial, and the users can trust that it represents correctly what it has proposed to represent or what it is expected to represent.

In order for the information to represent in a credible way the events and the transactions it is necessary that they are accounted and presented in accordance with their background and the economical reality and not only with their juridical form. The accounting information has to be neutral, without influences and to represent with fidelity the events and the transactions.

2. THE INFORMATION AND ITS CIRCUIT IN THE FINANCIAL ACCOUNTING SYSTEM OF THE OPERATORS OF COMMUNITARIAN SERVICES OF PUBLIC UTILITIES

Before presenting the way of the accounting information from its collecting, processing and until the final users, we have to specify that in Romania the operators of communitarian services of public utilities, in conformity with the law 51/2006 are organized in private companies with state capital, private or mixed, or in the specialty department of the mayor or in the specialty services of the local or county councils. Thus, their management can be direct, in the county or local councils, or delegated by giving their management by public auction to the private companies licensed by ANRSC.

In the context of the contemporary evolutions of the activities of the public utilities services, the development of the market economy, the increase of its complexity determined a correspondent evolution of the economical-financial information. This type of information characterizes the situation of the patrimony of the operators, the results of the economical-financial activity, the way of utilization of the material and human resources, for its own needs and for the third parties (shareholders, clients, banks, fiscal organs, other physical or juridical persons).

The informational financial-accounting system represents an organized ensemble of complex information that are obtained by processing the data furnished by some sources and that are necessary for organizing, managing and developing the economical activity. The importance of such a system comes from the idea that it
assures the knowledge in any moments about the status and functioning of the economical entities in general, offering information about the way in which the resources are used, about the existence of some deficiencies and the need to analyze them.

For the operators of communitarian public utilities services the accounting information that can be used in the process of planning and organizing of the activity for the proper management of the specific activities is important and also the information that is useful for adopting or not the decisions regarding the investments of machines or distribution networks.

A problem of the financial-accounting system is given by the set of financial situations that has to be intelligible and transparent although 4 of the 5 components of the financial situations are flooded with information with the form of numbers that can create difficulties in their interpretation from the users that don’t have minimum economical knowledge.(Ana Morariu(2008)). The resolution is given by the IFAC by explicative notes and accounting politics. It is an economical problem, with deep knowledge for applying IFRS, with professional reasoning of the professional accountant in the art of transforming the numbers in coherent, simple, relevant explanations so that reading these situations by any user could help him make good economical decisions.

In the case of the operators of public services, the decision factors are represented by members of the administration council, in the case of the services organized in the specialty departments of the local councils or of the mayor, are represented by the administrators and shareholders of the private companies that manage the public services. Also the financial-accounting information of these operators is used by the institutions of credit or by the institutions of settlement of the state, as ANRE, ANRSC etc.

Referring to the institutions of settlement of the communitarian public utilities services, we can say that the accounting information is essential in their activity. This fact results from the establishing and approval of the rates of the services accomplished by the operators on the basis of the accountant information. This has to be centralized in the file of foundation and in the structured on elements of expenses, drawn up in conformity with the processed data from the accounting balance and from the profit and losses account from the last three years.

An example regarding the utilization of the information as data furnished by the financial-accounting system of the public utilities services is that of Termo-construct SA Sebis, the operator manages the micro area system of capture, treating and distribution of drinkable water. The managers decided to increase the price of drinkable water after the financial and economical analysis. This decision has to receive the approval of ANRSC in order to be approved by the Local Council.

Regarding this the following situations requested in conformity the present regulations were considered:
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-studies and researches</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-other services made by third parties:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-collaborators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                  |      |            |                 |                |                 |       |

Table 1
Foundation list
- commissions and payments  & 5,33 & 0,38 & 0,28 & 0,28 & 0,94 \\
- protocol, advertising, publicity  & 0,44 & 0,20 &  &  & 0,28 \\
- telecommunications mail  & 6,63 & 0,92 & 0,54 & 0,59 & 2,05 \\
- other material expenses  & 74,59 & 6,44 & 5,04 & 6,42 & 17,90 \\
b) expenses with the employees, of which:  \\
- salaries  & 328,32 & 19,19 & 20,48 & 21,02 & 60,69 \\
- Health Insurance 20,8%  & 68,29 & 4,00 & 4,26 & 4,38 & 12,64 \\
- unemployment benefit 0,5%  & 1,65 & 0,10 & 0,11 & 0,11 & 0,32 \\
- FNAS 5,20%  & 18,06 & 1,00 & 1,07 & 1,10 & 3,17 \\
- accidents and professional diseases 0,279%  & 0,97 & 0,06 & 0,06 & 0,06 & 0,18 \\
- CCIASS 0,85%  & 2,79 & 0,17 & 0,18 & 0,18 & 0,53 \\
- guarantee of salary receivable 0,25%  & 0,82 & 0,05 & 0,06 & 0,06 & 0,17 \\
- other expenses  \\
c) Financial expenses  \\
I. Total expenses (1+2)  & 930,63 & 60,99 & 62,55 & 69,47 & 193,01 \\
II. Profit x 10%  & 93,07 & 6,10 & 6,26 & 6,95 & 19,31 \\
III. Development quota  &  &  &  &  &  \\
IV. Fund II D  &  &  &  &  &  \\
V. Revenue obtained from production, transport, water distribution (I+II+III+IV) lei  & 1.023,70 & 67,09 & 68,81 & 76,42 & 212,32 \\
VI. Delivered quantity, including consumption Thousands of steres  & 405,70 &  &  & 76,73 \\
VII. Unitary price (V:VI) Lei/stere  & 2,52 &  &  & 2,76 \\

**Source:** Created by the authors

**Table 2**
Structure on elements of expenses

<table>
<thead>
<tr>
<th>Specification</th>
<th>M.U.</th>
<th>In the previous period 2009</th>
<th>Previous foundation Total Dec.09 Feb.10</th>
<th>Unitary Total</th>
<th>Total Increases -lei-</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>A. Purchased rough water</td>
<td></td>
<td>Thousands of steres</td>
<td>527,68</td>
<td>116,10</td>
<td>545,00</td>
</tr>
<tr>
<td>B. Delivered water:</td>
<td>Thousands of steres</td>
<td>405,70</td>
<td>76,73</td>
<td>425,00</td>
<td>348,27</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>-population</td>
<td>Thousands of steres</td>
<td>272,17</td>
<td>56,43</td>
<td>286,00</td>
<td>229,57</td>
</tr>
<tr>
<td>-other consumers</td>
<td>Thousands of steres</td>
<td>133,53</td>
<td>20,30</td>
<td>139,00</td>
<td>118,70</td>
</tr>
<tr>
<td>-losses of water in</td>
<td>% Thousands of steres</td>
<td>30,07%</td>
<td>51,31%</td>
<td>28,24%</td>
<td></td>
</tr>
<tr>
<td>the system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Consumed energy</td>
<td>total Mwh</td>
<td>465,59</td>
<td>108,02</td>
<td>488,00</td>
<td>379,98</td>
</tr>
<tr>
<td>D Number of employees</td>
<td>Personal no. lei</td>
<td>336</td>
<td>67</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td>E. Average revenue/employee</td>
<td>lei</td>
<td>977</td>
<td>905</td>
<td>1014</td>
<td></td>
</tr>
<tr>
<td>1. Different expenses:</td>
<td></td>
<td>267,28</td>
<td>64,99</td>
<td>280,00</td>
<td>215,01</td>
</tr>
<tr>
<td>-rough water, quantity price</td>
<td>27,21</td>
<td>6,06</td>
<td>29,00</td>
<td>22,94</td>
<td></td>
</tr>
<tr>
<td>-losses of water in the system</td>
<td>6,52</td>
<td>2,28</td>
<td>7,00</td>
<td>4,72</td>
<td></td>
</tr>
<tr>
<td>-electric energy, quantity price</td>
<td>195,76</td>
<td>48,87</td>
<td>200,00</td>
<td>151,13</td>
<td></td>
</tr>
<tr>
<td>-treating the water</td>
<td>20,36</td>
<td>4,99</td>
<td>25,00</td>
<td>20,01</td>
<td></td>
</tr>
<tr>
<td>-technological materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-other specific material expenses</td>
<td>17,43</td>
<td>2,79</td>
<td>19,00</td>
<td>16,21</td>
<td></td>
</tr>
<tr>
<td>2. Fixed expenses of which:</td>
<td></td>
<td>663,35</td>
<td>128,02</td>
<td>720,00</td>
<td>591,98</td>
</tr>
<tr>
<td>a) material expenses:</td>
<td></td>
<td>242,45</td>
<td>50,38</td>
<td>279,00</td>
<td>228,62</td>
</tr>
<tr>
<td>-materials</td>
<td>94,29</td>
<td>10,57</td>
<td>99,00</td>
<td>88,43</td>
<td></td>
</tr>
<tr>
<td>-electric energy, quantity price</td>
<td>5,00</td>
<td>5,00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-expenses with environment protection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-annual attenuation</td>
<td>33,51</td>
<td>9</td>
<td>34,00</td>
<td>25,00</td>
<td></td>
</tr>
<tr>
<td>-annual royalty</td>
<td>16,30</td>
<td>6</td>
<td>16,30</td>
<td>10,30</td>
<td></td>
</tr>
<tr>
<td>-reparations in the production</td>
<td>1,99</td>
<td>6,00</td>
<td>4,01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-reparations with third parties</td>
<td>5,85</td>
<td>9,00</td>
<td>9,00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-studies and researches</td>
<td>4,76</td>
<td>1,28</td>
<td>8,00</td>
<td>6,72</td>
<td></td>
</tr>
<tr>
<td>-other services made by third parties:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-collaborators</td>
<td>0,75</td>
<td>0,45</td>
<td>5,00</td>
<td>4,55</td>
<td></td>
</tr>
<tr>
<td>-commissions and payments</td>
<td>5,33</td>
<td>0,94</td>
<td>8,00</td>
<td>7,06</td>
<td></td>
</tr>
<tr>
<td>-protocol, advertising, publicity</td>
<td>0,44</td>
<td>0,20</td>
<td>1,00</td>
<td>0,80</td>
<td></td>
</tr>
<tr>
<td>-telecommunications mail</td>
<td>6,63</td>
<td>2,05</td>
<td>7,00</td>
<td>4,95</td>
<td></td>
</tr>
<tr>
<td>-other material expenses</td>
<td>74,59</td>
<td>17,90</td>
<td>80,70</td>
<td>62,80</td>
<td></td>
</tr>
<tr>
<td>b)expenses with the employees, of which:</td>
<td></td>
<td>420,90</td>
<td>77,64</td>
<td>441</td>
<td>363,36</td>
</tr>
<tr>
<td>-salaries</td>
<td>328,32</td>
<td>60,69</td>
<td>345</td>
<td>284,31</td>
<td></td>
</tr>
</tbody>
</table>
### c) Financial expenses

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>68.29</td>
<td>12.64</td>
<td>70</td>
<td>57.36</td>
</tr>
<tr>
<td>-unemployment benefit 0.5 %</td>
<td>1.65</td>
<td>0.32</td>
<td>2</td>
<td>1.68</td>
</tr>
<tr>
<td>-FNAS 5.20 %</td>
<td>18.06</td>
<td>3.17</td>
<td>19</td>
<td>15.83</td>
</tr>
<tr>
<td>-accidents and professional diseases 0.279 %</td>
<td>0.97</td>
<td>0.18</td>
<td>1</td>
<td>0.82</td>
</tr>
<tr>
<td>CCIASS 0.85 %</td>
<td>2.79</td>
<td>0.53</td>
<td>3</td>
<td>2.47</td>
</tr>
<tr>
<td>-guarantee of salary receivable 0.25%</td>
<td>0.82</td>
<td>0.17</td>
<td>1.00</td>
<td>0.83</td>
</tr>
<tr>
<td>Other service expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total expenses (I+2)                      | 930.63 | 193.01 | 1000   | 806.99 |
| Profit x 10%                              | 93.07  | 19.31  | 100    | 80.69  |
| Development quota                         |        |        |        |        |
| V. Revenue obtained from production,      | Lei    |        |        |        |
| transport, water distribution (I+II+III+IV)| 1.023,7| 212.32 | 1.100  | 887.68 |
| VI. Delivered quantity, including         | Thousands of steres | 405.70 | 76.73 | 425 | 348.27 |
| consumption (V:VI)                        |        |        |        |        |
| VII. Unitary price (V:VI)                 | Lei/mc | 2.52   | 2.76   | 2.59   |

Source: Created by the authors

The price of 2.76 lei/stere is calculated using the data from the last months, which by chance are months in winter, a period when the water consumption is small resulting in larger costs per stere of water produced and distributed. Thus the price for which it will be requested the favourable notice is 2.59 lei/stere.

These two situations presented are analysed by ANRSC together with a technical memoir drawn up by the technical department of the local operator and on the basis of these documents there will be a notice issued by the specialty commission.

We can draw the conclusion thus that the financial-accounting system of the operators of communitarian public utilities services has an essential role in furnishing the informational basis in order to establish the prices depending on the registered costs. The result is the influence on the accomplishing the revenue because a greater price if it is supported by the beneficiaries it leads to a greater business profit at the same quality and quantity of the public services.

### 3. THE ECONOMIC-FINANCIAL AND PERFORMANCE INDICATORS THAT ARE THE BASIS OF THE APPROVAL OF LICENSE OF OPERATING FOR THE COMMUNITARIAN PUBLIC UTILITIES SERVICES

In conformity with the Decision of the government no. 745/2007, the operators of communitarian public utilities services have to accomplish some technical, financial and of performance requests in order to obtain the operation license.
The background of these requests is the processing of the financial-accounting information through some financial and performance indicators. (Isac C. et al., 2009)

Thus, using the financial situations of juridical persons that request the licence the following financial-economical indicators are calculated: exploitation revenues, results of the exploitation, dues, dues to the consolidated budget, receivables.

Giving as an example Termo-construct S.R.L., this company which tried to increase the price of drinkable water as we have shown before, presented the following situation in conformity with the annex no. 7 from the Government decision 745/2007 in order to receive the license 3rd class for the cleaning service.

Table 3
Financial-economical indicators

<table>
<thead>
<tr>
<th>No. crt.</th>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td></td>
<td>I</td>
</tr>
<tr>
<td>1.</td>
<td>Revenue from exploitation</td>
<td>102.522</td>
</tr>
<tr>
<td>2.</td>
<td>Result from exploitation</td>
<td>12.261</td>
</tr>
<tr>
<td>5.</td>
<td>Receivables</td>
<td>65.400</td>
</tr>
</tbody>
</table>

Source: Created by the authors

Beside this situation, ANRSC will analyse the performance indicators for the service for which the license is requested. We mention that the operator develops activities specific to the cleaning service for which it has an expired license and it is requested its renewal. Thus, we have the following indicators:

Table 4
Indicators regarding the financial performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rate of the revenue on the employee revenue</td>
<td>Profit of exploitation x 100</td>
<td>266.635 x 100</td>
<td>51.39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capital employee</td>
<td>518.894</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Rate of utilization of the assets</td>
<td>Sold production x 100</td>
<td>1.658.143x100</td>
<td>456.70</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Operational assets</td>
<td>363.074</td>
<td></td>
</tr>
</tbody>
</table>
After analysing these indicators and the accomplishing of the other requests regarding the technical, managerial and economical ability by efficient management of the cleaning service the operating license will be given to the operator.

The purpose of the accounting information in adopting the decisions related to the investment projects that try to improve the quality of the public utilities services and their development in order to increase the number of beneficiaries.

Any project of development has at its base an economical dimension. Although in the field of public utilities services it is tried to accomplish the objective of increasing of the quality and the development, there is the problem of economical and financial profit. Thus, the financial-accounting information has an essential role in quantifying the method of accomplishment of the investment projects and the final profit of them.

Also, the obtaining of the reimbursable or non reimbursable finance respectively from the credit institutions or European funds is accomplished by providing the financial information of solvability of the operator and of financial profit of the project that need financing.

The financial-accounting information has to be made of data that have been processed in a useful form for the receiver and which have a real value for control, planning or decision making in investments.
In the case of requesting the credits in order to cover the needs of financing the investments, the financial creditors are interested in the information that allow them to determine that the loans and the interests will be reimbursed at the time limit.

Also, in the case of non-reimbursable sources of financing the economical and financial profit of the project and its contribution to the improvement of the quality of the services accomplished for the beneficiaries has to be proved.

The accounting information will be deliver the data necessary for the periodical evaluation of the accomplishment of the different stages of the investment projects, especially from the point of view of the respecting of the financial criteria and after the implementing they will be used by the management of the project in order to determine the degree in which the financial results and the quality results have been accomplished.

3. CONCLUSIONS

In conclusion, the financial-accounting system, by the information delivered to the management of the operators of public utilities services in order to be used in the decision making process, has a very important place in the management mechanism of any communitarian public utility service, be it as a private company, a specialty apparatus or department in the local or county councils. The financial health of these operators is the background of the services and has an indirect influence on the quality of the peoples’ lives, institutions and economical institutions of a community or region.

ACKNOWLEDGMENT

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ABSTRACT:
In the present economic context, exceptional operations such as mergers and acquisitions (M&A) are becoming more and more complex, internationally and therefore require independence and high class professionalism.

The planning of the merger and acquisition activities and the use of due diligence reviews leads to the success or failure of the operation. Still, even if a well performed due diligence review is necessary for the success of the merger or acquisition, it is not obligatory that the merger or acquisition is going to produce an increased value for the shareholders. In order to reach the objective of higher value generated for the shareholders, the acquisition or merger must be followed after it is concluded, so that the newly included entity can adapt and generate the expected synergies and results.

In the present paper we analyze the way mergers and acquisitions are performed in different cases, which are the factors that generate changes in the mergers and acquisition processes and how the auditor should perform the due diligence in each case. We try to generate the guidelines for the auditor of a M&A activity taking into account different rules that apply to this sort of activity in different economies.

KEY WORDS: due diligence, mergers, acquisitions, risk

JEL CODE: M42, G34

1. INTRODUCTION

In the last decades, as the business climate has changed, being faced with much more situations that can change the life of any company (because of an increased competition that exists at global level), mergers and acquisitions have become a new choice for any business. In the context of stable or decreasing revenues, the cost reduction or the productivity increase cannot produce sustainable earnings growth. Therefore, managers produce growth strategies that are often based on acquisitions or alliances.

In the present economic context – characterized by turbulent and globalized markets, exceptional operations such as mergers and acquisitions (M&A) are becoming more and more complex, internationally and require independence and high class professionalism.

Sometimes, in order to survive on a market and to develop quickly enough, companies need to add up their forces into stronger entities. This is a reality that allows

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small companies to better use their scarce resource, to better fulfill their main objective (of generating profits for their owners) and in some cases to even reduce the risk of going bankrupt. When the normal, intrinsic growth, is no longer enough, mergers and acquisitions can turn out to be a solution for a quicker growth or penetration of new markets.

The literature concerning mergers and acquisitions tends to demonstrate that most transactions of this kind are done far from the public eye, the purpose being to include in big companies smaller, more agile businesses that are regarded as incubators for new ideas.

The many studies that have been performed on the subject of mergers and acquisitions have tended to prove that many of the mergers and acquisitions tended to fail in creating value for the shareholders (Napier, 1989; Meier and Schier, 2007). Of course there were many exceptions to this rule. The spectrum of mergers and acquisitions results covers all cases, from clear failures to unqualified success.

Researchers were interested in all aspects of this kind of operations: from the reasons that lead to such operations to the typology of M&A, from the psychological aspects to the technical aspects of M&A operations, from the importance to different aspects in the success of M&A operations to what success means in this field.

For example, Buono and Bowditch, 1989; Larsson, 1990; Haspelagh andJemison, 1991; Missonier and Guallino, 2004; Cording and al., 2008 have insisted on the post acquisition phase of the mergers-acquisitions and have underlined its importance for the success of the acquisitions while identifying the factors of failure and while proposing some actions to reduce them.

Others (Nahavandi and Malekzadeh, 1988; Cartwright and Cooper, 1992;Evrard, 1996; Weber, 2000) have centered their research on the human relations and the cultural differences and their impact on the success of mergers or acquisitions.

The analysis of the relationship existing between the merger and acquisition activities and the general economical situation in the period prior to M&A, has been the subject of many studies and macroeconomic models. The essential problem with the models created is that once separated from the market and the moment which lead to their creation is no longer properly manifested. For this reason, in the analysis of the waves of mergers and acquisitions from the past century one starts from the hypothesis that these merger and acquisition waves appear as a result of the combination of particular economic and legal conditions, which increase the attractiveness of such actions at a given moment.

Economic history shows that mergers and acquisitions show up in waves. The end of the 80’s for example has been marked by an unprecedented number of mega-acquisitions at a global level, but it was followed by a long period of calm.

Any company may be compared with a live organism which is born, it fights for its survival, it grows and reaches maturity only to die at some point, either due to natural causes or as a result of being swallowed by a “predator”. The M&A activities appear in the case in which the “predator” company manages to reach its goal and the assets of a company are transferred from one company to another.

When an enterprise takes the control of another enterprise, its borders are modified and the new or modified entity gets included in an inter-organizational logic. One of the difficulties for the purchaser enterprise is to manage the integration of the accounting systems of this new subsidiary in the setting of post acquisition phase.
The post acquisition phase in the mergers-acquisitions was the object of numerous studies that have shown that the post-acquisition phase can determine the success or failure of the whole operation (Napier, 1989; Buono and Bowditch, 1989; Larsson, 1990; Haspelagh and Jemison, 1991; Leroy, 2003; Missonier and Guallino, 2004; Cording and al., 2008). No matter if we are talking about a takeover or a friendly merger or acquisition it surely provokes some cultural shocks (Evrard-Samuel, 2000) more or less important according to the mutual adjustments operated between the organizations.

2. THE CURRENT ECONOMIC CONTEXT AND THE IMPACT ON M&A OPERATIONS

The recession has timed the M&A activity due to the divergence between the expectations of sellers and buyers in a hostile financial environment. The recession is a natural segment of the economic cycles, which occurred in the past and will occur again in future. Whether a business can be financed during the recession we are crossing (or any other recession) depends only on the ratio between the capital requirements and debts that is extremely important in relation to the environment characterized by short-term financing.

Lately, investors tend to purchase stakes in the companies in which they already have some capital rather than to invest in other companies. The goal is to help the companies that they are shareholders in, to exceed the crisis and to limit the losses.

The large companies, or those that were not significantly affected by crisis, may find that this is a favorable time to expand at a reduced cost. In this case, the acquisitions with the aim of increasing the market share and those that can innovate within society are targeted.

How can a company increase the likelihood that an M&A transaction will be successful? The specialised literature tries to prove that mergers and acquisitions are generated in most cases by external factors and the changes that may occur in the performances of the environment stimulate some companies to look for corporate control.

The improved conditions of the capital markets (increase selling prices for certain shares, bigger volumes of transactions, etc) show a more stable economic environment and generate an increase in the number and size of mergers and acquisitions as well as a better set of rules that apply to this kind of activities.

The size of the economy where the participants to the merger and acquisitions activity act has an important impact, too. Obviously, this kind of activity is specific to big, stable economies, with well-established rules and not to small economies that have undeveloped financial markets. When a company decides to buy or to merge with another company, it is much easier to find a suitable partner on a large market, with lots of participants than on a market where only a few companies are present.

The option to get into a merger is based on a complex analyse of the existent state of facts as well as of the prognosis that were made. In order to reach a conclusion, the manager must take into account the due diligence report that checks the company’s financial position, different legal aspects and details of contingent liabilities.

Sometimes, mergers or acquisitions are doomed to fail. The most important causes that generate the failure are:
The impossibility to align the companies that merge: these difficulties are generated by the specific corporative cultures, by how financial and audit systems are put together, difficulties in setting effective working relations, problems in solving management issues of the new economic entities.

Problems in dealing with the level of indebtedment

Obtaining a smaller level of synergy than the expected one

Having a false image regarding the targeted company, which can determine the acquirer to pay too much for the company bought

Too many differences between the companies that merge: the mania of merges, specific to the 80’s often obliged companies to get out of the conglomerate when they were unable to meet the rules of the conglomerate

Forgetting about current activities and just putting all the energy of the directors into the M&A activity

Getting to a size that is unmanageable

Having too many formalized rules and procedures that limit the innovative spirit.

In mergers and acquisitions, communication is vital. Both before and after the merger or acquisition, the company that is doing the take-over must make sure that there is set a good communication with shareholders, employees and management of the target company. One of the major communication problems is in respect to the internal communication. Often, different stakeholders do not understand the nature and values of a business because the entities are much too focused on the communication with the market and forget that in order for a mechanism to work properly, each little piece of the mechanism must work properly.

A poor external communication leads to failure as well because it does not offer a consistent and detailed plan, necessary to the stakeholders.

Communication with the employees is a delicate subject in mergers and acquisitions activities. They want to know the exact effect this operation will have on their activity and they are not interested in promises that cannot be respected.

Differences of attitude can put pressure on the managers. If the purchased company had little rules and a very free activity style, when the strict rules of the purchaser were imposed, lots of employees and clients were very unsatisfied.

In 2003, Weber and Camerer have shown that in most mergers and acquisitions, the impact of organization cultural differences is underestimated, leading to supplementary costs that can be an obstacle in reaching the expected efficiency. Cultural understanding is vital as this will lead to a clear image about how each member of the corporation will react to the changes that are going to take place due to the merger or acquisition. This image is based on the conclusions drawn by the due diligence team upon the values and beliefs that are relevant to the members of the community.

In 1992, Chatterjee, Lubatkin, Schweiger and Weber provided a study performed on 52 management teams and proved the negative connection that exists between the volatility of the share’s market value and the cultural differences. Also, the same study has shown that trying to change the mentality of the management team or even changing the whole management team has a strong negative impact. This fact was identified by Weber also (1996) but just for services companies and not for production companies, as in their case, the synergies that are generated compensate the negative effects that appear on the human resource.
In the case of mergers or acquisitions, an essential aspect is to identify the key employees of the purchased company and to gather as many details on them so that this human capital can be kept and convinced to help at a high level of performance in the new team.

The impact of the cultural conflict in mergers and acquisitions is even bigger in international operations. The differences between national cultures, between information management can be felt for a long time and can significantly increase the risk of such operations.

Studies in this field consider that most failures in mergers and acquisitions are due to:

- Un-proficient due-diligence process: a failure in this area will impede with the buyer’s capacity of deciding if external specialists are needed as well as with him having a clear image upon the sensitive areas of the acquisition.
- The manager’s incapacity to identify the key employees that can bring or chase away important clients
- An over-estimation of the generated synergies, especially regarding the added benefits
- The impossibility of merging the two companies from the cultural point of view.

3. THE DUE DILIGENCE REVIEW

Establishing if a merger or acquisition is able to create to create shareholder value and then keeping the promises made to the shareholders is in today’s uncertain economic climate more critical than ever.

Any acquisition or merger must begin with stipulating the connection between the action and the new value generated for the acquirer, or in other words with a plan for creating value. Such a plan is going to include:

- The strategic purpose – if the targeted company cannot be included in the strategy of the buyer company, critical elements of the operation could be ignored. Therefore, the first step in drawing such a plan is to identify the way the acquisition is going to help the company to achieve its goals.
- The main risks – their identification can make the difference between success and destroyed shareholder value
- The value drivers – here, one must take into account the stand-alone performance as well as the synergy opportunities

Prospective acquirers, being aware of the risks they take when they decide to take part in a merger or acquisition, try to reduce the risks by finding as much about their target as possible, long before the transaction actually takes place. These knowledges about the target are obtained through a reacquisition due diligence review.

The risk level in acquisitions is quite high due to the informational asymmetry. The targeted company usually doesn’t offer all of the information about itself to the third parties as there are always aspects that they prefer to keep away from the public’s attention. Therefore they bury the sensible information in the books of the company. There are also different aspects that even if they are not hidden by the management team, they are just not evident to possible acquirers. So, many transactions of this kind are done on assumptions that have nothing to do with the reality and therefore the risk
the acquirer is facing is very high. In order to reduce this risk, the acquirer will ask too analyse the target company in detail through a due diligence.

In this process, the team of specialists designated is going to look into all sort of financial details, legal aspects, human resources data, procedures and policies, in order to draw a clear image of the targeted company. The due diligence team is supposed to counterbalance the potentially blinding enthusiasm of an acquisition or merger plan.

So, these days, the focus of the managers in not on how many mergers and acquisitions were successful but rather on how one can increase the probability of taking part into a profitable transaction that leads to the expected results.

The due diligence review’s quality is decisive for the merger or acquisition operation’s success. This review should cover all of the acquisition process and should limit all the risks that the due-diligence team comes across. These risks might refer to the poor understanding of markets and participants to the market, a lack of clear plans and strategies meant to create shareholder value, an overestimation of synergies that are expected, insufficient attention given to the integration planning or to the negotiation of the contract, a poor management of the due diligence activity, lack of cultural or organizational fit, failing to learn from previous experiences or even a too slow execution.

The most important role of the due diligence team is to offer the potential buyer a documented opinion on whether he should or shouldn’t buy the targeted company. Still, even if this is the most important part of the due diligence team’s work, it is not the only one. It should also offer an opinion regarding the best way to be followed in order to perfect the transaction.

The due diligence team must regard the entire transaction in a very methodical way during all the stages of the transaction cycle. The due diligence process must be based on a clear plan that should provide a clear opinion regarding the decision of acquiring as well as about how the acquisition should be done, and what steps should be taken before and after the acquisition. So, the due diligence shouldn’t be just a yes or no to the question “Should we buy?” but also a clear plan of actions to be followed before the transaction and also after the acquisition is perfected.

Strategic planning must be the first step took by any company in the direction of identifying best investment opportunities that can generate an increase of profits and creation of supplementary value. Strategic planning serves also to the reduction of risks as it documents the long time objectives and simplifies the procedures of identifying measures to be taken. The lack of such a plan increases the risk of opportunistic attitudes that are inconsistent with the strategic objectives of the company.

The result of strategic planning is a clear image of the investment priorities and of the markets that have the biggest potential to bring the expected results.

The due diligence review is performed by a team that needs to include specialists in different fields, as they have to check all sort of aspects in a very short time (often just some days). Therefore, the process must be properly targeted, well organized and managed. The degree of access given to this team greatly depends on the nature of the selling process (auction sale or negotiated sale) as well as on the capacity of the team to negotiate with the seller. In the case of auctions, the seller wants to obtain the best price and to be exposed to risk as little as possible. In the case of the buyer, the auction process minimizes the leverage he has. The level of information that is disclosed is reduced and so is the time available for analyses too. As access and time are limited, the acquisition team must set clear goals for the ones that are performing the due diligence,
as the result of this procedure should be a report that offers a true and fair image about the targeted company.

The due diligence team can be regarded as a factor of counterbalance for the excessive enthusiasm that often goes along with the merger and acquisitions activities. It is the sceptic voice. In taking decisions regarding a potential merger or acquisition, corporations take into account the performance of the due diligence process as an insurance factor that all positive and negative factors that arise are identified.

The chances of the due diligence team to identify and limit the risk are increased when the transaction is followed all the way and when the areas of risks are analyzed in a systematic way.

The resources of the due diligence team are often limited, as the buyer normally has lots of other projects that need financing at the same time. Still, if the buyer really considers the deal, he should make sure that the due diligence review is fully supported as only in this case the results can satisfy the informational needs.

The due diligence program consists of a set of procedures to be followed and questions to be answered. The program offers a structured approach to the identification and documenting of all aspects that are important to know about the target company. In this program, there is a set of aspects that are obligatory no matter of the nature and dimension of the target acquisition.

The due diligence program must consist of clearly formulated objectives for the general revising as well as for the revising of each functional area. Between the objectives we can identify:

- the estimated growth of the company if it continues to be alone
- the entity’s performances
- expected synergies on costs and incomes
- expectations and the probability for them to occur after the merger
- revising each kind of activity and if major deficiencies are identify increasing the revising level
- generating the conclusions regarding the due diligence procedure
- offering solutions for the problems that were identified.

The size and entrepreneurial culture of the targeted company have a significant impact on the way the due diligence review is conducted. In large and very well structured companies, the volume of written information is highly significant and the due diligence team might need specialists in data-mining. On the other hand, in fast growing companies that are relatively new on the market, interviews might be much more significant than the information that can be collected from documents.

The due diligence revision has two primary components: interactive discussions with the target company’s managers and a detailed revision of the business, the legal and financial aspects of the target company.

Usually the management’s presentations are well designed, so that they offer to the potential buyer only the information they want to give. At different moments, the reviewers can discuss with different members of the management team and with other employees, trying to gather as much information as possible.

The more and more modern information technologies allow the due diligence team to increase its performance. They allow specialist from far away to get actively involved in the process.

Coordination, communication and sharing information on a well organised basis, are very important when talking about due diligence. Usually, the due diligence review
The due diligence revision can have as effect:

- Giving up the acquisition when during the revising, it is found that the initial premises were completely wrong and that the finality of the acquisition would be a failure or would lead to much smaller results than the expected ones.
- Renegotiating some important terms of the transaction – sometimes, the newly discovered risks or the inaccurate initial premises are no reason for the negotiation to be stopped. Still, it cannot allow accepting the initial clauses either. In this case, if the negotiation is possible, it is important for the negotiator to have an alternative to be applied under the new circumstances.
- The confirmation of the negotiation strategy’s correctness and the pursuing of the negotiation knowing supplementary information that could lead to the reduction of the purchase price.

A specific case is that when the due diligence team discovers that the real level of risk is much higher than the expected one. This is going to lead to a no-go decision and a conclusion that the transaction must not be pursued and the investor should withdraw. The typical deal-breaking issues can be:

- Strategic issues – meaning that the acquiree’s central strategic assumption driving the acquisition proves to be inaccurate and therefore, the due diligence team would recommend for the negotiation to stop.
- Valuation issues – when the due diligence team finds out that the expectations regarding the synergies to be generated are not realistic and in order not to generate loses, the transaction should be stopped.
- Risk issues.

At the end of the due diligence review, a report is generated. This report should include the measures taken to validate or invalidate the initial assumptions and to determine the unanticipated risks, the findings and the recommendations. Sometimes, the due diligence team takes action in the direction of renegotiating some aspects of the initial financial agreement, before the new form. In this case, the report should include the results of the renegotiation.

In the case of a successful due diligence review, the recommendation to proceed generates some documents regarding the negotiations and post-acquisition planning. These documents include a recommendation to proceed or not to the contract negotiation. Still, it is just a recommendation that can be taken into account or not. It only means that after the due diligence report, it is highly probable for the acquisition team to be able to negotiate and conclude the acquisition or merger process.

The integration of the acquired company is the final stage of the merger or the acquisition. This means in the final stage the implementation of the plans (initial or improved ones during the acquisition procedures), the monitoring of the results and adapting to the changing circumstances.

4. CONCLUSIONS

Mergers and acquisitions have proved to be a solution for companies that are trying to improve their competitive position. Still, not all mergers and acquisitions become successful operations.
In this paper we have tried to identify the causes that lead to the decision of buying another company or of merging with other companies. We have also underlined the major risks that exist in such operations.

One important aspect that we have took into account in our research was that success has different meanings for different decision makers. The success of a M&A operation does not obligatory mean that the newly formed entity would generate more wealth for the shareholders. It simply means that the objectives took into account by the managers are fulfilled. These objectives can be translated into bigger incomes, better market shares, improved social visibility or any other improvement pursued by the decision maker.

Anyway, in time of crises, the failure of such an operation is felt even harder in the financial position of the company. Therefore, it is vital that such operations are well prepared so that the risks took by the buyer and seller are reduced.

We strongly believe that the due diligence performed in such cases can make the difference between a success or failure. The due diligence reduces the risks took as it gives the decision makers a better understanding of the targeted entity as well as of the effects of such a merger or acquisition.

The main limitation of this paper is that we didn’t test our observations on a specific case of a company. This test is going to be performed in a further study that we have started on a group of companies in the western part of Romania. We are going to try and identify the reasons that conduct companies in Romania to the decision to merge with other companies and to set a plan to be applied in such cases in order to limit the risks taken.

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THE ANALYSIS OF CORPORATE FINANCE POLICY
AT SECTORIAL LEVEL: CASE OF ROMANIA

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Cristina NICOLESCU³
Cosmin ENACHE⁴

ABSTRACT
The financing policy, which underpins the company's capital formation, is mostly assumed by the management company, rather than "providers" of capital (shareholders, creditors). Specialized research showed mixed results with regard the efficiency of trade-off theory (the theory of compromise) versus pecking order theory (the theory of hierarchical financing or inheritance theory), indicating that some authors consider more advantageous the inheritance theory. The evolution of the indebtedness degree and, in particular its analysis at the end of the period for the four sectors, highlights the relatively equal indebtedness degree computed for companies listed on BSE. Although in the past, the various sectors were characterized by different variations of the indebtedness degree, the currently observed trend is that there are not large differences in the indebtedness degree on sectors to the overall indebtedness of the companies in Romania.

KEY WORDS: pecking order theory, trade off theory, life cycle, financial leverage.

JEL: G32

1. INTRODUCTION
The financing policy, which underpins the company's capital formation, is mostly assumed by the management company, rather than "providers" of capital (shareholders, creditors). This can be achieved by two ways: internal financing and external financing. Companies cannot rely exclusively on internal sources, there is a gap between the cash flows generated by them, and cash flows they need, called financing gap(deficit). Therefore, to cover the companies’ deficit, they also look to external sources (own or borrowed). Each of these sources imply a specific cost to produce them, cost the manager must know, considering also indirect implications of choosing one or another of these financing arrangements. Taking into account the companies' financial preferences in order of succession theory, we briefly present these sources of funding.

Theoretical research that indicates a sequence between the types of financing are recent and seem secondary to the principle of compromise in trade-off theory.

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Previously, the examination of financial decisions did not suggest a ranking event between the various financing arrangements. However, the principle of succession lacks a theoretical justification. Secondly, the two types of models generally lead to contradictory solutions. In addition, until now, it was not really made any decisive test to determine the relevance of funding theories.

According to research, all companies in a given sector have a similar rate of borrowing, which is stable over time and varies from one sector to another. More specifically, the industry represents a significantly determining factor of the financial leverage, used to explain variations of up to 25% of the lever within a country. In addition, the institutional environment also has a significant influence on funding policy (Titman et al., 2003). More than the type of the financial system, based on capital markets or banking system, its efficiency and broad institutional context have great importance, which determines the economic growth of companies, influencing the funding policy.

2. COMPANIES’ FUNDING THEORIES

2.1. Trade-off theory and Pecking order theory

Research showed mixed results with regard to trade off efficiency theory (the theory of compromise) versus pecking order theory (the theory of hierarchical financing or inheritance theory, some authors indicating that the inheritance theory is more advantageous. In this respect, the deviation from the target level of financial leverage plays a more important role in the financing decision than in the decision to issue financial instruments (shares, bonds). However, it should be noted that these results are relevant only on a short-term analysis of the financial leverage. Other authors consider that the deviation from the target capital structure plays an important role in the company's option on how to finance it actively realizing the adjustment operations for financial leverage.

Trade-off theory has dominated the literature on capital structure. Models such as "tax benefits - bankruptcy costs" indicates that a company will always seek to maintain an optimal capital structure by balancing benefits and costs of borrowing. The benefits of debt include tax exemptions and the costs relate to financial risk. According to the agent theory, companies use the benefits of reducing potential problems of cash flows and other potential conflicts between managers and shareholders, to offset costs associated with the divestiture and asset replacement treatment. These theories show that a company will maintain an optimal capital structure where the marginal benefit equals marginal cost of borrowing. The implications of these theories is the fact that a company has a target level of financial leverage, and while it adjusts its leverage to the target level.

Succession theory shows that equity financing is used only as a last resort by the companies, when the debt capacity is exhausted and the degree of undervaluation is not too high price. In addition, the ability of indebtedness has an important role in choosing how and the amount of borrowed resources. To control the indebtedness capacity, they use the leverage ratio of tangible assets ratio (total assets), a higher value signifying a higher capacity with lower cost debt and financial risk. Also, if the succession theory, companies have not set a target level of the financial leverage, unlike the trade-off
theory, that shows that the deviation from the target level of financial leverage can affect the volume of financing through equity loan and the indebtedness degree.

In developed market economies the theory sequence (pecking order theory) was issued. This theory comes as a natural response to the new approach of the concept of organization of the company in a market economy. To specify the context in which this theory has emerged, and also the issues it raises, it is necessary to recall the main concepts of hierarchical financing.

Hierarchical theory of finance agrees in establishing a ranking between the types of funding: for example, favoring self-financing, putting on a second-class choice of indebtedness and ultimately to increase equity. Contrary to previous models, this theory is not focused on optimal financial structure problem, in which case two questions arise. On the one hand, if a company has an optimum financial decision, meaning to choose the best combination of capital funding (establishing a ranking between the types of financing for an investment) and, on the other hand, if the principle of hierarchy would not lead to the definition of optimal financial structure differently, but for the same goal (the best debt rate).

Consequently, theories of hierarchical compromise and financing policy should address differently the financing policy of companies. In addition, we believe that the discussion between the theory of compromise and the theory of hierarchical financing is based on other hierarchical foundation, which raises some questions:

- if the financing hierarchy theory brings a really new explanation for the financing structure of companies;
- if you find the differences between the two models minor or if they indicate a rupture in the financial reasoning;
- if the financing hierarchy theory provides a credible explanation;

To answer these questions, it is necessary to detail the possible interpretations for the principle of classification in the way of funding. This interpretation allows the removal of some of the following situations:

1 - "the principle of hierarchy" is a form of "compromise" to the extent where, in a particular situation, a way of funding would not generate only profits or costs. For example, suppose that in a given context, leverage generates only profits and capital growth generates only cost, the principle of compensation between profits and costs of financing arrangements (in other words, the principle of compromise) would lead to the privileging loan and to establish a ranking between these two modes of external financing.

2 - the principle of hierarchy is an alternative means of funding decision than on how to compromise and allow the same extent, reaching an optimum for particular situations;

3 - the principle of hierarchy is a decision on how different funding compromise, these theories based on different reasoning that can be derived from particular situations in which companies may find themselves at a time.

### 2.2. The finance policy in the context of corporate life cycle

The idea that companies evolve along its financial cycle is well known in the literature, life cycle stage specific nature of the business causing its financing needs, availability of financial resources and their cost. However, there is disagreement
regarding funding options and report sequential debt to equity. In addition, life cycle paradigm is not suitable for all companies, there are differences not only in terms of determining the management but also in terms of membership of a particular sector and institutional environment in which businesses operate. (Utrero-Gonzales N., 2007).

Several hypotheses, summarized in Table 1 may be proposed for consideration of life cycle in explaining corporate financing policy. Using internal funding, as a substitute for external funding must be acknowledged, as well as the theory of succession (Pecking Order Theory), because it reflects the severity of the problems of information asymmetry. Consequently, hypothesis no. 1 refers to the role of profitability and preferences regarding equity / borrowed capital. Hypothesis no 2 and 3, each divided in two formulations, show differences between the theoretical financial preferences of the company's life cycle. Hypothesis no 2a describes the financial life cycle on the life of the company, while the third hypothesis is the inverse of the hypothesis no. 2a. 2b hypothesis describes the life cycle related to the role of financial reputation, and the hypothesis 3b describes the reverse hypothesis 2b. Finally, because the effects mentioned above may be heterogeneous across industries and for companies operating in different institutional contexts, we consider explicitly the task and context analysis.

Table 1

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Label</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pecking-order theory: Myers (1984), Holmes and Kent (1991), Chittenden et al (1996), Michaelas et al (1999)</td>
<td>Financial manager's preferences are influenced by the costs of informational asymmetry and the transaction costs, opting for retained earnings first, then followed by debt and equity. The level of indebtedness in the company's financial structure is adjusted in response to differences in sensitivity to the financial needs of business, within its life cycle. Profitable companies will use the profit and will therefore have a low level of indebtedness.</td>
</tr>
<tr>
<td>2a</td>
<td>Financial life cycle: Fluck (2000), Kaplan and Stromberg (2003), Carey et al (1993), Helwege and Liang (1996)</td>
<td>The life cycle model of corporate finance requires that a small company, which is more sensitive to information asymmetry problems, will use its primarily outside resources (venture capital) and retained earnings, leaving the capital borrowed as a last resort in the future funding needs.</td>
</tr>
<tr>
<td>2b</td>
<td>The role of reputation: Fluck et al (1998), Diamond (1989)</td>
<td>Young companies without significant performance and experience, have a low debt capacity. Reputational argument supports the use of borrowed capital only at the stage of maturity of the company.</td>
</tr>
<tr>
<td>3a</td>
<td>The reverse of the financial life cycle: Petersen and Rajan (1994), Hamilton and Fox (1998)</td>
<td>Young companies use the closest sources of funding, namely, family capital, bank credit based on family commitments. Company rebalance their financial structure in the stage of maturity. As the company matures, the internal sources of financing replace capital</td>
</tr>
</tbody>
</table>
b The reverse effect of reputation: Diamond (1991)

Young companies try to obtain quality certification and to gain credibility in the market by increasing transparency in the monitoring of credit institutions. In the stage of maturity, monitoring sideline passes, and the level of indebtedness is reduced as the quality or reliability.


The empirical results reveal that a young company uses mainly borrowed capital rather than equity, in contradiction with the results of hypothesis 2b. In addition, the leverage decreases as age of the company increases (inverse relationship), of young companies using the external financing by borrowed capital and mature companies, retained earnings, equity. Companies follow a certain order of resources over time, starting with the easiest resources (capital owners, bank loans guaranteed by the owners) and continuing with other external sources of funding (Robb A., 2002). As shown in Figure 1, young companies need more capital (borrowed) to support activities:

![Figure 1: Lifetime impact over the financial leverage](image)

Especially in a country like Romania, where the capital market is underdeveloped and the financial system is based on the banking system, the role of leveraged seems to have the core foundation of corporate financing policy. After an early stage, as the company begins to record strong profitability and increased the ability to generate internal financial resources, this rebalance their financial structure. Once the stage of maturity and strengthened its business, the company finance its own activities from internal sources generated and thus lowers financial leverage.

To summarize, the first hypothesis suggests a hierarchy of preferences in the policy of financing companies, faced with the problem of information asymmetry. The
economic growth along the life cycle, highlights the possibility that different of a particular order of preference, on the leveraged use, along the company life cycle. In order to hypotheses 2a and 2b, in the absence of financial resources of the owners, the early stage of company start by using the equity and, later, rebalance their financial structure, using borrowed capital. Also, according to hypotheses 3a and 3b, in the absence of financial resources of owners, the companies begin using borrowed capital as financing, and later rebalance their financial structure, reducing the level of indebtedness degree.

3. RECENT SECTORAL DEVELOPMENTS

Taking into account the comments related to determinants of financing policy and financing arrangements for companies in Romania (presented in the previous paragraphs), we can explain the existence of variations indebtedness for various sectors in Romania. In Romania and in other countries, where the financial system is based on the banking system, credit institutions have a significant impact on financial resources available to companies (bank loans) to support their growth.

Romania's capital market is underdeveloped compared with other markets in the EU, U.S. and Asia, very few companies having traded debt instruments. Bank loans are by far the most important types of borrowed capital used by companies, non-bank equity loan, other than commercial loans is very underutilized. Due to lack of regulations on information transparency and to the high level of informational asymmetry, these sources of financing costs are high.

Bank loans granted to the private sector registered a negative annual growth, and the annual growth rate recorded negative values are even more pronounced. These developments are still in line with the business cycle frequency, points of inflection of loans granted to companies registered a growth trajectory, and usually, a time lag behind those of economic activity.

Restrictions of loans to corporations continue to reflect mainly the work of robust net redemption of loans, with shorter maturity, while the flow of loans and loans with longer maturity remained positive. Low levels of production and trade, and ongoing uncertainty surrounding the economic outlook will likely moderate in the coming months the demand for bank financing companies (Buletin lunar BCE, ianuarie 2010). The financing conditions for corporate have improved, in recent years, in terms of costs of bank loans and market financing.

In this respect, the negative continued flow of short-term bank loans granted to corporations, observed in recent months, may partly reflect the availability of funding sources for long-term advantage.

The bond market is concerned, note that only a small number of companies (20) have resorted to this method of financing, of which two are listed on the BVB. The situation is slightly different in the public sector, not more than 67 public institutions (municipalities, county councils) contracted debenture loans, 34 of them are listed on the BVB.

As we stated earlier, the financing policy depends on sector of the company business operating and the environment and institutional context. In a practical exercise, taking into account the companies listed on BVB and strengthening their financial
statements for year 2008, a simplified consolidated balance sheet structure is represented in Table 2:

Table 2
Simplified consolidated balance sheet structure - companies listed on BVB

<table>
<thead>
<tr>
<th>Activ</th>
<th>2008</th>
<th>Passive</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>44,396,915,254</td>
<td>Equity</td>
<td>44,902,382,735</td>
</tr>
<tr>
<td>Current assets</td>
<td>79,661,049,233</td>
<td>Medium and long-term debt</td>
<td>66,633,638,142</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short-term debt</td>
<td>12,521,943,610</td>
</tr>
<tr>
<td>TOTAL</td>
<td>124,057,964,487</td>
<td>TOTAL</td>
<td>124,057,964,487</td>
</tr>
</tbody>
</table>

Source: own processing, data collected from www.bvb.ro

Based on data from Table 6 we can determine the financial structure, the indicator used is overall indebtedness, according to the relation:

\[ G_i = \frac{\text{Total liabilities}}{\text{Total assets}} \times 100 \]  \hspace{1cm} (1)

Thus, we identify a leverage of listed companies by 63.81% (optimal level recommended is 33%), from where we can conclude that corporate financing policy in Romania is mainly based on the debt (loan capital).

In addition, ignoring the IPO companies, we can identify trends of indebtedness on different sectors. Currently, in Romania there are a number of 1,125,258 companies, sectors grouped, as follows (Table no 3):

Table 3
The number of companies in Romania grouped by sector

<table>
<thead>
<tr>
<th>S</th>
<th>Name class</th>
<th>Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, forestry and fishing</td>
<td>15,832</td>
<td>1.41%</td>
</tr>
<tr>
<td>B</td>
<td>Mining</td>
<td>1,205</td>
<td>0.11%</td>
</tr>
<tr>
<td>C</td>
<td>Manufacturing</td>
<td>211,992</td>
<td>18.84%</td>
</tr>
<tr>
<td>D</td>
<td>Production and supply of electricity, gas, steam and air conditioning</td>
<td>722</td>
<td>0.06%</td>
</tr>
<tr>
<td>E</td>
<td>Water supply, sanitation, waste management and remediation activities</td>
<td>2,421</td>
<td>0.22%</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>98,429</td>
<td>8.75%</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade, repair of auto vehicles and motorcycles</td>
<td>483,157</td>
<td>42.94%</td>
</tr>
<tr>
<td>H</td>
<td>Transport and storage</td>
<td>51,668</td>
<td>4.59%</td>
</tr>
<tr>
<td>I</td>
<td>Hotels and restaurants</td>
<td>36,582</td>
<td>3.25%</td>
</tr>
<tr>
<td>J</td>
<td>Information and communication</td>
<td>21,986</td>
<td>1.95%</td>
</tr>
<tr>
<td>K</td>
<td>Financial intermediation and insurance</td>
<td>7,048</td>
<td>0.63%</td>
</tr>
<tr>
<td>L</td>
<td>Real estate</td>
<td>34,449</td>
<td>3.06%</td>
</tr>
<tr>
<td>M</td>
<td>Professional, scientific and technical activities</td>
<td>102,643</td>
<td>9.12%</td>
</tr>
</tbody>
</table>

1 The calculation of the consolidated balance sheet have been taken into account the 98 companies listed on BVB section, the main balance sheet indicators for each of them are presented in Appendix 3
2 Classification sections according to CAEN rev 2, 2010.
Thus, the sectors in which most companies are operating, are Wholesale and retail trade, repair of auto vehicles and motorcycles (42.94% of total), Manufacturing (18.84%), Professional, scientific and technical activities (9.12%) and Construction (8.75%). For these sectors we aim to determine the degree of indebtedness, for each subdivision corresponding to the four sectors (Table 4):

Table 4

<table>
<thead>
<tr>
<th>Section 4</th>
<th>Evolution of indebtedness in 2004-2008 period, sections G,C,M,F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>G</td>
<td>81.63%</td>
</tr>
<tr>
<td>C</td>
<td>67.98%</td>
</tr>
<tr>
<td>M</td>
<td>79.75%</td>
</tr>
<tr>
<td>F</td>
<td>69.04%</td>
</tr>
</tbody>
</table>

Source: own processing, data collected from www.doingbusiness.ro

Based on data from Table 4, we note that from year 2004 to year 2008, the companies from the Trade sector (Section M) were characterized by the most powerful indebtedness, with a downward trend (20% reduction from year 2004 to year 2008), signifying the shift towards other financing ways than through equity loan financing.

The second area as the level of indebtedness was the Professional, scientific and technical activities, but here there were downward trends (reductions of approximately 10% during the period examined).

The other two analyzed sectors, Manufacturing and Construction, were characterized by the lowest level of debt, but also by its stability, along the period analyzed, the indebtedness oscillating around 65%.

Synthesizing the evolution of average indebtedness degree level on the four sectors of activity, it is represented in Figure 2:
4. CONCLUSIONS

In agreement with the financing assumptions, in various stages of the life cycle of the company, we believe that financing policy is a subject to a certain hierarchy of financing sources: first, it's business as shareholders, should use its own resources (external or internal) and, only then, if the shareholders' financial resources are insufficient, to resort to new equity (if it's not wanted to change the decision-making structure - equity loan, disregarding the decision-making structure - attracting new shareholders).

Certainly, an important factor in the financing policy based is the risk aversion of shareholders: if they fall within riskofi investors, then it is justified to use borrowed capital in the early stages of the life cycle of the company, and depending on future performance, its financial structure to rebalance.

The evolution of the indebtedness degree and, in particular, the analysis of the end period for the four sectors highlight a relatively equal level to the indebtedness computed for companies listed on BVB. Although in the past, the sectors were characterized by different variations of the indebtedness, currently, observed trend is that, there are large differences in the degree of indebtedness securities sectors to the overall indebtedness of the companies in Romania.

With all these trends of generalization, on oriented the financing policy of companies in Romania mainly using borrowed capital, bank loans, contrary to the succession theory approaches. This can be explained by the lack of domestic financing sources (there are large differences between the number of existing companies and the number of registered tax companies), or by the low cost of these resources, either through lack of liquidity of the shareholders.
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ACCOUNTING POLICIES FOR THE MANAGEMENT OF EXPENDITURE WITHIN THE NATIONAL HEALTH PROGRAMME FOR TREATMENTS ABROAD

Marinela POPOVICI

ABSTRACT

The paper presents a survey about the “National programme of treatment abroad” with the theoretical aspects related to the approval, use and justification of the funds allotted for the activity or medical treatment abroad, practically approaching the specific elements of the accounting activity.

KEY WORDS: health programmes, health policies, accounting processing, financial situation / bookkeeping, efficiency of services, quality of services, treatment abroad.

JEL: H50, H51

1. INTRODUCTION

The medical treatment abroad is a complex action, with humanitarian implications, requiring the mobilisation of the specialised staff from the health services in an activity with an emergency character. Consequently, the survey aims at improving and enhancing the knowledge in the followed and allowing the formation of a unitary vision on the engagement, liquidation, ordinances, payment and follow up of debtors from the activity of sending patients to treatments abroad.

By applying the modern accounting policies and treatments for the efficient use of the funds allotted for the national programmes of health one can assure health services adapted to the unlimited needs of the population, in the context of a limited budget.

2. THEORETICAL FUNDAMENTS

The application of accounting policies determines a higher degree of relevance of the account information and leads to a better economic grounding of the managerial decisions.

The accounting of the health programmes represents a complex activity, which requires the elaboration of a budget of revenues and expenditure by programmes. The strict evidence of the financed sums, the follow up of contracts and invoices by programmes.

In the activity of implementation of national health programmes we apply the bookkeeping policies of the sanitary public entity so that the financial situations be conform with the requirements of the according standards for entries of the public sector, called International Accounting Standards for the Public Sector (IPSAS).

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The health programmes are national programmes aiming at improving the health condition and at increasing the population’s life expectancy.

The accounting policies are the specific bookkeeping principles, bases, conventions, rules and practices applied by an entity in the elaboration and presentation of financial situations / in bookkeeping.

The accounting processing / treatments are the rules of current and / or periodical assessment accepted by the accounting theory and practice.

The financial situations are structural representations of the financial position and of the financial performance of an entity.

The efficiency of services means an optimum use, as economical as possible, of the resources of a health programme. In a health programme, by the planned and implemented activities one aims, first of all, at the fulfilling of what should be done and only then one assesses if the activities from the programme have been achieved with minimum resource.

The utility of services represents the benefit felt by those to whom the health programme is addressed.

The quality of services is the result of the characteristics of services provided at a certain moment, towards the expectation of those who benefit from these services. In the sphere of services provided by the health programmes, unlike the purely commercial services, the main purpose is constituted by the benefit brought to the health condition of patients, and the competition lies not in price, but in quality.

3. METHOD AND RESULTS

The regulation of the activity of treatment abroad was done for the first time in 1967, on the basis of the Decision of the Council of Ministries / Government H.C.M. no. 1519/24 June 1967.

In accordance with this act “the persons with ailments that cannot be treated in the country may be sent to be treated abroad, entirely bearing the costs of medical treatment, subsistence and transport.”

The reimbursement of expenditure was done through the payment of the lei equivalent of the hard currencies put at disposal for the coverage of the travel expenses, at the official exchange rate, with the currency premium of 200%, for the hard currencies and 150% for the other currencies of capitalist countries.

The sending to treatment abroad was done on the basis of the recommendations of the specialised medical commissions and of the central medical commission (like today) instituted by the Minister of Health.

By the Decision of the Romanian Government HGR no.172/1990 modifications are operated, with the following content: ”the persons who have contracted affections as a result of the Revolution of December 1989, as well as the patients who do not have material possibilities may be sent to medical treatment abroad, with the integral bearing of expenditure by the Ministry of Health, within the limit of the funds in hard currency and in lei, allotted through the budget.”

As a result of the social-economic conditions of the ‘90s Romania, as the hard currencies were absent from the free market, the persons accompanying the patients had also the right to receive amounts in hard currency, as allowances for subsistence and accommodation, granted at the level of the limits set for the travels in the job’s interest of official delegations.
The allotment of the sums in hard currency for the accompanying persons was done **IN CASH**, at the exchange rate of the currency of the respective country and the national currency, the exchange rate of the respective day. The amount in hard currency were usually paid to the patient in cash in advance, the practice of bank transfer was not utilised, and consequently there were very many cases of unjustified amounts.

For the unjustified amounts in hard currency, the patients had the obligation to pay delay penalties of 0.5% for each day of delay, but especially to pay the unjustified amount three times, at the exchange rate of the day when the expenditure document of reimbursement is elaborated.

The activity was effected in 1990 until the month of October only at the level of the Ministry of Health, comprising all the procedures of sign off of medical records, the realisation of the external payments and of follow up of the debts resulted from this action.

Beginning with October 1st 1990, based on the Order of the Minister of Health OMS 1089/1990 regarding the passage of the activity of sending patients to medical treatment abroad to the sanitary boards, the activity was distributed at the level of 6 county health division and the city of Bucharest, where academic medical centres are situated, i.e. Bucharest, Cluj, Craiova, Iași, Timișoara and Tg. Mureș.

The specialised medical commissions were operating within these academic centres with faculties of medicine.

In accordance with the stipulations of this order, the expenditure in hard currency and in lei was provided by the public health division that disposed the departure of the patient to medical treatment, on condition that the patient had the domicile in the respective county, or in one of the assigned counties.

The Order of the Minister of Health OMS no.660/1993 modifies and completes the Order of the Minister of Health OMS no.1089/199, i.e.: "The sending of patients to medical treatment abroad is effected on the basis of the disposition of the Director of the County / City of Bucharest Public Health Division for the patients who have the domicile on the respective territory”.

Moreover: "The costs in hard currency and in lei are provided by the Public Health Division DSP that disposed the patient’s departure for treatment. The lei equivalent of the currency granted for the medical treatment and the cost of external transport of the patient are borne from the budget of revenues and expenditure of the Health Division, at the Title II – Goods and services, art.30.30, and the expenses for the accompanying person are born by this person”.

Thus, through this order, the activity of medical treatment abroad was decentralised at the level of all county / City of Bucharest DSPs, and the only provision remained valid is the activity of medical assessment at the specialised medical commissions in the 6 academic centres.

For the first time the norm stipulates the obligations of the medical commission that indicated the sending to treatment abroad to examine the patient when he / she returns to the country too, in order to establish the benefit of the treatment, and to elaborate a medical report in this respect, that has to be forwarded to the Public health Division.

Then, the OMS no. 1089/1990 is abrogated by the OMS 566/2001. In this order one brings important legislative modifications, i.e. beginning with the date of its publication in the Official Gazette, 20 August 2001, patients benefit from rights in hard currency only for the payment of the medical services, provided in clinics abroad and
they are allotted amounts in lei for the payment of transport, excluding thus the rights for daily subsistence allowance and accommodation.

Moreover, the order states: “In exceptional cases, imposed by the nature and seriousness of the diseases, as well as for under age patients, the medical commission may approve that the patient goes abroad with accompanying persons, the costs of accommodation and travel being entirely borne by these accompanying persons, except when the patient is between 0-1 years of age”.

Furthermore, we read in the order that: “Beginning with the date of September 1st 2001 the activity of sending patients to medical treatment abroad, as well as of the wounded in the Revolution of December 1989 will be fulfilled by the County / City of Bucharest Public Health Divisions and by the General Division for Medical Care and Programme within the Ministry of Health.

The sending of patients for treatment abroad was approved by the Ministry of Health only for ailments that cannot be treated in the country, based on a medical documentation elaborated by the County / City of Bucharest Public Health Divisions.

The sending of patients to treatment abroad is done for the patients registered on the list of a family doctor, who have gone through all the levels of medical care, i.e. primary speciality care, and who were hospitalised in sanitary units providing medical services of high professional and technical quality, but whose health has not been recovered”.

At present the activity of medical treatments abroad is regulated by the Government’s Ordinance OUG no.28/2003, approved through Law 119/2003 and the Order of the Minister of Health OMS 50/2004, (modified through the OMS 697/2005), which approves the methodology of the sending for medical treatment abroad of certain categories of patients.

The activity of sending patients to medical treatment abroad is performed by the County / City of Bucharest Public Health Divisions and by the General Division for Medical Care within the Ministry of Health.

The sending of patients for treatment abroad is approved by the Ministry of Health only for the ailments that cannot be treated in the country, based on a medical documentation elaborated by the County / City of Bucharest Public Health Division.

In the medical university centres of Bucharest, Cluj-Napoca, Iaşi, Craiova, Timişoara and one organises territorial specialised commissions, whose chairpersons are nominated through an Order of the Minister of Health.

The Public Health Divisions appoint a doctor inspector, who is charge with the organisation of the activity of sending patients abroad for medical treatment, activity consisting in the elaboration, verification and sending of the patients’ medical documentation to the territorial specialised commissions.

The doctor inspector has the task to start processing the necessary documents within one week since the registration of the demand.

In accordance with the Order of the Minister of Health OMS 697/2005, the specialised medical commission recommends minimum 3 clinics where the patient may get treatment abroad, also supplying their contact data (address, telephone, fax).

The doctor inspector effects the correspondence with the clinics recommended by the territorial specialised commission, establishes appointments for the patients and obtains the documents related to the cost and payment terms for the treatment, as well as the clinic’s ban account details.
If there are dysfunctional elements that delay the elaboration of the medical documentation for the sending for treatment abroad for more than a month, the Public Health Division will inform the Ministry of Health about the causes of these delays, and the latter will intervene through its representatives in order to solve the problems occurred.

The selection of the clinics is made in decreasing order, based on the following criteria:

- **Expertise in the field and results obtained;**
- **Quality of the services provided;**
- **Estimated cost of the treatment (the lowest).**

The amount in hard currency necessary for the treatment abroad is communicated to the Ministry of Health by the Public Health Division of the county where the patient resides, based on the documents received from the specialised clinics from abroad.

The equivalent in lei of the amount granted in the aforementioned legal norm, 
"is provided by the Ministry of Health within the range of the approved budget and is used for the coverage of the costs of the medical-surgical treatment, of hospitalisation, and the transport for the patient, the afferent sums being transmitted to the public health division which drew up the patient’s documentation”.

The assurance of the necessary amount in hard currency is made by the Public Health Division of the county where the patient resides, in accordance with the currency regulation in vigour.

Moreover, the norm mentions:

1. “The payment of the treatment is done by the public Health Division usually in the account of the clinic abroad, after the performance of the treatment, based on the justifying document received in original from the respective medical facility.
2. If the clinic abroad requires the payment in advance of the cost of treatment or of a part of it, the Public Health Division will transmit the established sum, requiring at the same time that at end of treatment the justifying documents be transmitted for the total cost of the treatment.
3. In the case of certain medical emergencies, based on the recommendations of the territorial specialised commissions and on the approval of the commission within the Ministry of Health, the patient may effect the treatment recommended abroad, and the expenditure is borne by the patient, including the cost of transport or of the accompanying persons, if need be, and within 3 days since the return to the country, based on the justifying documents, to require the public health division the reimbursement of the costs situated in art. 6 par. (2).
4. In view of establishing the modality to pay the cost of the treatment in advance or after its performance, the public health division will require, in its correspondence with the clinics abroad, details in this respect.
5. In the case of the patients who have undergone treatments abroad with the approval of the Ministry of Health and for whom the clinic abroad requires the patient to be present for medical check-ups, after the assessment of the treatment effected by the territorial specialised commission one will consider as a priority to provide for the financing of these patients, based on the recommendation of presentation set by the clinic abroad.
6. In the case of the patients for whom the amount invoiced for the treatment is smaller than the sum approved, the difference will be used for the same purpose, if need be,
during the same calendar year, based on the approval of the commission the Ministry of Health.

(7) It is forbidden to retroactively fund the treatments effected abroad by the patients who did not have the prior approval of the Commission of the Ministry of Health.

(8) The allotment of the amounts necessary for the sending of patients for treatment abroad is approved by the main credit and financial officer/head of institution, within the limit of the funds approved annually and quarterly with this destination.

Beginning with the year 2000 the funding of the medical treatment abroad was done within the national health programmes.

In the year 2009, the national health programmes are regulated by the Order of the Ministry of Health.

Programme no. VII – “National programme for treatment abroad” is developed in accordance with the provisions of the Order of the Ministry of Health no. 50 / 2004, regarding the methodology of sending certain categories of patients for treatment abroad, having the following elements:

**Financing source:**

- State budget

**Goal:**

- assuring the access to investigation and treatment abroad for the affections that cannot be treated in the country

**Activities:**

- assuring the high-performance for the identification of diagnosis, of the medical-surgical treatment and of transplant of organs and tissues abroad for certain categories of patients who have affections that cannot be treated in the country.

**Units which implement the programme:**

- The County / City of Bucharest Public Health Divisions.

We may consider the following as case study:

**Treatment no. 1**

Patient I.M., with the diagnostic of “acute leukaemia” needs a bone marrow transplant, has the recommendation of the specialised medical commission for the marrow transplant in specialised clinics of: France, Germany and Israel.

After the deployment of the correspondence by the physician - programme co-ordinator of DSP, in which he required the acceptance of the patient to the clinic, date of his appointment, the cost of the medical services to be provided for this patient, the payment modality (in advance, or reimbursement based on expenditure documents) all three clinics respond favourably and transmit all the elements required in the correspondence.

From the analysis of the price offers, communicated in the estimates, the selected clinic is the clinic Paul Brousse of Paris, with the lowest costs, i.e. 100,000 euro (all three clinics requiring the payment of costs in advance).

The file is forwarded to the Ministry of Health, with the notification on the typified form, taken from enclosure no.5 of OMS no. 50/2004 and one proposed for approval the amount of 100,500 euro, of which medical expenditure – 100,000 euro and transport expenditure - 500 euro.
The Ministry of Health communicates in writing the approval of the patients' file for the sum of 100,500 euro.

The stages of the treatment performance are:

**PHASE 1 – ENGAGEMENT / COMMITMENT OF EXPENSES**

The specialised service (doctors inspectors) of DSP elaborates the proposal of engagement of expenses, for the entire sum approved, and the budgetary engagement will be drawn up accordingly.

**PHASE 2 - LIQUIDATION OF EXPENSES**

One verifies the conditions of exigibility, one finds that the patient has an approved medical file, that there are approved budgetary allotments for this destination, the existence of an estimate (proforma invoice) and that the hospital abroad requires the payment in advance (situation permitted by the law, expressly stipulated in the norms)

**PHASE 3 - ORDINACING OF EXPENSES**

One verifies the existence of the payment documents (proforma invoice), that there are legal stipulations with this destination and that there are sums available in the account for this medical file.

**PHASE 4 – PAYMENT OF EXPENDITURE**

One draws up the payment orders, as follows:

1. **One registers the two payment operations:**
   \[
   \%
   = 770 \\
   432,150 (20.30.30)
   \]
   
   430,000 5121
   2,150 461/2 / patient’s chart

2. **One draws up the documents of currency exchange (order of currency exchange) and the currency account is fed with the amount of 102,000 euro:**
   \[
   \%
   = 5124 430,000 lei
   \]
   
   430,000 5124 = 5121 430,000 lei

3. **One draws up the D.P.V. for the payment of the amount of 100,000 euro to the account of the clinic in Paris, one retains the bank commission of 250 euro:**

   - The exchange rate has decreased:
     \[
     \%
     = 5124 416,037 lei
     \]
     
     415,000 461.2 /analytic clinic Paul Brousse(exchange rate 4.150 lei/euro)

   1,037 629 (20.30.30)

4. **After a month, the clinic abroad sends the invoice in original from which its results:**
   a) One used the funds entirely, and the patient files the invoice and the travel ticket in original:
      \[
      629 = 461.2 417,150
      \]
      
      415,000 (analytic clinic Paul Brousse), for 100,000 euro, the extinguishing of the debt is done at the exchange rate in the chart of 4.150 lei/euro-date of payment)
      2,150 (analytic patient)

   b) One transmits the invoice in which one justifies the medical expenditure in amount of 95,000 euro:
One draws up the correspondence for the restitution the amount of 5,000 euro.

The amount is reimbursed in the two cases of the budgetary year:

**Case 1**: During the budgetary year:
- The exchange rate has decreased: 4.100 lei/euro:
  \[\% = 461.2 \quad 20,750 \text{ lei (cval.5000 euro, exchange rate 4.150, analytic P.B)}\]
- The exchange rate has increased: 4.250 lei/euro:
  \[21.250 \quad 5124 = \% \quad 462/2 \quad 20,750 \quad 765 \quad 500\]

**Case 2**: During the next budgetary year:
- The exchange rate has decreased: 4.100 lei/euro:
  \[\% = 461.2 \quad 20,750 \text{ lei (cval.5000 euro, exchange rate 4.150, analytic P.B)}\]
- The exchange rate has increased: 4.250 lei/euro:
  \[21.250 \quad 5124 = \% \quad 461.2 \quad 20,750 \quad 765 \quad 500\]

The amount is exchanged into lei and the transfer in lei is done to the account of the State budget, opened for the Public Health Division:
- 770/3=4481 with the amount resulted at the exchange rate
- 4481=5121

c) One sends the expenditure invoice through which one justifies in totality the amount transferred, of 100,000 euro, by the clinic P.B. in the year immediately after the effecting of the payment:

\[415,000 \quad 117 = 461.2 \quad 415,000 \text{ lei}
\]
c.val 100,000 euro ,chart P.B, exchange rate 4,150 lei/euro

d) The clinic P.B. transmits the invoice justifying the expenditure, which is by 20,000 euro higher than the transferred sum, i.e. 120,000 euro.
498,000 \times \frac{629}{20.30} = \% \\
461 \quad 415,000 \text{ (exchange rate from the chart, on the date of payment)} \\
462 \quad 83,000 \text{ (exchange rate on the date of payment)}

One forwards to the Ministry of health the proposal to approve the difference of 20,000 euro:
- If the amount is not approved, one notifies the patient so that he bears the difference of 20,000 euro and one notifies the clinic:
  \[
  83,000 \times \frac{629}{462} = 83,000 \quad \text{lei} 
  \]
- If the payment of the difference of 20,000 euro is approved
  \[
  462 \times 5124 = 83,000 \quad \text{lei} 
  \]

Depending on the sum resulted at the exchange rate there intervene the accounts of financial revenues or of financial expenditure..

4. DISCUSSIONS

The accounting evidence of the national health programme and sub-programmes is performed in accordance with the financing from the State budget and from the own revenues of the Ministry of Health from the budgetary titles 20 "Goods and services " and 51 "Transfers among units of public administration ", provided in the Classification of the indicators regarding public finances..

Since January 2006, the public institutions, including those of health, have the obligation to keep the accounting books in double party, and the new accounting system is based on the accounting of engagements / commitments. This is an accounting based on rights and obligations, in which one recognises the transactions and events when they occur, irrespective of the moment the sum is paid or received. Thus, the transactions and events are registered in the accounting reports and in the financial statements of the period they represent.

Moreover one also suggests the accounting treatment trough the engagement credit. This credit, according to the Order of the Ministry of Public Finances, no. 1792/2002 represents the “maximum limit of the expenses to be engaged during the budgetary year”. Thus, the reimbursement of the medical services contracted for trimester IV 2009 was done monthly within the range of the open budgetary credits, and the medical services performed and reported in accordance with the contract of medical services providing and remained un-reimbursed will be reimbursed gradually in the year 2010, within the limit of the engagement credits approved for 2009. Thus, the sanitary units, in trimester IV 2009 could conclude legal commitments, i.e. contract of supplying for product, order etc. for the supply with specific material and ensure to the deployment of the Health National Programmes.

By using the accounts of administration accounting in the implementation of the health national programmes one may apply accounting treatments corresponding to each national programme, and then the detailed breaking down can continue on the sub-programme.
5. CONCLUSIONS

From the cases of treatment abroad presented above one can draw the following conclusions:

1. The clinics abroad, in most cases, require the advance payment of costs, conditioning the patients’ appointment and scheduling at the clinic on the existence of the funds in the account.

2. At the end of the medical services the hospital units in other countries do not issue the patient the expenditure documents (invoice, receipts) for the costs afferent to the medical services, so that the recovery of these documents is done by the DSP with great delays, after a prolonged correspondence with the respective clinic and with our embassies abroad, the Ministry of External Affairs, the embassies of the respective countries in Romania and other institutions.

3. This is caused by the fact that the existing legislation does not confer the legal instruments and levers that may be used concretely for the recovery of these unused funds, or of the expenditure / cost documents.

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THE NECESSITY OF CORELATING COMMERCIAL DEBTS, COMMERCIAL CLAIMS AND MERCHANDISE STOCKS

Doina RADA¹  
Dănuţ RADA²

ABSTRACT
Any company specialized in merchandising, cannot operate without having contact with external partners (third parties), that is suppliers and clients. Both suppliers, as well as clients equally represent for the company the certitude of continuity in the activity through merchandising and through selling on the market to their clients.

KEY WORDS: suppliers, clients, merchandise, commercial debts, commercial claims, stocks.

JEL: M41

1. INTRODUCTION

In order to attain their operational objective, economic agents establish various economic relations while undergoing purchasing and selling processes, which generate rights (claims) and obligations (debts), either with entities (natural or juridical) from outside the company, or with individuals from inside the company. They do not belong to the category of discounts with third parties, debts or claims regarding receiving or granting loans, as well as unused claims.

Debts belong to patrimony passive, being short-terms sources, whereas claims belong to patrimony active, being economic means under the form of circulating actives for discounting.

Paying off claims and debts is usually done by financial means, using financial operations of discounting either in cash or without cash and discounting operations through commercial effects.

2. DEBTS, CLAIMS AND MERCHANDISE STOCKS

All relations generated while performing company operations are under the form of debts and claims.

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2.1. Company Debts

Debts represent short term obligations or external financing resources made available to the company by suppliers, company personnel, by a financial or banking institution, by state budget or by third parties.

According to IAS 1 “Presenting financial outlook”, any debt must be classified as current debt in one of the following situations:

- the debt is expected to be discounted in the normal cycle of company operations;
- the debt is extinguishable in 12 months from the balance date.

All other debts which do not match one of the situations mentioned above must be considered long-term debts.

Debts represent resources external to the company drawn by economic agents on a longer or shorter period of time, that is the short-term obligations of the company generated by: commercial relations with its suppliers, debts to the employees, financial operations with state budget, social protection and insurance institutions, other operations with various creditors.

This category includes:
- debts generated by company operations;
- various debts;
- incomes recorded in advance.

Company debts, also called funds generated by third parties, become financial arrangements of the debtors regarding amounts of money or goods owed to the creditors, these being passive patrimonial elements which are generated by debts and are extinguished when paid off. All debts whose discount terms go over one year and have such a term recorded in their related document, obligatorily involve an interest (Rada Doina, Teoria generala a contabilitatii. Concepte si metodologie, Mirton Publishing, Timisoara 2009, pag.131). Debts can be classified according to various criteria as follows:

- According to the nature of the operations generated by them, there are commercial debts, financial debts, fiscal debts, social and wage debts and other debts;
- According to their economic substance and object, there are debts towards suppliers, debts towards clients for the advance money received from them, debts towards state budget, debts from commerce effects, debts towards employees, debts towards insurance and social protection, debts towards shareholders and other debts;
- According to the paying off term there are long-term debts (over 5 years), medium-term debts (between 1 and 5 years) and short-term debts (under 1 year);
- According to currency there are debts in lei, towards internal suppliers and currency debts, towards external suppliers;
- According to the relations with other companies there are debts towards companies belonging to the group and debts towards other companies outside the group.

Commercial debts consist in company obligations towards third parties, natural or artificial persons, debts generated by the purchase of goods or use of services. Commercial debts can be divided into several categories, as follows:

- debts towards suppliers of stocks, works and services;
- debts towards suppliers of financial and non-financial immobilization;
- debts for commercial effects.
These debts refer to goods and services purchased by the company, for example, raw materials, materials, repairs to goods of long term use, phone and postal services, etc.

2.2. Claims Recorded by the Company

Claims express the right to cash or to receive, by a company from other companies or from natural persons, the equivalent value of delivered goods, works or services or other operations carried out or that took place between company and personnel, partners, shareholders.

In other words, claims represent short-term rights of the company, generated by commercial relations with clients and by operations with various debtors. They are determined by sales of goods, carried out services and works performed for third parties.

This category consists of:
- Claims from regular operations
- Various claims
- Expenses recorded in advance.

Claims can be classified into:
- Commercial claims, generated by the relations with clients;
- Social claims generated in the relation to social insurance and social protection institutions;
- Wage claims, generated by the relations with the employees;
- Fiscal claims, generated by the relations with state budget;
- Regularization operations, generated when closing the financial exercise, when completing the balance;
- Claims generated inside the group and with partners;
- Claims regarding discounting inside the company.

Currency bills claims are recorded in accounting in lei, at the current rate of exchange at the date of the operation.

Differences in the rate of exchange, between the date of recording the currency bills and the date of cashing them, are recorded as favorable or unfavorable incomes.

Commercial claims of the company, represented by clients, but other claims as well, are underlined in accounting according to categories, and to natural or artificial persons.

By contrast with material circulating actives, claim circulating actives are being tracked analytically only by value, specifying their distinct date and birth certificate.

For this purpose, “record cards for various operations” are used, separately for natural or juridical persons recording claims, or various lists provided by informatic programs.

The greatest amount of economic agents claims are directly linked to company operations, that is to the field that make the main object of activity. Claims towards clients are generated after selling the production, or carrying out works or services or different operations incomes.

Company claims towards clients are generated by the consent proven by a firm standing order initiated by the client and accepted by the manufacturer or being based on written agreements. Claims become firm, certain, in the moment of property transfer for sales and in the moment of completion of works and services.
Property transfer takes place therefore in the moment of goods delivery, or completing of works or services, moment which in practice coincides with invoicing.

2.3. Merchandise Stocks

Stock are defined by IAS 2: “Stocks, as being actives owned in order to be sold in the course of regular operations; in the production process with the end of selling, or under the form of raw materials, materials and other consumables which are to be used in the production process or when carrying out services.” (International Standards of Accounting).

Another concept includes stocks in the category of economic goods owned by the company, goods which are to be used in the production process or the selling of production ends.(Bojian O., Contabilitate întreprinderilor, Economic Publishing, Bucharest, pag.109).

Accounting Law no.82/1991, considers stocks as being a complex of goods and services within the patrimonial company meant to: be sold in the same condition or after their transformation in the production process, or to be consumed when first used.

The great diversity of stock components and production ends in process require the clear specification of structure, content and sphere of influence.

According to structure and content, stocks are made of:

- Raw materials
- Consumable materials
- Products
- Animals and birds
- Merchandise
- Packages
- Inventory items
- Production ends in process

Merchandise is a product of human labor which satisfies a social need and which is destined to be exchange in the sell-buy process being the end of an economic activity, destined to satisfy the needs of individuals other than producers. (Angela Bretcu “Proprietățile mărfurilor și importanța lor în economia de piață”, Mirton Publishing, Timişoara, 2004, page 11).

The Explanatory Dictionary of the Romanian Language (10) defines merchandise as being “product of labor destined to be exchanged through sell-buy process”.

Merchandise possesses a complex set of material and non-material attributes which can satisfy consumers’ requirements and which are received in exchange for money or other money equivalents. (Marieta Olaru-colaboratori “Fundamentele științei mărfurilor-ediția a-II-a”, Economic Publishing, Bucharest, 2005, page 18)

The value (price) of certain merchandise is determined by the scarceness of that particular merchandise, and the mechanism of establishing the price level is based on the law of demand and offer where demand depends on usefulness and offer depends on rarity. Thus, we can say that when establishing value and price, an important part play both the consumption of resources for obtaining merchandise (which determine the price of the supply), as well as their usefulness which determines demand, and implicitly, the price of demand.

Generally speaking, the price represents an amount of money paid or received for giving up or obtaining one item of a product or service. (Ferenț, E., Comerțul.
In economic science, in economic activity, the price is the pecuniary expression of unit value of merchandise and services which make the object of market exchange through buy-sell process.

Economic theory has proven that, demand is present on the market as a negative relation between price and demanded quantity, whereas offer is expressed as a positive relation within the same rapport. When the demanded quantity decreases due to the price increase, the quantity offered on the market increases.

3. THE CORRELATION BETWEEN COMMERCIAL DEBT, COMMERCIAL CLAIMS AND MERCHANDISE STOCK

The purpose of setting up and making operational a company consists in performing an activity and obtaining profit. The achievement of operational objective requires various economic relations during the purchasing and selling processes, either with the individuals (natural or artificial persons) exterior to the company or with individuals inside the company.

Both suppliers, as well as clients equally represent for the company the certitude of continuity in the activity through merchandising and through selling on the market to their clients. The size of existing merchandise stock and the rotation speed has an influence on the level of debt, the value of claims, liquidities and profit.

The three elements: debts, claims and stocks there must be a permanent correlation, which would allow company growth and the existence of monetary availability.

In order to prove the existence and necessity of correlating debt, claim and stocks, the data contained in the analytic check balances drawn up by S.C MIRUNA INTERNAȚIONAL IMPEX for COCA-COLA product. The monthly report of claim towards the supplier of the analyzed product, merchandise stock and the claim recorded through sales, in 2009, is given in the following graph and table:

<table>
<thead>
<tr>
<th>Month</th>
<th>Index</th>
<th>Debt</th>
<th>Claim</th>
<th>Merchandise Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>559.816</td>
<td>204.987</td>
<td>151.692</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>595.496</td>
<td>220.223</td>
<td>129.443</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>727.327</td>
<td>301.188</td>
<td>132.671</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>1.079.702</td>
<td>411.913</td>
<td>164.320</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>917.349</td>
<td>416.123</td>
<td>112.912</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>1.164.530</td>
<td>390.997</td>
<td>230.002</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>1.165.209</td>
<td>545.832</td>
<td>204.778</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>1.193.759</td>
<td>518.094</td>
<td>120.327</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>1.092.774</td>
<td>382.693</td>
<td>167.509</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>665.932</td>
<td>295.107</td>
<td>108.346</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>711.164</td>
<td>271.605</td>
<td>123.715</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>716.985</td>
<td>330.827</td>
<td>96.173</td>
<td></td>
</tr>
</tbody>
</table>
In the graph presented above, the values of three indices have been concentrated as follows:

- Debt towards SC. COCA-COLA HBC ROMÂNIA S.A supplier;
- Claim generated by the sale in the COCA-COLA category towards clients;
- Existing merchandise stock in the COCA-COLA category at the end of each month.

Analyzing the given value data the following considerations can be made:

- The lowest value of debt towards COCA-COLA HBC ROMÂNIA supplier was recorded in the month of January 2009, when MIRUNA INTERNATIONAL IMPEX bought merchandise worth 559,816 lei;
- The amount of purchased merchandise with the highest value was recorded in the month of August, and it was worth 1,193,759 lei, which meant that in August the company bought twice as much merchandise than in January;
- the lowest value of sold merchandise quantity in the COCA-COLA category was recorded in the month of January, when clients bought merchandise worth 204,987 lei;
- clients bought merchandise in the COCA-COLA category in the month of July worth 545,832 lei, twice as much as in the month of January;
- in the months of September, October, November a decrease was recorded as far as merchandise quantity was concerned, but in the month of December the sales increased, due to the winter holidays;
- because in the month of December the smallest quantity of merchandise was purchased in the COCA-COLA category and the merchandise stock recorded the smallest value;
- in the month of June the merchandise stock increased in value to 230,002 lei, which means that in this month the sales recorded the highest level, and the merchandise stock decreased.
4. CONCLUSIONS

Paying attention to the three indexes in the previous table, the following conclusion can be drawn:

- Debt, claim and merchandise stock, for COCA-COLA product, are interdependent, the evolution of one influences that of the other two.
- Merchandise is generally purchased according to market requirements;
- Sales are increasing in the holiday season, especially in summer, when all bars, restaurants, pubs are open, or when special events take place in people’s life.
- Merchandise stock is tightly linked with market sales (when sales increase, merchandise stock is decreasing, and when sales decrease, the stock tends to stay elevated).

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CREDIT BOOM IN CENTRAL AND EAST EUROPEAN COUNTRIES AND POLICY FAILURES DURING THE BOOM YEARS

Magdalena RĂDULESCU

ABSTRACT
The banking crisis hitting many advanced and some developing countries in the last two years shined the spotlight once again on the fragility of the financial system and its macroeconomic consequences. In some countries, mandates for lending to underserved segments have played an important role, and have, in the long term, even proven profitable. Lending to the real estate sector can have a number of social benefits, but it is also a common source of excessive lending and asset market bubbles. An unprecedented credit boom-bust cycle led to rapid growth and deep recessions, though country experiences are not uniform. In the context of a global increase in capital flows, CEE became a “destination of choice”. When designing macroeconomic policies in a boom phase, policy makers must remain skeptical about the sustainability of very rapid GDP growth.

KEY WORDS: financial crisis, Central and Eastern European economies, credit boom, banking sector, macroeconomic policies.

JEL: E58, E61, G01, G12, G21, O23.

1. INTRODUCTION
Since the onset of transition in the early 1990s, Central and Eastern Europe (CEE) has seen impressive progress. In a span of less than twenty years, the region went from central planning to establish successful market economies. From 1995-2008 real GDP in the region grew by 125 percent (measured in PPP-terms).

An unprecedented credit boom-bust cycle led to rapid growth and deep recessions, though country experiences are not uniform. In the context of a global increase in capital flows, CEE became a “destination of choice”. The reasons are manifold, including both a general optimism about the region and its likely successful convergence to Western European income levels. Similarly, with new entrants in banking and financial markets, strategic considerations of gaining market shares were also at play (Backe et. al., 2007).

Some of the countries that did not experience a severe credit boom have seen much milder contractions. What has caused the credit boom and its aftermath in so many CEE countries, and why have some countries managed to avoid most of the excesses, including asset price bubbles and foreign exchange lending? To answer this question, this paper takes an in-depth look at the developments and policies in the “EU-9”—nine EU New Member States (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak Republic) that joined the EU between 2004 and 2007. Despite their similarities, the countries in this group differ greatly in the extent to which they have been affected by the credit boom-bust cycle, with the Baltic countries

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experiencing the most pronounced cycle, and the Czech and Slovak Republics having been least affected (Bakker and Gulde, (2010)).

A vast literature has studied banking crises around the world, focusing especially on the common factors associated with the occurrence of crises. Perhaps one of the starkest consequences of banking crises is their effect on government finances. As the authorities try to shore up the banking sector, fiscal resources are often deployed to guarantee bank liabilities, provide new capital to cover losses, and offer other forms of assistance. For example, the fiscal cost net of recoveries of theThai crisis in 1997-98 was about 35 percent of GDP, while the cost of the Turkish crisis in 2000 was about 30 percent of GDP (Laeven and Valencia, (2008)). 4 central banks during the present crisis have reached an estimated 74 percent of GDP in the U.K., 73 percent of GDP in the U.S., and 18 percent of GDP in the Euro area.

To identify crisis response strategies we rely on the database recently built at the IMF by Laeven and Valencia. This database documents many features of banking crises episodes from 1980 to the present, including policies undertaken to shore up the banking system. Using this information, we classify policy measures in two categories: those that involve a commitment of government funds and those that do not (Aisen and Franken, (2010)).

A number of major banks in the United States and Europe were provided with public support in the form of new capital and guarantees against losses from holdings of problem assets. More broadly, authorities have followed multifaceted strategies involving continued provision of liquidity and extended guarantees of bank liabilities to alleviate funding pressures, making available public funds for bank recapitalization, and announcing programs to deal with distressed assets.

Policy rates have been cut sharply in some countries (Canada, Japan, United Kingdom, United States) and to unprecedented lows in other cases (including the euro area and Sweden). However, the impact of rate cuts has been limited by credit market disruptions. As a result, central bank balance sheets have expanded rapidly as central banks have become major intermediaries in the credit process. Nevertheless, overall credit growth to the private sector has dropped sharply, reflecting a combination of tighter bank lending standards, securities market disruptions, and lower credit demand as economic prospects have darkened.

As concerns about the extent of the downturn and the limits to monetary policy have mounted, governments have also turned to fiscal policy to support demand. Beyond letting automatic stabilizers work, large discretionary stimulus packages have been introduced in most advanced economies, notably Germany, Japan, Korea, the United Kingdom, and the United States.

Section two presents the nature of the credit boom in CEE countries, section 3 underlines the end of the credit boom and the policy failures during the boom years and section 4 concludes the paper.

**2. THE NATURE OF THE CREDIT BOOM DURING 2003–2008**

During the global boom of 2003-2007, the EU-9 attracted large capital inflows. Cumulative capital inflows during 2003-2007 ranged between 33 percent of 2003 GDP in the Czech Republic and 192 percent of 2003 GDP in Bulgaria, and were also particularly large also in the Baltics and Romania (Figure 1). Capital inflows were already high in 2003, but increased further between 2003 and 2007, and large
differences among countries started to emerge. In 2003, the size of the capital inflows was still quite uniform. Between 2003 and 2007 there was a further increase in the Baltics, Bulgaria, Romania and Poland, while capital inflows into Hungary, the Czech and Slovak Republics were stable as percent of GDP or declined. By 2007, annual capital inflows in the Baltics, Bulgaria and Romania exceeded 15 percent of GDP (IMF, (2007)).

Figure 1 - Cumulative net capital inflows 2003-2007 (% of 2003 GDP)
Source: WEO and IMF database, April 2010

The large capital inflows were partly the result of the low income levels in the EU-9 and the implementation of reforms. With low wages and low capital-labor ratios returns on investment in the EU-9 were very high. Capital inflows were further stimulated by post-transition reforms. In terms of type of capital inflows into the region, bank loans were the most important category, followed by FDI. Statistically included in “other investment flows” lending by banks was not only the most important category, but also the category with the largest differences across countries—most of the variation in capital inflows was due to other investment inflows rather than FDI (with the notable exception of Bulgaria). Portfolio inflows were very small or even negative, with the notable exception of Hungary.

Western European banks expanded very aggressively in the EU-9, aiming to gain market share in a growing region. They funded a large part of the credit growth of their local subsidiaries by capital transfers. The magnitude of the credit boom differed among individual countries, and was closely linked to the size of the influx from capital from Western banks. Countries that experienced a larger influx of capital from Western Banks (for example, Baltics, Bulgaria) had a larger increase in the private sector credit to GDP ratio than countries where the influx was small (Slovak Republic). Credit increased to both households and firms. Rapid credit growth was fueled by catch-up, as the EU-9 countries that were poorer had faster credit growth. However, catch-up was only part of the story: while in 2002, the poorer countries within the EU-9 had less financial deepening with a lower credit to GDP ratio, by 2008, this link had disappeared (Figure 2). By 2008, there were large differences in the credit to GDP ratios (Figure 3).
The credit booms fueled a boom in domestic demand and, to a lesser extent, GDP growth. The demand boom differed among countries; countries with the most rapid credit growth had the largest increase in domestic demand. Rapid domestic demand growth was in turn associated with faster GDP growth, although an important part of the increase in domestic demand leaked out through higher trade deficits. Interestingly, countries with faster domestic demand growth had not only faster import growth, but also lower export growth.

Borrowing by Romanian households has grown rapidly in recent years, and much of it is un-hedged foreign currency debt (Figure 4). Over the period 2005 to June-2008, while household disposable income grew at an average annual rate of 20 percent,
household debt increased at a rate of 77 percent. As a result, the debt/disposable income ratio rose from 25 percent at end-2005 to 66 percent by mid-2008. Borrowing denominated in foreign exchange (FX) grew even more rapidly than borrowing in RON, so that the share of FX in total borrowing rose from 45 percent to 56 percent of total household debt by mid-2008.

Nonetheless household debt is still low compared with other countries (Figure 5). Although household indebtedness rose from 5 percent of GDP in 2004 to 17 percent as of end of 2007, it is still low by comparison with other European countries. In 2007, household debt/GDP was still only 72 percent of the average for CEE countries, and only 30 percent of the MU-13 average (MU-13 includes Belgium, Spain, Portugal, France, Germany, Luxemburg, Netherlands, Italy, Austria, Slovenia, Greece, Ireland, Finland) (IMF, (2010)).

Non-financial corporate sector borrowing has grown rapidly, and most is denominated in FX (Figure 5). Total borrowing by the sector grew at an annualized rate of 44 percent between 2004 and mid-2008, so that indebtedness has nearly doubled to 28 percent of GDP. Borrowing in FX declined from 78 percent to 71 percent of total corporate borrowing over the period. At the same time, there has also been a shift towards direct borrowing abroad, with the share of external borrowing rising to 37 percent of total borrowing by mid-2008 (Rosenberg and Tirpák, (2008)).

FX borrowing by the corporate sector has outpaced FX earnings. Corporate FX debt doubled relative to export earnings between 2004 and mid-2008. Nonetheless, the FX debt/exports ratio is still fairly low at 62 percent.
Compared with other European transition economies, corporate indebtedness in Romania is low (Figure 6). Despite the rapid growth of corporate debt relative to GDP in Romania in recent years, the ratio remains well below the average for CEE countries. Indeed, in 2007, only Poland had a lower corporate debt/GDP ratio. Since 2004, the maturity structure of corporate debt has shifted toward medium and long-run financing.

Figure 6 - Debt / GDP comparisons


3. THE END OF THE BOOM AND POLICY FAILURES DURING THE BOOM YEARS

In the fall of 2008, the large capital flows from advanced countries’ banks to the EU-9 (and Emerging Europe more broadly) declined suddenly. In the global financial turmoil global risk aversion increased sharply, stock markets fell precipitously, and inter-bank markets dried up. Advanced countries’ banks, which were confronted with liquidity and capital shortages, came under severe liquidity pressure and saw themselves forced to stop new lending or even deleverage. In a change of strategy, they advised their subsidiaries that new credit would henceforth need to be financed from an increase in local deposits rather than from transfers from their parents. Other capital inflows to the region declined as well, although not as sharply. In 2009, capital inflows in most countries were well below the levels in 2008 (Figure 7).

Figure 7 - Decline in net capital inflows 2008-2009

Source: WEO and IMF database, April 2010

The domestic demand collapse was particularly pronounced in the Baltics, driven by a sharp decline in both consumption and investment. In the Czech Republic, Poland and the Slovak Republic, consumption remained stable, or even marginally
increased, thereby cushioning the overall domestic demand fall. The decline in domestic demand was most pronounced in the countries that had built up the largest imbalances during the boom years. Countries with the largest drop in domestic demand have seen the largest drop in GDP. Domestic demand contracted the most in the countries that previously had the biggest increase in domestic demand, the largest current account deficits, and the largest increases in the credit to GDP ratios.

The economic downturn was exacerbated by the decline in real exports that resulted from the recession in the EU-9’s trading partners. The decline in exports does, however, not seem to explain the differences in the depth of the recession. For example, the Czech Republic and Slovakia, with more moderate recessions experienced a similar decline in exports as countries with much more severe downturns.

The decline in GDP in some of the New Member States has been very steep. GDP in Lithuania and Latvia has contracted by 15 and 18 percent in 2009 respectively. By comparison, in 1998, during the Asian crisis, GDP declined by 6.9 percent in Korea, 10.5 percent in Thailand, and 13.1 percent in Indonesia. It seems increasingly likely that there are long-term costs for those with the most pronounced boom. Countries with the highest credit growth not only saw the largest output volatility; but also saw lower average growth. While the credit booms generated strong growth during the boom-phase, the subsequent bust has been so deep that seen over the 2003–2010 period countries with the strongest credit boom have seen slower average GDP growth than countries that did not experience this boom. Given that much of the capital inflows were in the form of loans, these countries also saw the steepest rise in external debt and the largest fiscal deficits. The conclusion that the rapid expansion of the financial sector was beneficial for growth may thus have been too sanguine.

To a large extent, the boom-bust cycle in many of the New Member States was the result of global factors. Rapid credit growth followed from a high liquidity in global markets and the particular attractiveness of “new Europe” for capital flows. During the global boom years, the new EU members from CEE region were the most attractive destination for financial flows to emerging markets. Their fully open capital accounts, along with rapid institutional reform and good growth prospects attracted capital in unprecedented magnitudes compared to the countries’ still comparatively low GDP. Against this, it would seem that even perfect policies might not have been able to prevent all of the rapid credit growth and build-up of imbalances.

The end of the credit cycle was brought about by a global crisis. The end of the credit boom came abruptly, as foreign parent banks ran into funding problems. Yet the differences in the magnitude of the boom-bust cycle imply that policies and policy failures also have played a critical role. In fact, some countries managed to avoid most of the excesses, including asset price bubbles and foreign exchange lending. With a view to preventing the reemergence of a similar crisis, a full recognition of the “policy challenges and failures” during this episode should help shape macroeconomic and prudential policies in emerging markets as global credit flows return to normal.

Many of the developments, including growth, rapid financial deepening and convergence of living standards were highly desirable. There was a debate as to whether or not growth had already become unsustainable, but even where economists cautioned, the necessary restrictive policies were politically unpopular. Many countries also faced a shortage of potentially effective policy tools. Yet, with the benefit of hindsight, a more active policy response during the boom phase would have helped.
The lack of sufficiently early and adequately strong policy action reflects a failure at different levels. Risks were underestimated: in the context of convergence and the expansion of western banks the boom in the EU-9 was thought to be different from earlier capital account crises. Prudential/regulatory policies that were tried were unable to address the systemic risks, and macro policies did too little to reduce demand pressures.

4. CONCLUSIONS

The credit boom-bust cycle in the EU-9 was to a large extent the result of factors external to the region. Rapid credit growth in New Member States followed from high liquidity in global markets and the particular attractiveness of “new Europe” for capital flows, while the end of the credit cycle was brought about by a global crisis. Yet the fact that some countries (in particular the Czech and Slovak Republics) managed to avoid most of the excesses, including asset price bubbles and foreign exchange lending, suggests that policies and policy failures also have played a critical role (Sorsa et al., 2007).

Credit growth is in the first place a financial sector challenge, and both prudential policies and adequate supervision need to play an important role. Prudential rules need to be designed to adequately cover risks, which in the context of emerging markets may require higher capital buffers than in more mature markets. In addition, foreign exchange risk should be adequately priced and, at a minimum, incentives toward lending in foreign exchange should be avoided (Sirtaine and Skamnelos, 2007).

Yet where credit growth accelerates, the limits of prudential policies underscore the need for a decisive macroeconomic response. With increasing credit volumes the quality of lending is likely to deteriorate. A number of regulators in the region therefore did attempt to use prudential tools to lower credit growth. The experience with using credit ceilings and related instruments that were tried to slow lending growth in individual institutions has, however, been disappointing. Rather than discouraging lending, given that home countries were not applying the same rule, it spurred circumvention in the form of direct borrowing by enterprises from foreign banks and the shift of lending to less regulated institutions, while not addressing the macroeconomic problem.

When designing macroeconomic policies in a boom phase, policy makers must remain skeptical about the sustainability of very rapid GDP growth. Against this risk, policy makers should choose macroeconomic and structural policies with a view to avoiding excessive and unsustainable credit growth.

The exchange rate regime plays a critical role in the determining a country’s ability to adapt to credit flows. The experience of the central and eastern European countries, however, confirms that fixed exchange rate countries face greater challenges when confronted with capital inflows than floaters. Under fixed exchange rate regimes, the inability to raise interest rates or appreciate the domestic currency can lead to inflationary pressures, rising wages and loss of competitiveness. For countries with floating exchange rates, nominal exchange rate appreciation may help in moderating credit booms. Exchange rate appreciation tempers overheating, reduces inflationary pressures, and keeps real interest rates positive. The nominal appreciation also keeps pressures on nominal wage growth in check.
Fiscal policy may need to play a much stronger countercyclical role, and be the key policy tool in countries with fixed exchange rates. When revenue booms are used to finance a surge in expenditure, the fiscal balance may look healthy, but as the revenue boom may be temporary, the expenditure boom may lay the ground for large fiscal deficits when the boom ends. A more sustainable approach to fiscal policy may need to focus less on targeting a fiscal balance and more on containing expenditure growth. Limiting expenditure would also imply that fiscal balances will need to improve rapidly during booms—even in surplus countries. While the above argument holds for all countries facing capital inflows, the role of fiscal policy in fixed exchange rate countries will need to be even more pronounced to reduce demand pressures in the economy.

Finally, policies to mitigate credit booms have long-term benefits in promoting more balanced and sustainable growth. Countries’ experience after the credit boom shows that those with the most severe boom saw the largest output volatility and the most pronounced reversals. It now appears that average growth over the cycle in this group is no higher and in some cases lower than in countries with more restrained credit increases. In addition, growth among the countries with the highest credit growth has often been highly imbalanced, without sufficient expansion of the economies’ supply potential, hence leaving little long-term growth enhancing potential. Finally, countries with the most rapid credit growth have also ended up with the highest external debt and the largest fiscal deficits.

Keep the overall supporting stance of policies for the time being because we’re not sure how robust this recovery is. As and when the situation permits, 2011 is the year to start fiscal consolidation. Some countries, of course, have to act faster. Greece, Ireland, and Spain for instance can’t afford to wait, but most of them are already doing what is necessary. Several countries in the east—Serbia, Ukraine, Romania, and Hungary—have already started the process of consolidation.

In a crisis, it’s good to be a relatively big economy with a diversified production base. Poland comes to mind. It not only has a relatively big domestic market but also a diversified export industry. In fact, Poland’s economy alone constitutes 40 percent of the region. If you add two other countries that have remained relatively stable—the Czech Republic and Slovakia—you have 65 percent of the region’s GDP. So looking at how Poland has weathered the crisis may give you a better picture of how emerging Europe has handled the crisis rather than looking at, say, Latvia.

Those countries that had unsustainable fiscal policies, such as Hungary or Romania, fell into crisis first. And those that had managed their policies well, including Poland but even more so the Czech Republic, remained relatively stable. And even though the crisis delivered a pretty severe blow, we have seen a clear rebound quite early in the crisis and no sign of destabilization in the banking sector in these two countries.

The quality of institutions played a role. Those countries that had strong supervisory regimes in place, such as the Czech Republic, managed to avoid excessive currency mismatches. Low interest rates also played a part because there was no incentive to engage in carry trade. The same was true, but to a lesser degree, of Poland.

Fixed exchange rate regimes have been a pillar of economic stability for the three Baltic states and Bulgaria. But they also encouraged excessive capital inflows. And now, with the crisis, these fixed regimes have radically limited the policy options for these four countries. That said, the exchange rate regime is only one factor. Some of the hardest hit countries, including Ukraine, Hungary, and Romania had floating, rather
than fixed rates. But we are far from saying the most important factor in the crisis is the exchange rate regime.

Certainly, the fact the European economy is recovering less quickly than some other regions is affecting Romania. The economy’s return to positive growth is delayed and somewhat weaker than we had originally anticipated. As a consequence, the economic forecast was revised down from 0.8 percent of GDP to -0.5 percent for 2010. But growth will rebound in 2011.

The Romanian government found itself in a difficult situation because the revised forecast for the deficit for 2010 with no action would have put the deficit at a high level. There were a number of possibilities that policymakers could have chosen different mixes of revenue and expenditure measures, but their decision was to rely almost entirely on public expenditure cuts.

The Romanian banking system has been affected by the very sharp recession in Romania, as would be expected. However, the banks remain well capitalized and highly liquid. The average capitalization of Romanian banks is currently 14 percent, significantly above the statutory minimum of 8 percent, so the banks have a cushion of capital that they can rely upon to take them through the recession.

There are some reforms in the program which would help in the competitiveness area, for instance, measures that will make it easier to invest structural funds from the European Union. The authorities have also decided to reactivate their privatization program and are looking at measures to increase the efficiency of the public sector. Those policies will help to make the economy more productive so that, once the European recovery takes firm hold, Romania will be well placed to make the most of it.

REFERENCES

ABSTRACT
Together with material resources, the labor force represents a main factor of producing goods and rendering services within economic entities. In exchange for the work performed, the hired personnel receive wages, established by negotiations between employers and employees represented by trade union (Pantea, I.P. and Bodea, Gh. (2007)). The negotiations are followed by conclusion of collective or individual labor contracts, by which the personnel undertake to carry out the activities provided for in the contract and the employers, undertake to remunerate such personnel for their work. Both the entities which have employees with labor contracts and the said employees must cover certain expenses regarding the personnel, insurance and social security. Elaboration of this work represented a complex study, analysis and research enterprise of significant aspects related to the accountancy recording of the settlements with the personnel at a commercial company.

KEY WORDS: wages, wage retentions, income

JEL: M41

1. INTRODUCTION

The progress of any company depends in a decisive measure on the efficiency with which the available human, natural and financial resources are used. The main preoccupation is represented by human resources, since these are the premise of profit and a durable activity. Human resources (Panișoara Georgeta (2004)) can be approached from the quantitative point of view, volume and structure, but also from the point of view of quality, as efficiency of the work performed.

Nowadays a modern and developed economy, dedicated to performance, cannot be conceived without taking wages into account. Wages are a source of income for the great majority of the population, while profit, dividends and interest address a minority including the processes of saving and investments. The wage comes to provide today indispensable sources for economic growth and the establishment of economic and social structures (Done Ioan (2009)). Accountancy of the settlements with the personnel includes wage rights, increases, additional payments, premiums from the wage fund, allowances for paid holidays as well as temporary work incapacity, paid from the wage fund, bonuses representing participation of the personnel to profits, granted as per the law, and other rights in cash and/or kind owed by the entity to the personnel for the work performed (OMFP (2009)). Settlement with the personnel includes recording in expenses accounts the personnel rights of the employees, on the one hand, and actual payment of such amounts to the personnel, on the other hand. (Ristea, M. (2005)).
2. CALCULATION OF EXPENSES AND WAGE RETENTIONS

To understand the mode of calculation and accounting of wages and all obligations coming from them we assume that our company carries out its activity in normal working conditions. The work records are kept by the employer.

2.1. In order to exemplify, we have a wage fund for April 2009 amounting to lei 100,000.

The wage-related expenses covered by the company are the following:

<table>
<thead>
<tr>
<th>WAGE-RELATED EXPENSES</th>
<th>MODE OF CALCULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage fund achieved</td>
<td>100,000</td>
</tr>
<tr>
<td>Company’s social security contribution</td>
<td>100,000 x 20.80% = 2,080</td>
</tr>
<tr>
<td>Company’s unemployment fund contribution</td>
<td>100,000 x 0.5% = 500</td>
</tr>
<tr>
<td>Company’s health insurance fund contribution</td>
<td>100,000 x 5.2% = 5,200</td>
</tr>
<tr>
<td>Company’s health insurance indemnity contribution</td>
<td>100,000 x 0.85% = 850</td>
</tr>
<tr>
<td>Company’s labor accident contribution</td>
<td>100,000 x 0.279% = 279</td>
</tr>
<tr>
<td>ITM commission owed</td>
<td>100,000 x 0.25% = 250</td>
</tr>
<tr>
<td>Contribution to the social liabilities guarantee fund</td>
<td>100,000 x 0.25% = 250</td>
</tr>
</tbody>
</table>

2.2. An employee has an employment wage of lei 1,000, to which a 25% service increment is added, i.e. 1,000 x 25% = lei 250. At 1st fortnight the employee receives an advance of lei 500, and at 2nd fortnight a retention of lei 100 is applied. The employee has no dependants. The wage retentions as well as the balance to be paid, collected by the employee at 2nd fortnight, are calculated in the table below:

<table>
<thead>
<tr>
<th>WAGE RETENTIONS</th>
<th>MODE OF CALCULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross wage</td>
<td>1,000 + 250 = 1,250</td>
</tr>
<tr>
<td>Employee’s social security contribution</td>
<td>1,250 x 10.5% = 131</td>
</tr>
<tr>
<td>Employee’s health insurance contribution</td>
<td>1,250 x 5.5% = 69</td>
</tr>
<tr>
<td>Employee’s unemployment fund contribution</td>
<td>1,250 x 0.5% = 6</td>
</tr>
<tr>
<td>Income tax (1,250 – 131 – 69 – 6 – 250) x 16%</td>
<td>794 x 16% = 127</td>
</tr>
<tr>
<td>Advance payment (1st fortnight)</td>
<td>500</td>
</tr>
<tr>
<td>Other retentions owed to third parties: installments</td>
<td>100</td>
</tr>
<tr>
<td>Balance to be collected at 2nd fortnight</td>
<td>317</td>
</tr>
</tbody>
</table>

2.3. Calculation of the net taxable wage (income), wage tax and the balance to be paid to an employee with lei 1,000 wage and lei 250 service increment, having a wife and a minor child as dependants. The union due amounts to 1% of the gross wage. At 1st fortnight he received lei 500 and at 2nd fortnight a lei 300 monthly credit installment is retained.

<table>
<thead>
<tr>
<th>EMPLOYMENT WAGE</th>
<th>1</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service increment</td>
<td>2</td>
<td>250</td>
</tr>
<tr>
<td>Gross wage (row 1 + 2)</td>
<td>3</td>
<td>1,250</td>
</tr>
<tr>
<td>Social security contribution</td>
<td>4</td>
<td>1,250 x 10.5% = 131</td>
</tr>
</tbody>
</table>
Employee’s unemployment fund contribution | 5 | 1,250 x 0.5% = 6  
Employee’s health insurance contribution | 6 | 1,250 x 5.5% = 69  
Union dues | 7 | 1,250 x 1% = 13  
Net income (1,250 – 131 – 6 – 69 – 13) | 8 | 1,031  
Personal deduction | 9 | 450  
Taxable wage (income) (row 8 – 9) | 10 | 581  
Wage tax | 11 | 581 x 15% = 93  
Advance payment (1st fortnight) | 12 | 500  
Monthly installment retained at 2nd fortnight | 13 | 300  
Balance collected at 2nd fortnight (row 8 -10 -11 -12 -13) | 14 | 138  

The vacation allowance is calculated for an employee, based on the following data:
- vacation duration is 20 working days, starting with April 01, 2009;
- employment wage is lei 1,000 and the permanent increases are lei 250;
- the average for the calculation of the 2009 vacation is 21.25 working days/month.

The vacation allowance is calculated as follows: employment wage + permanent increases divided by the month average x number of vacation days, i.e.: (1,000 + 250): 21.25 x 20 = lei 1,176.
The vacation advance is granted maximum 5 days before the vacation start.

3. PAYROLL ELABORATION AND RECORDING

The tables below present certain more significant information regarding company’s employees.

According to the modification draft of the Norms to Law no. 346/2002, the applicable quota for labor accidents and professional diseases amounts to 0.279%.

<table>
<thead>
<tr>
<th>#</th>
<th>Full name</th>
<th>Employment wage</th>
<th>Permanent increments</th>
<th>Advance payment</th>
<th>Depend-</th>
<th>Installments retained</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GHINEA MARIN</td>
<td>1,000</td>
<td>200</td>
<td>500</td>
<td>husband</td>
<td>300</td>
</tr>
<tr>
<td>2</td>
<td>PLESA IOAN</td>
<td>800</td>
<td>300</td>
<td>2 minor</td>
<td>children</td>
<td>200</td>
</tr>
<tr>
<td>3</td>
<td>SANDU EMILIA</td>
<td>1,200</td>
<td>250</td>
<td>600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3,000</td>
<td>450</td>
<td>1,400</td>
<td></td>
<td>500</td>
</tr>
</tbody>
</table>

3.1. The list of fortnightly advance for April 2009 is elaborated under conditions in which all employees were present at work. The advance is 40% from the employment wage (with the appropriate rounding off).

<table>
<thead>
<tr>
<th>#</th>
<th>Full name</th>
<th>Employment wage</th>
<th>Worked days</th>
<th>Vacation</th>
<th>Sick leave</th>
<th>Advance payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GHINEA MARIN</td>
<td>1,000</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>500</td>
</tr>
<tr>
<td>2</td>
<td>PLESA IOAN</td>
<td>800</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td>3</td>
<td>SANDU EMILIA</td>
<td>1,200</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>600</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3,000</td>
<td></td>
<td></td>
<td></td>
<td>1,400</td>
</tr>
</tbody>
</table>
3.2. Recording of fortnightly advance:

<table>
<thead>
<tr>
<th>#</th>
<th>Full name</th>
<th>Employment wage</th>
<th>Increments</th>
<th>Gross wage</th>
<th>CFS</th>
<th>CAS</th>
<th>CASS</th>
<th>Net income</th>
<th>Personal deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GHINEA MARIN</td>
<td>1,000</td>
<td>200</td>
<td>1,200</td>
<td>6</td>
<td>126</td>
<td>66</td>
<td>1,002</td>
<td>350</td>
</tr>
<tr>
<td>2</td>
<td>PLESA IOAN</td>
<td>800</td>
<td>4</td>
<td>84</td>
<td>44</td>
<td>668</td>
<td>450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>SANDU EMILIA</td>
<td>1,200</td>
<td>250</td>
<td>1,450</td>
<td>7</td>
<td>152</td>
<td>78</td>
<td>1,213</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>3,000</td>
<td>450</td>
<td>3,450</td>
<td>17</td>
<td>362</td>
<td>188</td>
<td>2,883</td>
<td>1,050</td>
</tr>
</tbody>
</table>

3.3. The payroll is elaborated and the related accounting formulas are written:

<table>
<thead>
<tr>
<th>#</th>
<th>Full name</th>
<th>Taxable wage</th>
<th>Tax</th>
<th>Advance</th>
<th>Other retaining</th>
<th>Balance to pay</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GHINEA MARIN</td>
<td>652</td>
<td>104</td>
<td>500</td>
<td>300</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>PLESA IOAN</td>
<td>218</td>
<td>35</td>
<td>300</td>
<td>200</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>SANDU EMILIA</td>
<td>963</td>
<td>154</td>
<td>600</td>
<td></td>
<td>459</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>1,833</td>
<td>293</td>
<td>1,400</td>
<td>500</td>
<td>690</td>
<td></td>
</tr>
</tbody>
</table>

3.4. Recording of wage-related expenses covered by the company.

a) Recording of expenses with wages and other rights due to the personnel based on payroll:

| 641 | Expenses with pers. wages | 421 Personnel - remunerations owed | 3,450 |

b) Recording of company’s social security contribution: 3,450 x 20.80 % = lei 718;

| 6451 | Comp.’s social security contribution | 43111 Comp.’s social security contribution | 718 |

c) Recording of company’s unemployment fund contribution: 3,450 x 0.5% = lei 17;

| 6452 | Comp.’ unemployment fund contribution | 43711 Comp.’ unemployment fund contribution | 17 |

d) Recording of company’s health insurance contribution: 3,450 x 5.2% = lei 179;

| 6453 | Comp.’s health insurance contribution | 43131 Comp.’s health insurance contribution | 179 |
e) Recording of employer’s health insurance indemnity contribution: 3,450 x 0.85% = lei 29;  

\[ \begin{array}{ccc}  
\text{6453} & \text{Employer’s health insurance contribution} & = \ 43131 & \text{Employer’s health insurance contribution} & \ 29  
\end{array} \]

f) Recording of company’s labor accident and professional disease contribution: 3,450 x 0.279% = lei 10;  

\[ \begin{array}{ccc}  
\text{645804} & \text{Expenses to set up labor accidents and professional diseases fund} & = \ 4381 & \text{Other social liabilities} & \ 10  
\end{array} \]

g) Recording of the commission owed to the Territorial Labor Inspectorate (ITM): 3,450 x 0.25% = lei 9;  

\[ \begin{array}{ccc}  
\text{622} & \text{Expenses for commissions and fees} & = \ 4381 & \text{Other personnel-related liabilities} & \ 9  
\end{array} \]

h) Recording of company’s contribution to the guaranteeing fund for payment of wage-related liabilities: 3,450 x 0.25% = lei 9;  

\[ \begin{array}{ccc}  
\text{645803} & \text{Other expenses of the groupe nature} & = \ 4381 & \text{Other social liabilities} & \ 9  
\end{array} \]

3.5. Wage retentions covered by the employees  
a) Recording of personnel’s social security contribution:  

\[ \begin{array}{ccc}  
\text{421} & \text{Personnel - remunerations owed} & = \ 43121 & \text{Employees’ social security contribution} & \ 362  
\end{array} \]

b) Recording of personnel’s unemployment fund contribution:  

\[ \begin{array}{ccc}  
\text{421} & \text{Personnel - remunerations owed} & = \ 43121 & \text{Personnel’s unemployment fd. contrib.} & \ 17  
\end{array} \]

c) Recording of personnel’s social health insurance contribution:  

\[ \begin{array}{ccc}  
\text{421} & \text{Personnel - remunerations owed} & = \ 431401 & \text{Employees’ social health insurance contrib.} & \ 188  
\end{array} \]
d) Recording income tax of wage nature:

| 421 | Personnel - remunerations owed | = | 44401 | Wage tax for current month | 293 |

e) Retained advances (1st fortnight):

| 421 | Personnel - remunerations owed | = | 425 | Advances granted the personnel | 1,400 |

f) Other retentions (installments):

| 421 | Personnel - remunerations owed | = | 4273 | Rate casa | 500 |

3.6. Recording of operations related to the payment of the balance for fortnight 2 to banks and transfer of debts recorded in the payroll:

a) Recording payment of fortnight 2:

| 421 | Personnel - remunerations owed | = | 5121 | Current accounts with banks | 690 |

b) Recording company’s payment of social security contributions:

| 43111 | Company’s social security contribution | = | 5121 | Current accounts with banks | 718 |

| 43121 | Employees’ social security contribution | = | 5121 | Current accounts with banks | 362 |

c) Recording payment of social health insurance contributions:

| 43131 | Employer’s social health insurance contribution | = | 5121 | Current accounts with banks | 179 |

| 43131 | Employer’s social health insurance indemnity | = | 5121 | Current accounts with banks | 29 |

| 431401 | Employees’ social health insurance contributions | = | 5121 | Current accounts with banks | 188 |
d) Recording payment of unemployment fund contribution:

\[
\begin{array}{|c|c|c|}
\hline
43711 & \text{Company’s unemployment fund contrib.} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

\[
\begin{array}{|c|c|c|}
\hline
43721 & \text{Employees’ unemployment fund contribution} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

e) Recording payment of income tax from wages:

\[
\begin{array}{|c|c|c|}
\hline
44401 & \text{Income tax of wage nature} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

f) Recording payment of labor accident and professional disease and guarantee fund for payment of wage-related liabilities contributions:

\[
\begin{array}{|c|c|c|}
\hline
4381 & \text{Other social liabilities} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

g) Recording payment of ITM commission:

\[
\begin{array}{|c|c|c|}
\hline
4281 & \text{Other personnel-related liabilities} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

h) Recording payment of retained installments:

\[
\begin{array}{|c|c|c|}
\hline
4273 & \text{House installments} & = 5121 \text{ Current accounts with banks}\\
\hline
\end{array}
\]

4. CONCLUSIONS

Labor – represents the production factor, a specifically human activity performed in order to obtain economic goods. (Isfănescu, A. et al., 2002)

Operation of any economic-social activity is inconceivable without human presence and intervention, the human entity being not only the carrier of certain consumption needs but also the owner of certain abilities allowing him to act in order to satisfy such needs.

Employer’s provision of normal working conditions, income appropriate with the activity performed as well as some social facilities are of the nature of stimulating the activity of each employee (Isfănescu, A., et al., 2002)

The wage is a mode of communication of the company with the exterior since it represents an important factor in company’s relations with the external factors; from the magnitude of wages there can be deduced many aspects regarding the activity performed. When the wages granted employees are large, it can be assumed that company’s activity is flourishing, that it has an increasing turnover as compared to the volume of expenses made, so, with a profit rate large enough to allow the company to remunerate the employees satisfactorily. On the contrary, when the wages granted the
employees are small or even at the limit of economy’s minimum salary it can be deduced that the company made large expenses or investment activities and did not obtain the foreseen profit or it made expenses which do not bring any profit.

At present wages are regarded as an income which compensates the work performed, it is also a price of work hired and used by an entrepreneur based on a collective or individual labor contract.

On the one hand, wage is an income taking into account its finality (namely its translation into goods, services or works, which in the end are again translated into money) and on the other hand, wage is a cost taking into account the fact that performance of the activity implies the use of the production factor, that is the machinery required as well as raw materials needed or even some auxiliary materials. This definition belongs to the neoclassical conception pertaining to the factors which act by competition mechanism and the factors which follow from the social and economic context.

In principle, the wage system must stimulate first the creativity of the employees by their actual involvement in company’s activity and by innovating ideas, but not as a last resort special attention must be granted by employers to setting up specialization and improvement courses for the employees.

The wage system which is based on individual labor contracts presents many advantages as compared to the previous wage system. Differentiated wages according to the quantity and quality of the work, professional qualification and working conditions is the type of remuneration which must be taken into consideration.

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***6th Directive of European Economic Communities.
***7th Directive of European Economic Communities.
***Labor Code, updated.
FAMILY BUSINESS RESEARCH IN SLOVENIA: RELEVANT ISSUES FOR OTHER TRANSITION ECONOMIES

Jaka VADNJAL  
Tina KOCIPER  
Marina LETONJA

ABSTRACT
Although there is no doubt about the importance of family enterprises in Slovenia, the consistent research on this topic is still missing. The paper provides a comprehensive overview of the recent research focused on Slovenian family firms covering topics such as economic role of the sector, key characteristics, strengths and weaknesses, goals and conflicts. Although quite young, it seems that Slovenian family businesses face similar challenges as their counterparts in the economies with longer entrepreneurial tradition. Since family firms established in early 1990s are now approaching the critical stage of transition to the next generation, especially business transfer is lately more often content of research. Several thoughts about the need for the future research are provided in order to give this research topic an appropriate role in the knowledge body on entrepreneurship and small business.

KEY WORDS: Family business, entrepreneur, key characteristics, business goals, conflicts

JEL: D10, D22, R20

1. INTRODUCTION

Family firms represent an important component of Slovenia’s economy. However, this was not the case before 1990 when private ownership was limited to small craft shops, restaurants, farms and the like. The social and economic changes that ended the era when private enterprises were outlawed have created an opportunity for the rebirth of entrepreneurship and family business development. Now, family firms’ sector is growing and many of them are approaching the first transition to the next generation. Research findings warn that the effects of transition may be of a great, also unwanted importance due to the lack of experience with the process and some flaws in the institutional setting. Having this issue in mind, recent research findings on the management of family firms in Slovenia are surveyed and recommendations to the stakeholders in this process proposed.
2. THE ECONOMIC ROLE AND ORIGIN OF FAMILY BUSINESSES IN SLOVENIA

With the development of private businesses after 1989 when democratic political changes started, there has been growing interest in the development of family firms as well. Very often family firms are understood to be mostly SMEs. In Slovenia, there does not exist awareness about the heterogeneity among family business sector. The majority of family firms are micro to small enterprises in the ownership of the founding generation, mostly in the ownership of one owner who also manages the enterprise. The share of microenterprises is higher among non-family enterprises (93,4%) than it is among family enterprises (89,3%) (Duh et al. 2009). Results of the large scale research study of 350 SMEs showed that 46,45% of SMEs in the sample were identified as family ones. Estimated share of family firms in Slovenia was between 41,11 and 51,79% at 95% confidence interval (Duh & Tominc 2005). The results of the research study on the sample of 263 SMEs in one Slovenian region (Duh 1999; Duh 2003) showed that 44,1% of surveyed enterprises were family ones; estimated share of family firms among SMEs in the region was between 38,1 and 50,1% at 95% confidence interval.

Probably closest estimate was provided by a study in 2002 and Vadnjal’s (2005) sample of 222 SMEs where as many as 58.6% of firms identified themselves as family firms. Using this share of family firms among all SMEs in Slovenia, Vadnjal also assessed their share in job provision at 26% and 22% to total value added of Slovenian economy. However, this may be the bottom-line assessment. Another estimate is from Kotar (2006) who evaluated the share of family businesses is 60.9% of all business units, while the share is slightly higher, 62.9%, in the sub-sample of dynamic businesses. These estimates are considered by several experts to be quite modest and the real share is guessed to be in the range of 60-80% of all businesses (Glas et al. 2006) contributing 30% of GDP (Vadnjal 2006). Family firms are predominantly micro and small businesses, with a few family dynasties in business. An important origin of family firms were craft shops which accounted for 32% of existing family businesses were established before 1990. This explains findings of Lovšin Kozina (2006) that 28% of businesses are already being managed by the second or later generation. According to Duh et al. (2009) family firms recorded larger net sales revenue than non-family firms; the revenues for family and non-family firms were 428.072,50 EUR and 150.817,80 EUR, respectively. Duh & Tominc (2006) estimated the number of family firms in different size classes in Slovenia based on the data on the size structure and number of enterprises in Slovenia and on the data on the size structure of family firms in the sample.
### Table 1

<table>
<thead>
<tr>
<th>Size class (number of employees)</th>
<th>Number of enterprises in Slovenia</th>
<th>Number of enterprises in the sample</th>
<th>Number of family enterprises in the sample (in%)</th>
<th>Estimated number of family enterprises in Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise: 0-9 employees</td>
<td>87.143</td>
<td>290</td>
<td>134 (=46,2%)</td>
<td>40.260</td>
</tr>
<tr>
<td>Small enterprise: 10-49 employees</td>
<td>4.641</td>
<td>22</td>
<td>14 (=63,6%)</td>
<td>2.952</td>
</tr>
<tr>
<td>Medium-sized enterprise: 50-249 employees</td>
<td>1.149</td>
<td>3</td>
<td>2 (=66,7%)</td>
<td>766</td>
</tr>
<tr>
<td>Total</td>
<td>92.933</td>
<td>315</td>
<td>150</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Duh and Tominc (2006)

### 3. CHARACTERISTICS OF SLOVENIAN FAMILY ENTREPRENEURS

#### Company size

Family firms are mostly micro and small enterprises (up to 49 employees) (Duh & Tominc 2006; Glas et al. 2005). Results of the research study show that family firms have on average 4.49 employees while non-family firms have on average only 2.69 employees (Duh et al. 2009). The difference is not statistically significant. In Slovenia the average number of employees in micro enterprises is 1.71, in small enterprises is 19.3 and in medium-sized enterprises is 104.2 employees (Rus & Rebernik 2007).

#### Ownership structure

The results of research studies show that the majority of family firms are in the ownership of the first generation of family owners (founding generation). According to Duh & Tominc (2006) 84.7% of family firms were in the ownership of the first generation of owners. Only 14% is a share of family firms in the second generation of owners. Another research study by Glas (2003) and Glas et al. (2004) shows that family firms are mostly in the hands of the founding generation (87%), only 11% in the second generation and 1% in the third. The majority of family firms have a single owner (76%), as well as non-family firms (74.8%). 18% of family firms and 16.2% of non-family firms have two owners. The average family firm has 1.33 owners, non-family firms have on average 1.81 owners, but the difference is not statistically significant (Duh & Tominc 2006).

#### Educational level of the owners and managers and prior experience

Slovenian family firms were started mostly in the early 1990s with founders having relatively low education levels comparing to Western Europe and the USA (Glas & Drnovšek 1999). Later, educational levels improved. Some features of their education are compiled as follows:
- Different authors arrived at different pictures due to the size and, probably certain bias, in their sample (Lovšin, 2000, and Lovšin Kozina, 2006), have fairly low shares of university education;

- The level of education is increasing over time (Vadnjal, 2002);

- The succeeding generation is better educated (Glas et al. 2005), although not significantly different; family businesses value education less than experiences although founders tend to support the education of their heirs, mostly for the needs of the business;

- Family owner-managers have a lower education than those of non-family businesses (Kotar 2006); and

- Larger number of family owner-managers have technical background and more of them are in the manufacturing business.

**Gender and age dimension**

More than 70% of family firms are controlled by male entrepreneurs; only 20-30% are female entrepreneurs in family firms (Glas & Vadnjal 2004; Lovšin Kozina 2006), which is consistent with other findings on female entrepreneurs in Slovenia (Glas & Drnovšek 1999). The results of the research study of Duh & Tominc (2006) show (table 2), that family firms were on average 11,74 years old, while non-family firms average was 9,39 years. This difference is statistically significant. Lovšin Kozina (2006) also found that family firms are older than non-family ones. This characteristic can be due to the fact that some family firms originated from former crafts (private ownership was allowed during the socialist period).

### Table 2

Age structure of family and non-family firms

<table>
<thead>
<tr>
<th>Year</th>
<th>Number/share in Family firm</th>
<th>Number/share in Non-family firm</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 1990</td>
<td>Number 36</td>
<td>27</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>Share in % 30,0</td>
<td>18,4</td>
<td>23,6</td>
</tr>
<tr>
<td>After 1990</td>
<td>Number 84</td>
<td>120</td>
<td>204</td>
</tr>
<tr>
<td></td>
<td>Share in % 70,0</td>
<td>81,6</td>
<td>76,4</td>
</tr>
<tr>
<td>Total</td>
<td>Number 120</td>
<td>147</td>
<td>267</td>
</tr>
<tr>
<td></td>
<td>Share in % 100,0</td>
<td>100,0</td>
<td>100,0</td>
</tr>
</tbody>
</table>

*Source: Duh & Tominc (2006)*

**Dominant management style**

Since family firms in Slovenia are mostly small size, they apply informal system of decision making (Glas 2003). Kotar (2006) analysed the individual assessment of 24 different personal traits as suggested by the research literature. Only three of them were significantly different: family businesses are managed by more authoritarian entrepreneurs who think of themselves as very good organisers but express less competitiveness and less confidence. This may be the consequence of the way they inherit (and not really earn) their position. The five most important traits are: flexibility, self-reliance, creativity, perseverance and energy level.
Performance /growth

Family firms seem to employ lower technology and a larger share has a crafts licence (the historical origins of many family firms are in the crafts). Considering business performance, non-family firms are more represented among both the lowest and the highest performers. There are more ‘gazelles’ among non-family businesses. In terms of skills of owner-managers, the family group has better technical skills related to production but lower skills in business operations (project management, modelling and simulations of business operations) and also lower human-related skills in modern organisation. Kotar (2006) found that while family and non-family businesses had equally clear visions and strategic thinking the latter are better in sharing their vision to the staff while family businesses may prefer to keep it in the family.

Networking through contacts and relationships proved to be even less important to different aspects of doing business in family firms which appear to be very self-reliant. Only information on process technology was slightly more influenced by their network. Generally, family firms use networks less when searching for new employees since they do not need many non-family leading personnel. Also, these firms are less inclined to seek external advice. They show a significant aversion to go for advice to universities and research institutes. They are more likely to follow opinions of business partners and SME advisers.

A substantial part of family firms does not have growth ambitions and consequently do not face financing problems (Glas 2003; Glas et al. 2004). Owners-managers in family firms on average expect 2.97 new jobs in the next five years, but on average only 34.85% of them are anticipating the growth of new jobs (other expect no changes or even decrease). The majority of those expecting an increase in the number of new jobs anticipate offering 1 or 2 new jobs (54.35%) (Duh & Tominc 2006). There are some evidences that second generation entrepreneurs in family firms are more growth oriented than founders (Vadnjal 2006).

Financing at the start-up phase and external financing

In their start-up phase, family entrepreneurs were intensively supported by their parents, while this support is not that evident in current operations. Their spouses are also more supportive and play a more important role in business, comparing to brothers and sisters. Parents were also important role-models for family entrepreneurs. The only motive that is significantly more important for family entrepreneurs was continuing the family tradition but even that is only the second least important (table 3) among all motives (Kotar 2006).
Table 3
The most important motives for starting a business

<table>
<thead>
<tr>
<th>Motive</th>
<th>Family firms</th>
<th>Non-family firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Value</td>
</tr>
<tr>
<td>The possibility to check/implement own ideas</td>
<td>4.21</td>
<td>1</td>
</tr>
<tr>
<td>To do the job he/she desires</td>
<td>3.78</td>
<td>2-3</td>
</tr>
<tr>
<td>The opportunity to learn and grow constantly</td>
<td>3.78</td>
<td>2-3</td>
</tr>
<tr>
<td>Exploiting a business opportunity</td>
<td>3.74</td>
<td>4</td>
</tr>
<tr>
<td>The opportunity to develop an excellent team</td>
<td>3.35</td>
<td>5-6</td>
</tr>
<tr>
<td>Personal security and job ensured</td>
<td>3.35</td>
<td>5-6</td>
</tr>
<tr>
<td>Flexible working time</td>
<td>3.23</td>
<td>7</td>
</tr>
<tr>
<td>Money and wealth earned on the job</td>
<td>2.73</td>
<td>8</td>
</tr>
</tbody>
</table>

*Source*: Kotar (2006)

Regarding financing Slovenian family firms are inclined to use to a larger degree the financial resources of founders and their family members, they tend to reinvest their own profits. Commercial banks are found to be a stronger source of family firm financing as opposed to non-family firms (Vadnjal & Glas 2003; Glas et al. 2005). Family firms are more reluctant to accept non-family equity finance (Vadnjal & Glas 2003). There were almost no statistical significant differences regarding the attitude of the founding and succeeding generation regarding external investors. Both generations do not prefer external investors and they do not consider sharing the ownership with key employees as a challenge (Glas et al. 2005).

4. FAMILY BUSINESSES: THEIR STRENGTHS AND WEAKNESSES

Slovenian researchers mostly defined family businesses along the dimensions analysed by Handler (1989), allowing the surveyed businesses to determine by themselves whether they should be considered family businesses. Lovšin Kozina (2006) checked the understanding of different aspects of a firm to be classified as a family business. She found three most important aspects: ownership (83% of firms), providing an income for the family (87%) and keeping management positions (87%); intentions to keep the business in the family and to employ family members were the next. Vadnjal (2005) extended the approach of Birley & Godfrey (2000) using lists of attitudes and views of businesses to classify them in three clusters.
<table>
<thead>
<tr>
<th>Type of businesses</th>
<th>PRIMA research</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family In (strong family values)</td>
<td>27.7</td>
<td>40.7</td>
</tr>
<tr>
<td>Balancing Family and Business</td>
<td>37.5</td>
<td>27.5</td>
</tr>
<tr>
<td>Family Out (business values dominating)</td>
<td>34.8</td>
<td>31.9</td>
</tr>
</tbody>
</table>

*Source: Vadnjal (2005)*

The analysis shows that the share of businesses expressing dominating family values is higher in Slovenia than in developed countries (table 4). By their characteristic behaviour, grouped in three types of businesses with cluster analysis, some 68% of firms in Slovenia may be considered as family firms.

The core aspects of family firms were first analysed by Vadnjal (1996). He studied the motivation to start one’s own businesses and autonomy (88% of firms) and achievement (81%) were by far the most important motives followed by goal fulfilment (72%), dissatisfaction with work in previous jobs (32%) and higher earnings (36%). Lovšin (2000) found autonomy, usually the dominant motive of Slovenian entrepreneurs who do not seem to be very opportunity-driven, to be even more important, followed by achievement. Family entrepreneurs highly valued the possibility to work with family members and the opportunity to fulfil some personal goals, whereas earnings ranked low on the list.

Vadnjal (1996) analysed the strengths and weaknesses of family firms (table 5) compiled by some authors, e.g. Leach (1993), Lank (1994), Donnelley (1988) and de Vries & Steinberg (1993). Two strengths resulting from the high loyalty of family members to their firms dominate, while the next four ranking strengths are also closely related to the nature of governance or management of family businesses. Family pride and brand credibility did not score highly. A very important weakness of Slovenian family firms is the lack of preparation for the transfer of the business. According to research results succession is not always planned even though the strong wish exists that the firm remains in the family (Glas & Mirtič 2003; Duh & Tominc 2005).
Family businesses have difficulties overcoming their conservative attitude to the management style and financing which is confirmed also in Vadnjal & Glas (2003 and 2008). Due to the informal system of decision making (Glas 2003) and low educational level (Glas & Vadnjal 2004; Glas et al. 2005) family firms’ owners-managers do not possess (or not enough) knowledge on family firms’ governance and management (including knowledge on some family firm specific tools like family constitution, family council, family assembly etc.)

5. GOALS OF FAMILY BUSINESSES

Slovenian family firms are quite self-conscious and evaluate their business position as very good. Herle (2003) found that 43.8% of entrepreneurs considered their family firms to have a better competitive position than other firms in the industry and 46.9% thought they were better than others in the local environment. They only admitted being inferior to competitors from EU countries (23.4%) but even here 7.8% thought they outperform the EU competition. Herle (2003) collected views as to what should be considered a successful family firm.

Pure financial outcomes do not represent the most important measures of success. Still, even 96.9% regard their family business as successful. Most important is the fulfillment of family goals and enabling a smooth transition. Herle (2003) ranked eight groups of success factors of family businesses, with each group consisting of 2-5 components. Again, the most important is the distinction between family and business roles with the highest value for the component that conflicts in business should be resolved assuming that everybody is aware of their business role or responsibility. Family business is not understood as an entirely business concern, it is the family’s ‘treasure’. However, family members should act competently in the favour of the firm’s

### Table 5

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Points</th>
<th>Weaknesses</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Strong devotion to firm and family</td>
<td>80</td>
<td>Emotional influence on business</td>
<td>59</td>
</tr>
<tr>
<td>2 Flexibility: time, work, money</td>
<td>72</td>
<td>Authority not clearly defined</td>
<td>59</td>
</tr>
<tr>
<td>3 Fast decision-making</td>
<td>41</td>
<td>Financial appetites of family members</td>
<td>43</td>
</tr>
<tr>
<td>4 Long-term thinking</td>
<td>40</td>
<td>Conflicts among family members</td>
<td>42</td>
</tr>
<tr>
<td>5 Abundant specific know-how transferred across generations</td>
<td>39</td>
<td>Relatives pressing for jobs</td>
<td>41</td>
</tr>
<tr>
<td>6 Security for the family</td>
<td>37</td>
<td>Family name compromised</td>
<td>38</td>
</tr>
<tr>
<td>7 Dependability and pride</td>
<td>26</td>
<td>Transition to the next generation</td>
<td>32</td>
</tr>
<tr>
<td>8 Improved relations between family members</td>
<td>25</td>
<td>Employing family members</td>
<td>28</td>
</tr>
<tr>
<td>9 Credibility of the family brand</td>
<td>19</td>
<td>Rigidity</td>
<td>21</td>
</tr>
<tr>
<td>10 Stability of the culture</td>
<td>11</td>
<td>Conservative management style</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Vadnjal (1996)*
success. Dynamics, flexibility, communications and listening are valued higher than pure planning procedures, although families are aware of the complexities of the transition and conflict resolution.

Table 6

Definition of a successful family business (first five out of the 10 listed)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Successful family firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Family members are able to separate their family roles from their position in the family business</td>
</tr>
<tr>
<td>2</td>
<td>Successful transition into the next generation with no serious troubles</td>
</tr>
<tr>
<td>3</td>
<td>Ability to satisfy the personal and financial goals of family members</td>
</tr>
<tr>
<td>4</td>
<td>A business that steadily increases sales</td>
</tr>
<tr>
<td>5</td>
<td>A business that realises its founder’s vision</td>
</tr>
</tbody>
</table>


Lovšin Kozina (2006) provided a different list of objectives where the comparison of family and non-family businesses did not reveal a different pattern, except that family firms tend to create jobs for family members. Still, the stability was by far the most important motive, more exposed in family firms, followed by growth, sales revenues and profits.

Vadnjal (2005) tried to measure the level of satisfaction of family entrepreneurs with different views of running a firm using 23 different parameters of success as suggested in the literature, from purely financial ones to psychological features. Non-financial parameters rank highly, especially customer satisfaction, the quality of products/services and autonomy and personal freedom; growth potential is less important (entrepreneurial firms are most interested in this issue) and financial returns are low on the list. Families/firms trying to balance family and business values are least satisfied. Slovenian firms are generally not very concerned with financial performance which may be interpreted as being more focused on customer satisfaction and the quality of products/services.

5. CONFLICTS IN FAMILY BUSINESSES

Slovenian families are quite reluctant to openly discuss conflicts so researchers have mostly avoided this issue. Vadnjal (1996) identified several differences between generations on these issues that might turn into conflicts. The differences in views suggest potential conflicts, however only a few large differences exist, mostly on the absence of formal decision-making criteria and the different interests of family members in the business.

Herle (2003) found a high level of confidence of founders in being able to resolve family problems which could cause personal problems in a positive way (91%). Lovšin (2000) identified potential sources of conflicts in (different) attitudes mostly to taking on debt, price determination and growth issues, development of new products, and remuneration.

Bratkovič et al. (2009) say that the entrepreneur’s wife has a significant influence on the family firm’s network performing and that she is present in all cliques that are formed in the entrepreneur’s network, which allows her to obtain information.
from different sources, and to influence the decision making process in the network. Spouse is also well connected with other network members, and is crucial in the resource-information acquisition process for the entrepreneur’s firm. Furthermore, her central position in the network’s structure gives her the power to reach other network members more quickly. She can reach other persons at shorter path distances than the entrepreneur or other members, and is therefore an important information provider for the entrepreneur’s network.

Table 7
Problems of Slovenian family businesses as seen by both generations

<table>
<thead>
<tr>
<th>Rank</th>
<th>Problem</th>
<th>Founder</th>
<th>Heir</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>Disagreement in business as the source of personal conflicts</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>1-2</td>
<td>Business is also discussed during free time</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>3</td>
<td>Unable to separate business and private affairs</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>4</td>
<td>Family members do not have the know-how needed</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>5-6</td>
<td>All problems are solved within the family circle only</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>5-6</td>
<td>All family members are not equally interested</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>7</td>
<td>We are not successful in co-ordinating family and private roles</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>8</td>
<td>We too often leave problems to be resolved by themselves</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td>9</td>
<td>All problems come from the outside (market, governments etc.)</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>10</td>
<td>We do not have formal decision-making system</td>
<td>3.4</td>
<td>2.9</td>
</tr>
<tr>
<td>11</td>
<td>Some family members are not interested in the business</td>
<td>3.6</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Vadnjal (1996)

6. PLANNING PROCEDURES IN FAMILY BUSINESSES

The research and professional literature quite extensively covers the issues of planning in family businesses but the practical implications are often far from these theoretical recommendations. Herle (2003) studied strategic planning in family businesses. Although Slovenian family firms lacked high degree of formalisation and planning attitudes, they did reasonably well on some aspects of planning, in particular on strategic issues:
- Slovenians plan to retain the firm in the family’s ownership regarding this as one measure of success. They expect the younger generation to take over (desired by 77% of family firms worldwide (Lovšin Kozina 2006) but 66% allow that only where their children want to do this);
- they mostly lack written plans for transition; also, most of them do not have formalised procedures defined like job descriptions – most of them are quite small and a large share is not already subject to a succession process in the near future;
only a few have already chosen the heir but they mostly do not have plans for heirs’
development; however, many founders are still not close to the transition age;
for many situations they do not have solutions ready; instead, there is a lot of
improvisation and suboptimal solutions present;
the leaving generation is mostly well provided for (pensions, life insurance);
most of businesses do not have written and systematic business plans for the
future; however, they are well aware of strategic business challenges and have
started the process of getting the firm ready to face these challenges.
Family firms share the common attitude of small businesses to avoid the
formalisation of practice in management, but there is high level of intuition involved
about the strategic challenges. Still, a systematic approach would be recommended
since many family businesses are facing the tough challenges of EU competition,
globalisation pressures and the need to improve business operations to survive in the
long run (Lovsin Kozina 2006).
Family entrepreneurs share very different feelings about the capability of the family
firm to survive some unexpected situations without shocks. Slovenian firms are not very
eager to plan. The barriers to planning and managing firm and personal affairs are
mostly justified (Herle 2003) with the lack of time. This assumes the circular reasoning
since the planning is crucial to make firm more effective. Second barrier is the lack of
know-how, weak experience, personal character and lack of family support, while low
quality of staff and external advisers and bureaucratic legal system are only marginally
important.

Table 8
The ability of family firms to operate also in adverse situations (in %)

<table>
<thead>
<tr>
<th>Aspects of the firms ability to operate</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm does not depend only on my decisions</td>
<td>46.9</td>
</tr>
<tr>
<td>Many important responsibilities are delegated to other key staff</td>
<td>62.5</td>
</tr>
<tr>
<td>Firm has sufficient money and other resources to survive a recession</td>
<td>82.8</td>
</tr>
<tr>
<td>Management can lead the firm also in my absence</td>
<td>54.7</td>
</tr>
<tr>
<td>In the past, I have resolved all situations creating tensions among employees</td>
<td>84.4</td>
</tr>
<tr>
<td>Firm can go on also without me</td>
<td>75.0</td>
</tr>
</tbody>
</table>


The lack of formal structure is seen from the situation with the family
constitution: 41% have not even thought about creating such a document, 34% rely on
an oral agreement only, 16% decide on the rules on ‘case by case’ approach and only
9% have a written document (Herle 2003). The vision of family firm is mostly related to
the business success and family.
8. CONCLUSIONS

We have surveyed the most important research done on family firms in Slovenia. It is quite a recent phenomenon since family firms were on rise since 1990. The lack of the tradition in family firm management is obvious although, generally, Slovenian family firms are not radically different from their peers in neighbouring countries with longer tradition (Duh, 1999). Critical comments could be mostly focused on the issues of methodology applied (Glas et al., 2006):
- there were mostly no systematic sampling procedures used since no database on family firms exist and often some private lists of family businesses were used;
- geographically, some regions dominated in the research; however, we have no reasons to expect very different behaviour of family firms in other regions;
- from the rather small samples at the start the research developed into samples of the size that enabled the use of more sophisticated techniques of factor analysis and clustering;
- researchers relied on some questionnaires developed and tried by other international researchers; sometimes, own survey instruments were developed; however, no systematic use of certain survey instruments could be found.

The research was mostly based on the families’ self-definition of being family firms and only in some cases their definition has been checked by ownership and management aspects. The motivation for the research resulted from the efforts to produce empirical contents for the theses at different levels of scientific rigor. The research on family businesses in Slovenia has produced quite an important body of knowledge about the behaviour of Slovenian family businesses. Unfortunately, this knowledge has not been used properly to create the legislation in the area of succession. Also, there is the gap in the counselling and other professional service supply to family businesses.

On the research, more has still to be done about some issues, starting from the thorough assessment of the economic role of family businesses in job creation and value added. The issues of conflict resolution in family businesses and of fairness and justice in the succession process have not been studied in detail. More research has to be done on “soft” issues, on the role of women in family businesses, the relationships among siblings. Also, the research has focused mostly on founders and their successors, not a lot has been done on other persons in family businesses. No researcher has studied the failed businesses and frustration generated.

The research on family businesses could contribute more to their development by the dissemination of findings to family businesses in order to avoid some common mistakes, by the application of these findings in the legislation concerning the succession in family firms and in the counselling to family businesses.

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IDEAS AND CONTRIBUTIONS REGARDING MANAGEMENT IN THE PROJECT “ACCESS TO STRUCTURAL FUNDS FOR SOCIAL PARTNERS”

Solomia ANDRES¹
Anda Nicoleta ONETIU²

ABSTRACT
The paper presents a few contributions brought to practice by the project “Access to structural funds for social partners”, in the quality of expert trainer, the experiences that have generated useful ideas to the project manager, which were sent every month under the form of conceived instruments, personally processed and analyzed together with the members of the project implementation team: a guide of programming the training activity in the project management domain and the accessing to structural funds, a guide of courses and seminars evaluation, an evaluation for students and a guide for a narrative rapport regarding the activity development as an expert trained. These instruments have represented useful priorities in the appreciation of the specialty knowledge level of the target group of this project – B.N.S. members from the Caras-Severin branch, members of the project implementation team, informers, knowledge and professional development distributors in the domain of project implementation and implicitly of the method project based management in conditions of efficiency and success.

KEY WORDS: management, method, project, evaluation.

JEL: M10

1. INTRODUCTION
The complexity of contemporary problems to which science must find theoretical-methodological and operational solutions has imposed, with a greater frequency, terms as “management” and “project, presenting a series of definitions, methods and instruments, convergent, complementary or with a high degree of divergence (Solomia Andres (2009)). In this context, management through projects is a management system with limited action duration, conceived for the purpose of solving

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some complex problems, but precisely defined, with a strong innovational character, which implicates the aid of a large area of specialist from different organizational subdivisions and the temporary integration into an autonomous organizational network. The problem of finding the appropriate means to attract money from the European Union in Romanian projects is a present one, authorities and even some private investors have become aware that the moment is unique and must be speculated.

The steak is enormous. Romania has the chance to enjoy the use of some European funds post-adhesion, but it must present viable projects in order to access these funds.

The project is defined as being a “collection of activities of a different nature, tied between them, managed in an organized manner, which have a beginning and an end clearly defined and which are led to the obtaining of certain results that satisfy the needs of the organization (Pantea M. et al. (2006)). General management and financial management for financing projects with a financing from the European Social fund represents a true challenge even for professionals, due to the normative frame insufficiently adapted, to incomplete procedure and to a non-unitary practice of the institutions involved in the implementation of the Fund, of the project and implicitly of the management method. Being confronted with these situations for more than a year, and especially in the project financed by the European Social Fund “Access to structural funds for social partners”, I have proposed myself to support the members of the implementation team and of the management team of this project in their cause to offer quality services in a successful implementation of this project financed by ESF.

2. CONTRIBUTIONS TO THE IMPLEMENTATION OF THE PROJECT

The presentation modality of these contributions represents in fact an offprint from the guide conceived for the narrative rapport that was presented to the project manager, which has as component parts instrument proposed for the monthly analysis.

2.1. Guide for a Narrative Rapport

During the month of June 2010, I have participated in two meetings with the implementation team of the projects at the BNS level, the Caras-Severin branch in order to know find out the results of the evaluation of the anterior seminars and to improve the activity in the domain; another activity proposed for that month was the implementation of activity no. 2 – Introductive Seminar – Structural Funds in Romania, in the project “Access to structural funds for social partners” by the informing, by teaching new information and by implementing a professional development for 60 students, divided into groups of 30 in two stages for three days. The activity was developed at the Culture House in Resita in 08, 09, 10, respectively 22, 23, 24 of June 2010, the schedule being between 14 hours and 21- each work day including three socialization breaks which did not exceed one hour, according to the schedule proposed:
### Table 1
Days 08, 22 June 2010

<table>
<thead>
<tr>
<th>Duration</th>
<th>Activity</th>
</tr>
</thead>
</table>
| 90 min.  | A brief presentation of the project, of the introductive seminary and of the work schedule; the presentation of the participants to the seminary. **EU development politics**  
- politics and objectives  
- financial means, structural and complementary instruments |
| 30 min.  | Coffee break |
| 90 min.  | - Structural funds: European Fund of Regional Development; European Social Fund  
- Cohesion Fund  
- Complementary Funds: European Fund for Agriculture and Rural Development; European Fund for Fishing |
| 15 min.  | Break |
| 90 min.  | - Intervention domains: FEDR, FSE, FC, FEADR, FEP  
| 15 min.  | Break |
| 90 min.  | Financial assistance for Romania:  
- National Strategic Frame of Reference 2007-2013  
- National Plan for Development 2007-2013  
Day evaluation |

### Table 2
Days 09, 23 June 2010

<table>
<thead>
<tr>
<th>Duration</th>
<th>Activity</th>
</tr>
</thead>
</table>
| 90 min.  | A brief presentation of the project, of the introductive seminary and of the work schedule; the presentation of the participants to the seminary. **EU development politics**  
- politics and objectives  
- financial means, structural and complementary instruments |
| 30 min.  | Coffee break |
| 90 min.  | - Structural funds: European Fund of Regional Development; European Social Fund  
- Cohesion Fund  
- Complementary Funds: European Fund for Agriculture and Rural Development; European Fund for Fishing |
| 15 min.  | Break |
| 90 min.  | - Intervention domains: FEDR, FSE, FC, FEADR, FEP  
| 15 min.  | Break |
| 90 min.  | Financial assistance for Romania:  
- National Strategic Frame of Reference 2007-2013  
- National Plan for Development 2007-2013  
Day evaluation |
Before courses were started, I have analyzed the data and the information regarding the students in order to identify the level of specialty knowledge in the structural funds domain, the information necessary for the knowing of aspects in which we have to insist and to offer explanations, for the choosing of correct teaching methods, for the underlining of the training possibilities for students into small groups or into teams, supervised discussions, role playing and exercises of energizing at the beginning of each course.

During the 8th and 22nd of June 2010, after the presentation of the project, of the introductive seminary, of the work schedule and of the participants to the seminary were distributed together the members of the team and the printed course to all the participants.

Then I proceeded with the presentation of the course theme for that day according to the schedule presented, using: a PowerPoint presentation, verbal teaching methods (description, explanation, conversation, collective discussion) by permanently following the student’s implication in the activity dedicated to discovery of capacities and the interest manifested for the EU development politics domain, of financial means, structural and complementary instruments, necessary to the implementation of those politics. The daily evaluation reflected the exhaustion of the thematic proposed with the clarification of problems raised by the students, receptivity to the methods used by the lecturer and in general, availability for the students’ training in supervised discussions and interactive debates.
During the 9th and the 23rd June 2010 I continued the seminar according to a previous energizing exercise, then using the PowerPoint presentation, for the detailing of the objectives of the National Plan for Development 2007 – 2013, of thematic priorities of the National Strategic Frame of reference for operational programs, explaining the role of each management authority, an intermediary organism of these programs and procedures of financial allocation, opportunity with which we could also approach intuitive methods, exemplification and demonstration. From the daily evaluation we observed that the objectives of the thematic proposed was reached and that there was availability for collective discussions.

During the 10th and the 24th June 2010, the seminar began with the students’ training in an energizing exercise in order to capture their attention for the future presentation of operational programs and priority axes for transport, environment, regional, development of human resources, a development of economic competitiveness, development of the administrative capacity and technical assistance, insisting mainly in the last 90 minutes on the financial assistance offered to small and medium enterprises from Structural Funds for the period 2007 – 2013. I have identified the risks for the management of these projects and have explained the key points the accessing of Structural Funds and cohesion by using intuitive methods – demonstration, example and action methods – problematic, algorithms, a differentiated treatment for the learning of aptitudes specific to projects, but also verbal methods for the training into collective discussions and experience exchange, following the capacity of teamwork, the interest for writing or for managing such a project, the availability for realizing of supervised discussions and interactive debates. I have realized the daily evaluation to observe the objectives proposed for these thematic have been reached, the interest manifested by the students with priority for the key lessons in project management and key points in the accessing of structural and cohesion funds – the eligible beneficiary, the eligible project, co-financing, necessary documentation and steps taken for the obtaining of financing. At the end students received the forms for the seminar evaluation.

The final conclusions, which also take into consideration the results of the student’s evaluation for, realized for the purpose of knowing and differentiating the student’s potential, capacities and interest for this domain, are presented in the following paragraphs.

**2.2 Form guide for the student’s evaluation**

1. Which is the student’s specialty knowledge level (European institutions, pre-adhesion/post-adhesion funds, structural funds; European Social Fund, POSDRU)?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

2. How do you appreciate the experience gained by the student in his professional development: a) as participant

<table>
<thead>
<tr>
<th>Experienced</th>
<th>Advanced</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

3. How do you appreciate the experience gained by the student in his professional development: b) as lecturer
4. Experience in writing projects:

<table>
<thead>
<tr>
<th>Experienced</th>
<th>Advanced</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

5. Experience in project management:

<table>
<thead>
<tr>
<th>Experienced</th>
<th>Advanced</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

6. Availability for training in supervised discussions and interactive debates

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

7. Receptivity to methods used by the lecturer: verbal (descriptions, explanations, conversations, collective and supervised discussions), intuitive (demonstrations), action (exemplification, problematic, differentiated treatment etc.)

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

8. Capacity to work in a team

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

9. Interest in writing and managing projects

<table>
<thead>
<tr>
<th>Extremely great</th>
<th>Significant</th>
<th>More than before the seminary</th>
<th>A little bit more than before the seminary</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

10. Compliance to the seminary schedule:

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

In sustaining the conclusions presented I have attached a number of 60 forms for evaluation and the results of their processing as affixes to the Narrative rapport transmitted every month.

2.3. Form guide for the seminary evaluation

The participants were asked to mark with x the answers to the questions presented in the evaluation questionnaire presented.
1. What is your opinion regarding the location chosen for this seminary?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

2. How do you consider the informational content of the seminary?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

3. How do you appreciate the instruction method used (the teaching style)?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

4. What is your opinion regarding the course/seminary materials presented?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

5. In general, how would you evaluate the structure of the seminary?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

6. Do you consider that this session has brought a plus-value to your knowledge in the domain presented in this seminary? In what measure?

<table>
<thead>
<tr>
<th>Extremely great</th>
<th>Significant</th>
<th>More than before the seminary</th>
<th>A little bit more than before the seminary</th>
<th>Not at all</th>
</tr>
</thead>
</table>

7. How would you appreciate the possibility offered by this seminary to interact with the other participants?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

8. Do you consider you had sufficient time to address questions to your instructor?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

9. Do you have any suggestions for other information/instruction activities resembling the introductive seminary you participated at? If so, which are these?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

10. How would you evaluate the introductive seminary in general?

<table>
<thead>
<tr>
<th>Extremely good</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

In case you have other observations/comments regarding the seminary: ……

Thank you!
3. CONCLUSIONS

The instruments proposed have been conceived by the target group, these were easy to fill in and in the same time relevant in offering complete and correct information to the implementation team and to the project manager, representing the basis of the decisions taken after the event in order to continue and improve the activities developed for a successful implementation of this project. This is why “I consider that these instruments can be recommended to those interested in this domain”.

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***www.infoeuropa.ro
***http://europa.eu.int/comm/enlargement/financial_assistance.htm
 TOURISM AND ITS ROLE IN THE ECONOMY, UNDER THE CURRENT CONTEXT

Marius BOIŢĂ¹
Emilia CONSTANTIN²
Daniela BOIŢĂ – GRIGORE³

ABSTRACT

Tourism is a phenomenon which is a separate field of activity, a critical component of social and economic life and which is constantly evolving under the influence of changes in contemporary civilization. Currently, efforts of the specialists of the domain are moving to determine with scientific rigor the content of tourism, its interdependencies with other elements of the economy. Tourism activity is among the economic, social, cultural, political and educational form, which has been enforced in modern times, its spectacular development constituting a characteristic feature of this period.

KEYWORDS: tourism, rural tourism, balneary tourism, tourist, agro tourism, tourism market, tourism marketing

JEL: Q00, Q01

1. INTRODUCTION

Tourism activity is leisure travel for recreation. This notion was expanded in the last years to include any travel outside the area where one lives or works, from day trips to holidays abroad.

Tourism is among the few phenomena that were enforced in our times, its development being a spectacular feature of the XX and XXI centuries. The term tourism has a complex content as possible, experts giving it different meanings. Starting from its origin, the term designates a return trip to the point of departure, as it can be found in most widely used language.

The two forms of tourism can provide opportunities for developing and economic and financial efficiency and from the social point of view both contribute to improving population health and the quality of life of people, each with its specific, however.

One of the most comprehensive definitions of tourism generally accepted worldwide, is the one of the Swiss Professor Dr. W. Hunziker: “Tourism is all the relationships and phenomena resulting from the movement and stay of persons outside their homes as long as the stay and movement are motivated by a permanent

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³ Romania, val_cire@yahoo.com
establishment and any gainful activity”. (Cojocaru (1995))

Lack of proper and accepted definition is a continuous source of discontent for tourism planners and analysts. Yet data sources that support the development of tourism analysis, depends on achieving a consensus regarding appropriate definitions for tourism, tourist and other correlative terms. From the perspective of the history of the economic thinking on the area of travel and recreation, the first definition of tourist is given in 1876 in the Universal Dictionary of the nineteenth century, that the tourist is “a person who travels for pleasure travel only (to be able to say that he traveled). (Cosmescu (1998)) From this point on, the terms “tourist" and later “travel" have gained a wide acceptance and use. Although linguistic speaking, the term was awkward, it was unanimously accepted for its shortness, its full meaning, grammatical flexibility (the easiness with which families could form words) and similarity in all major languages.

What is the cause in fact for the need to explain the content of tourism? The main need to define precisely tourism arose from the need to establish appropriate statistical standards. Also, there were legal and administrative considerations (Cojocaru (1995)).

2. THE PLACE AND ROLE OF TOURISM IN THE ECONOMY

Between 1960 and 1970, Romania has made efforts to develop tourism infrastructure, but most were concentrated on the shore of the Black Sea.

In 1971 it established the Ministry of Tourism to operate several organizations specializing in travel services in areas such as Brasov, Bucharest and the Black Sea. Romania was a country easily accessible to Western European countries and offered a cheap alternative to Greece and Spain.

In 1994, the National Association of Rural, Ecological and Cultural Tourism (ANTREC) tried to promote the rural tourism, both for visitors and for those who host it, by implementing a program offering tourist accommodation capacities promoted through a national network of reservation for accommodation.

On the place and role of tourism in national economy, the literature shows that it has "a considerable impact on economies, societies and cultures of the reference countries" (Pierre (1986)).

2.1 Tourism and sustainable economic growth

Tourism and travel is an activity with a high growth rate that is expected to develop business at a rate of 4, 2% per year, globally, in real terms, over the next 10 years. For Romania, tourism and business travel is expected to increase by 7.9% per year, in real terms, during 2007-2016. Tourism and travel is an intensive human resource, creating quality jobs that cover the entire spectrum of employment. In 2006, one of 11, 5 jobs were generated by travel and tourism economy.

Travel and tourism economy is 8, 7% of global employment.

Today there are 76, 7 million jobs in tourism and travel industry and 234, 3 million jobs in tourism and travel economy and they are set to rise to 89, 5 respectively 279, 3 million by 2016. Tourism and travel industry in the European Union is expected to generate 8, 6 million jobs in 2011 (4, 2% of total employment), while the broader travel and tourism economy will be 23, 8 million jobs (11, 8%).

Employment in the travel economy in Romania is estimated at 485,000 jobs in
2011-5, 8% of total employment or one in 17, 4 jobs.

By 2016 they should increase to 570,000 jobs - 6, 9% in total employment or one in 14.4 jobs. The current 250,000 jobs in tourism and travel industry accounts for 3.1% of total employment and provided a total of 315,000, or 3, 8% of total by 2016.

Exports of tourism and travel sector in the EU are expected to represent 13% of total exports of 2011. In Romania, exports constitute a large part of tourism and travel sector in GDP formation.

Of the total Romanian exports, tourism and travel sector is expected to generate 5, 2% (6, 4 billion RON or 1, 9 billion USD) in 2011, increasing to 28, 8 billion RON or 4, 7 billion USD (4, 6% of total) by 2016.

Tourism and travel sector is a catalyst for construction and the manufacturing industry. In 2011, public and private sectors together is expected to spend $ 1 trillion worldwide on new capital investment in tourism and travel sector - 9, 3% of total investment - rising to 2,1 trillion dollars, or 9, 6% of the total in 2016. In the EU, capital investment in tourism and travel sector is provided at 241, 4 billion USD in 2011, or 8, 6% of total regional capital investment.

Capital investment in tourism and travel sector in Romania is estimated at 5, 3 billion RON - 1, 5 billion USD or 7, 2% of total investment in 2011. By 2016 it should reach 15, 8 billion RON - 2, 6 billion USD or 7, 5% of the total. Tourism and travel sector is both a generator and a recipient of government funds. Globally, in 2011, tourism and travel sector is expected to raise 300, 2 billion dollars or 3, 8% of the total government spending. By 2016, government spending on tourism and travel sector should increase to 480, 9 billion USD - 4% of total government spending.

Government current expenditure in the tourism and travel sector, in Romania, in 2011 is provided at a total of 0, 9 billion RON (263 million dollars) - or 4, 3% of total government spending. In 2016, these costs are projected to grow at 1, 8 billion RON (290 million dollars), or 4, 5% of total government spending.

2.2 The economic impacts of tourism in the current Romanian context

One of the recommendations made to our country in a televised interview, by the renowned American professor Philip Kotler from Kellogg School of Management at Northwestern University in May 2005 at the Conference held at the Parliament Palace, was, besides increasing exports, increase investment in certain areas and on "attracting as many tourists as possible, adding that tourism can become a representative field for Romania, especially in the current EU act."

Industrialized societies are characterized by a deep concentration of population in urban centers, in which, on small areas, there are agglomerations of different activities (industrial, construction, transport, etc.), which at some point create the need to escape, to radically change the environment, the color shift from predominantly gray (construction, asphalt) to predominantly green (nature).

To summarize, it can be said that among the factors favoring the expansion of tourist practice we can notes:

− Increasing leisure time caused by increasing labor productivity;
− Development of transport, allowing easier and less expensive travel for tourism purposes;
− Technological and nervous aggressiveness upon humans caused by modern society;
Transforming tourism into a strong point of social life, while in previous centuries was an incidental by-product of other motivations for travel: scientific discovery, pilgrimage, military conquests.

Type-intensive growth due to increasing macroeconomic indicators. After the quality of economic growth could be highlighted:

Negative growth which means reduction, in time, of the measuring indicative of recession;

Steady economic growth which means a size zero rate indicator of measurement or is also called zero growth or zero rate of replacement;

Balanced economic growth which is characterized by a positive rate of the indicator for measuring growth rates and additional in different sectors and branches, between the growth rates are kept constant relationship;

Effective growth we show a positive growth rate, the utilization of a particular input, being satisfactory;

The optimum economic growth shows that growth rate is positive and an appropriate optimization criterion is meat (either by maximizing or minimizing) the certain restrictive conditions, explicitly formulated.

2.3 Contribution of tourism to the economic growth process

Consisting mainly of benefit services, tourism is today one of the essential components of the tertiary sector, membership of the sector arising from the way of achieving some of its defining characteristics as mobility, dynamism and capacity to adapt to the requirements of each tourist, as well from the specificities of tourist product, these being the result of harmonious combination of more services with specific features and proper mechanisms. Before reviewing the implications and considerations of tourism activity on the economy and therefore on economic growth implicitly, it is required a short multifunctional approach of the travel phenomenon.

Thus, tourism is primarily a human experience, knowing how individuals make decisions about tourism products interchangeable, what information sources they use, how they evaluate this information and how they use their experience in making decisions on opting for a form of tourism, so all of them can offer significant advantages in business practice and how to know, use and capitalize of the experience on travel.

Secondly, tourism is a social behavior because human experience that has been noted previously, lived as a tourist, is usually shared to other people, and many decisions related to the tourism experience are influenced both by the psychology of the individual and by social experiences and the auto evaluation of the social role of the tourist. Third, tourism is a geographical phenomenon since moving from the starting point to destination is inherent in a tourist trip and geographical research knowledge supports tourism phenomenon by identifying and analyzing the existence of functional areas of tourism, this information may be used as a basis for development and evaluation of a geographic area.

Fourth, tourism is a business and a source of income for those working in this field but also to support settlements or tourist areas (receivers). Many municipalities are interested in adding to their inventory tourism business because it has the power to bring, through tourists, money from other regions with lower tourism opportunities. Finally, tourism is considered to be an industrial complex type, not just tens or
hundreds of individual businesses, but a real industry with important political implications. Specifically, it is a group of several related industries: transportation, accommodation, catering services, opportunities for enjoying in a pleasant way free time (leisure) and treatment services, retail, etc.

Related to the effects of tourism on the economy, the World Tourism Organization, in a study conducted in 1980, divided the effects into three categories namely:

- **Global effect:** the national economy in general, stimulating the labor production;
- **Partial effects:** on the balance of payments, exchange rate, money mass and money circulation, the distribution of income, regional development, rural environment, population movement;
- **External effects:** environmental quality, training, consumer habits, training and education, social and cultural change.

Sharing the view of experts, we can say that the implications and considerations highlight the economic importance of tourism to this area further argued as follows:

**a. Tourism - creator and user of national income**

Training and stimulating the tourism production, causes an increase of production which is reflected as a contribution to gross domestic product creation. The positive impact of tourism on national income is highlighted by the process of "export of tourists’ which provides more advantageous recovery of national resources and domestic labor. In the case of our country, in terms of percentage value added of tourism both in relation to GDP and total value added sectors, corresponds to very low values, as is apparent.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP) mil. Lei (RON) at current prices</td>
<td>80377, 3</td>
<td>116768, 7</td>
<td>151475, 1</td>
<td>197564, 8</td>
<td>246468, 8</td>
<td>288047, 8</td>
</tr>
<tr>
<td>Domestic product from hotels and restaurants mil. Lei (RON) at current prices</td>
<td>1904, 2</td>
<td>2459, 0</td>
<td>3233, 8</td>
<td>3735, 6</td>
<td>4615, 0</td>
<td>6097, 1</td>
</tr>
<tr>
<td>Share of GDP from tourism in GDP (%)</td>
<td>2, 37</td>
<td>2, 11</td>
<td>2, 13</td>
<td>1, 89</td>
<td>1, 87</td>
<td>2, 12</td>
</tr>
</tbody>
</table>

*Source: NIS, Romanian Statistical Yearbook, 2009*

For population, tourism expenses are expenses above those of basic needs, such tourism is an instrument to regulate money circulation. With its help, the state brings back into circulation some of the money savings of the population, acting also on achieving the necessary balance between the quantity of goods and public services and institutions and the solvent demand of buyers.

**b. Tourism - a way to exploit resources**

Economic implications of tourism include elements aimed at a higher capitalization of resources involved in the tourist activity, particularly the natural (landscape, climate, water, flora and fauna), but anthropic as well; tourism being for many of it the only way for capitalization.

Tourist activity also provides, and the development of poorer areas in resources,
by making travel arrangements, encouraging local use of various resources to create jobs and better living conditions for residents. Therefore is emerging the role of tourism in economic and cultural development of those regions, even causing mutations in their development.

c. Tourism - factor of attenuation for inflationary phenomenon

Domestic and international tourism ensures balanced cash movement. Inflationary issues in tourism arise at the level of the areas with tourism development, through a higher condensation of the demand which leads to an accentuation of the seasonal fluctuations in prices, a significant discrepancy between the purchasing power of residents and tourists through increased food prices, accommodation for tourists / investors / foreign employees or on some products or services required more in those areas.

National and global inflationary pressure phenomenon is seen in the land price in tourist destination areas. In these areas, land price has increased rapidly, because tourists come to spend money investing in the economy and tourist area (host), so creating a sensitive inflationary pressure. With regard to international tourism, relevant is the process of enhancing national currency, the free convertibility, to be achieved by making the highest foreign exchange earnings, which would help to alleviate the deficit of the balance of payments. (Williams and Shaw (1998))

d. Tourism - a way to diversify economic structures

In connection with development and modernization of a country's economy, tourism manifest itself and as a mean of diversifying economic structures (Pierre (1986)) which means, on the one hand, the development of the existing structures as a result of the ongoing of tourism activities, with direct or indirect implications on them by increasing scale economic sectors designed to meet tourist demand, and secondly the creation of other industries because of new business of tourism: leisure, cableways, travel agents, production of handicraft and others.

Today tourism is a separate field of activity, a critical component of economic and social life for a growing number of countries around the world. Travelling is an activity that occurs at each level of education and income of the population. (Davidoff and Davidoff (1983))

Tourism is a complex activity involving a combination of material and psychological elements. Material elements consist of accommodation, transportation and attractions, and psychological elements are represented by a wide range of specific attitudes, human desires and emotions. (Foster (1985))

Defining tourism is a key step in its research and the existence of many definitions in relation to this phenomenon demonstrates the complexity and importance of tourism. Defining tourism is difficult and there must be given several key elements:

Tourism is statistically invisible - there are gaps in data recording of tourism in each country and globally;

There are different ways in each country to collect statistical data related to tourism; Data can differ from one country to another for various reasons: changes in boundaries, discontinuities in data collection, etc. (Williams and Shaw (1998))

In a first step tourism can be considered a form of recreation with other activities and forms of entertainment.

The concept of tourism is the process to move in order to visit various places and objectives, this involving and temporary stationary in the places of destination.
Thus we know that tourism is a service to which a number of characteristics are applied: immateriality, inseparability of a service provider and the individual user, heterogeneity or simultaneity of production and consumption (Pender (1999)).

Tourism covers production and consumption of goods and services which contribute to the heterogeneous needs of tourists, non-residents (Petcu (2005)).

Tourism principles include the following elements:

a. Tourism is a set of relationships and phenomena;

b. Two elements are fundamental: the journey to destination (dynamic component) and residence (Static element);

c. This type of activity takes place outside the place of residence;

d. the movement takes place in a short time;

e. Visiting the objectives takes place for various reasons, but permanent move to the area is excluded or engaging in a paid job;

f. the visitor will use local resources and services;

g. is not an entirely neutral process and may produce considerable advantages or disadvantages for the society.

3. CONCLUSIONS

Thus tourism can be seen as a phenomenon, not a production activity and as an experience or process, not a product (Theobold (2005)).

Over the years the content of the concept of tourism has changed and enriched with new elements, but tourism is a complex activity with a vast economic load that is positioned at the crossroads of many industries and economic sectors. The experience of the countries that practice tourism effectively demonstrates that the capitalization of tourism potential that has valuable isn’t automatically, but depends directly on investment and managerial capacity of agents from the sector and of the general strategy of state tourism.

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GLOBAL LABEL BRANDS COMPONENTS

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ABSTRACT
This paper analyses the main components of a brand or label: the physical component, the relational component and the mental component. These components have different periods of evolution, different development rhythm, but when correlated they realize the whole of the brand, giving a new significance and making it unmistakable. Regardless of their notoriety and the level of globalization, brands have all three components which they develop in a particular way insuring the singularity and their unique character. Each component has dimensions that insure the innovative potential of the brand.

KEY WORDS: physical component, relational component, mental component, brand capital, virtual capital.

JEL: M31, M37

Although extremely controversial, the brand is now a major concern for businesses almost an obsession. Bearing in itself a kind of social memory selectively shaped by each individual, it becomes a global matrix, a genome, which in many cases replaced the charismatic leaders who created it. The brand has now become the common denominator that allowed workers to unite, work together, to cross cultures to find consensus without which an enterprise can not exist.

Formed with the first forms of social organization, the brand has evolved, going through various stages, currently reaching a new dimension that makes it resemble a human being inside a trader. It is considered therefore that it develops on three levels: physically, emotionally and mentally. The complex subject who gives it individuality is such a different, offering a unique and specific that is unmistakable.

The three levels that are permanently developing are, in the opinion of some specialists, three real capitals, and centres of value creation in the economic sense (Ternisien, M. and Ternisier N., (2004)).

Thus, there are three components, considered in a certain sense the DNA of the brand:
- The physical component, associated to the ability of doing something, to skill, capacity- offering a product or service which is referential to the market, being different from the competition. The brand always becomes attached to a product or service and finds its whole dynamics in production.
- The relational (emotional) component which represents the capacity of the brand to realize affective connections with its public, creating bonds.
- The mental (imaginative) component, namely the capacity of proposing to its public a universe of representations and signs.

These components develop separately but are in a close interdependency creating complex and dynamic connections between them.

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The physical component: It is probably the most well defined, the oldest dimension, but currently the most difficult to detect. Translated, the concept includes a competence; an expert understanding, to know how to do something in one's own way, some specific know-how, some specific practices, and some bearing performance. A strong brand is always based on a job which he expresses in a particular way. In fact, she knows her skills to make something unique, that footprint is easily spotted. In this way its techniques, its standards which are imposed, make it completely different from the competition and render it unmistakable.

The component is usually based on the acquired knowledge after the passing of a time period, marked by experience and effort. This experience can be defined by the following aspects:

- Initiated and recognized practices
- Skill, craftsmanship, strategic endeavour
- Quality and one's own standards of it
- Innovation

These four aspects are combined and perpetuated in time, creating reputation.

This component is the most rational, logical, being directly related to the power that makes the trader to develop and strengthen their brand. Competence involves all the techniques and methods used, human resources, financial and marketing involved in creating brand value, allowing it to make a landmark reference.

For example, the brand Clarins has chosen profession and its power to define strategy as cosmetic care. In this regard, while the mark possess skills and aesthetic care. For this brand, beauty is always approached from the standpoint of health and aesthetic care, massage techniques and a vision is a particular advantage in using the products. Medical and paramedical resources skills are essential to making products from brand Clarins. Therefore, in the prospects of the products, there is a note that explains the massage techniques which are to be used in the same time with the application of the products.

The physical component is thus clearly distinguished by the expertise of physical therapy (which originally belonged to the founder) and in this case is the particular way of doing something. If we consider that one of the traditional functions of trade marks is another similar product differentiation, it is obvious that this dimension is what gives weight to a brand. One may say that a brand is not totally a label without its physical dimension, the competence being the founding pedestal of the value demand for a brand.

Strategic development of this size is considering an effort to clearly identify their expertise, to differentiate and to communicate. What is essential for a successful brand is its ability to express the different nature of this dimension to the competition. L'Oreal is considering its ability to investigate the molecular action of substances dermal-making expertise for its products, emphasizing the side that happens at the cellular level. In all its prospectuses that are brand emphasizes research in laboratories and willingness to democratize professional expertise. She always stresses that the products are subject to dermal-expertise, giving the impression that it is the only one who this distinguishes it from competition.

The Marc Renault brand has long been the focus of his competence in research, translated into the capability of its products. This strategy does not differentiate the competition, so that the mark stayed long in obscurity. In 2000, changed its brand strategy has been discussed a new strategy that was based on cultural identity and
French sophistication. Renault has chosen the design was refined as a way to seduce. His competencies are distinct in design, thus showing his vision to the car: in a world where technology is powerful, the design is the focus of the brand. It addresses such a style, tiered design dedicated to making strategic physical size of the mark.

Closely related to this dimension, as one aspect of its analysis, is quality. This notion of quality mark should not be confused with the concept of quality of products/services. To make the concept of quality is an overall perception that integrates all elements of marketing mix and overall development since it seeks to permanently install new competition standards on a periodical basis. Therefore, strong brands they define in a clear vision of quality standards to the quality of their own, and all these perceptions often become benchmarks for both consumers as well as weaker brands.

The relational (emotional) component: This commitment is based on the ability to create relationships. Relational component which shows the ability to attract public brand, create long term links. It is a kind of contract established brand, which it provides a certain performance. (By physical capital) that awakens enthusiasm, but the audience gives you the confidence and loyalty. A brand can succeed without reliable manifest, so to arouse respect and affection of his audience. When considering relational, it is envisaged:

• The capacity of the brand to recruit clients and keep them loyal
• The carrying out of the bonding
• The establishment of profound relations of belonging to a respective culture, social attitude
• The pursuit of material and spiritual benefit that is obtained by using the brand.

There are two major issues concern public commitment: the recruitment of new people and then retain them. The size of recruitment is considering renewing capacity permanently marking his audience. A mark may have a long life if it is able, during this period of time to seduce new generations constantly. Once these approach, operators can move towards achieving a set of actions, such as: designing catalogues, communications, brochures, collections, etc., through which it tightens the bonds with its clients, it offers information, and it consolidates the relations and stabilizes them.

The relational component refers now to move to brand liking; the brand linking, I mean, held at the brand loved the brand. It is all about connection with the mark of an attachment, which is expressed in relation to brand loyalty with the term purchase, even within the dependency (in extreme situations). Do not forget the fact that the attachment can be internal (of its own employees) and externally (its public).

Social attitude that is currently addressing global brands is a new approach, but inevitable. A brand anchored in everyday reality, a modern brand will promote the values enshrined in the social field: respect for the environment, respecting local culture, employment and involvement in the great cause of humanity. For example, Sodexho brand has addressed this aspect of the relational component through the Stop Hunger which involved large-scale operations and financial support to charities helping such underprivileged families, undernourished children, supporting disenfranchised persons. The American Apparel brand also has a strong and coherent program focused on the fight against child exploitation and to create normal working conditions for women. The Brand Shop brand is engaged in several strong themes: animal protection, human rights, environmental protection, valuing self-esteem.
When the relationship between trade and the public becomes more powerful interactivity is a close mutual client going to meet the mark by reading catalogues, participation in the communications, the adoption of behaviours, etc. It made such a mark real exchange of information, a report discussed with the client and finally a real community around the brand. These phenomena are easily observed in the relationship marketing policy, the consumer comes into contact with the brand, communicate with it to benefit from his advice, defining who is a member of the community has embraced and adopted the brand.

From these relationships, the consumer benefits have three levels: relational advantage, benefit emotionally and individual advantage. Relational advantage has to mark the respect and trust of the consumer responding to an objective assessment. These advantages help consumer comfort and calm him, set his confidence.

The emotional advantage is for those with aspirations towards the brand; it developed affectiveness in the relation between the brand and its public. This advantage creates preferences.

The individual advantage is inspirational in nature. It enables customers’ desire protection in the sense that they seek to define in terms of personality. This advantage allows the brand to play a reference.

The mental (imaginary) component: This involves the development of a vast universe and fully integrating the brand culture, its values, its system of signs of identity and personality. Being a complex component comprises a combination of factors that influence the perceived image. This component is located at the intersection of four dimensions: the cultural dimension of personality, reputation and size of the symbolic dimension. The cultural dimension includes all values, vision, mission and ethics of the mark. Culture should not be confused with the brand culture of the organization. Culture brand is always looking to put into practice to evolve with the world, changing parts, changes in habits and beliefs. It becomes a guide of the organizations culture, which owes its visibility and reputation. A strong brand has the ability to formulate clear values, vision and his belief in the eyes of both employees and to the audience. She also has a mobilizing dynamic.

The dimension of personality is a strong element of its strategic vision. Brand personality reflects how people feel about a brand rather than what I think the brand can do. It tries to customize strategic products and services to provide a history and personality. Brand personality preferences strengthen its audience, evoking emotions and increase loyalty. Therefore it is considered that this dimension reinforces and institutionalizes cultural dimension. These two dimensions are related to the personality dimension is always built in a cultural context, regardless of the degree of globalization of the brand. Placed in context, semiotic, brand personality can be defined as that set of cultural meanings connotated sign that characterize the brand as a mirror by reflecting prisms, which are products (or goods), the buyer and the brand in itself (Corbu N., (2009)). Brand personality is the most visible part of it, which translates into advertising communication, the tone you adopt, semantics, etc. Symbolic dimension includes all signs and codes by which a trademark is recognized. Size is a collection of all elements of brand identity: map graphics, colour range, style, marking system, vocabulary, underlying recognition and identity. The formula of the brand symbolism is translated through brand territory (Ternisien, M. and Ternisier N., (2004)). It is attention that marks their image a given, considering their need for identity management, a consistency that can be provided through a continuous effort but correlated. In this
context arises the notion of tracers of the mark, like all codes, signs and symbols through which identity is based, recognizes and aspires to make her purchase.

Size reputation is the most classic of the dimensions indicate the capacity to be a reference mark to market. Is well-known brand, nationally known for a very large audience, or a large part of the public interest? Yves Saint Gal states: The well-known brand is a brand that enjoys a significant reputation without question an exceptional celebrity (Tharreau, V., (2004)). It is clear, however, that reputation translates into extraordinary ability to cross cultures marks, to adapt to local peculiarities is always the same, however, to ensure uniqueness folds though all civilizations, while being unique and profoundly universal.

Developing these components has allowed brands to become a key factor for obtaining the status of the organization and thus earning the right to be. Branding is the mirror of organizations, social image that it tries to impose its products or services. Moreover it has become a form of intangible capital, virtual bearer identity and organizational performance. Therefore, interest in developing a brand is considered the premise organizations.

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CONSIDERATIONS ON THE QUALITY – MARKETING – HUMAN RESOURCES RELATION IN TOURISM

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ABSTRACT

The organisations dealing in tourism operate at present in very difficult conditions because of the present economic context, and their survival on the market is also difficult. Starting from this idea, we consider it extremely important to approach the concept of quality in general and the quality of tourism services in particular as a modality to reach the set goals and especially to create the competitive advantage on the longest term possible. Even in the present conditions, the consumers of touristic services have remained receptive to quality, aspect on which awareness should continue to be built and implemented by organisations with the help of the creation of efficient strategies having at their core the quality of the services provided to consumers.

KEY WORDS: quality, touristic organisations, internal marketing, interactive marketing, reliability of services,

JEL: M31

Along time the approaches of the quality concept have known a continual evolution. The existence of practices of quality management has been mentioned in the literature since Ancient Times, and as time passed by this concept has received different orientations, passing through four main periods (Garvin D, (2000)): inspection, scientific control of quality, quality assurance and strategic management of quality. If the first three periods are rather reactive and treat quality as a problem to solve, in the '80s a new perception of quality developed, regarded as a competition and strategic advantage, placing the strategic management at the top of the total quality management (Kaye M, (2003)). Since the beginning of the '50s of the previous century, quality has become a more and more frequently encountered notion in the business environment. According to SR EN ISO 9000/2000 quality is defined as being the “extent to which a set of intrinsic characteristics of a product / service satisfy the customers’ requirements” (Stephen W et al, (1991)). The opinions of the leaders of organisations providing touristic services about this definition is that it requires a re-adaptation to the strategic goals aimed at by the organisation and expresses the level of perception (the level of excellency) the organisation has decided to reach and maintain in order to satisfy the preferences of the target group. Thus, quality is the extent to which the organisations will succeed in complying with this strategic goal of first-rate importance.

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The providing of touristic services is characterised by an important weight of human work and consequently it is difficult to monitor only through a single system of marketing approach. That is why analysts think that along with the mix of the four classic marketing tools (product, price, promotion and place / distribution), in the services industry another two additional instruments become operational: internal marketing and interactive marketing.

*Internal marketing* intervenes when the organisation providing touristic services perfects and motivates the contacts of its human resources with the consumers, so that the entire staff (permanent and seasonal) should act unitarily. Consequently, starting from the main goal of the activities carried on, in order achieving the positive consumption experience and the realisation of a profitable activity, the entire staff should adopt an orientation towards them, otherwise the organisation risks to fail in getting the economic results it wishes. Thus, it follows that the organisations providing tourism services should not act exclusively in accordance with the classic marketing concept, the department within the organisational structure of the organisation must dispose of sufficient freedom of action to carry out their activity in accordance with their own concepts, but subordinated to the overall interests of the organisation.

Our opinion in this respect is that in any touristic organisation there must obligatory operate a marketing department able to solve the marketing issues of the organisation in general and of the human resources in particular. At present, very few touristic organisations in the country have such a department, with an optimum operation structure meant to help reach the marketing goals. Leonard Berry completes these ideas with reasoning. The most efficient contribution of a department to the good operation of an organisation is to be exceptionally intelligent in stimulating the subordinated human resources to make them accept and practice marketing (Berry L., (2002)).

*Interactive marketing* means that the quality level perceived by the customer largely depends on the interaction between the consumer and the service provider. If in the marketing of products quality is appreciated independently of the manner in which the respective goods have been procured, in the services market the quality of the services providing depends also on the hospitable or indifferent attitude towards the customer manifested by the services supplier. The consumer appreciates the quality level of services not only from the viewpoint of the technical quality, but also from the perspective of the functional quality (if the service provider has granted the expected importance, more precisely the importance pretended by a client towards the services received, and if the services offered inspire trust and confidence). Consequently, a professional provider cannot be sure to satisfy the customers only because he provided a high quality technical service, he must be also aware of the importance of the interaction between purchaser and vendor, attempting to find solutions for the application of the interactive marketing concept. In fact, practice attests that sometimes consumers may even be unaware of the technical quality side of services, as they focus especially on the functional quality of the services provided to them. In other cases, in the conception of the customers who consume services, the degree of satisfaction is interpreted through the prism of the subjective quality, but the treatment of services from this perspective only often proves to be an erroneous perspective from the part of the services provider and distributors. Nevertheless, it is equally wrong to assess the services from the perspective of objective quality only, the services producers being tempted to appreciate that they are the only ones in grade to define the content and
quality of the services provided. Or, in this case, the providers are no longer sensitive to the nuancing of their offers and orient themselves rather towards standardised services, leaving uncovered certain market segments for which objective quality is not acceptable, becoming practically inoperable. In exchange, for other market segments, the objective quality is a higher, inaccessible quality considering their limited purchasing power. The quality of the services and the preoccupations to persuade as many potential consumers as possible to accept the offers launched by providers require a balanced marketing strategy based on the concept of interaction between the orientation towards the “classic” marketing concept and towards the modern ones.

Within such logic, it becomes increasingly important to treat the economy of services also through the prism of an integrated perspective, starting from the very phase of the design of the services and stopping only in the phase of their consumption. Thus, in the industry of services, a close dependence is established among productiveness, quality and profitableness, dependence that cannot be ignored; when consumers will grasp the difference in the quality of the services offered, due to their consumption experiences, these differences will be obviously reflected in the level of the profits of the economic organisations providing touristic services.

In its capacity of main international institution in the field of tourism, the World Tourism Organisation (WTO) is invested by the United Nations Organisation with the central and decisive role in the encouragement of the development of a sustainable tourism, aware of its responsibilities and accessible to everyone, aiming mainly at contributing to the economic development, at a good international understanding, at prosperity and universal observance of human rights and fundamental liberties. In this respect, WTO has the role of catalyst, favouring the transfers of technology and international co-operation, stimulating and developing partnerships between the public and private sectors, and encouraging the application of the World Ethical Code in Tourism, so that the member states, touristic destinations and organisations could maximise the economic, social and cultural positive effects of tourism and fully profit from its advantages, reducing to a minimum the negative repercussions on society and the environment. In its working programme, WTO understands the quality of tourism as being the “result of a process involving the satisfaction of all legitimate needs, requirements and expectations of consumers as regards the products and services, at an acceptable price, in accordance with the contract conditions of a mutual agreement and the adjacent determinants of quality which are security and protection, hygiene, accessibility, transparency, authenticity and harmonisation of the respective touristic activity with the human and natural environment” (The WTO Support Committee for Quality, (2003)). The analysis of each of the terms used in this definition suggests complete measures that may be assessed against the quality criteria. The maintaining of the sustainable development of tourism requires the management of the environmental and social-economic consequences, the setting of environmental indicators and the maintaining of the quality of the touristic products and markets. There can be no sustainable tourism without quality.

Starting from this idea, in our opinion the quality of the services provided should obligatorily include the quality of the human resources providing the touristic services. If the natural resources and the touristic infrastructure are of high quality, then the human resources too should be of high quality, in order to provide high-quality services.
The analysis of the deployment manner of the touristic services providing allows the highlighting of the following essential aspects, influencing in a positive or negative sense the quality of services:

- The process of providing touristic services has the character of commercial transactions between the offeror that delivers the services, generally associated in diverse proportions with the consumption or use of certain specific products, and the tourist – the beneficiary of the respective services;

- Due to their variability, the concept of the touristic services differs from one service providing to the other. In other words, in most situations the services provided bear a print of uniqueness, and their performance should be made in accordance with the personalised preferences of customers.

- The relations between the human resources of the organisation providing touristic services and their customers are interactive relations and consequently the relations between vendor and purchaser express the manner in which the quality of the service provided is perceived by both partners of the transactions. The quality of the services depend both on the supplier of touristic services and on the quality of the service performance. The customer perceives quality not only from the technical viewpoint, but also from the functional perspective. In the customers’ perception there are usually three levels of qualitative assessments of services, grouped, according to the order of their difficulty of evaluation, as follows:

  - The desired quality refers to the characteristics of the services desired that the customer has encountered and found and that he can assess before their consumption;
  - the experimental quality refers to the features of the services that the customer can evaluate during and after their consumption;
  - the credible quality afferent to the characteristics the customer cannot assess correctly not even after consumption, but for which he manifests much confidence.

In accordance to this typology, the customers grant more importance to the experimental quality of consumption and to the credible quality of services.

- In most cases, the customer appreciates in a subjective manner the quality of the service performance by comparison with other similar situations of consumption experienced in the past. From this viewpoint, in the case of a customised providing of services one may distinguish diverse subjective degrees of quality assessment, i.e.:

  - excellent services – if in the consumer’s opinion the perception of the received services exceeds the quality level of the services performance he expects;
  - quality services – if the customer’s expectations are in agreement with the level of the provider’s promises and / or if his expectations correspond to the quality level of the services the consumer has benefited from before in similar situations;
  - services appreciated as satisfactory from the quality perspective – if in certain situations, pressing for the customer’s needs, some utilities offered by the services prevail as important; in these cases the customer accepts as satisfactory the mediocre quality of services, if in his perception the services provided fall within the admissible range of a tolerance area (the grey area), correlated with the tariffs perceived;
  - qualitatively inappropriate services – if the consumer, through the prism of his past experience, appreciates that the services received are situated below the level of his expectations in relation with the tariff paid.

The reliability of the touristic services constitutes a major issue for the appreciation of the quality of the services provided. In general terms, reliability represents the ability of services to be offered and provided in an uninterrupted manner,
in the logical sequence of their consumption. Although a substituted service will have superior features by comparison with the initially scheduled services, it will generate the desired satisfaction neither for the tourist nor for the provider, to a certain extent. Consequently, a touristic service is considered reliable if it was offered correctly, on the dates when it was required, according to the destination for which it was conceived and offered. Thus, the reliability of the entire touristic product will depend in fact on the reliability of its components. Certainly, the significance and importance of these characteristics vary considerably from one situation to another, according to the nature and temporal, spatial and structural dimensions of each service provided to the consumers. Consequently, the ISO 9004-2/1994 standard recommends the clear definition of the concept of “service”, both from the point of view of the characteristics observable by the customer, and from the viewpoint of the characteristics that are not always remarked by the customer, that influence directly the service performance.

One of the modalities through which the organisations providing touristic services may differentiate themselves from other organisations of the competition consists in adopting the total quality management focused on the providing of services of higher quality compared to those supplied by the competition. The analysts' studies have proved along time that the consumers’ satisfaction is influenced by the remarkable quality of services, which in its turn influences the purchasing intentions. Because of the inseparable character of production and consumption of services, quality must be defined both on the basis of the process of the touristic service providing, and of the proper results expressed in the consumer’ satisfaction. Consequently, the solution in the issue of measuring the service quality is constituted by the determination of the manner in which consumers assess the services they benefited from. In other words, the consumers’ appreciations are the results of certain comparisons between the customers’ expectations and the real performances of the services. In order to obtain a differentiated advantage, the touristic services providers must improve quality aiming at exceeding the consumers’ expectations in the perception of quality. For this purpose, the touristic organisations must identify: what are the main factors determining the quality of the service/services provided?; what are the expectations of the consumers making appeal to the services of the touristic organisation?; the manner in which consumers assess the services offered by the organisation compared to their expectations.

A survey elaborated by the analysts A. Parasuraman, V.A. Zeithaml and L.L. Berry highlights the existence of ten determinant factors in the perception of a service, starting from the criteria used by consumers for the assessment of the respective service. These factors are:

- accessibility (the service is accessible and offered in due time);
- credibility (the organisation providing touristic services is reliable);
- the awareness degree (the services supplier knows and understands the consumers' needs);
- trust (the service is trustworthy and the consumer has confidence in it);
- safety (the customer is convinced that the service required is safe and does not involve risks);
- competence (the staff is competent, has the necessary training and knowledge to provide a quality service);
- communication (how well the provider has explained and communicated the content of the respective touristic service);
• politeness and kindness (the personnel is polite and attentive to the desires formulated by the customer)
  • sensitivity (the staff is hospitable, prompt and rapid in providing the service);
• the aspects of the physical evidence of the touristic service performance (the staff, the ambience, the technical endowment and other attributes reflecting a high quality);

The first five determinant factors of quality above refer to the quality of the result of the touristic services, and the last five refer to the quality of the proper touristic performance. Consequently, in order to supply a quality service, the provider should focus upon the ensemble of the ten dimensions triggering quality.

The awareness regarding the customer's needs and the capacity to supply useful touristic services are the result of the activities of the top management of the touristic organisation through different marketing tools they use. Grace to these measures the customers' confidence in the supplier increases and the mistrust in the quality of the touristic performance decreases.

When the consumer has confidence in the supplier, he expects the service required to be safe and risk-free. The credibility may be thus improved through interactive communication, in the process of service providing, through publicity and the achievement of positive consumption experiences.

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GENDER INCONSISTENCIES IN ENTREPRENEURSHIP

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ABSTRACT

Although female entrepreneurship in Romania is at its beginnings, there are already many associations focused on promoting access for women in business. They make material educational and informational resources available to its members. The stronger and more representative the organization is, its power of influence on the statutory authorities is much higher. Entrepreneurship refers to people, to their choices and their actions to begin, to take or pursue a business or their involvement in decision-making strategy in a firm. Entrepreneurs are a heterogeneous group and come from all over the world.

KEY WORDS: entrepreneurship, competitiveness, female entrepreneurship, behavior, motivation, business world.

JEL: M13, M14

1. INTRODUCTION

In terms of personality, women and men entrepreneurs match the classic profile of success proving courage, energy, discipline, goals orientation, enthusiasm, innovation, persistence, passion, vision, customer orientation and willingness to work with self-sacrifice. Compared with men, women tend to be more balanced, flexible and tolerant, more realistic. Some researchers have shown women being more cautious, less confident, less aggressive and more easily convinced with lower skills of leadership and resolve issues when making decisions involves some risks.

However, women were described as more dependent on those around them and taking greater care towards others. The trend towards ethical behavior is stronger in women and is less likely for women to break promises, to take advantage from confidential information and provide incentives for the conclusion of business. The most researched informal institutional factors that impact on entrepreneurial activity of women are: fear of failure and the impact of entrepreneurial examples on women's decisions to set up a business.

An important informal institutional factor is linked to the entrepreneurial role models. One way to learn entrepreneurship is the experience of other people who have their own business. Examples of studies on female entrepreneurship, which examines the effects of business models are those of the authors of Lerner et al (1997), Dhaliwal (2000), Levent et al (2003), Arenius and Minnie (2004) or Lituchy and Reavly (2004). The business model was considered a factor that facilitated the decision to go into

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However, women, a minority population in the entrepreneurial world, have less entrepreneurial models than men.

2. FEMALE ENTREPRENEURSHIP IN CARAS-SEVERIN

In our county, although progress has been made in recent years, however there isn’t still an entrepreneurial culture, therefore, state institutions, academic institutions and SMEs acknowledge the need to proceed in this direction. Limited number of studies on entrepreneurship in Romania, made the business itself remain in a continuous state of inferiority (through the lack of resources available to universities and government agencies).

Services provided by such organizations are of a very wide range: support to start a business, training, access to know-how, advice on the difficulties arising in the entrepreneurship activity, building a network for members to share experiences. In "National and Regional Women Entrepreneurs' Networks" (national and regional networks of women entrepreneur), Prof. Mariana Dragusin identifies associations aimed at promoting female entrepreneurship in Romania.

Dragusin notes that the process of creating networks among women in business in our country is “surprisingly large and dynamic”. In a short period of time, 20 associations have been established across the country. Distribution by region associations of women is relatively homogeneous, with the exception of Bucharest. The situation reflects efforts to increase the potential of women in each region. The largest number of associations is concentrated in Bucharest (35%), the region with the highest number of SMEs and women entrepreneurs.

Women entrepreneur association is a necessity, because these associations can defend and promote business women's rights, in a world where business and top management are concepts associated with men rather than women. Association membership and involvement in its activities play an important role in increasing the number of women who establish businesses, and also contributing to their success in developing businesses.

At the end of 2007, in Caras-Severin there were 8239 small and medium enterprises. Regarding gender, almost half of them, a number of 3928 firms, representing 47.68% of the total have women as associates. In absolute terms, 4355 women of the county are associated to various companies in the county. Within the entrepreneurship revolution in the business world, women are an essential component. In recent decades, women entrepreneurs were brought into discussion, in many studies, comparing women and men entrepreneurs. In urban areas there are 3446 women associated to 3089 SMEs and in rural areas are 909 women belonging to a number of 839 firms.

Women make a substantial contribution to the proper administration of the company, fact which also strengthened by figures. County Office of Trade Register reported at the end of 2007 a total of 3198 administrator women in 3010 business units. 84% of administrator women are in urban areas and only 16% in rural areas, a matter to be speculated when the forming female students will give courses. The decision to start a business for women is more complex, they were usually closer to family obligations than men. Women, especially those with young children are more prone to mention the flexibility and family issues as reason for opening their own business. The reason men have, shows a low connection with the marital status. Points
and the motivation to start their own business are similar for men and women. Both sexes have a strong interest for the company.

Although the increasing number of women owned businesses is encouraging, their size is reduced in terms of earnings and number of employees, compared to men’s businesses. As already indicated, women specialize with predilection in the services and retail, where businesses are relatively lower as number of employees and earnings, compared to the fields of construction, production and top technology.

The main funding programs aim to promote growth and create jobs for the local economy and SMEs play the main role in achieving these objectives. The variety of programs allows a multitude of opportunities, the role of this tool is to help SMEs to find opportunities that best suit their particular situation. The tool allows a quick and easy access to information about opportunities within all programs relevant to SMEs. To act as a catalyst for private investors and increase the provision of guarantees to SMEs, public institutions have developed programs to support them to cover the range of instruments, from micro-credit to venture capital.

Typical studies on women entrepreneur focus on their distinctive individual characteristics (motivation, personality, experience) or on the characteristics of companies set up by them (the size of the companies, sectors of activity, style of management, strategies adopted by women, performance of women led businesses). In the absence of a study aimed at behavior and motivation of entrepreneur women, in Caras-Severin, we shall focus on a national research, which also includes the entrepreneur women of Caras.

In the paper "Scientific research - means of proving the complexity of the phenomenon of female entrepreneurship", Prof. Marina Dragusin was rendering the portrait of entrepreneur women, resulting from the research of the economic literature. Studies on female entrepreneurship indicates that, although the two genders are similar, women entrepreneur differ from men through motivations, the ability for business and occupational history.

3. CONCLUSIONS

Women are generally motivated by needs for independence and achievement, resulting from frustrations related work. In contrast, men tend to be driven by the desire to have control, to undertake new things.

Creating small businesses in Caras-Severin, is limited because they are few people who have private equity and banking systems offer very limited access to capital. Where this expertise was noted, they created businesses that have used sound effectively valuable management resources, and where access to Western markets was possible some positive results were achieved.

There is an increasing sense of insecurity, anxiety, despite many significant achievements of our time. In addition, the transition to a global society is questioned and marked by numerous enhancing intercultural identities, giving rise at the same time to a tendency towards a kind of a global civilization.
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RELEVANT PROBLEMS OF DEVELOPMENT MANAGING OF HIGH EDUCATED HUMAN RESOURCES IN SERBIA

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ABSTRACT
Serbia represents one of the leading emigration countries in Europe. About 2.4 million of emigrants and their descendants live in overseas countries. Approximately one million of them live in West European states. It means that every seventh person of Serbian origin, as the most vital and working active part of the population, doesn’t live in Serbia. Emigration tendencies of high-educated scientific human resources from Serbia started at the beginning of 90’s of the last century and this fact represents a considerable problem for Serbia. The most important reasons of this social phenomenon, known as ‘brain waste’ or ‘brain drain’, as well as eventual activities in solving the problem of management within the area of high-educated human resources development in Serbia, are presented in this paper. The results of the questionnaire, which has been done among the students of the Department for Industrial Management of the Technical Faculty at Bor, the University of Belgrade, are presented too, as a contribution to consideration of the mentioned problems.

KEY WORDS: human resources, “brain drain”, high education, management

JEL: M10, M12

1. INTRODUCTION

The rough transition occurrences during the last decade of the last century, mainly in east-European countries, led to development of many scientific works within new interdisciplinary field called „transitology“. As its name indicates, its main task is analysing of transition legality, both political and economic, from one (socialist) system into another (democratic).

Generalizing distinctive occurrences that have been noticed in transition experiences in east-European countries, the transition model suggested by Vaclav Klaus¹ contains three separate secular phases:

1) The first phase is the liberalization phase. It is characterized by relative budget and monetary stability, followed by internal convertibility with very restrictive fiscal and monetary policy. The term liberalization assumes free pricing and free foreign trade exchange. It is not favorable to have secular sub-phases within this phase, because due to danger from forming the opposite interest groups it is recommended to conduct this phase by application of shock therapy.

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2) The second phase could be called the phase of negative reactions on the previous phase. It is extremely hard period of time; when due to inflation increase, high unemployment rate and drastic decrease of life standard, intense and large protests occur. It is all followed by significant fall of gross national product. The privatization process is accelerated to its maximum, but without urge from the state to achieve maximum incomes from privatization. Klaus insists to, within this phase and at all cost, continue implementation of adopted strategy, with application of so called ‘planed guiding’. There must be no oscillation, partial measures, and going backwards. The recommendation is to lead reasonable social policy, with all due respect to social groups that are short term losers in the transition process.

3) The third phase is a kind of early post-transition phase. The third phase is reached only if a model in the previous phase was successful. Specificity for this phase is that the state abandons planed guiding and retreats into passive position, engaging explicitly on protection of economic freedom. Basic power levers are already in the hands of the market itself¹.

It is more than obvious that transition in Serbia is being conducted by Vaclav Klaus model and that the country is at the moment in specific mid-phase. According to the increased level of expressed dissatisfaction Serbia is already in the second phase, and at the same time it seems that Serbia has not finished yet all tasks envisaged by the previous phase. Obviously it is the right moment for rising questions with a goal to search for a possible elegant by-solution, which anyway fits into anticipated chronology of Klaus’s modes, which announces reassessment during transition, though in negative connotation.

Namely, the process of economic transition in this area began in former Yugoslavia in 1988 and 1989 during the time of Ante Marković, as the prime minister and economic strategist. At that time there was no Vaclav Klaus model, and the reform gave satisfying starting results (as it is known it was stopped due to totally non-economic reasons).

2. MIGRATION OF HIGHLY PROFESSIONAL AND SCIENTIFIC HUMAN RESOURCE UNDER THE CONDITIONS OF GLOBALIZATION AND TRANSITION

2.1. Globalization and problem of “Brain Drain”

Nowadays the labour market for most becomes unique – global. It functions on demand and supply principle. Students from less developed countries continue their studies at specialist and doctoral levels at universities of developed countries and a lot of them stay there, while multinational companies from developed countries spread their businesses in the countries that these students come from. For their business, these companies look for new work force at new market to spread and maintain growth and performance of high quality. On the first sight everything looks balanced: some go -some come and international cooperation is maintained in this way. But is it really harmonized? Unfortunately, behind these operations there is a totally unbalanced relation between these two systems. Therefore, each developed country has made its own special analysis to determine the state balance on realization of brain drain and brain gain. “The Brain Drain”, in encyclopedia Britannica is defined as “exodus of educated people or professionals from one country economic sector to other countries
because of better earnings or better life conditions. The British Royal Society used this term to explain flux of scientists and technologists to USA and Canada during 1950-1960. 

Accordingly, Canada is the winner in the brain flux compared to the rest of the world, except USA. Its total balance is positive. There are countries that do not deal with this problem at all or they do it in ineffectively. Let’s look into different cases and possible defense strategies, since Serbia is one of these countries.

In research of migration of highly educated scientific human resources following typical occurrences could be differentiated²:

- the brain gain presents a great gain for countries – destination of highly educated human resources (with no expenses for education and training they get necessary high quality human resources, usually at the best life and work age);
- the brain waste presents a considerable loss to many countries when highly educated labour does not find employment in industries where they could show their potentials. In this way these countries are producers of the brain waste and consequently they lose assets invested in education since these assets cannot be returned through work of educated people. Such a situation makes a losing circle;
- the brain re-gain is a situation when potentials of highly educated emigrants are in some way used in the country of their origin – whether through their return or through establishing certain collaboration within various economic or cultural activities; and
- the brain flight is a situation of massive departure of highly educated human resource from the country.

2.2 The Brain waste – exodus of highly educated human resource

What is actually assumed under the term “brain waste”- exodus of highly educated human resource – intellectual migration”? The volume perception of this social phenomenon, as well as the structure of migrants, depends on determining of this phenomenon. However, statistics of some migration countries often define this term differently. Grečić³ concludes that there is no widely accepted definition of migration of highly education human resource in literature. Uneven international terminology complicates comparative analysis of this phenomenon and perception of its real dimensions and characteristics and usually, the same categories of workers under the basic term have not been assumed. This phenomenon in Serbian literature³ is called the brain exodus which lately indicates migration of highly educated and expert labour force, namely, scientists, engineers and doctors, into developed countries, with intention permanent settling in the destination countries.

In the conducted research, Grečić³ however narrows the basic term and dimension of this phenomenon by questioning researchers in scientific institutions, science-research institutes, and also research-development units in the Republic of Serbia with a goal to determine the number, professional structure and level of scientific potential of researchers who emigrated. Therefore, the object of that research is “the cream” of highly educated emigrants, those who professed scientific-research work.

The “exodus” of highly educated human resource is universal phenomenon. This is a problem that influences more or less all countries, but former socialist countries especially. Since 1989 and the fall of the Berlin wall, former socialist countries have
faced the problem of overflow of highly educated human resource abroad (‘massive intellectual migration’), which is especially characteristic for the former USSR.

As it is shown in Fig.1, 12,434 highly educated human resources migrated from East European countries to USA in the period 1990-1993. In 1993, 3,423 highly educated professional left former USSR and migrated into USA. The emigration list consists of the following countries: Bulgaria 176, former Czech Republic 187, Hungary 200, Poland 5,909 and Romania 487. Poland has largely supplied USA with highly educated human resource. That year other countries also registered emigration of highly educated professionals who immigrated into USA: China (11,056), India (7,973) and Philippines (7,974). Beside these and other data, it can be seen that intensity of exodus is in direct connection with economic situation in the country of origin of highly educated professionals. This phenomenon has tendency to grow, meaning that the voluntary migrations share in the total volume of migration of highly educated professional is growing.

According to data of the UN economic commission for Europe the total migration from former socialist countries amounted 2,285,000-2,735,000 individuals in the period 1991-1993 (Figure 2). Most of them left states of the former USSR (1,000,000 to 1,100,000 individuals). Republics of the former Socialist Federal Republic of Yugoslavia follow the leading USSR with 800,000 to 1,000,000 individuals, Albania 200,000 to 300,000 and Romania 150,000 to 200,000 individuals. The list of other countries with considerably smaller emigration is the following one: Bulgaria (40,000), former Czechoslovakia (25,000), Hungary (20,000) and Poland (50,000). The largest number of immigrating population from countries of Central and East Europe and from the territories of the former USSR found refuge in the Federal Republic of Germany - 1,502,000 individuals (total). During this period, 2,535,000 individuals emigrated from five former socialist countries of east Europe, former USSR and former Yugoslavia, where 1,033,000 individuals emigrated.
During the period from 1986 to 1990, around 60,000 individuals with high school and university education left Africa. According to the World Bank data over 23,000 highly educated individuals leave Africa each year. Most usually they immigrate to their former colonial countries. Beside Great Britain, France, Holland and Portugal, Middle East countries as Saudi Arabia, Kuwait and Emirates are also attractive destination. Inter-African migration is also significant – usual destination is the South African Republic because of significantly higher standard and economic development.

Today in EU and USA live and work over 35,000 doctors who were born in some of African countries. They will not return to Africa, because they would be “wasted”. At the other hand Africa would hardly progress without them, although multinational companies from Europe and USA have been present there for 400 years. There are many countries scattered over other continents with similar problems to those African. Such an example is India where gifted individuals come back from USA, however the rate of their return is 30 times smaller from the number that is at the same time being “pumped” into USA. This concept does not give a solution and could be renamed into “perpetual mobile of the first kind”. So it could be concluded that the brain drain is a reality in global dimensions.

The Brain Circulation is applied in Japan and South Korea. Both countries send gifted individuals to USA, but later they return home because of favourable possibilities for further development. If it is only Japan, any explanation would be unnecessary, but are the countries of similar gross national product and development. South Korea is in that sense completely different, although registering the same trend as Japan. It may be concluded that beside gross national product and development, the cultural model plays very important role, meaning that South Korea creates the possibilities for those who return to continue research, development and show entrepreneurship spirit at home.
3. DEVELOPMENT OF THE PROBLEMS OF HIGHLY EDUCATED HUMAN RESCOURSE IN SERBIA

3.1 Yugoslav and Serbian exodus of scientific and technical human resource

Period before socialist transition: Serbia is known as traditionally emigrant country. Migrations among Yugoslav nations have long pre-history; it dates from times of Turkish invasion in 14th century and lasts until today. Due to the problem topic, especially for Serbian nation, migrations can be divided into following types: historical, psychological and economic. Historical reasons are primarily related to Turkish invasion and Serbian resistance after which retaliation followed. The main psychological reasons for this type of migration were ferocity of foreign reign, religious intolerance and uncertainty of property and assets. And finally, beside these reasons, there was a difficult moral-economic situation created by foreign reign.

The economic migrations in Serbia and other Yugoslav nations have been present mostly in the last 100-150 years. They can be defined as migration of the people searching for better life – the migration from so called “passive areas” caused by economic reasons, big unemployment, agrarian overpopulation and late development of production power and late industrialization. Chronologically this type of migration can be classified into several periods. The first wave of emigration took place from the most naturally impoverished areas of ex Yugoslavia (Dalmatia, Herzegovina, Monte Negro, Macedonia) before the First World War and was mostly directed to transatlantic countries (United States, Canada, Chile, Argentina, Australia, and New Zealand), sparsely inhabited areas that had big free areas for settlement. A migration curiosity presents the fact that the Kingdom of Serbia was not a subject of mass emigration in that period, but on the contrary, the country of immigration of qualified technical workforce mostly from Slovenia as a part of Austro Hungarian Monarchy. Thus considerable number of experienced Slovenian miners, qualified industrial workers, railway machinists and other qualified staff, including physicians, immigrated to Serbia from 1840s to 1914.

During the mid-war period, intensive Yugoslav migrations (mostly from Herzegovina, Dalmatia and Macedonia) to transatlantic countries continued and lasted until big crises during 1929-1933. As the crises grew, immigration decreased leading to irreversible process, especially in the USA during the period 1932-1935. That was the time when inner-European migrations were getting stronger, and the main migration country was France.

Immediately after Second World War in 1945, a new form of emigration occurred in Yugoslavia and Serbia; it was mixed political and economical emigration. It is divided into two groups:

- the first group of emigrants consisted of several thousand war prisoners from the Kingdom of Yugoslavia - mostly from Serbia. They were located in Germany and Austria. Many of them, after attractive offers on better life prospective overseas,

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1 In 1840s the Principality of Serbia started mining activities on several locations assisted by companies from Austro-Hungarian Monarchy. Due to relatively small language difference between Slovenian and Serbian language, managements of these companies encouraged experienced Slovenian miners and other qualified workers to immigrate to Serbia and take positions of mine foremen, deputies and instructors in mines and processing plants in Serbia.
decided not to return to the country of their origin but to immigrate to USA, Australia or Canada, thus they are considered economic emigrants.

- the other group of emigrants was made by thousands of enemy collaborationists and political opponents of the communism that succeeded to leave Yugoslavia and reach Austria and Italy where they surrendered to British and American troops and were situated to concentration centers from where they, as the Yugoslav political emigration, were sent to Australia, USA, Canada or Argentina.

After a certain pause occurring after the Second World War due to so called “iron curtain of communist reign”, migrations during sixties reached large scale again and moved towards developed countries of West Europe. The biggest part of the emigration wave of the time was made of rural population (near 50%), semi-qualified and non-qualified workers; however the number of qualified and high qualified human resources was not negligible. At the end of sixties, almost one million people from the Socialist Federal Republic of Yugoslavia emigrated. The ratio between employees in the country and abroad was 100 employed in the country to app. 15 employed abroad of which half were young workers under 40 years of age.

This migration reached peak at the end of sixties and rapidly decreased at the time of oil crises (1973-1975.). Economic recession, caused by oil crises led to strong increase of unemployment in all European countries, and that phenomenon has continued after the crises and lasted until nowadays.

Period from 1980 until 1990: According to 1981 census, 17.000 citizens with advanced professional and university education were employed abroad, or 2,3% of total number of citizens older than 15 years of age. Data from American census in 1980 show that there were 14.000 individuals of the Yugoslav origin with completed four year university studies, and more than half of that number were individuals under 44 years of age. According to Australian 1981 census data, the active number of people of the Yugoslav origin with university degrees was 3.5%, i.e. 2900.

Grečić estimated that, around 25.000 highly educated individuals born in our country, lived in the USA. Among them technical intelligence prevailed. As far as West European countries are concerned, he assumes that they count at least 12.000.

Beginning of nineties: In the context of preparation of the government measures, a research with the theme “Our scientist and experts abroad” was carried out by the Institute for international policy and economy in Belgrade, with a goal to establish a database on scientists of Serbian origin who live and work abroad. According to the first results within the project, during the period 1979-1992 the total of 828 scientists and researchers left Serbia, of which 181 had doctoral degrees and 156 were with titles of science master. Data were gained by survey (questionnaire) carried out at all universities, scientific institutes and research development units (there were 304 science-research units in Serbia), where at the time of this survey there were 4052 doctors of science and 2403 master of science employed, as well as. i.e. 11014 science workers and researchers.

‘Brain drain’ from Serbia during late nineties: The last decade of the twentieth century brought many changes that marked the world – especially Europe and started a tremendous wave of migrations. They were new according to what caused them, by characteristics of migrants and especially new according to the character of migrations themselves. Today’s migrations are more often a way of work force mobility, and not emigration-immigration of population. Those new migrations, especially in Europe,
mean crossing state borders, but not necessary to leave the country completely. Quite a large percent of migrants work abroad just to improve their life quality and rise the living standard of their families without permanent leaving of their country or living environment. We had in mind frequent migrations in frontier areas of East and West European countries (Poland, Czech Republic, Slovak Republic Germany, Hungary, Austria, Slovenia, Italy and similar), which created special migration area not bound, but intersected by state borders⁶.

Migrations of citizens from Serbia during nineties were different compared to the migrations from 1960-1980. They became distinctly massive in a way of enforced emigration of significant part of the population of all ages due to disintegration of the Socialist Federal Republic Yugoslavia and war activities as consequences that followed after it. However, migrations during nineties were also massive in a sense of massive emigrations of work capable citizens of younger age due to the above mentioned reasons that caused a distinctive decline of socio-economic activities and life standard of Serbia and other republics of the ex Yugoslavia. During this period of time a significant number of citizens from Yugoslavia emigrated to the countries of EU – mostly to Germany, Austria, Sweden, France, Norway, Italy and Greece. Some of them settled in other European countries as Hungary, Czech and Slovak Republic, Cyprus etc. Finally emigrations to transatlantic countries were not negligible (USA, Canada, Australia, New Zealand and even South Africa), especially when it is known that a large number of rather young university graduate citizens were among them⁷.

The latest emigration, in the beginning of the XXI century, wave of qualified work force and high educated human resources is directed to Slovenia – the former Yugoslav republic that entered into EU in 2003 and being considered a developed country.

3.2. Migrations of high educated human resources towards Serbia

The migration of highly educated human resources towards Serbia could be considered in two forms - return of highly educated human resources from emigration and arrival of highly educated human resource from other countries.

The phenomenon of listed migrations could be a good sign due to:

a) a return of highly educated human resources from emigration would mean that state measures are giving positive results, creating good conditions for scientific research and research works, at least for resources that would significantly contribute to development of the country. This phenomenon does not necessary mean that significant economic and social development is achieved in the country, but the country is relaying on those resources from abroad for further development (examples for such migrations are India, South Korea, Turkey and other countries that have created conditions for return of their high educated human resources, mostly from USA, as direct measure for their own development), and

b) an arrival of high educated human resources from other countries into Serbia could be achieved only if high level of social and economic development is achieved. That phenomenon exists even now – a smaller number of highly educated human resources from East European countries immigrate to our country because of slightly better conditions. However, it is noticed, that the majority of these arrivals have more-less transitional state since the intention of the migrants is to immigrate to developed countries of EU, USA, Canada, Australia etc.
The fact itself, that Serbia is still attractive for highly educated human resources from some East European countries, means that Serbia has development chances that must be protected and developed. The conclusion remains that first sign of economic growth should be seen through return of highly educated human resources from emigration. Therefore, proper orientation to further technological development relaying on human resources in emigration may cause their massive return into the country. Such entrance into the “club of developed countries” would be marked by migration of highly educated human resources from the countries of EU or other ones of the developed world.

Economic migrations from Serbia in earlier decades mostly meant departure of mainly spare, less educated resources. Today’s emigration means the loss of necessary, high educated human resources in which the state has invested significant assets which have not been returned so far. Then, the emigrants from earlier decades, so called “guests workers” on provisional work abroad sent significant amounts of foreign currency into the country and in that way increased available foreign currency in the country. Today’s emigrants take their foreign currency out of the country (including foreign currency gained by selling their real estate and other assets). Also, earlier emigrants mostly were unemployed in Serbia so their departure significantly softened unemployment issues. As it can be seen from data, that almost half of today’s emigrants from Serbia (47%) were employed while they were in the country. It is significant to mention the fact from the survey, that these individuals, in 70% of cases, are employed abroad, although some of them below their qualifications.

4. THE RESULTS OF THE SURVEY DONE AT TECHNICAL FACULTY IN BOR

Having in mind the aforementioned facts and researches, similar survey was conducted within this work at the Technical Faculty in Bor, a part of the University of Belgrade, during school 2007-2008 year on 146 examinees, including students of all years at the Department for Industrial Management.

The questionnaire included following questions:
1. Do you think of leaving the country after finishing studies?
2. Would you leave the country?
3. What is the reason for temporary leave?
4. What urges you to leave the country?
5. Countries of possible choice
6. Channels for emigrating abroad

The results of this survey are shown in Figure 3 a-f.
a) Do you think of leaving the country after finishing studies?

- No, 53; 36%
- Yes, seriously, 22; 15%
- Yes, a little, 71; 49%

b) Would you leave the country?

- No answer, 47; 32%
- Permanently, 42; 29%
- Temporary, 57; 39%

c) What is the reason for temporary leave?

- No answer, 47; 32%
- Something else (Name what), 2; 1%
- High earnings, 54; 38%
- Good conditions for scientific research, 2; 1%
- Expert/scientific specialization, 14; 10%
- Obtaining work experiences, 27; 18%

d) What urges you to leave the country?

- No answer, 47; 32%
- Impossibility to find employment, 35; 24%
- Low life standard, 28; 19%
- Uncertainty, 13; 9%
Based on the research conducted at the Technical Faculty in Bor, it could be concluded that there is a passive position of students to leave the country and emigrate abroad. 15% students often think to emigrate, 49% of them only sometimes, and 36% does not think of it at all.

The most common answers to the question - what stimulates the students of this faculty to emigrate abroad, are low standard, uncertainty and impossibility to find employment.

The most common destinations are USA, Canada; however the interest for EU is also considerable.

5. MANAGEMENT OF HIGH EDUCATED HUMAN RESOURCES DEVELOPMENT IN SERBIA – A PROPOSAL OF MEASURES TO SOLVE THE EXISTING PROBLEM

Intellectual exodus is the problem that Serbian society is facing permanently. Its solution is not in partial measures or short term measures. The real solution is in profound long term policy. The reasons for such an approach are in numerous limitations standing on the way, from deep social and economic crises, significant unemployment, up to totally chaotic situation in economy that was left without its own sources for more dynamic development. Limiting factor is especially uncertain political future of the country seen through possible political stipulations and demands from
abroad which can result with certain limitations and decrease of investment in economic activities.

Listed limitations prompt strict selective approach to the problem - socially rational selection of priorities and determining optimal social consequences are certain issues that should be solved. From that point, global social actions would be pointed out, which in mid term deadlines (8 to 10 years) should get emphasized social priority. Following social activities are included in these global priorities:

First, strong confrontation with social crisis is necessary to find the right way to come out of it, the way that would lead to change of social climate creating apathy and no prospects today. Primary significance should be given to overcome the economic stagnation over many years, creating new fresh sources to accelerate economic development and selection of development priorities that would enable more thorough reconstruction of the existing production structure, its placement on higher and prosperous technological basis.

Second, development strategy should not force only material production, but also create assumptions for development of non-production branches, especially education, culture, health and science. Increased development of all activities should improve total economic and social development of the country, to influence improvement of social and life standard and create basis for systematic and permanent science and technological improvement.

Third, dynamic development is necessary but it is not enough to solve the heavy burden of big unemployment. Unemployment problems should become the starting point of all development plans and programs. Systematic solutions and measures of development policy which do not consider priority importance of this problem would inevitable miss their goal - they would be socially and economically unacceptable.

Fourth, having in mind that scientific-research work, especially those in the area of basic research, is one of prime factors for increasing general social work productivity and growth of total social wealth, substantial change of position of science and science workers becomes the first grade task, with the highest priority, in general and from the point of keeping young scientific human resources in the country. Today Serbia is passing through a stage of discussion about insufficient investments in science and equipping scientific work, which are far below the average of developed countries and even below average investments of the countries of similar development level. The significance of science is verbally respected, but very little has been done in a real social practice.

These global social activities should be accompanied with a whole complex of specific measures immediately directed towards slowing the emigration of highly educated human resources. Such specific measures include:

- Strengthening the existing scholarship funds for young talents, with identification of suitable moral and material obligations they have towards the country and institutions that take care about their expert specialization.
- Even more importance should be given to creation of new work positions and realistic conditions where young talented human resources could apply their expert knowledge and improve them even further. Open employment possibilities and more adequate work rating are necessary and prompt assumptions for their staying in the country.

It is necessary to elevate level and quality of university lectures, introducing teaching programs and new education models and above all strengthening of the
creation potential of the University and changing the attitude of the government towards the University. Entrance into new civilization era demands computer literacy, many forms of new knowledge and much higher level of education and culture. It is high time to think about establishing the Centre of excellence that already exists in most developed countries.

The society should create conditions for temporary leave of talented young experts for one or two years of specialization abroad, with a goal to have permanent knowledge innovations. Positive effects on the migration process would come from establishing scientific-research centers, whose establishing would be organized in cooperation with other interested countries. Serbia still does not have any such international center, even though in some scientific areas there is significant tradition and noticeable scientific results.

It would be good to initiate an action, with other undeveloped and developing countries, at the United Nations, regarding compensation of one part of expenses due to exodus of high educated human resources. That question was already initiated in some UN studies, and by some scientists who offer concrete forms that should be used for compensation.

It is an urgent need to introduce a systematic record and permanent monitoring of the migration process of human resources, to have a constant insight into its dimensions and tendencies, and to fill up a huge gap which disables to study this phenomenon in more details.

The application of administrative mandatory measures is least desirable here and would only have counter-productive effects. However, that does not exclude the need to act on moral factors and patriotic consciousness of young generation whose intellectual capital should primarily serve to the development of their own country.

In the end it is necessary to adduce limiting range of these suggested measures. Their social and selective performance would enable only to reduce this phenomenon of exodus of high educated human resources to some socially tolerable frame, to slow down the process and soften its negative effects. Even such limited goal that is set would mean a lot and ask for significant social efforts and much better organization of the society.

5. CONCLUSIONS

Policymakers countries have become increasingly concerned with the national and international debate about brain drain and have launched appraisal processes of the situations in their respective countries. The debates took different turns in different countries, but nevertheless, some common issues cut across a number of countries.

It may be concluded that ‘brain drain’ in Serbia, in the future period, would mostly depend on its inside conditions as work and development conditions, although negative influences and stipulations from abroad must not be neglected. These conditions largely depend on transition process that Serbia is passing through, i.e. on development of economy, political stability and total prosperity of the country, which are very doubtful due to possible national and international political and economical implications. It means that future migration of high educated human resources is rather doubtful, as well as the effects of suggested measures.

It could be estimated that growing effects of attracting factors from immigration countries would be neutralized by significantly increased offer of high educated human
resources from East European countries and that their total effect on emigration from our country in this decade would not significantly change.

Having in mind the current Serbian reality, fulfilment of these global social activities deeply depends on the way how social crisis would be untangled and what form will the post-social transition effects take, conditioned by the questions of political consensus to be reached and what it would be like.

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BUSINESS INCUBATORS – GROWTH FACTOR
OF THE VIABILITY OF SME’S

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ABSTRACT
The life cycle of a business, involves going through several stages: an initiation period, an aging period, a period of development, stagnation and a decline period. Throughout these periods, the business is vulnerable and subject to risks. Using the services of a Technological and Business Incubator one can protect and help the development of a business. The main objective of the Business Incubator is to grow the survival rate of these firms. In this paper we intend to define the concept of Business Incubator, to present the procedure of selecting and establishing the location for Business Incubators and to analyze the evolution of the activity of one of the Business Incubators developed in Romania through the project “Establishment and Development of Business Incubators in Romania”.

KEY WORDS: Business Incubator, activity, small and medium enterprises, development

JEL: M 13

1. INTRODUCTION

Worldwide statistics reveal that businesses that start their activity in Technological and Business Incubators have a higher chance of survival during the first five years of activity then those that start the activity outside the Business Incubator. The Administration of Small and Medium Enterprises from USA shows that since the early 2000s, 50% to 80% of business start-ups don’t survive the fifth year of activity, meanwhile 87% of the incubated firms survive the fifth year of activity.

The Business Incubator is a place where new firms are concentrated. The main objective of the Business Incubator is to grow the chances of development and the survival rate of these firms, by ensuring them the building with all the necessary utilities for their activity. In the same time, the incubated firms receive managerial support and assistance services. The Business Incubator is an institution which aims to create a sustainable environment for start-ups. A Business Incubator is based on a partnership between the local public authorities and the interested institutions, whose objectives are to offer in areas with entrepreneurial potential a comprehensive range of professional services to start-ups.

The first Business Incubator appeared in 1952 in Batavia, New York and the process of incubation became an industry in the ‘80s. In Europe the first Business Incubator appeared in Grand Britain. In Romania the first Technological Business

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Incubator was created in March 1992, with the support of The Ministry of Research and The Research and Projection Institute for Manufacturing Engineering. After that, in Sibiu, Braila, Timisoara and Miercurea Ciuc there were created four Business Incubators, with the financial support of PHARE Programme and were managed by the Romanian Centre for Small and Medium Enterprises. With the disappearance of these funds most of the 16 incubators established in the 90’s were dissolved.

A Business Incubator can play several roles: parenting role, because it sustains technical and material support for the managers of the incubated firms, investor, because in some cases it brings equity in exchange for services provided by the incubated companies, business club, because the incubator searches and offers business opportunities to the incubated companies.

2. CLASSIFICATION OF BUSINESS INCUBATORS

There are several criteria to classify the existing Business Incubators:

a) Depending on the financing source:
   - Public Business Incubators (ministries, research centers, state universities etc.)
   - Private Business Incubators (chamber of commerce, private universities, associations etc.)
   - Mixed Business Incubators

b) Depending on the operational model:
   - Briks and Mortar Incubator (BAM). This is the most commonly type of incubator, focused on providing facilities related to physical infrastructure. The incubation process and the related services are held in an especially adapted building for these activities. Because the start-ups are concentrated in one place, this model has the advantage to boost interaction, to develop partnerships, and to resolve common problems.
   - Virtual Incubators (Portal or without walls incubators). This type of incubator doesn’t offer a space (building) especially arranged for the business incubation process and the services are offered through the internet. The advantage of this type of incubator is the possibility to incubate similar business but localized in different regions.
   - Mixed incubators. This type of incubator offers place for renting to certain firms, and the other companies are incubated through the internet. In specialized literature this type of incubator is named HUB / Venture Incubator.

c) Depending on the structure of the services:
   - Traditional incubators
   - Technological incubators
   - Mixed Incubators
   - Cultural Incubators
   - Social Incubators
   - Incubators for agricultural business

d) Depending on the location of the incubator:
   - Urban incubators
   - Suburban incubators
• Rural Incubators

A Business Incubator is based on a partnership between different local actors: public local authorities, and interested institutions whose objectives and strategic options are to offer within a location with entrepreneurship potential, various professional services to small and medium enterprises. The main purpose is to establish and develop independent and new activities to the private small and medium enterprises sector.

3. THE PROCEDURE OF SELECTING AND ESTABLISHING THE LOCATION FOR BUSINESS INCUBATORS

In the process of selecting the location for the Business Incubators are analyzed certain information provided by The National Institute of Statics, The National Trade Register Office, Regional Development Agencies. This information refers to: socio-economic indicators (demographic indicators, labour market, gross domestic product), the SME sector (the size of the existing sector, new small and medium enterprises established, the structure of small and medium enterprises per activities, insolvency rate), foreign direct investments in area (the size, the amount of foreign investment capital, and the source of this capital), the economic results achieved by the active SME’s (number of employees, number of SME’s with profit or loss), economic development potential in the area, other support programs developed in these areas (programs and initiatives of local administration).

The general procedure to develop a Business Incubator begins with a feasibility study, followed by field assessments in order to select the location. After selecting the location, The Agency for Implementing Projects and Programs for SMEs will conclude grants agreements with the public local authorities in order to start the rehabilitation process of those locations. In the process of selecting location for Business Incubators are taken into account, areas that can be easily adapted to operations of the Business Incubators.

The Romanian Business Incubators are financed both from private and public sources. The Business Incubators financed from public funds, are part of The National and Multiannual Program during the Period between 2002 – 2012 of Establishment and Development of Technological and Business Incubators. This Program is coordinated by The Agency of Implementation of Projects and Programs for SME’s (A.I.P.P. SME’s), and implemented by The United Nations Development Program (P.N.U.D.) Romania. Part of this Program is also the project named “Establishment and Development of Business Incubators in Romania”. This project started in 2006 with three Business Incubators located in Alba Iulia (Alba), Brasov (Brasov) and Sfantu Gheorghe (Covasna). These three Business Incubators where financed by the government in partnership with U.N.D.P.. Each incubator is managed by an administrator. The administrators have selected a certain number of companies which to incubate for three years. Also these companies receive trainings, consultancy, grants, spaces for offices and production area as well as other related services for increasing the efficiency of the companies. For the second incubation cycle (2009 - 2012), the following counties were selected: Targu Mures (Mures), Satu Mate (Satu Mare), and Mangalia (Constanta). These counties were selected according to the analysis above mentioned.
For example **Targu Mures** was selected because the Targu-Mures municipality is situated in the central part of the Transylvanian Plateau, on both sides of the upstream of the Mures River. Capital of the Mureș County, the municipality represents a powerful administrative, economic and cultural centre. The Mures County is included in the Centre development region of Romania. The total area of the municipality is of 4,930 hectares. The city’s territory is an inter-Carpathian depression.

According to the statistics, the municipality of Targu-Mures counts 149,577 inhabitants, ranking the 12th place city by size in Romania. The population consists of the following ethnic groups: Romanians – 75,317 people (50.35 per cent), Hungarians – 69,825 inhabitants (46.68 per cent), Romma minority – 3,759 persons (2.51 per cent), Germans – 275 inhabitants (0.18 per cent), other ethnic groups – 367 (0.17 per cent).

Situated in the centre of Transylvania and Romania, at the intersection of many national and European roads, the municipality is a railway, road and airway junction. The transport network provides multiple connections due to the E60 road that connects Western Europe to Eastern Europe. The airport links the city of Targu-Mures to Bucharest and Budapest.

With the establishment of the communist dictatorship, Targu-Mureș has gone through a forced industrialization period. Thus, together with the radical change of the urban aspect, the population of the town has registered a rapid growth. Huge factories were constructed, having various profiles: chemical, food producing, wood and leather processing, car building, electric devices and products, photosensitive materials and others.

A powerful cultural and educational centre, Targu-Mures takes pride in its numerous prestigious schools and universities among them the well-known the Medicine and Pharmacy University, the Technical Sciences, Economy "Petru Maior" University, the Theatre Academy, University of Sciences “Sapientia”, state and private owned higher education units.

The natural resources of the soil of the Mures county are – the methane gas, the salt deposits, the rocks for constructions, the wood of the forests all used in industry, as raw materials and fuel. The agriculture of the county is based on cereals – wheat, corn, and rye - and on technical plants like: sugar beet, flax, hemp, tobacco and hops. Pastures represents 27.5% of the agricultural area of the county. Apart from natural resources the economy of the county and the city has developed food industry, manufacturing, textile, furniture, chemical industries, construction etc.

The municipality of Targu-Mureș has developed twinning relationships with 10 cities: **Bournemouth** and **East Renfrewshire** (United Kingdom of Great Britain), **Ilmenau** (Germany), **Szeged, Kecskemet, Budapesta – 11th sector, Zalaegerszeg and Baja** (Hungary), **Chișinau** (Moldova), **Guzelcamli** (Turkey). There is a permanent cooperation within these partnerships in the economic, social, technical and cultural domains, consisting mainly in the transfer of know-how, cooperation among companies, joint projects.

Regarding the labour’s market, Targu Mures presents the advantage of human resources size in direct relation with the number of inhabitants. Almost half of employees of Targu Mures county work in industry: the trade is placing on the second position. In Mures County the unemployment rate achieved is of 8.5 per cent – march 2010. **Mures** has an adequate potential for supplying enterprises to be incubated, therefore in this county are 8,893 entities.
The necessary funds for the rehabilitation of the spaces and buildings where the Business Incubators will function are allocated from the Program’s Budget. The payment of the amounts necessary for these activities is done by U.N.D.P. on behalf of public local authorities, and the authorities will present the documents relating to the distribution of allocations to U.N.D.P. and A.I.P.P.SME’s.

4. THE EFFECTS OF INCLUDING COMPANIES IN THE BUSINESS INCUBATOR. EXAMPLES OF GOOD PRACTICE.

In order to build a Business Incubator in Sfantu Gheorghe, on old non-operating district heating station was rehabilitated. In a few months this building became a modern and worthy place for future incubated companies. The Business Incubator of Sfantu Gheorghe has incubated 21 companies and created 48 jobs. From these 21 companies we have chosen 3 companies to present their evolution within the Business Incubator, throughout the period of incubation (3 years): The driven School Doma Drive S.R.L., TriBox S.R.L. and Geoda S.R.L.

![Figure 1 – The transformation of the non-operating district heating station in a Business Incubator](image)

![Figure 2 – The number of jobs created at Sfantu Gheorghe](image)

Source: Report of U.N.D.P

Before entering in the Business Incubator, the owner of the Driven School Doma Drive S.R.L. was a driving instructor. In 2006 when in Sfantu Gheorghe was created the Business Incubator, he decided to start his own business by calling on its services. At the end of the incubation cycle the firm has 5 employees, 2 new automotives for the driving lessons, and a modern room, equipped with computers for the legislation
lessons. The activity of this firm started with only 2-3 students per month, but the quality of the services, the introduction of 2 hours of English lessons based on driven legislation, high graduation rate of the driven exam, conducted to the increase of the number of students to 13-14 per month. Based on these results the entrepreneur seeks to extend its business (table 1).

An other company included in the Business Incubator in Sfantu Gheorghie is TriBox S.R.L.. This firm deals with the production of paperboard for small and medium series. This business started with on investment of 40.000 Lei, 2 employees, and most importantly, the owner’s experience gained as an employee of an important manufacturer of paperboard boxes. At the end of the incubation cycle this firm produces paperboard for both domestic and external customers. The revenues of this company are based on external contracts. One of the clients of this company is BMW, the company has 12 employees working in three shifts, and achieves a turnover of 130.000 Lei per month. The success of this company is due to both the experience of the owner in the area (the owner does not refuse any command, and frequently collaborates with other producers of paperboard boxes in order to respond to orders) and the facilities obtained as an incubated firm: spaces for offices, production, for deposits, business services. All these helped the company to evolve from start-up to a successful and stable company (table 1).

The third analyzed firm is Geoda S.R.L., The main activity of this company is carrying out geotechnical studies. The beginning of this business coincides with the opening of the Business Incubator in Sfantu Gheorghie. The incubator offered the company adequate office spaces, IT equipment, the office equipment and through the Program received grants for the purchasing of the necessary equipments. During the three years of incubation the company extended its activity and added activities such as mining projection and drilling of water wells. At the end of the incubation process the company has 6 employees and achieves a turnover of almost 250.000 Lei per year (Table 1).

### Table 1

<table>
<thead>
<tr>
<th>Incubated firm</th>
<th>Main activity</th>
<th>At the entrance in the Business Incubator</th>
<th>At the end of the incubation cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driven School Doma Drive S.R.L.</td>
<td>School driven</td>
<td>- 1 employee - 2-3 students per month</td>
<td>- 15 employees - 13-14 students per month - 2 new automotives for the driven lessons - a modern room, equipped with computers for the legislation lessons</td>
</tr>
<tr>
<td>TriBox S.R.L.</td>
<td>Production of paperboard for small and medium series</td>
<td>- 2 employees - the activity has started with an investment of 40.000 Lei</td>
<td>- the firm produces paperboard for both domestic and external customers - one of the clients of this company is BMW - 12 employees - a turnover of 130.000 RON</td>
</tr>
</tbody>
</table>
5. CONCLUDING REMARKS

The Business Incubator in Sfantu Gheorghe is a model for the business environment. This Business Incubator has incubated in the first cycle of incubation, developed through the Project “Establishment and Development of Business Incubators in Romania“, 21 companies. These companies created 48 jobs at the end of the third year of incubation. Despite the current economic situation, the owners of these 21 companies have enough orders, allowing them to cover their expenses and also to obtain profit.

There are several types of Business Incubators as we pointed out at the beginning of our paper (Private, Public, Mixed Business Incubators, Briks and Mortar Incubator, Virtual Incubator, Traditional, Technological, Cultural, Social Incubator, Urban, Suburban, Rural Incubator) but all these types have a common target: to create a sustainable environment for start-ups.

In the process of selecting the location for the Business Incubators are analyzed certain information such as: socio-economic indicators (demographic indicators, labour market, gross domestic product), the SME sector (the size of the existing sector, new small and medium enterprises established, the structure of small and medium enterprises per activities, insolvency rate), foreign direct investments in area (the size, the amount of foreign investment capital, and the source of this capital), the economic results achieved by the active SME’s (number of employees, number of SME’s with profit or loss), economic development potential in the area, other support programs developed in these areas (programs and initiatives of local administration).

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THE IMPORTANCE OF ACCOMMODATION ACTIVITY IN THE HOTEL INDUSTRY

Liliana GAGIAN

ABSTRACT
In the present paper, I approached the topic of accommodation in light of its importance in the current economical activity within the tourist services. Accommodation represents a component necessary for the development of tourism, and the quality and the diversity of the accommodation services provided influences the type of visitors of a locality, being regarded as an integral part of the tourist infrastructure, its absence resulting in the tourists not visiting the respective locality.

KEY WORDS: hotel unit, accommodation services, comfort conditions, classification criteria, tourist infrastructure, profitability threshold.

JEL: M31

1. INTRODUCTION
Accommodation represents, in performing the tourist service, the stage following transport and has the attributes of an independent component. The accommodation service targets, through its contents, the creation of the conditions and the comfort for the traveller’s shelter and rest. It is the product of what we call hotel industry, a sector which in its current meaning gathers all the activities carried out in the accommodation locations. The accommodation service presents itself as a complex activity that derives from the exploitation of the accommodation capacities and is made up of a group of services provided to the tourist during and in connection with his stay in the hotel units.

The industry of accommodation has a special social and economical significance in the contemporary society. In many of the developed countries and countries with a large number of tourists, the number of those who benefited from the accommodation services during one year exceeds the total population of the country. Some studies have indicated the fact that for each amount of money spent in hotels by a tourist, three times this amount is spent for other goods and services by this tourist.

2. ACCOMMODATION ACTIVITY
The hotel is the reception structure, set up in buildings or parts of buildings, making available to the tourists rooms, one room flats or apartments properly equipped, providing specific services, having reception and public food spaces. The accommodation service targets the creation of the conditions and comfort for the sheltering and rest of the clients. The hotel industry developed in parallel with the accommodation capacities and their involvement in the tourist activity, enriching itself with new functions and types of services. At first, the existence of the hotel was

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connected to travelling for purposes other than the tourist ones, the development of the tourist circulation gradually attracting the development of the hotel industry. Thus, around 70% of the existing accommodation locations are located in areas of tourist interest.

The accommodation service represents, together with the transport, public food and leisure services, one of the basic services requested by the tourist during his travel, and at the same time, is an important factor of stimulating the tourist demand. The contents of this service are determined by the fact that the accommodation objective fulfils for the tourist the role of temporary domicile, thus needing to have a complex functionality. Also, in the management of the accommodation services one will consider that almost half of the actual holiday time is spent by the tourist inside the hotel unit.

From the point of view of those who use it, the hotel is a hospitality commercial institution offering its facilities and services for sale.

The hotel concept contains the following elements:

- **The emplacement** puts the hotel into a certain geographical environment (tourist resort, town, vicinity to a communication way, etc). There is a direct relation between this factor and the type of accommodation and services provided.
- **The facilities** include the accommodation spaces, restaurants, bars, spaces for conferences, negotiations, leisure (swimming pools, saunas, gym halls, etc).
- **The services** include the availability and the extent to which the clients receive services through the facilities of the hotel. The style and quality of these influence the efficiency of the hotel.
- **The image**, defined as the manner in which the hotel is regarded and seen by the current and potential clients. It is a secondary product of the emplacement, facilities, services, but it is increased by the name of the hotel, the ambience, etc.
- **The price** expresses the value given by the hotel to its services, taking into account the emplacement, facilities, services, image and satisfaction of the customers, from these elements.

### 2.1. Types of accommodation units

**The hotels for conferences, congresses and business meetings.**

They must have the facilities required for the organization of such activities – reception rooms, conference rooms, the necessary infrastructure, restaurants, shops, other service rendering units. Also, some leisure facilities must be in place. As a rule, these hotels are found in the big cities (Bucharest, Paris, New York, London, etc). Each department of the hotel must be highly specialized, so that they provide expeditious services. In general, the hotel specialized for these activities are considered as the most developed units in the accommodation providing industry.

**Hotels for rest (resort hotels)**

The main attraction of this type of hotel is the possibility of providing relaxation, participation in recreational and leisure activities. To a certain extent, they are also requested for business tourism, due to their emplacement in highly attractive areas. The rhythm of service rendering is slightly slower, and the atmosphere is more relaxing. In general, the activities of these types of units are seasonal, the management facing the issues of seasonability (correct sizing of staff, the supply policy, etc).
Competitive prices accommodation units (average and low)

The number of these units has constantly risen, since they meet the demand for accommodation at low prices and provide the basic facilities for tourists. Some of the most famous chains, such as Ramada Inn or Holiday Inn have rapidly expanded through franchising. The people wishing to work in these hotel chains will pay for the franchising rights, benefiting in exchange from a very well known brand, managerial expertise, national and international level publicity and a central reservations system.

The biggest problem is controlling the units which appealed to franchising. Should the services be improper in some units, the reputation of the whole company will suffer.

Other famous hotel chains, such as Marriott and Hilton, meet these needs (cheap accommodation), promoting good quality accommodation services at the lowest price. In these types of units and due to their smaller sizes, a more effective management can be practiced, as compared to the resort hotels or the conference hotels.

One must mention here the suburban area hotels, the ones close to the airports and the youth hotels, providing accommodation services at minimum prices. The facilities offered are minimal.

At the level of the world tourism, two concepts on accommodation are widely applied:

- “bed and breakfast” (B&B) type units, providing accommodation and breakfast;
- all-suite hotels, hotels with suites and one room apartments;
  
a) B&B

They are highly popular in England, Ireland and Western Europe, the USA, Canada. They provide accommodation in a private house or a small cabin (inn), the tourist being treated more like a guest than a source of income. For the business to be efficient, its operator must have some rooms for the guests, comfortable ones, with separate bathroom and a living room, big in size, where the guests can relax in the evening, the owner directly contributing to creating an informal and friendly atmosphere. Many tourists prefer the character and the quality of the services rendered by B&B, unlike the impersonality of a hotel.

b) Hotels with suites / one room apartments

They appeared in reply to the consumers’ demands for more spacious locations with more facilities. They rapidly developed in the big cities, in resorts. The units are made up of 50-250 suites / one room apartments which include a fully equipped kitchen. The rooms are spacious, the interior finishing is special. They are rented for long periods of time, a service close to the one provided by the luxury hotels being rendered.

2.2. Classification criteria of the accommodation objectives

In the international tourist practice, several classification criteria of the accommodation objectives are known:

♦ According to the structure of the accommodation network, one can distinguish basic accommodation forms (hotels, motels, inns) and complementary accommodation forms: camping, the holiday village, the tourist village, set up in the areas (resorts, localities) where the basic network does not have sufficient capacities, respectively where the tourist activity has a seasonal feature.
Classification starts from the consideration that an accommodation objective (normally, supplying food as well) actually represents a rigid three-dimensional offer of tourist services (in time, space and volume of activity) which cannot meet the demand of the potential customers in all circumstances (especially during the high season periods). The complementary capacity, consisting of relatively simple arrangements, is achieved in a shorter time and with smaller investments as compared to the basic capacities, mainly having as purpose to take over a part of the requests from the maximum traffic period of the customers.

According to the evolution of the tourist demand and the intensity of the seasonality, the share of the basic and complementary forms can differ substantially from one resort (locality) to another, and even from one receiving country to another.

According to the category of comfort of the accommodation and meal objectives, the accommodation units in the field of tourism are classified after constructive features, the quality and complexity of the equipment, installations and services provided. The food supply locations inside the hotel activities units are classified, together with these, according to specific criteria, where a correlation between the comfort of these activities must exist.

Most of the classifications, however, have a common element: they target the grouping of units in various categories, more or less homogenous, according to the conditions approximate close to comfort of these tourist objectives. It seems that classifying the accommodation units, by giving them a differentiated number of distinctive stars, adopted by our country too, is a relatively classic system of classification, widely used in the international tourist practice.

According to the regime (period) of utilization of the accommodation objectives, they can have a permanent activity (if they operate continuously during the entire year) or seasonal (if the seasonal activity in some tourist resorts call for the temporary cessation of activity in some out-of-season periods). Paradoxically, the accommodation objectives with seasonal activity have longer average stays, in comparison to the accommodation objectives with permanent activity (with the exception of the accommodation objectives with special purpose, such as sanatorium hotels).

According to the duration of stay, they can be:

- a) transit, characterized by brief stays (sometimes only for one night), like the so-called terminal hotels in the vicinity (or even inside) airports, train stations in the urban centres;
- b) holiday, with longer average stays, according to the duration of the concluded tourist arrangements or the duration of the tourists’ holidays or stays (for example, accommodation objectives in tourist resorts, balneary - medical treatment hotels, etc);
- c) mixed, whose customers is made up both of holiday tourists and transit tourists. The best example for this case are the town hotels, as well as the accommodation objectives with permanent functionality in tourist localities, in general.

According to certain specific features of the objectives, meant to cover a well defined demand of the customers, certain accommodation objectives have been designed to almost exclusively serve various forms of tourism, respectively their equipment and functionality meeting the demands for tourist consumption of some clients categories. For example, the motel, as tourist objective, appeared as a consequence of the development of automotive tourism, taking over the functions of the hotel, adjusted to the demands for short stays of the drivers. The characteristic
functionality of the motels is expressed through their names themselves, resulted from the contraction of two words: motor-hotel; as other derived forms of tourism developed, new forms of accommodation occurred, such as rotels (rolling hotels), used in the tourist forms of circuit in which the specially arranged buses allow for the modification of the armchairs into couchettes, ensuring not only the transportation of tourists, but also their relaxation; the “flotel” (floating hotels) and the “boatel” (boats hotel) which represents floating accommodation objectives (anchored or with the possibility of moving – towed or self-propelled) in the water areas of tourist interest (lakes, canals, delta, etc); the “hippomotel”, for the special tours in the rural areas, where the trailers are pulled by horses, with the tourist taking over the position of coachman, for leisure purposes; the “matel” (Automatic Hotel), in which automation is extended to the full, thus allowing for significant savings with the labour force and others. This classification also includes the tourist objectives with their own balneary-medical treatment facilities, resulted from the balneary and climatic resources in the areas (resorts) they are located in.

♦ According to the emplacement (implementation) of the accommodation objectives in various localities one can distinguish:

a) objectives in seaside resorts;
b) objectives in mountain resorts;
c) objectives in balneary and climatic resorts;
d) objectives in urban centres (towns);
e) objectives in rural areas;
f) objectives on the big traffic ways.

♦ According to the reception capacity of the accommodation objectives. The reception capacity expresses the possibility of an accommodation objective to provide basic services for a determined number of tourists. From this point of view, one can distinguish: small objectives, with a capacity of up to 20-40 people, middle – up to 200-400 people and large, tourist complex type, where the capacity not rarely exceeds 1000 people.

The world average number of the reception capacities of a tourist objective is around 300-500 accommodation places, which can justify an efficient activity from an economical point of view, even in the very heterogeneous conditions of the customer categories and the non-constant intensity fluctuations in the demand for services in certain periods of the year.

3. CONCLUSIONS

The evolution of tourism in the last decades has transformed gradually and ever increasingly this activity from an alternative of spending free time into a complex industry, with clearly outlined economical and social effects on the human community.

Accommodation represents a component which is necessary for the development of tourism, and the quality and the diversity of accommodation services provided influences the type of visitors coming to a locality. Accommodation is regarded as an important part of the tourist infrastructure, and its absence results in the tourists not visiting the respective locality.

The field of hospitality has a dominant position within the tourism industry. Alongside with the directly generated cashing, this sector provides, worldwide, millions of jobs, and due to its nature, it has the most pronounced international character in the
tourist branches. Thus, the North-American hotel chains are to be found in the entire world, while the European and Asian hotel chains have extended and manage numerous hotels outside their national borders.

Over the last decades, one can highlight the world tendency to implement large scale tourist objectives (tourist hotels, sanatorium complexes for balneary treatment, holiday villages, camping, etc), whose reception capacity sometimes exceeds 1000 accommodation places. This has become possible due to the constant concentration of the activity of the travel agencies capable to ensure the mass sending of tourists for the occupation of these objectives and at the same time, due to the national and international scale cooperation between the various tourist services providers (hotels, transporters, leisure services providers). The same tendencies are to be noticed also in the development of the tourist infrastructure (development of the highways network, high capacity airports, stadiums and Olympic size sports facilities, congress halls, etc), where the investments in a certain sense are correlated with the paces of developing the material basis for the tourists’ accommodation.

The hotel industry must use a flexible pricing structure, to increase cashing and stimulate, when the case, the demand, since the hotels have a high efficiency threshold, and the accommodation service is highly perishable.

The essential competence of hotel management is team work. The various departments must work together to serve the clients, each department having a specific service and having to rely on the other departments in order to efficiently achieve their tasks.

In this context, the hotel companies are forced to appeal to new organisation systems, new working methods and instruments specific to management and marketing, for the successful survival in a competitive environment, ever so demanding.

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THE PROMOTIONAL ACTIVITY OF THE
COMMUNITY POLICE PUBLIC SERVICE THROUGH
ADVERTISING AND SALES FORCE

Liliana GHERGHINA

ABSTRACT
The paper presents the promotion manner through publicity and sales force of the Community Police Public Service. It exposes thus the means, techniques and instruments of the promotional activity through publicity and sales force. One can remark that the first stage was the selection of the slogan so that it could appear on all advertising media. One considers that TV, radio, newspapers, printed materials, inscriptions and the Internet have a major role in publicity, and the employees play an important part in the sales force.

KEY WORDS: publicity / advertising, promotional activity, media communications, interpersonal communications.

JEL: M3, M31

1. STRUCTURE OF THE PROMOTIONAL ACTIVITY OF THE PUBLIC SERVICE

The communication with the external environment, with the market, means a series of activity of attentive information of the potential consumers and go-betweens, influencing the purchase and consumption behaviour and at the same time supporting the sales process. These activities constitute the fourth variable of the marketing mix, called promotional policy. The promotional activities in the communication system of the public service may be structured as follows: publicity, sales promotion, public relations, use of trademarks and brands, promotional manifestations and sales forces.

Promotion is a basic concept of the communication system of the public service with the environment, having rather a role of information, persuasion and reminder and at the same time it establishes the connection among the activities of the public service reflected in products, price, distribution and the firm’s customers. Promotion is marked by: the characteristics of services (intangibility, inseparability, variability and perishability), the system of services’ creation and delivery (it reflects a strong connection between product and promotion) and features of the purchasing behaviour (high confidence in the personal sources of information, the technique of its oral conveying).

Kotler Ph. Defines publicity as “any form of impersonal presentation and promotion of ideas, goods or services, paid by a well-defined sponsor” (Kotler Ph. (1997). P.795).

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Moreover, thorough promotion one aims at a better understanding of the public services to be offered (making appeal to specific features, symbols), the promise of what it has to offer, the capitalisation of the effects gained through oral promotion, the orientation of communicational actions towards the service’s own employees.

Costencu Mirela claims that “there are a series of problems occurring in the elaboration of the marketing programmes, that can be overcome grace to the identification and use of the tangible elements making up the product and grace to a continuous, permanent promotion” (Costencu M. (2007). P.85).

If we refer to the *structure of the promotional activity* of the public service, we may say that the promotional activity is made of a *sender* – the institution of public services (the offeror, the communication source), the *support of the promotional message* (the set of symbols transmitted by the sender) and the *receiver* – the customer (the citizens) but also the employees of that very institution. Depending on the *support of the promotional message*, “the promotional activity of the public service can be achieved through *media communication* (material media) and *interpersonal communications* (human media)” (Gherghina L. (2009). P.182).

“The publicity media is an ensemble of homogenous supports characterised by a common manner of communication. We can distinguish the following: press, television, radio and exterior publicity (any form of display)” (Foltean Fl. et al. (2007). P.195).

Depending on the *categories of receivers* (grouping of the communication means), the promotional activity of the public service may be done through: *internal communication* addressed to the effective customers and it represents a component of interactive marketing, but it is addressed also to the organisation’s own employees and is included in the internal marketing, the *external communication is a component of external marketing* and it targets the *present customers* (not involved in the service providing at the moment of the message transmission) and the *potential customers*.

Publicity (or advertising) may be defined as a unilateral means of communication, supposing the transmission of message come from identifiable sources, being designed to directly or indirectly support a product or service or the activity of an organisation.

In accordance with certain criteria, advertising may have several forms, for instance, depending on the geographic criterion, advertising may be: local, regional, national or international. Depending on the object, advertising may be: of product (service), of trademark (brand) and of firm. The major media for publicity message conveying include: *media advertising* (press, radio, TV, cinema), advertising through *printed materials* (catalogues, brochures, prospects, folders organisers, calendars), *exterior advertising* and *direct advertising* (posters, panels, lighted signs), *free advertising* (interviews, press articles signed by specialists, with commercial significance and unpaid.

The sales force may be considered not only a means to sell the products, but also a communication means. In some papers in the literature, the sales force is divided into *internal sales force* and *external or itinerant sales force*. The *internal sales force* includes the sedentary sellers, the office staff drawing up offers and folders that help the sales agents, persons in charge with the execution of orders. The *external sales force* comprises the sales agents, as well as the area sales managers who have the task to coordinate and check the activity of the sales agents. It is thought that the personal
sales have a more powerful impact than advertising through mass media, and thus it is recommended first of all in the sale of complex products and industrial goods.

2. ADVERTISING AND SALES FORCE OF THE COMMUNITY POLICE PUBLIC SERVICE

The Community Police Public Service was created in 2005 by the application of the Government Decision no. 2295/2004 of 09/12/2004 published in the Official Gazette, Part I, no.3 of 03/01/2005, which establishes the Frame Regulation Set for the organisation and operation of the Community Police, at the same time dissolving the Public Guard Corps, and the latter’s staff and patrimony were taken offer by the Mayor’s Office. This service operates in the interest of the community, being subordinated to the local and county councils, in co-operation with the Romanian Police and Gendarmerie. The same normative act allows the county councils to create Public Services for the guarding of objectives of county interest.

The Community Police is a public institution meant to assure, based on Law no. 333 of 8 July 2003, the guarding of objectives, goods, values and the protection of persons, and based on Law no.371/2004, it assures the public order and peace, the increase of the efficiency of the objectives guarding and of the goods of public and private interest of administrative - territorial units. We should mention that the Community Police enforce the observance by the citizens of the decisions elaborated by the local council.

Further on we shall describe how publicity/advertising for the Community Police Public Service must be realised, taking into account the tools, techniques and instruments of advertising. After the survey of the target audience and the selection of communication media to use, one of the essential things for the public service to do after the decision to advertise, is planning the publicity campaign which must consider the goals set, the available budget, the competition, its plans for the future and the realities of the moment. An essential factor to keep in mind is the fact that an advertising campaign must have continuity. It is the only way to properly fulfil its persuasion task.

The intermittent communication is not communication in advertising, the plan should be consistent. The idea is not to “flirt” with the public, but to persuade them, and between these two terms the difference is huge. An advertising campaign should be planned so that it could assure consistence, but it should avoid boredom. The only part of the plan that must remained unchanged is identity. Planning requires research and serious thinking, the launching requires action, and the support requires patience. It is known that public safety expresses the feeling of peace and trust conferred by the police service through the application of the measures meant to maintain public order and peace. Moreover, it assures the protection of the persons of the community and of goods, through the creation of the civil society-police partnership, thus solving the legal interests of citizens. Through the publicity effected separately for each service provided from the services package, the Community Police Public Service must aim at the idea of promoting its presence among the citizens, using emblems, signs, the service uniform different from that of the national police. Considering the services offer, valid for the public and private environment, and at the same time mentioning the fact that the citizens are present in both environments, we may suggest the use of the following slogan:
Furthermore, it is recommended to the Community Police Public Service to support without interruptions advertising campaign at the local TV stations, as it addresses both to the citizens of the community and to the local business environment. The focus will always lie on the slogan, and the broadcast of the publicity clips will take into account the broadcasting time, depending on the services offered by the Community Police. Consequently, at lunch time the focus will be laid on the guard and protection services, and in the evening one will broadcast with priority the advertising clips promotion services of public safety (public order and peace), as the latter represent the main activity of the Community Police Public Service. In order to promote the services provided by the Community Police Public Service, it may conclude contracts with different local radio stations for the broadcasting of certain publicity clips, as well as with the local press. It is also suggested the rental, for more than 6 months, of public advertising spaces, on the green domain, for the mounting of the banners that will be purchased and displayed throughout the town, in order to attract the attention upon the services offered by the Community Police Public Service, as well as information indicators. Moreover, the Community Police Public Service must initiate a campaign of promotion of its own image, through the printing of pocket calendars, organisers, information guide comprising the services provided by the community police that must be distributed to the tenants’ associations, posters, flyers as well as the inscriptions on bags, pens and key trinkets.

Thus, depending on the publicity budget, we recommend the following: to print – 200 pocket calendars, 25 organisers, 100 A4 posters, 300 flyers, and to inscribe - 200 bags, 200 pens and 300 key trinkets. It is recommended that all these materials contain pictures, data and information about the activity of the community police. Sample images can be found in the photo gallery www.polcomtim.ro. The most intensive publicity is made by the Community Police Public Service on the means of transportation it is equipped with, as they are inscribed with the name and emblem of the service, as well as the telephone number.

Advertising may be done also on-line through the Internet, creating and using its own website containing also e-mail addresses of the contact persons. This tool is used also as direct marketing technique.

By the sales force we understand the ensemble of the persons who represent the firm and who have as main task the establishment of contacts with potential customers and the sale of services, this category including the firm’s representatives and the commercial delegates.

The sales force comprises the sedentary salespersons, the office staff who draw up offers and folders for the assistance of the sales agents, the persons in charge with the execution of orders, as well as the area sales managers who have the task to coordinate and control the activity of the sales agents.

The characteristics of the personal sale differentiating it from the other means of communication and especially, by advertising, are:
⇒ It offers the opportunity to directly know the receiver, whereas in the case of advertising, one only know the average profile of the publicity target;
⇒ It offers the possibility of transmitting certain adaptable messages, with numerous arguments, the form and content of the message being uncontrollable, while advertising transmit uniform messages, with few arguments;
⇒ It allows the realisation of a reduced number of contacts per time unit, but they are personalised, and publicity permits the realisation of a high number of unpersonalised contacts;
⇒ It allows an easier preservation of attention, whereas in the case of advertising it is kept with difficulty;
⇒ One may get an immediate answer.

The tasks assigned to the sales force may be grouped in the following categories:
- Proper sale activities, involving the study of the potential customers’ needs and the negotiation of the sales force;
- Activities of customers’ information, information referring to the characteristics of products/services, the manner of use, in our case of the services;
- Activities of information of the organisation (public of private), referring to the customers’ needs, customers’ suggestions and to the actions of the competition;
- Activities of offers of post-sale services, consulting, merchandising.

The management of the sales force means the adoption of certain decisions regarding aspects such as:
- Setting of the goals to reach by the sales force, as they are comprised in the marketing plan;
- Determination of the number of persons to whom one will assign tasks specific to personal sale, i.e. of the size of the sales force;
- Criteria to consider when organising the sales force;
- Distribution of objectives and of the geographic area per customers, operations to be carried on by each person who is a member of the organisation's sales team;
- Establishment of the payment manner of the sales team’s embers, granting of incentives, if necessary;
- Establishment of the promotional techniques meant to support the sales force in its efforts;
- Realisation of certain actions oriented towards the training of the sales force and the understanding of its role;
- Performance of certain actions of co-ordination of the sales force and of the effects of the performed actions;
- Suggestion of corrective measures when the set goals are not reached, and consequently the achievement are inferior to the expectations.

The sales force, in the case of the Community Police Public Service, is based on the personnel who are parts of the unit’s top management, on the staff with operational positions such as the heads of services and objectives, and also in the community agents who provide services of public order and guardianship.

We included in this categories the community agents also, as they are the most likely to know the requirements of the customers (beneficiaries) for whom they provide services of guardianship, as well as the requirements of the citizens of the locality for whom they provide services of public order. That is why the community agents will draw up daily reports of activity, in which they will mention all the events occurred during the execution of the services, so that the negative events could be remedied.
The Community Police Public Service attempts to attract persons with natural inclinations, called ideal salesperson qualities. The persons in charge with promotion must be distributed by geographic areas. Each of them promotes the set of services in the assigned area.

Consequently, the policy in the domain of sales force must be complementary and coherent with that directed to publicity, the promotion of sales of public relations.

As means of communication, the sales force transmits the customers information about the Community Police Public Service and on its services. Moreover, the sales force collects for the Community Police Public Service information on its market and on competition.

3. CONCLUSIONS

The Community Police Public Service must formulate a compete and correct advertising strategy by selecting one strategic alternative depending on each criterion, there being a certain logic among them.

Depending on the support of the promotional message, the Community Police Public Service may perform a promotional activity using:

- **Means of internal media communication** (material media) by: advertising at the place of sale (distinctive signs on the uniform of the community policemen as well as on the vehicles and scooters used in patrolling), information indicators (information indicators placed on the public domain in the bus and tram stations, free of charge because it is a service belonging to the City Hall), the information guide regarding the services provided by the community agents should be distributed to the tenants’ associations, as well as the ambience (an organisational climate as pleasant as possible, so that stress should be eliminated).

- **Means of internal interpersonal communication** (human media) through: the contact personnel (pleasant physical aspect and addressing manner of the community agents), the commercial staff (in charge with the conclusion of contracts with the public institutions such as the Prefect’s Office, the County Council or with private firms benefiting from the services of the community agents, customers (it is known that a satisfied customer attracts ten more potential customers).

- **Means of external media communication** through: trademark and emblem (the colour and writing used on the agents’ gear so that a visible distinction can be made from the Romanian Police and Romanian Gendarmerie, as well as from the specialised guard firms existing in the locality (the inscription Community Police should be legible and visible), signalising panels (they should be electronic so that they can be remarked also by night), exterior architecture (the office buildings should have a colour similar to the uniform, and the entrance door should bear the emblem of the community police, publicity at the place of sale or by mail (to citizens, public institutions and private firms, clearly stating the tariffs per hour) sometimes represent even a sales form, plaques (they can be placed in the premises of different institutions).

- **Means of external interpersonal communication** through: public relations (relations with the press, organisation of events, press releases, informative notices), the sales forces (community agents and the staff of the institution in charge with the conclusion of services providing contracts form, persuade and remind the citizens the importance of the Community Police Public Service at the level of a locality. They
forward albums, catalogues and even presentations regarding the activity and development of services offered, including form the physical and theoretical training of the community agents, *oral communication (promotion)* (satisfied customers who have benefited form the services provided by the community agents).

During the implementation of the product (service) policy the marketing department should grant a special importance, through the promotion policy, to the *image* component, which may be maintained only by using favourable communications as regards the service and the image of the service.

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*** Photo gallery - available on-line 22.09.2010 at www.polcomtim.ro
CHALLENGES FOR THE USE OF COST-BENEFIT ANALYSIS IN WATER SECTOR PROJECTS IN BULGARIA

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ABSTRACT

The objective of the current paper is to provide a thorough analysis of the use of cost-benefit analysis in the preparation of water sector projects in Bulgaria, partly funded by the EU Cohesion Fund. The paper outlines both general and specific problems, which obstruct the appropriate application of this analytical tool. Additionally, it also aims to provide relevant solutions, which can be used both by project beneficiaries and by decision makers in order to secure a better implementation of Community policy.

KEY WORDS: cost-benefit analysis, water sector, public infrastructure

JEL: D61, H54, L95, R51

1. INTRODUCTION

As part of the obligations laid down in the Accession Treaty, Bulgaria needs to comply with the requirements of Council Directive 91/271/EEC for Urban wastewater treatment. All agglomerations with population equivalent (PE) above 10,000 have to construct and/or rehabilitate their sewerage networks and wastewater treatment plants (WWTP) by the end of 2010. All agglomerations with population equivalent between 2,000 and 10,000 have to achieve the same results by the end of 2014. However, as of now, the process of implementation of the Directive’s requirements has been very slow and according to an analysis, conducted by the Ministry of Environment and Water (MoEW) only 8 out of 124 agglomerations in Bulgaria with PE over 10,000 have achieved full compliance.

As a result of this unfavourable situation, the MoEW has prepared a roadmap and an action plan for better project selection and execution under the Operational Programme “Environment”, which provides grant funding for all environmental projects, related to water, solid waste and biodiversity. Nevertheless, only part of the reasons behind this significant delay can be attributed to purely political, legislative and organisational issues. By far, the biggest challenge in front of project beneficiaries is the preparation of technical and financial documents required for the approval of the proposed investment measures. So far, approximately 85% of the projects that have received negative evaluation decisions have been rejected for inconsistencies and errors in their financial justification.

The current paper has two primary objectives: 1) to outline the major difficulties in the preparation of financial and economic (cost-benefit) analyses of revenue generating projects in the water sector in Bulgaria; and 2) to provide both general and specific solutions to the existing problems and to propose some possible policy changes on a higher level.

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2. OVERVIEW AND UPDATES OF THE PROCESS FOR PREPARATION AND EVALUATION OF WATER PROJECTS IN BULGARIA

The Bulgarian Operational Programme “Environment” 2007-13 has the objective to improve the quality of life of the population in the country by ensuring healthy and favourable environment and by preserving the natural heritage. It identifies 4 priority axes, addressing different issues in the field of water, solid waste and biodiversity. Priority axis 1 of the Operational Programme (OP) aims the improvement and development of water and wastewater infrastructure within urban agglomeration areas. This axis provides financing for the construction / reconstruction / modernisation of wastewater treatment plants including the introduction of tertiary treatment and construction / extension / reconstruction of sewerage networks within the same agglomerations. Approximately 70% of the total budget of the Operational programme has been allocated for projects in the water sector. Municipalities are the primary beneficiaries under Priority axis 1 of the OP in associate partnership with the Regional Water Companies (RWC), which are operating all infrastructures and are directly providing services to households, industries and the public sector.

In response to some recommendations of the EU, in November 2009, the MoEW has issued a mechanism (“Approach and methodology for the selection of projects under Priority Axis 1 of Operational Programme Environment 2007-13”) for achieving compliance with Directive 91/271/EEC on urban waste water treatment. Among other things, the water mechanism has also made certain clarifications towards the obligatory documents that need to be submitted together with the project proposal: 1) application form; 2) feasibility study; 3) preliminary design for WWTPs; 4) financial or full cost-benefit analysis; 5) decision for the necessity of environmental impact assessment; 6) documents for land ownership; 7) prove for the existence of financing for the municipal own contribution and for the ineligible costs; 8) decision of the Municipal Council in support of the application.

In addition, the MoEW has produced an extensive analysis of the investment needs in the water sector in all Bulgarian municipalities so that a compliance with the Directive can be achieved. The analysis has identified 928 municipalities, which need to meet the requirements of the urban wastewater treatment Directive. The indicative financial framework for achieving full compliance is estimated at 3,523 million euro, and the funding available in the Operational Programme “Environment” is not sufficient to cover all investment needs.

A new Water Act has been developed and approved to make the necessary changes in the legislative framework in the water sector. This new law has made significant changes regarding the ownership, management, planning and operation of the water and wastewater systems. The Water Act also envisaged the preparation of master plans for all municipalities in a period of two years.

On 30 June 2010, the MoEW has opened a new call for investment proposals in the water sector. All 124 municipalities with over 10000 PE have been invited to submit their projects. The overall financing available amounts to 600 million euro. The deadline for the call is 20 February 2012.

As stipulated in the Bulgarian legislation, water projects are evaluated at three stages – administrative, eligibility, technical and financial. All administrative and eligibility requirements are considered “knock out” criteria, i.e. project beneficiaries need to comply with all of them in order to continue to a later evaluation stage.
Financial and technical evaluation is the stage to assess the actual quality of the projects, but due to its more complex nature, many problems arise both for project proponents and for evaluation committees. Since technical documentation is preliminary approved by experts’ councils within the Bulgarian municipalities and districts and thus is less likely to cause problems, financial and economic issues encompassed by the cost-benefit analyses become the major obstacle for the approval of the projects.

3. ROLE OF COST-BENEFIT ANALYSIS IN BULGARIAN WATER SECTOR PROJECTS

The Council Regulation 1083/2006 of 11 July 2006 lays down the general provision ruling programmes and projects financed by the European Regional Development Fund, the Cohesion Fund and the European Social Fund. In particular, as indicated in Article 40 (e) of the Regulation, major projects seeking financial support from the Cohesion Fund and the European Regional Development Fund require the preparation of a Cost-Benefit Analysis (CBA) as part of the applications.

CBA is the analytical tool which, used to estimate the socio-economic impact (in term of benefits and costs) related to the implementation of certain policy actions and/or projects. The impact must be assessed against predetermined objectives and the analysis is usually made from the point of view of the society as whole, intended as the sum of all individuals concerned. The objective of CBA is to identify and monetise (i.e. attach a monetary value to) all possible impacts of the action or project under scrutiny, in order to determine the related costs and benefits. In principle, all impacts should be assessed: financial, economic, social, environmental, etc.

Within the framework of preparation and appraisal of CF and ERDF project, the European Commission requires a CBA to (National guidelines):
1) Assess whether a project is worth co-financing. The goal is to answer to the questions: does it contribute to the goals of EU regional policy? Does it foster growth? If the net benefits for the society (benefits minus costs) of the project are positive, then society is better off with the project because its benefits exceed its costs. The project should therefore receive the assistance of the Funds and be co-financed. If not, it should be rejected. This assessment is performed using an Economic Analysis.
2) Assess whether a project needs co-financing. Besides being desirable from an economic standpoint a project may also be financially profitable without EU assistance, in which case it would not be co-financed by the Funds. To check if a project should be co-financed requires a Financial Analysis. If the financial value of the investment (project revenues minus project costs) without the contribution of the Funds is negative, then the project can be co-financed. In this case, the EU grant should not exceed the amount of money that makes the project break even, so that no over financing occurs.

3.1. General framework for using CBA in Bulgarian water sector projects

Three major documents exist at European and national level which regulate the preparation of cost-benefit analyses in the water sector.

The “Guide to cost-benefit analysis of investment projects” published in 2008 is providing the general methodological framework to carry out CBA in the context of European Community Funding. The guide introduces the concept of incremental approach, i.e. the use of two scenarios – “with project” and “without project” and basing
the analysis on the difference between them, which is the actual impact of the project. It also provides additional guidance for the financial calculations, including the establishment of residual values (on the basis of the useful life of assets and their normal depreciation or by estimating the approximate market price of assets at the end of the reference period). A notable change since the previous editions of the Guide is the treatment of re-investment costs, which are now clearly considered as part of the normal operation and maintenance costs.

Working document 4 “Guidance on the methodology for carrying out cost-benefit analysis” for the new programming period 2007-2013 has the objective to present a set of working rules which will lead to more consistency and rigour in the preparation of cost benefit analyses. It provides specific guidance for the calculation of the “funding gap”, i.e. the share of the discounted cost of the initial investment not covered by the discounted net revenue of the project.

Additionally, the Government of Bulgaria has asked JASPERS (Joint Assistance to Support Projects in European Regions) to support the development of national CBA guidelines, which have to be applied consistently in project preparation. As a result, three sectoral guidelines in the field of water and wastewater, solid waste and transport have been prepared in 2009. It is worth noting that this guidance was not available at the time the first investment water projects were submitted.

All projects need to strictly comply with the requirements in these three major documents or else they will be rejected. However, because of the specifics of the Bulgarian water sector and partly because of the lack of institutional capacity, several major problems exist that seriously hamper the process of preparation of cost-benefit analyses.

3.2. Specific problems in the application of cost-benefit analysis in Bulgarian water sector projects

The problems with the preparation of CBAs in the Bulgarian water sector can be divided in several major categories – documentation of underlying data and justification of assumptions; presentation of investment costs; presentation of operation and maintenance costs; cost recovery and project revenues; macro affordability of the investment; calculation of the funding gap and the profitability indicators, economic analysis.

3.2.1. Documentation of data and justification of assumptions

The incremental approach to CBA is very often misapplied in Bulgarian water projects. Three extreme options exist in the projects submitted so far by municipalities. Some of the beneficiaries choose not to apply the incremental approach and only present the “with project” scenario in their applications. This approach leads to huge exaggeration of the projects’ cost and benefits as it includes not only the new infrastructure but also the existing one. Another common mistake is the adoption of a pure “do nothing” scenario. All guidelines require that the “without project” scenario should include minimum investments in order to avoid the deterioration of the existing water supply and sanitation network. The total lack of investments leads to incorrect financial flows and consequently to incorrect calculation of the funding gap. The third most common mistake in this area is the inclusion of significant amounts of new
investments in the “without project” scenario in order to minimise the incremental costs and revenues, therefore leading to higher funding gap. Apart from these consequences, all such projects need to be rejected thus hampering the needed compliance with the EC urban wastewater directive.

All projects in the Bulgarian water sector are revenue generating since all consumers are charged with certain direct tariffs for the provision of services. However, the situation with infrastructure ownership and operation has proved to be a major obstacle in the establishment of relevant cost and revenue financial flows. Municipalities, as primary beneficiaries of the Operational programme, become owners of the newly constructed and/or rehabilitated infrastructure at the end of the project, while the Regional water companies are the only operators of the infrastructure, which collect tariffs from the different types of consumers. It has been a usual practice that municipalities transfer the assets to the operators by means of management and operation contracts, which do not lead to any financial inflows for the municipalities. In such cases, many municipalities have argued that the projects they have submitted are non-revenue generating from their perspective. Two major problems arise from this situation: 1) As this was not a uniform approach, it has resulted in very different cost-benefit analyses for very similar projects leading to huge differentiations in the requested funding. All project beneficiaries that have declared non-revenue generating projects have calculated a 100% funding gap as opposed to approximately 85% to 90% for the municipalities accepting the positive financial inflow. 2) The usual practice for transferring the assets free of charge may lead to violation of the principles of state aid. Another important drawback that has severely hampered the comparability of the municipal cost-benefit analyses in the water sector is the application of completely different basic data and underlying assumptions in similar projects.

One of the most serious factors has been related to the preparation of demographic projections. In Bulgaria, there are two major sources for statistical data with regards to population status and growth – the National Statistical Institute and the Directory of Civil Registration and Administrative Services. Due to differences in the methodology used by the two institutions, the population data has varied significantly. In addition, demographic projections for the reference period of 30 years have often been overestimated by municipalities in order to better justify the need for the project and the funding requested. However, the projections for Bulgaria made by the European Union and the World Bank indicate that as a whole the population of Bulgaria will shrink with more than 18% by 2025. The only notable exception from this rule is the capital city of Sofia, which is likely to grow. The overstatement of population growth has resulted in very high water demand forecasts and in oversizing of the proposed investment measures – particularly for wastewater treatment plants.

Water demand norms are the next contentious issue in the preparation of CBAs in the Bulgarian water sector. Technical designs for the different infrastructure assets are based on legislative requirements which provide data for the usually expected water consumption by types of settlements. However, these norms do not necessarily coincide with the actual consumption, which tends to be much lower (in some cases more than three times lower). The inclusion of the typical consumption in the CBA instead of the actual one leads to hugely exaggerated positive cash flows which cannot possibly be achieved once the project is implemented and which leads to lower values of the calculated funding gap.
The calculation of the residual value of investments is another problematic assumption that leads to unequal treatment of investment projects. Since residual value is counted as a revenue stream in the financial analysis, the bigger the useful life of assets is assumed, the lower the calculated funding gap. Because of the lack of guidance and standards in this field, many project beneficiaries indicate a zero residual value, although the useful life of assets might be longer than the 30-year reference period, e.g. some of the pipes have a 50 year guarantee from the producers. This problem leads to a situation in which two identical projects can achieve a different level of grant funding.

3.2.2. Presentation of investment costs

There are two important deficiencies in the way project proponents can present the investment costs for the proposed measures in the water sector. The first problem is related to the misapplication of the nationally established unit prices for the different water infrastructure elements, which can lead to completely unrealistic budgets and the investment costs for very similar projects can have significant variations. In the long term this situation can lead to two possible outcomes, both of which are undesirable. In the first scenario, when a public procurement procedure is conducted for an approved project with an inflated budget, the price can drop significantly, which results in a waste of financial resources as another project could have been financed with the remaining funds. In the second scenario, when a budget is understated to make it look more cost-effective, the public procurement procedure can result in the failure to select a constructing company to implement the project activities.

The second major deficiency is the freedom entrusted to project beneficiaries to select whether value added tax (VAT) is an eligible or non-eligible expenditure under the Operational programme. The only instructions available are limited to a quite ambiguous letter form the Bulgarian Ministry of Finance, which relates the eligibility requirements to the economic activities of municipalities. If the scope of the project is considered to be an economic activity, VAT is recoverable and consequently not eligible and vice versa. Despite the fact that all Bulgarian municipalities obey the same rules in the treatment of VAT, this situation can result in quite different financial and economic calculations for identical projects.

3.2.3. Presentation of operation and maintenance costs

The major difficulty in producing high-quality estimates for operation and maintenance costs results from the way Regional Water Companies present their cash flows. Usually the available data is not limited to the region of the project (which is most often a single town, or even part of a town), but rather to a much larger “water supply group” which includes several settlements. This leads to many approximations for the actual costs based either on the population or the size of the existing infrastructure – none of them being nearly as accurate as needed.

Another significant error in the presentation of operating costs is the intentional omission of re-investment costs for assets with shorter life time – such as machinery and equipment for wastewater treatment plants and/or sewerage pumping stations. These types of infrastructure elements usually have a life of approximately 10 to 15 years, after which they need replacement. However, as municipalities aim to receive as much
grant funding as possible by reducing project revenues, the inclusion of re-investment costs as part of the operating costs frequently leads to financial instability.

3.2.3. Cost recovery and project revenues

According to Working document 4, tariffs have to be set to a level necessary to cover the full operation and maintenance costs as well as a significant part of the assets’ depreciations. Full cost recovery can only be limited by the level of macro affordability. Since depreciation is a crucial factor for the overall financial sustainability of the investment, it has to be considered very seriously in the cost-benefit analysis. Nonetheless, the issue of depreciation is one of the most complicated problems in Bulgarian water sector projects. On one side, by the requirements of the Accountancy Act, municipalities, which are the owners of the infrastructure, are not required to charge depreciations on the assets they own. On the other side Regional Water Companies cannot charge depreciations on the assets that they have received free of charge and include them in the tariffs for their clients. This problem is jeopardising the future of the water sector in Bulgaria as a whole. If depreciations are not charged, the country will be in pretty much the same situation in 30-years’ time.

3.2.4. Macro-affordability of the investment

Macro-affordability of the investment is related to the determination of the maximum possible investment which will not lead to tariffs that cannot actually be paid by households. Ideally, this analysis should be made, at least on a very cursory level, before the determination of the overall project budget. However, this is a very rare situation and most often project proponents try to justify directly in the CBA that certain investment costs will be affordable for the population. In most cases this justification is made by excluding a very big portion of the depreciations from the tariffs.

Another obstacle is the way in which the calculation of macro-affordability is defined in Bulgarian legislative documents. In general a certain tariff is considered affordable if it does not exceed 4% of the average household income by a monthly consumption of 2,8 cub.m. per person. Two problems arise from this definition. First, the actual consumption of households is sometimes quite different from the regulated quantity, thus leading to false presentation of affordability. Second, the use of the average disposable income as a proxy for calculation of affordability is not appropriate as there are households with much lower incomes.

3.2.5. Calculation of the funding gap

The most usual error, made by project beneficiaries in the calculation of the funding gap is the inclusion of conditional or accounting cash flows in the discounted cash flow analysis. According to the guidelines contingencies, depreciations and reserves have to be excluded when determining the sources of financing. As these are either conditional (contingencies may never be used) or not actual costs (depreciations and reserves are purely accounting categories), they should be disregarded. Their inclusion leads to the calculation of a higher funding gap and consequently to over financing of the investment measures.
3.2.6. Economic analysis

Since economic analysis is required only for the so called “major projects” (over 25 million euro for environment related projects), this section of the CBA is less likely to cause major problems. The biggest challenge for project beneficiaries is to monetise the external benefits and the negative externalities from the project implementation. A full list of the possible benefits is presented in the sectoral guideline for the water sector, but it has several deficiencies. Some very important benefits are missing starting with the general environmental benefit, resulting from the treatment of wastewater, possible development benefits, the opening of new work places, etc.

### Table 1
Overview of the existing problems

<table>
<thead>
<tr>
<th>PROBLEM</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misapplication of the incremental approach</td>
<td>Errors in funding gap. Rejection of projects</td>
</tr>
<tr>
<td>Ownership of assets</td>
<td>Possibility for non-revenue generating projects; Violation of state-aid principles; Unequal treatment</td>
</tr>
<tr>
<td>Demographic projections</td>
<td>Oversizing of infrastructure; Unrealistic water demand forecasts leading to erroneous cash flows</td>
</tr>
<tr>
<td>Water demand projections</td>
<td>Exaggerated revenue cash flows</td>
</tr>
<tr>
<td>Calculation of residual values</td>
<td>Unequal treatment; Errors in funding gap</td>
</tr>
<tr>
<td>Misapplication of unit prices</td>
<td>Problems in project implementation</td>
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<tr>
<td>Interpretation of the eligibility of VAT</td>
<td>Unequal treatment; Errors in funding gap</td>
</tr>
<tr>
<td>Lack of information about operating costs</td>
<td>Erroneous financial cash flows</td>
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<tr>
<td>Treatment of re-investments</td>
<td>Erroneous financial cash flows, Financial instability</td>
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<tr>
<td>Treatment of depreciations</td>
<td>Understated revenues; Long-term financial instability</td>
</tr>
<tr>
<td>Macro-affordability calculations</td>
<td>Tariffs not affordable for lower-income households; Tariffs understated despite the low affordability levels</td>
</tr>
<tr>
<td>Conditional and not actual costs included in financial analysis</td>
<td>Erroneous financial cash flows; Errors in funding gap</td>
</tr>
<tr>
<td>Benefits and externalities</td>
<td>Erroneous economic analysis; Projects cannot be justified</td>
</tr>
</tbody>
</table>

3.2.7. Recommendations

Several important recommendations can be made with regard to the process of preparation of cost-benefit analyses of water sector investment projects. These can be divided in two major categories – changes in policy and solutions for project
beneficiaries. The changes in policy include the provision of direct guidance and instructions for the treatment of the following important aspects:

- **Ownership of asset.** A strict mechanism has to be provided, not allowing the free transfer of assets from municipalities to regional water companies. Not only this violates the principles of state aid, but also creates further problems with regard to cost recovery. Concessions are by far the most appropriate mechanism for solving the existing problems. Other options should be explicitly defined in terms of the obligations of regional water companies;

- **Treatment of VAT.** A very concrete instruction has to be provided to project beneficiaries, not allowing the free interpretations for eligibility or non-eligibility of value added tax. Since water supply and sanitation are part of the normal municipal activities, the most probable solution will be in favour of VAT eligibility;

- **Treatment of depreciations.** Decision makers should find an appropriate way for water companies to include depreciations for all assets in the tariffs for consumers, regardless of the way of acquiring the assets. Establishing a concession is one of the least problematic ways to accomplish this goal;

- **Macro-affordability.** Macro-affordability should be calculated for the actual consumption of water. Lower income households should be obligatory included in the calculations.

Solutions for project beneficiaries include the following aspects:

- **Strict adoption of the applicable guidelines,** especially in terms of methodology (incremental approach, use of proper cost and benefit categories);
- **Strict adoption of national requirements** in terms of applicable unit costs;
- **Obligatory use of the requirements** in the sectoral guidelines in terms of demographic and water demand projections;
- **Calculation of the residual value** on the basis of the actual useful life of assets and inclusion of re-investment costs;
- **Calculation of full cost recovery tariffs** where possible without compromising the macro-affordability limits.

**4. CONCLUSIONS**

The paper provides a systematic analysis of the process of preparation of cost-benefit analyses for the Bulgarian water sector. Most of the major weaknesses are identified, both in terms of legislative and institutional point of view. The proposed recommendations will allow both decision makers and project beneficiaries to undertake the necessary changes so that this analytical tool can provide relevant and comparable data and contribute to the obligations of the country for compliance with the urban wastewater directive.
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*** “National Development Plan 2007-2013 for the West / North-West Region”
ABSTRACT

The paper highlights the massive role of public administration through its public management over the regional development. I started by pointing out the regional development policy definition by showing the instruments used by this policy, referring to the funds involved in regional development, demonstrating then, that most important role in this development goes to public administration. Starting from this I pointed out the importance of management in public administration over the regional development objectives by showing the way that public administration involves in this development and by that I refer to instruments, means and action directions.

KEY WORDS: public, regional, development, funds, management, projects

JEL: M38, R11

1. INTRODUCTION

It’s well known that European Union is one of the most prosperous regions in the world, but, not all European citizens have the same advantages and successful chances in socio economical terms. The difference is made by the area that they are living in – if a region is prosperous or poor, an area in expansion or in economic decline, in urban or country area, at the periphery side or in one of the economical center in European Union. Those differences are known as disparities and they are significant between European Union states and regions, by the fact that first 10 most dynamic regions from European Union have a global national product five times bigger then the last 10 regions, the most undeveloped regions in European Union.

In order to eliminate those disparities, the concept of regional development appeared, and is a new concept that follows the growing and diversification of economic activities, the stimulation investments in private sector, the contribution to decreasing of unemployment and not at last leads to the improvement in the level of living.

Economic and social cohesion policy of E.U. has the purpose to promote a high level of competitively and labor force occupation, offering help to the less developed regions and to those that confronts with structural problems.

The politics in economic, social and territorial cohesion domain on EU have evolved in the last decades, changing the financial instruments, given sums and those objectives.

Referring to the financial instruments of EU, structural funds are managed by the European Committee and are destined for financing the structural help at community level, with the purpose of promoting the late developed regions, modification of industrial declined areas, the control of long term unemployment, professional accommodation of the young citizens or country side promotion.

Those founds are:

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• Social European Found
• Regional Development European Found
• Cohesion Found
• Agriculture and Country Development European Found
• Fishing European Found

Regional development policy represents all the policies made by the government through out it’s central public administration entities, by local public administration authorities and specialized regional entities, with the consulting of implicated socio economical partners, with the purpose of assuring economic grow and social development of some geographical areas that made development regions, of improving the international competitiveness of Romania and to reduce the economical and social level between Romania and the European union states.

The main objectives of regional development policy in Romania are:
• decreasing the regional disparities
• correlation between governmental sector policies at regions level
• stimulating the interregional cooperation,
• according to international accords that Romania is part of.

In integration context of Romania in EU, for the success of eliminating the disparities in using the external founds, 2 main conditions are primordial:
• competitive and innovative human resources that can realize regional development projects, eligible projects for financing;
• co-financing projects capacity, in the conditions that the administrative decentralization isn’t followed by a real financial decentralization.

The main actor in making, implementing, following and controlling of regional development is local public administration. Analyzing the constitution regarding local public administration, the local public administration legal foresight, the local election, and according to some opinions in Romanian literature, points out the main characteristics of local public administration:
• local public administration is not a state administration, but an administrative structure that allows local collectivities to resolve theirs local public affairs, through out it’s own administrative authorities, under the control of central authorities:
• local public administration has at organizing and functioning base local autonomy principle and public services decentralization principle, representing the expression of administrative decentralization regime applied at Romanian public administration level:
• local public administration has autonomic administrative authorities and public services organized under the authority of those local public authorities:
• the relationship between public administration organized at city level and the district level, have at its base the autonomy principle, the legal and collaboration regarding the resolving of common issues, between those relationships not existing subordinating rapports;
• the relationships of local public administration and specialized central public administration and with de concentrated public services of those, are collaboration cooperation and co working relationships, witch are made in a co administration regime;
• local public administration takes care of local public issues and realizes public services of district interest, through out elected administrative authorities, and through out local referendum, in the law conditions. In other words, their power does not came from state power, but, contrarily, from the will of local electors witch they represents and in the name of they act;
• local public administration is a concept that shows a number of public workers that makes public services for national collectivities and for local collectivities. The capacity of public administration to make some action is given by the law and is submitted to the law, witch is why considering the main aspects that is connected to the development of a territory we find relevant to define this public administration capacity as the way of initiating, organizing, elaborating and implementing the politics regarding the evolution of a territory.

The main action directions of public administration authorities in order to develop a new territory, attraction of the investors, promoting a correct policy for a territory development in public administration are:
• public-private partnership
• administrative structures partnerships
• realizing projects and accessing the extra budgetary founds
• realizing strategies, programs and development prognoses
• supporting investments in territorial administrative units.

Those action directions of public administration may be reached by implementing a performing public management, who takes care of the satisfying level of citizens needs, close connected with followed objectives and financial resources that it has.

Public management has the following characteristics:
• reunites a sum of processes and management relationships, that appear in administrative system components;
• it’s objective is public interest satisfying, by creating a real institutional frame, that allows applying of law norms, witch means even adopting normative acts with interior law force, laws, or when possible, rules of organization, or effective making the public services;
• the processes developed in public sector are management processes, as well as execution processes;
• processes that are made in public institution are the rapports that appear in administrative system. In state administration, this is realized in public power regime, by the prerogatives given by the Constitution.

Referring to the public management functions, it can be seen, among the other five classic functions, informational function appear here, function that is made of all the activities that have as a result an information, witch is necessary in undemanding and adopting the decisions. The act of leading is made by the transformation of the information in decision, the decision in action, having as effect a result that is between action and needed information for adopting some decisions.

Public management performance can be appreciated by two fundamental criterions: effectiveness and efficiency.

Regarding efficiency, human factor represents the key element of the activities and performances in public sector. That’s why this factor represents the essential coordinate to the activity’s dimension and quality in public sector. That’s why, it can not be mentioned the efficiency of a public institution, generally, without having in
sight, among economic efficiency, the direct measurable aspects, and direct immeasurable aspect, that have multiple consequences above public sector performances. Among these, an important place belongs to the efficiency of public workers work. By efficient use of public workers, by its efficiency depends the quality and efficiency in public administration.

Effectiveness engages public administration to realize social needs satisfying, by assuring diversified public services, that’s why in most cases budgetary expenses are not enough.

It has been considered that local public administration can be implicated in regional development process just in decentralization conditions, which assume local autonomy, the two concepts being often treated together, local autonomy being seen in European context as a component element of democratic principles common to member states, which through out its regulation and real applying makes possible the decentralization of the central power.

Local autonomy issue has been pointed out in the last 10-15 years, in European space, where in 1985 European Carte of Local Autonomy has been adopted, and defines local autonomy by being the right and effective capacity of local public administration to resolve and manage according to the law, and in it’s own name and local population interests, a significant part in public affairs.

We can not speak about local autonomy without taking care of financial autonomy, which can be defined as representing the capacity of local public administration in having a budget of incomes and expenses on its own, different from the state budget, in which budget being able to be covered the made expenses for local collectivities needs satisfying.

Central public administration authorities can not impose responsibilities to local public administration authorities, in decentralization process of some public services, without assuring them financial meanings for the realization of those. Central public administration authorities consult before adopting any decision, local public administration authority’s associative structures, in every aspect that regards them directly.

Local development concept appeared in our country in the same time with of territorial decentralization phenomenon and public services deconcentration. Practical there are close connection between local development and decentralization that influenced each other, being in direct rapport, from this point of view. It is about making a favor for a better adaptation of public services to the consumers needs, offering to the person that takes decisions action network more accessible, by taking care of the situation’s originality in the same time with taking care of the emphases risk in inequalities between different area of the country but even the assembly vision over our country territory. In this way, local development in our days should support itself on the effectiveness concept and entrepreneurial spirit.

From local public administration point of view, the main issues are connected to:

- reordering economical state and private structure;
- correct and objective correlation of central and local decision process.

Local development is situated at the intersection of many public interventions domains, in this way, having in sight, among local economic politics, other politics that point out given territorial development.

Local economic initiative became the mobile of economic development seen as a growing performances process and decreasing risks.
Local economic initiative takes place through regional development projects, and it refers to the management of those projects, which uses internal resources and attracts other resources needed for given territory development.

It has been considered that regional development project can be defined as an assembly of activities, with temporary character, that implies some resources, and has as a scope the reaching of macroeconomic issues, such as economic growth, reducing unemployment rate, decreasing the inflation and improving the level of living for the collectivities in which it is applied.

The purpose of those regional development projects consist in supporting a economical, social, durable and territorial equilibrate development, of all regions in Romania, according to specified needs and resources, with an accent on supporting the durable development of increasing urban polls, improving business sector and infrastructure, in order to make from Romania regions, especially the less developed ones, attractive places for investments.

It has been defined regional development project management as being the process of planning, organizing, decision, motivation and control of the project in all its life cycle so that the objectives of regional development can be realized, in terms, with the finances, with resources and at proposed quality.

The equilibrate development of the country regions will be realized through an integrated approach, based on a combination of public investments in local infrastructure active policies of stimulating business activities and supporting the local resources use, on the following main domains:

• durable development of the cities;
• local and regional transport infrastructure;
• social infrastructure;
• local and regional business environment;
• durable development and tourism.

Of course, in those main domains we can find secondary interventional domains resulted from different kinds of projects that can be applied within those interventional main domains.

Referring to the ways that local public administration can be implicated in regional development project management, among the role that the state has it, through out its public institutions, the instruments and means that they have for refreshing the served territory have been taken into consideration.

Regarding used instruments by the public administration institutions in regional development projects, it has been pointed out some normative frame that belongs to the state or European Union, which underlines some limitations in the interior of the state or public administration that are implicated in regional development, must be framed. The normative frames for regional development are:

1. National Strategic Frame of Development
2. National Development Plan, in which has been established six national priorities of development, which groups in its interior lots of main domains and under-domains:

• increasing economic competitiveness and development of the economy based on knowledge;
• development and modernizing the transport infrastructure;
• protecting and improving the of environment;
human resources development, promoting the occupation and social enclosure and enforcement of administrative capacity;

development of country side economy and increasing productivity in agriculture sector;

reducing the disparities between country regions.

3. Operational programs, that will be co financed from Regional Development European Found, Social European Found and Cohesion Found.

The main operational programs are:

- National program of country side development;
- Regional operational program;
- Sector operational program for increasing economic competitiveness;
- Sector operational program for environment;
- Sector operational program for human resources development;
- Sector operational program for fishing;
- Sector operational program for transport;
- Sector operational program for technical assistance;
- Sector operational program for development of administrative capacity.

The means or sources used for financing the strategic objectives are:

- EU contribution from Structural Instruments;
- Structural founds of EU for agriculture, country side development and fishing;
- International founds;
- Allocations exclusively form local and national public sources;
- External credits for investments.

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OPPORTUNITIES IN DEVELOPMENT OF BUSINESS SYSTEMS
BY BUILDING A WEB FLEXIBLE FRAMEWORK
FOR INTEGRATING GENERIC DATA MINING TECHNIQUES
IN ECONOMIC ACTIVITIES

Mircea Adrian MUȘAN¹
Daniel Ioan HUNYADI²

ABSTRACT

Web framework proposed, developed and briefly presented through this paper is a Web
application systems, designed in a flexible way to integrate data mining techniques that are
represented by RapidMiner processes applicable in e-business. The Web application systems
that is developed is in fact a management system of users and RapidMiner processes assigned,
actually performing generalization RapidMiner interface, to execute any generic algorithm
implemented, of any class of algorithms that we focused, namely those that can be used in
intelligent business systems pursuing economic development.

KEYWORDS: data mining, RapidMiner process, Business Intelligence, classification

JEL: M49, D83

1. INTRODUCTION

Application is proposed and developed hear is not one of routine, is not a commercial
application, how many would be tempted to believe. It is actually a departure point, one
component of the subsequent developments, an alleged "brick" used in the construction of
systems with application in economic areas. Perhaps many would ask what they use such a
framework, such as that developed here. It provides a project framework, a dynamic
perspective in this world in a perpetual motion is addressed mainly to companies and
organizations in their processes using intelligent concepts developed through data mining.
Here processes in e-business application can be developed in advance, and thereafter the only
one who uses that framework to add their information used for extracting the desired results.
Being a web application, the user accesses this well known background "tool" called browser
to use, add, change processes RapidMiner.

2. LOGISTIC SUPPORT FOR E-BUSINESS APPLICATIONS:
INTELLIGENT METHODS FOR BUSINESS INTELLIGENCE

As the term business intelligence was introduced in the mid of 90s by Gartner
Group. As a concept, however, business intelligence existed long before, since the early 70s
(Z(2005)) (M(2006)), reporting systems used by mainframe. At that time, reporting systems

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were static, two-dimensional, with no analytical skills. The application of multidimensional
dynamic systems that support intelligent decision-making processes and predictive skills,
led development of business intelligence systems. These systems are becoming increasingly
complex, multidimensional analysis of data capable with its statistical analysis and
predictive capabilities to better serve decision support systems (M(2006)).

Business intelligence (BI) has two basic different meanings related to the use of
the term intelligence. The primary, less frequently, is the human intelligence capacity
applied in business affairs/activities. Intelligence of Business is a new field of the
investigation of the application of human cognitive faculties and artificial intelligence
technologies to the management and decision support in different business problems.
The second relates to the intelligence as information valued for its currency and
relevance. It is expert information, knowledge and technologies efficient in the
management of organizational and individual business. Therefore, in this sense,
business intelligence is a broad category of applications and technologies for gathering,
providing access to, and analyzing data for the purpose of helping enterprise users make
better business decisions. The term implies having a comprehensive knowledge of all of
the factors that affect the business. It is imperative that firms have an in depth
knowledge about factors such as the customers, competitors, business partners,
economic environment, and internal operations to make effective and good quality
business decisions. Business intelligence enables firms to make these kinds of decisions.

BI provides many benefits to companies utilizing it (YR(2009)). It can eliminate
a lot of the guesswork within an organization, enhance communication among
departments while coordinating activities, and enable companies to respond quickly to
changes in financial conditions, customer preferences, and supply chain operations. BI
improves the overall performance of the company using it. Information is often
regarded as the second most important resource a company has (a company's most
valuable assets are its people). So when a company can make decisions based on timely
and accurate information, the company can improve its performance. BI also expedites
decision-making, as acting quickly and correctly on information before competing
businesses do can often result in competitively superior performance. It can also
improve customer experience, allowing for the timely and appropriate response to
customer problems and priorities.

The firms have recognized the importance of business intelligence for the
masses has arrived. Some of them are listed below (YR(2009)).
- with BI superior tools, now employees can also easily convert their business
knowledge via the analytical intelligence to solve many business issues, like increase
response rates from direct mail, telephone, e-mail, and Internet delivered marketing
campaigns.
- analyze click-stream data to improve e-commerce strategies.
- quickly detect warranty-reported problems to minimize the impact of product
design deficiencies.
- analyze potential growth customer profitability and reduce risk exposure through
more accurate financial credit scoring of their customers.
- with BI, firms can identify their most profitable customers and the underlying
reasons for those customers’ loyalty, as well as identify future customers with
comparable if not greater potential.
- determine what combinations of products and service lines customers are likely to
purchase and when.
- reduce equipment downtime by applying predictive maintenance.
- determine with attrition and churn analysis why customers leave for competitors and/or become the customers.
- detect and deter fraudulent behavior, such as from usage spikes when credit or phone cards are stolen and set more profitable rates for insurance premiums.

Customers are the most critical aspect to a company's success. Without them a company cannot exist. So it is very important that firms have information on their preferences. Firms must quickly adapt to their changing demands. Business Intelligence enables firms to gather information on the trends in the marketplace and come up with innovative products or services in anticipation of customer's changing demands.

Competitors can be a huge hurdle on firm's way to success. Their objectives are the same as firms’ and that is to maximize profits and customer satisfaction. In order to be successful firms must stay one step ahead of the competitors. In business we don't want to play the catch up game because we would have lost valuable market share. Business Intelligence tells what actions our competitors are taking, so one can make better informed decisions.

3. TECHNOLOGY FOR EXTRACTION AND KNOWLEDGE MANAGEMENT: DATA MINING

Data-mining is the process of extracting the knowledge on the databases / data warehouses, knowledge previously unknown, valid and operational at the same time (G(2005)).

To find many definitions of data mining, one of those accepted as "data mining nontrivială of potentially useful information, previously unknown" (F et al., 1992). Another definition would be that the "science of extracting useful information from large data collections or databases" as found in the research of D. Hand of articles identified by (H and K (2001)) and (H et al., 2001).

Many people, moreover, consider data mining as a synonym for another term widely used, namely "knowledge discovery in databases (Knowledge Discovery in Databases - KDD). This phenomenon, namely, KDD is treated as "knowledge extraction early default and potentially useful information from data". To do this extraction, data mining software combines artificial intelligence, statistical analysis and systems management databases to try to extract knowledge from data stored (P(2005)).

Data mining aim for using existing data to invent new facts and new relationships to discover previously unknown even to experts who are familiar with the raw data. Computer data bases also make complex issues unique to their own way. For example:
- Database structures are very complex and distributed. They contain many tables that are connected by ties of abstract traces their difficulty.
- Digitized databases are hidden from view, so that details of the records are unseen and unanalyzed.
- Dimensional and distributed nature of databases makes it impossible to detect hidden patterns and connections ill-formed.

The tasks of data mining process can be classified by types of knowledge sought by the user. The most common types of data mining tasks are:
- Summarizing. A set of relevant data is summarized and abstracted resulting in a smaller set of data providing an overview of the aggregated information. A summary
Table can be generalized to different levels of abstraction and seen from different angles. For example, a company can be summarized sales by product, region or years and seen various levels of abstraction in any combination thereof.

- **Classification.** In the process of classification is given to analyzing a training data set or a set of objects whose class label is unknown. The model can be used to classify future data and develop a better understanding of each class in the database. For example, a model can be built based on the classification of disease symptoms and characteristics that can be used to diagnose new patients.

- **Clustering.** Clustering is the process of site identification for a variety of classes of objects based on attributes Unclassified them. Objects that are classified as inter-class similarities are minimized by relying on certain criteria. Once you have decided clusters with common features of objects in a cluster, they are summarized to form a description of the class. For example, a company can classify its customers into several categories based on similarities of their age, income or address, and the common characteristics of customers in a category can be used to describe that group of customers.

- **Analysis of trends.** Templates and regularities in the behavior of data changes are detected during data binding (which they attribute data time). The data are analyzed over time and trace data are compared and appropriate modification. Trends, such as periods of growth or decay times, which happens frequently reported. For example, sales of companies can be analyzed each year, quarterly or monthly sales and to discover models to analyze the reasons behind them.

- **Mining association rules based.** An association rule reveals the associative relationships between objects, especially in a transactional database. For example, an association rule, "expected message, a message appears", says if a customer subscribes to the service "call waiting" is very likely that he or she also have the service "call display". Databases are searched to identify associations between objects and data. Another example, a retail store may discover that a set of goods is often bought with a different set of goods. This finding can then be used to design the sales strategy.

4. **RAPIDMINER, AN ENVIRONMENT FOR MACHINE LEARNING AND DATA MINING EXPERIMENTS**

RapidMiner is an environment for machine learning and data mining experiments. It allows experiments to be made up of a large number of arbitrarily nestable operators, described in XML files which are created with RapidMiner's graphical user interface. RapidMiner is used for both research and real-world data mining tasks.

RapidMiner provides more than 500 operators for all main machine learning procedures, including input and output, and data preprocessing and visualization. It is written in the Java programming language and therefore can work on all popular operating systems. It also integrates learning schemes and attribute evaluators of the Weka learning environment.

RapidMiner provides a GUI to design an analytical pipeline (the "operator tree" in RapidMiner parlance). The GUI generates an XML (eXtensible Markup Language) file that defines the analytical processes the user wishes to apply to the data. This file is then read by RapidMiner to run the analyses automatically.
While these are running, the GUI can also be used to interactively control and inspect running processes. The Java application programming interface ("API") provides clear interfaces for applying operators individually (i.e., no need to create an operator tree), providing the ability to bypass the GUI and controlling analytical processes directly. RapidMiner flexibility allows it use with text mining, multimedia mining, feature engineering, data stream mining and tracking drifting concepts, development of ensemble methods, and distributed data mining. RapidMiner is found in the Electronic Industry, Energy Industry, Automobile Industry, Commerce, Aviation, Telecommunications, Banking and Insurance, Production, IT Industry, Market Research, Pharmaceutical Industry, Universities and other Miscellaneous businesses.

The most important characteristic of RapidMiner site is the ability to nest operators chains and build complex operator trees. To support this feature, the core's data RapidMiner acts as a management system database. Internally it uses a special type of table to be set data, no matter where it is stored in memory to a file or a database.

In order not to unnecessarily copy data set or subsets thereof, are given representations of this table, so only references to relevant parts of the table to be copied or transferred between operators.

RapidMiner supports the flexible arrangement / rearrangement of operators, which allows searching for the best scheme for data preprocessing and learning tasks.

Data handling is done transparently and can be taken several types of data sources. Due to the modular concept of operators, most often just one operator should be replaced in order to evaluate its performance, while the rest of the process remains unchanged. This is an important feature for both scientific research and for optimizing real-world applications.

When implementing data mining processes, RapidMiner is the world leader open source solutions and is a tool widely used by researchers and companies.

5. THE PRESENTATION OF THE VERSATILE PLATFORM FOR DATA MINING GENERIC APPLICATIONS IN THE E-BUSINESS SPHERE

As I said before the application system on which is made reference here is a user's management system and data mining processes conducted by RapidMiner. The new data mining Web application framework I have implemented is attempted to transform RapidMiner, a widely used open-source environment for data mining, machine learning and business intelligence, into a Web-enabled data mining environment, allowing users to run knowledge discovery process remotely, via a browser. This provides RapidMiner with an essentially new dimension: at any time and from any location, users gain access to a comprehensive range of Data Mining techniques and to any available data sources, provided that they can connect to Internet.

I developed this new web environment as part of a knowledge portal. It was 2 client-side components:

- **Application Instantiator** enables the instantiation of new data mining web applications and the registration of users for which the access to application resources is granted;

- **Application Manager** allows registered users to manage all the actions for which they granted permission, such as connecting to the data mining engine hosted by a server, connecting to remote databases, editing, running and modifying complex data mining experiments, visualizing the results, and so on.
On first contact with the application, the user has to enter username and password under it for authentication. Depending on the rights assigned to it will only have access to specific actions that can be performed on the database. Then it enter into the management of users being able to add new users, delete, modify and assign the desired data mining processes.

**Figure 1** – The users list

When will add a new user will generate a form to fill its data. After completing the user's personal data is available the section "Groups" which is filled with the list of existing groups in the application. By checking the user group it makes the association to a group. If a user is associated with multiple groups, then it will be right on all processes associated user group.

**Figure 2** – Adding and editing a user
There is a list of existing groups from the database and the list can be filtered or ordered adjustable single name or order number. Actions can be performed by a group are adding, editing or deletion. If a group has more than one process in this group then all users will have rights to use all processes associated with the group.

Figure 3 – Adding and editing a group

The menu Processes help manager to provide management processes. Can sort or filter the list according to its process name and location. Adding a process is done by accessing the New menu, which will generate a form of adding process. Adding a process is done by providing the *.rpm file in two ways: through a file upload or by providing the necessary data to an FTP connections.

Figure 4 – Management of processes
The application provides facilities for updating and viewing user data source that will be run over the process, run it and view the results.

Figure 5 – Adding and editing a RapidMiner process

Figure 6 – How it run a RapidMiner Process

Updating a data source is done by clicking on the link named Update process corresponding dataset. Update dataset can be done by providing a link where the SCV file containing the new set of data or providing the address and authentication data on a
server database and an order of selection set. When you save the application form will connect to the server database and fill a table in the server. This will be used to run the process. In case of failure by the form will display an error message accordingly. When updating data from csv file to a URL on the first line should contain the description column.

Running process is done by clicking on the link associated Run process. This will generate a form dynamically depending on the current process. Thus some processes may require the completion of certain parameters of the running, for example Decision Tree will ask the user to indicate the label data set, instead Create Association creative process does not require a label data set accordingly to the user will not have a index at runtime process.

The results of a process are stored in the database as HTML text, which is created dynamically according to each process. Processes can have one or more results, but they all share a schematic representation of the data upon which it was run.

![Figure 7 – View results](image)
Other processes can generate several types of results such as **Logistic Regression** generates, besides the two types of results, two sets of tables, namely **Tables** and **Weight Tables Support**.

![Flexible Web Platform for Data Mining Applications in E-Business](image)

**Figure 8** – View results of the other processes

6. CONCLUSIONS

Web framework proposed, developed and briefly presented through this paper is a Web application systems, designed in a flexible way to integrate data mining techniques that are represented by RapidMiner processes applicable in e-business. Such a system has been designed to facilitate data mining process management systems, business and economic activities. It is a practical tool for anyone wishing to use RapidMiner from anywhere.

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ASPECTS OF OPERATIONS MANAGEMENT OF SERVICES

Anton NEDYALKOV

ABSTRACT

The objective of the paper is to analyze aspects of operations management of services, and on this basis to develop guidelines for further investigations. There are differences between services and goods in terms of marketing, but from a production point, the differences are only at the output of the operations system. In operations management of services, transformation and support subsystems can be combined on one component – back-office system, and people as a resource should be front-office system. There is a relationship among the components of the operations system and Albrecht’s service triangle components and on that base is proposed integration of models and approaches among customer, back-office system, and front-office system. It is substantiated that for the front-office system there are developed several management models, unlike the back office-system. It is considered that further investigation should be made in the back-office system, and its relationship with front-office system and customer.

KEY WORDS: operations management, services

JEL: M11, L80

1. INTRODUCTION

Enterprises usually perform three basic functions in manufacturing goods and/or services – marketing, production, and finance. Marketing defines supply (demand) of a product, production (operations) – the transformation process of resources into the product, finance gives the efficiency of the two activities.

One of the basic marketing issue is: “Are services different from goods?” Marketing researchers (Haksever et al., 2000; Kotler et al., 2006; Lovelock & Wirtz, 2007) claim that they do. Characteristics of services, such as intangibility, perishability, inseparability, simultaneity, variability, confuse managers how to manage their service enterprise.

However, goods and services have something common - they are produced and/or delivered by the operations system. Hence, the study of operations management of services is quite important.

The objective of the paper is to analyze some aspects of operations management of services, and on this basis to develop guidelines for further investigations. The considered issues are: (1) to analyze general conceptions in operations management; (2) to analyze models, which are specific for operation management of services.
2. GENERAL CONCEPTIONS IN OPERATIONS MANAGEMENT

The development of operations management begins with Towne’s paper “The Engineer as an Economist” presented at ASME meeting in 1886. Sheldrake (Sheldrake, 2003) and Wren (Wren, 2004) analyzed that Towne’s idea was to develop ACME department to exchange experience and best practices in managing companies and their accounting. Taylor, better known as scientific management founder, develops this idea further. Since then many researchers are working in the field of operations management.

Operations management is one of the main fields of management abreast of strategic management, financial management, marketing, organizational behavior and information systems management and is closely related with them.

Operations management uses as a fundament the results of scientists from different areas, beginning from Adam Smith’s up to the use modern Information and Communication Technologies.

The recent advances in operations management (Gaither & Frazier, 2001; Galloway, 2002; Jacobs et al., 2009; Meredith & Shafer, 2006; Sampson & Singh, 2008; Vonderembse & White, 2007) can define it briefly as a set of activities in design, use and improvement of operations (production) systems that manufacture and deliver products (goods, services) to customers (consumers) in order to satisfy their needs.

Following the logic of these considerations, operations management is philosophy and comprehensive activity in management processes (operations) for the conversion of resources (raw materials, etc.) in a finished product and delivery of this product to the customer (consumer). More precisely, this activity deals with transformation (conversion) of resources.

Object of operations management is transformation process, its time and facility management, resources supply and motion within the stages of production process as well as shipping products from producer (supplier) towards customer (consumer). Hence, operations function is all activities the results of which are produced goods and/or services.

Operations refer to activities in certain period, in a specific location, transforming inputs (resources) into output (production). Thus, operations are single processes of transformation.

Mescon et al. (Mescon et al., 2006) consider that terms “production” and “operations” are interchangeable. However, production is perceived as transformation of resources into physical output, i.e. goods, while operations are broader term, including the supply (production) of services, also.

The operations tetrahedron (Galloway, 2002) that includes production, transport, supply, and services supports that statement. According to (Galloway, 2002) there are four distinct types of activity that may be described as operations – Figure 1.

- Manufacturing: The most obvious operations activity where physical materials are converted into a product, which is then sold on to the customer.
- Supply: Activities, which are primarily concerned with the change of ownership of a physical good.
- Transport: Activities, which are primarily concerned with the movement of goods, or people, from one place to another, without any physical change.
- Service: Activities, which are primarily concerned with changing the condition of the customer.
In the system of physical production most common components are supply, manufacturing, and transport, i.e. in producing goods are supplied materials, inventory is created, transformation process is performed and finished goods are transported to the customer or inventory is created again.

However, it would be a mistake to consider these types of activity as distinct and separate activities. No enterprise lies at an apex of the tetrahedron, since there is an element of service in every manufacture, supply or transport transaction, and no significant venture has been identified which can be classed as pure service. All the operations are performed in the operations system of the enterprise, discussed further.

2.1. IPO-S model of operations system

There are many definitions (sometimes contradictory) of a “system” because it has different qualitative and quantitative characteristics.

As a definition is accepted, that system is a set of components that function as a whole to achieve a predetermined goal. Certainly, some additional explanations should be made as it is used the IPO+S Model that is considered to be in the basis of every system – Figure 2.

Input is all necessary resources for the transformation process as: (1) labor by qualification, occupation, education, experience, gender; (2) material by type, quantity, quality, and delivery; (3) equipment by quantity, quality, and condition; (4) finance by type, amount, sources, and conditions; (5) information from internal and external sources.
Process is actions taken upon/using input or the transformation process of inputs. This component is specific for every enterprise and is described with its different technological capabilities.

Output is results of the processing the input as a product. A product is anything that can be offered to a market that might satisfy a want or need. Products are separated into physical (goods) and nonphysical – services. Often, goods and services are presented as a unified package, providing a well-rounded and attractive option for the consumer.

Storage is location(s) where material inside the system is/are placed for possible use later, much more typical of physical production, rather than services. However, some components of services can be stored, yet.

The components are connected with feedback, which is a mechanism, process, or signal that is looped back to manage a system within itself.

The enterprise is an open system that is connected other systems, i.e. suppliers, market, etc.

Based on the above model and the adopted definition, it might be concluded that like any other system, the operations one has objective, subsystems performing tasks for achieving the objective, functional components, relations among components and among subsystems, input, process, and output.

2.2. The operations system components

Following these considerations, it is believed that the full system of enterprise’s production activities is operations system that is central (main) component for each enterprise in the production of goods and / or providing services.

In that system, based on rational division of labor and balanced combination of production factors in time and space, is realized the operations (production) function, i.e. set of actions for processing (conversion) the resources acquired from the external environment and transmit the results of the same external environment to satisfy customers needs, shown on Figure 3.

Thus, the management of operations system and operations function can be defined as operations management, also.

The operations system has:
- Subsystem for transformation that is the main system performing activities under the direct conversion of input into output (basic operations);
- Subsystem for support, which is not directly linked with the transformation process, but performs all necessary functions to ensure its proper functioning (support operations);
- Management subsystem, which receives information from internal and external environment, information about the above two subsystems condition, processes it and provides guidance (decisions) for corrective actions, if they do not work on plan (management operations).

The output and the manufacturing methods of input classify operations systems that can be defined either in physical production or in services. Such classification is convenient if all the production is pure goods or pure service but production is a mixture of goods and services.
Figure 3 – The components of operations system

Operations management proposes several models and approaches to manage services, which are analyzed further.

3. MODELS IN OPERATIONS MANAGEMENT OF SERVICES

3.1. The service triangle

Operations management of services or service management demands careful attention to all levels of the business operation – from the highest levels of strategy formulation, to the various levels and structures, to the delivery of the customer experience at the front-line (Albrecht & Zemke, 2008).

Albrecht & Zemke propose a model that spans this full range of thinking calling it “The Service Triangle”, shown on Figure 4.

The service triangle enables an organization’s leaders to bring together the critical truths of its business strategy, the needs of its culture, and the design of its infrastructure into a unified concept for competitive success (Albrecht & Zemke, 2008).

By placing the customer at the center of the triangle, service enterprises are declaring that the customer will guide the decisions how the organization operates.

The strategy spells out the organization’s unique way of winning and keeping the customer’s business, with its particular customer value package, i.e. the combination of things and experiences it offers the customer.

The people part of service triangle refers to the entire culture of the organization, not just to the front-line „service delivery” people. The various departments in the organization treat one another as customers as well. Finally, the way employees feel is the way that customers feel.

The systems part of the triangle refers to the entire infrastructure of the organization. All organizational structures, functional relationships, physical facilities, information systems, procedures, rules, and regulations should be customer friendly in their design.
3.2. Using models and approaches within the service triangle model

Such models that can be used and integrated in the service triangle model are: motivation theories, models of consumer behavior, Flores’ atom of work cycle model, Normann’s concrete moments of truth model (Chase’s Customer Contact Model), service blueprints, approaches to service delivery as the production-line, the self-service, and personal attention one, GAPS model or SERVQUAL, etc.

Many services exist to meet certain needs. The motivation theories, for example the Maslow’s theory (Maslow, 1987), provide to operations management of services a useful approach for analysis and explanation of human behavior and in particular of consumer behavior.

Nevertheless, the widespread application the Maslow's theory does not explain the behavior of modern consumers. Researchers analyze consumer behavior individualism in deciding to purchase, frequency, locations, etc. Furthermore, they use the information from other scientific fields such as psychology, sociology, social psychology, cultural anthropology, economics, etc.

One of the famous models of consumer behavior is presented on Figure 5, as it can describe the decision to purchase services as a process of satisfying needs (desires).

The validity of the above model is undeniable, but the result of a service reach the mind of the customer through material (physical) components, as well as information that the user processes in direct or indirect contact with the staff or “Moment of truth” (MoT) model (Carlzon, 1989; Normann, 2001), shown on Figure 6.

It is assumed that “moment of truth” correspond to the point of contact with the costumer, described by (Markland et al., 1995; Vonderembse & White, 2007)

Likewise, (Jacobs et al., 2009) claim that the difference between operations function of an operations system on other, determining the degree of customer contact.

Figure 4 – The Service Triangle
Source: Albrecht & Zemke, 2008
Customer contact refers to the physical presence of the customer in the system, and creation of the service refers to the work process involved in providing the service itself. Extent of contact here may be roughly defined, as the percentage of time the customer must be in the system relative to the total time it takes to perform the customer service (Jacobs et al., 2009).

Fernando Flores (Flores, 1993) offers a four stage universal model for service operations management related to the customers’ and providers’ concerns, shown on Figure 7. That model gives very good scheme of the relationship between the customer (consumer) and service provider (producer), but no connection to components like strategies and systems.
The customer is not always “meeting” with the service provider. In these cases, the flexibility of the operations system of service enterprises is largely based on their systems than personnel and strategies.

Obviously, if the activities of the enterprise are not performed in front of the customer, then its object is substitute. Such activities may be designed using basic methods of manufacturing.

Parasuraman, Zeithaml and Berry (Parasuraman et al., 1985) proposed the so-called “GAPS Model”, which in recent years is widely used in the management of services – Figure 8. The essence of the model is in the measurement of visible and hidden elements of the service, emphasizing on quality.
Unambiguously, quality is one of the main strategic objectives for achieving a competitive advantage in services.

With this model can be identified discrepancies between customer and provider. The possible gaps are between: (1) customer expectations and management perceptions of those expectations; (2) management perceptions of consumer expectations and the elements defining the service quality; (3) the elements defining the service quality and delivered service; (4) the service and external communications to the customer; (5) the expected and perceived service.

Hence, the most common causes for gaps are gaps in observation (not being aware of customer expectations), communication (performance does not match promises), design (selecting inappropriate or inadequate service designs and standards), and implementation (not delivering to service standards or not appropriately implementing systems).

Finally, it is considered that the analyzed models can be integrated in the service triangle, and particularly in its lower part, as it is presented at Figure 8.

**Figure 8** – Integration of Models for Operations Management of Services

### 4. CONCLUSIONS

It is grounded that there are differences between services and goods in terms of marketing, but from a production standpoint, the differences are only at the output of the operations system.

It is find out that in services, transformation and support subsystems can be combined on one component – back-office system and people – front-office system.

It is established a relationship among the components of the operations system and Albrecht’s service triangle components and on that base is proposed integration of models and approaches among customer, back-office system, and front-office system.

It is substantiated that for the front-office system there are developed several management models, unlike the back-office-system.

It is considered that further investigation should be made in the back-office system, and its links with front-office system and customer, rather the front-office.
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THE MOUNTAINOUS BANAT – TOURISM, PEOPLE AND EXPERIENCES

Gheorghe POPOVICI¹

“He who makes tourism for the delectation of the soul ..., should come to Craș. It will be highly worthwhile…. The landscape lures you like a siren: - One more step, another step, come here too, ...thousands of temptations with unspoken charm.”

(Virgil Birou)

ABSTRACT

The paper presents the results of the first research stage regarding the “Touristic potential of Mountainous Banat”, highlighting the features of the Banat’s multicultural mode which is unique in the Romanian and European space, as a model of peaceful cohabitation among the 15 main community of Romanians, Hungarians, Croatians, Serbians, Roma inhabitants, Czech inhabitants, Slovaks, Ukrainians, Lipovenian Russians, Turks, Bulgarians, Jews, Poles and Italians. We underlined the segmentation along generations, the identification of the main touristic sights of the 5 touristic areas and the touristic circulation in the Caraș-Severin county.

KEY WORDS: Mountainous Banat, multicultural model, areas of touristic interest, segmentation by generation groups, tourists’ circulation, touristic attractions and sights, touristic marketing, online marketing.

JEL: Q26, Q00

1. INTRODUCTION

Europe is unique in international tourism due to its geography. Most countries are accessible for the majority of citizens for travels by personal cars or by train, across borders. If the distances are too great for the ground transportation, then air transport provides the alternative of a short voyage, as flights rarely last for more than three hours.

Romania’s integration to the European Union on January 1st 2007 turned the country’s tourism in Europe in a “community” tourism, with the challenges brought about by its integration into the European one.

Romania is situated at the core of Europe, at half the distance between the Atlantic Coast and the Ural Mountains, inside and outside the arch of the Carpathians, on the lower course of the Danube and with access to the Black Sea. It is situated along the 45° N latitude and 25° E meridian.

With a surface of 238,391 square kms., Romania is the 12th large country in Europe.

When we look at Romania’s map, we can see its contour resembling that of a smiling fish with “the belly” along the Danube and the “tail” in the Black Sea.

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Grace to its “Zodiac sign”’s shape, Romanians are ingenious in work, but they often take risks in certain unsure speculations; they are creative, but not discipline in labour; the start an endeavour with difficulty and then fail to fulfil it.

The Mountainous Banat stands out as a region of Romania with distinct geographic, historical and cultural traits granting it a remarkable touristic potential.

Situated at the Western gate of Romania to Europe, The Romanian Banat is made of the Timiș and Caraș-Severin counties.

The Timiș County constituted Banat’s plain section, together with the Arad County’s part lying south of Mureș River.

The Caraș-Severin county represents the Mountainous Banat, but from the touristic perspective, this area should be “completed” with the Orșova – Danube’s Straits (“Boilers”) situated in the Mehedinți county.

The Banat region is unique in the Romanian and European space, being the place where a multicultural model / pattern has developed in the true sense of the word.

The 15 main communities of Romanians, Hungarians, Croatians, Serbs, Rroma inhabitants, Czech inhabitants, Slovaks, Ukrainians, Lipovenian Russians, Turks, Bulgarians, Jews, Poles and Italians make the Romanian Banat a region of European culture, considered the “Little Europe” and a model of peaceful cohabitation.

2. THEORETICAL FUNDAMENTS

The 21st century’s man is more and more subjected to a high psychic pressure. That is why the following question is more and more frequently asked: How long will man resist to the hardships of all kinds that burden his life?, with an answer given through another question: Is there still time for us to recreate our mind and soul in nature’s perfume, so distinct and attractive?

Tourism needs to go beyond its state of mere relaxation trip or a trip “in a hurry” in order to “check” in a day as many cultural sights as possible.

Consequently, our plea will be for a cultural tourism in the Mountainous Banat in which everything should belong to the traveller: “walking, eyes let to wander, time of halt and time taken to admire sunrise and sunset” (Cristoiu, 2007).

The Mountainous Banat is mostly identified with the Caraș-Severin county.

Caraș-Severin lies in the south-western part of Romania, having as neighbours Serbia (to the south-west) and the Timiș, Hunedoara, Gorj and Mehedinți counties.

With a surface of 8520 sq.km. and a population of 333,369 inhabitants, Caraș-Severin is a part of Romania’s Western Region, together with Timiș, Arad and Hunedoara.

Traversed by Parallel 45 and benefiting from the comforting effects of a sub-Mediterranean climate, Caraș-Severin has 5 attractive touristic areas:

1. The “Semenic” touristic area with the towns of Roșita and Bocșa;
2. The “Aurora Banatului / Banat’s Aurora” touristic area with the towns of Oravița and Anina;
3. The “Scorilo” touristic area with the towns of Caransebeș and Otelu Roșu;
4. The “Bâile Herculane / Herculane Spa Resort” touristic area with the renowned Spa resort Bâile Herculane;
5. The “Clisura Dunării / Danube’s Shore” touristic area with the harbour towns of Moldova Nouă (Caraș-Severin) and Orșova (Mehedinți).
This blessed territory is worth seeing for its multicolour mountains and hills of breathtaking beauty, with clear running waters, healing thermal and mineral waters, natural and artificial lakes, impressive waterfalls, mysterious caves and untouched forests where no man has ever walked, for the 4 national parks with unique flora and fauna, for the 8 towns once renowned, and moreover with the mountain bearing the name of a flower (Semenic) and a river with a waltz name (the Danube).

3. METHOD AND RESULTS

The results of the first stage of research, performed in the period 2007-2009, regarding “The touristic potential of Mountainous Banat” have shown that the contemporary Romanian society is one in which social cohesion has disappeared and where the fight between generations is more obvious than ever, each generation pretending to be the most representative one.

Thus, in a first step, by applying the hi square test, we found that the segmentation of the Caraş-Severin population is relevant by the criterion of generations.

Each of the 5 generations – for a conventional interval of 18 years from one generation to the next – is profoundly influenced by the times in which they become grown-ups, by the technology, music, political climate and defining events of the respective period.

The life style of the generations before (born before 1931) and after the Second World War (1931-1948), of the I and V types respectively, is modelled by the optimism and prosperity of the inter – and post-war epoch. These generation cherish stability and always expect that the prosperity period goes on.

The sensitive generation (or W, 1948-1965), of avant-garde, also called “the generation in blue jeans”, is a generation moulded by a Romanian society which kept claiming that “things will work well enough”. This generations is less optimistic and is always indulgent with their own weaknesses.

The over-sensitive generation (or X, 1965 -1982) is a generation who has grown up among TVs and PCs. It cherishes more the immediate satisfaction “today, not tomorrow” and does not like to work in teams.

The hyper-sensitive generation (or Y, 1982-1999) is the generation of Internet and mobile phones, being more idealistic and less cynical than the “X” generation. It is the generation who does not accept “half measures” and does not second chances.

The values of the young generation are different form those of their parents or of the other previous generations (Kotler, 2009).

Thus, the “X” generation, of people born between 1965 and 1982 – aged between 25 and 42– is the generation who grew up with the media (TV and radio) and personal computers.

The members of this generation are identified by a narcissist attitude (entertainment and desire to live their life), going hand in hand with a certain pessimism when it comes to the future.

The so-called ”super-generation” is clear in expressing its affirmation values:
1. Substantial material requirements, with a great desire to make money at all costs: “if you have money, you have everything!”;
2. Almost total absence of the desire to do something special to deserve what they think they are entitled to;
3. Focus on immediate satisfaction: “today, not tomorrow”;

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4. Wish of freedom in all areas of life;
5. Absence of the acceptance to receive order from others;
6. Rapidly adapted to the new IT technology;
7. Busy schedule;
8. Higher levels of stress;
9. They are not team people;
10. Less inhibitions.

The “Y” generation also called “hyper-generation” comprises the young people born between 1982 and 1999 who are today of 8 - 25 years of age.

The following features are often attributed to the “Y” generation:
1. Optimism and high hopes for the future;
2. Obsession of achievement, but not at all costs, only by return to the moral values of a fair game;
3. Increased capacity to assume several tasks in parallel;
4. Well accustomed to the Internet and IT technology;
5. The desire to make money fast, but with the need to give something back;
6. Rapid adaptation to the pressure of time (“time is money”), but also a hypersensitivity to the orders received from others;
7. No half measures, or a second chance;
8. Continually increasing escapism from reality and closure into the virtual world;
9. A feeling of rebirth for team work, but through co-operation at distance;
10. Without inhibitions, but highly suspicious towards advertising and media.

The basic change of values nowadays may be described by the replacement of the “pendulum” vision by the “spiral” vision, as follows:

The phase of the “economic miracle” of the “generation in blue jeans” with the values of achievement, task, discipline, family, is replaced by:

The phase of the “ego” of the “X” generation, with values of adventure, performance, desire, being number one, eros, materialism, entertainment, followed by:

The phase of “mild individualism” of the “Y” generation, with values such as commitment, intelligence, friendship, honesty, spirituality, responsibility and sincerity.

In the second step we identified the main touristic sights / objectives of the Mountainous Banat that may constitute the future touristic attractions and sight of each area of touristic interest.

The SEMENIC TOURISTIC AREA

The SEMENIC Touristic Area is the “heart” of tourism in Banat, and it comprises the following resorts: Semenic, Văliug-Crivaia, Trei Ape and Secu.

The two town in the area, Reşiţa and Bocşa, renowned in the past as important industrial centres, delimit “The Iron Way of Banat” and should be reborn as future touristic centres. The city of Reşiţa, capital of Caraş-Severin county, is situated at the foot of the Semenic Mountains, on the middle course of the Bârzava river, at an altitude of 235 m. the town of Bocşa, 18 km far from Reşiţa – toward north-west, is the knot for starting trips to Ocna de Fier, Dogneca and Biniş, the latter being famous for the pottery craftsmen who produce peasant ceramics with a remarkable artistic taste. At the
border between Bocșa and Biniș, along a 5-km distance, one may see almost intact part of “Roman Road” Lederata – Tibiscum, and at Berzovia we may see the ruins of the Roman camp Berzobis.

The Semenic resort lies at an altitude of almost 1400 m, between the peaks Piatra Goznei (1447), Semenic (1446 m) and Piatra Nedei (1437 m). On the Semenic Mountain there are 5 ski slopes with different degrees of difficulty, with tele-ski. From the “Semenic” skiing slope, with the “easy” degree of difficulty, and a length of 300 m, to the “Goznuța” ski slope (600 m long), and the “Giant Slalom” slope with the “difficult” degree and a length of 1200 m, tourists have multiple possibilities of choice.

The Văliug-Crivaia Resort lies along Lake Gozna and on the slope of the mountain, at an altitude of 600 m. There are 4 pontoons on the shore of the lake for sunbathing and swimming with equipment for practising nautical sports.

The Trei Ape / Three Waters Resort is situated at an altitude of 850 m, along the shore of the accumulation lake bearing the same name, where the three waters unite, i.e. Semenic, Grădiște and Brebu, creeks having the source in the “Water Castle” of Banat – Semenic Mountains, and form the sources of the Timiș river. The resort is famous for the splendid landscape each season shapes.

In this area we should visit 10 touristic sights that are remarkable grace to their uniqueness:

1. The open-air Museum of Steam Locomotives of Reșița (1972), where 16 locomotives are exhibited;
2. The Museum of Mountainous Banat din Reșița;
3. The collection of iron aesthetic mineralogy “Constantin Gruiescu” in Ocna de Fier, with over 2000 “mine flowers collected form the Banat’s mines, such as the „Gruiescu” macula , unique in the world;
4. The kinetic fountain of a unique beauty and technical creation, realised in 1984 by the famous sculptor Constantin Lucaci, at the centre of Reșița;
5. The furnace and the funicular railway of Reșița;
6. The translated Orthodox Church of downtown Reșița – unique testimony of Banat’s engineering and technics for the salvage of Banat churches form demolition;
7. The National Park “Semenic-Cheile Carașului / Caraș Gorges”, where we can visit the Caraș-Gorges (19 km) between the Comarnic Valley and the locality Carașova, The Comarnic Cave (6,2 km) one of the largest and most beautiful caves in Banat, renowned for the grandeur of the formations of stalactites an stalagmites, The Popovâț Cave (1,2 km), The Bats’ Cave and the Caraș Intermittent Spring – unique in Romania grace to its flow;
8. The chain of artificial lakes along the Bârzava river: Gozna-Crivia, Breazova-Văliug, Secu, and the artificial recreation lake Trei Ape, the crio-nival lake Baia Vulturilor on the Semenic, as well as the Lake with Water Lilies at Dognecea, which offer the opportunity of trips in the nature in a fairy-like
9. The touristic village of Gârâna especially known grace to the “International Jazz Festival”, organised each yea in July, in the location called “Wolf’s Valley” and the Sculpture Park ;
10. The monastery “Sfântul Ilie / Saint Elijah” from the Healing Spring -Bocșa Vasiova, the Monastery „Acoperământul Maicui Domnului / Virgin Mary’s Covering” ” between the localities Brebu and Soceni, as well as the Hermitage „ Sfântul Ilie / Saint Elijah” on the Semenic Mountain.

THE TOURISTIC AREA “BANAT’S AURORA”

The touristic area BANAT’S AURORA is the “pearl” of tourism in Banat, of a breathtaking beauty, so that the tourists who discover it feel the urge of permanent “rediscovery”. The touristic triangle Anina – Oravița – Bozovici hosts the most picturesque and unique locations in Banat. In this area, in 2002, in the grotto called the “Cave with
bones”, one found the oldest remains of modern European man (40,000 years ago) known under the name of “Ion / John from Anina”.

Furthermore, between Oraviţa and Anina, one the site of bituminous shists of Crivina, one discovered the petrified world of small-sized dinosaurs who lived here. It is the only site of this type in Europe where one can see the image of a Jurassic arborescent fern forest.

In this area we can also find Țara Almăjului / the Almaj Territory that comes before the visitor with its calm beauty and with an interesting and attractive cultural mosaic.

In this area, we can visit 10 touristic sights with Romanian beauties and priorities:

1. **The Old Theatre “Mihai Eminescu”** of Oraviţa, built in 1817, being the first theatre of Romania and of Eastern Europe. It is a true copy of the “Burgt heater” in Vienna and has a special architecture, in the style of Viennese baroque. Along time the theatre hosted shows of personalities such as Mihai Eminescu, Ciprian Porumbescu, George Enescu or Constantin Tănase;
2. The first plain railroad of Romania, Oraviţa - Iam - through Serbia - Baziaş (1854-62.5 km) also called the “Coal Road”, with the first station in Romania, built in 1849, at Oraviţa, being at the same time the first railroad station in which the access of passengers form the platform situated above the level of the street is done with the help of a passage-lift;
3. The first mountain railroad in Romania Oraviţa-Anina (1863) with a length of 33.4 km and a 338-m difference of level called “Banat’s Semmering” by comparison with the famous Semmering railway in Austria (1845-1854), having 14 tunnels carved into the tough calcareous rocks and 10 viaducts across the deep valleys;
4. **The mulinologic / mills’ complex** of water mills from Rudăria (now called Eftimie-Murgu) with the 22 mills in operation along the Rudără Gorges;
5. **Entry Well no. 1** penetrating the deepest mine (1200 m) of Anina;
6. **The Bigăr spring, cave and waterfall** along the Miniş Gorges on Parallel 45;
7. The National Park “Nera’s Gorges -Beuşniţa”, in which the Nera’s Gorges (22 km) are unique in Romania as regards beauty and grandeur. The touristic route from Şopotul Nou to Sasca Montană is a fantastic track where tourists can see the natural lakes The Bey’s Eye and the Devil’s Lake reminding – through the variation of colours - the Grotta Azzura (Capri) on the sunny shores of the Mediterranean Sea, and the Beuşnita Waterfalls;
8. The artificial lakes Buhui and Mărghitaş near Anina and Steierdorf, along the Buhui river. Half the distance between the lake there lie the Buhui Cave, with a length 3.1 km, traversed by the longest underground river of Romania, the Buhui waters crossing it for more than 2 km. In 1893, the area was declared climatic resort with the name of “Banat’s Aurora”;
9. **The aven of Poiana Gropii / Pit’s Clearing**, in the Anina Mountains, the deepest aven of Romania (236 m);
10. The orthodox monastery “Călugâra” at Ciclova Montană, the Roman-Catholic monastery “Sfânta Maria / Saint Mary” at Ciclova Română, the Monastery “Slatina –Nera” at Sasca Montană and the Monastery “Almăş-Putna” at Putna-Prigor.

THE SCORILO TOURISTIC AREA

The SCORILO touristic area is the “enigma” of Banat tourism and contains the resorts: **Muntele Mic / Little Mountain and Poiana Mârului / Apple’s Clearing**. There we can find the only Monument of Tourism (1936) in the world, at the gates of Rusca-Montană, with the most beautiful lyrics for a true hymn of Romanian tourism.

In this touristic area we can delimit Țara Gugulanilor / County of Gugulans, a triangle with a surface of 2000 sq.km, between Bucova, on the Bistra Valley, to Caransebeş and then along the Timiş Valley to the “Entry Gate” situated between Teregova and Domaşne. The third side is conventional and can be imagined over the
peaks Godeanu (2229), Țârcu and Gugu (2291), the last being the sacred mountain of Dacians. The area comprises the two towns, Caransebeș and Țelu Roșu, 13 communes and 33 villages.

The town of Caransebeș is the most important communication hub of the Mountainous Banat, lying at the crossroad of 4 main routes leading to Timișoara, Orșova, Reșița and Hațeg. Geographically, the town is situated at the confluence of three waters, Timiș, Sebeș and Bistra, at an altitude of 280 m. It is also at half the distance between Orșova and Timișoara (100 kms away from each) on the European road E 70. During the time of Roman Dacia, 6 kms from the present town location there lay the Roman Camp Tibiscum (Jupa - Caransebeș). The Poiana Măului resort is situated 25 kms away from the town of Țelu Roșu (via Zăvoi) and it lies in a remarkably picturesque natural frame, on the shores of the Bistra Măului river and of its affluents: Scorilo and Șucu, between the altitudes of 500 and 700 m.

In the winter, the Muntele Mic / Little Mountain Resort – situated at an altitude of 1531 m, offers an enchanting landscape, in two colours, given by the shining white of snow and the dark green on fir forests. We can reach the top of the mountain from Caransebeș, on the asphalt road (25 km) passing through Zervești, Turnu Ruinei and Borlova, up to the lift station. From there, the most pleasant and safe way to reach the top is the mountain lift, pout into operation in 1976, on the longest track in the country (3,36 km) which climbs from 773 m up to 1531 m, where we can find 3 ski slopes, one of them lighted at night.

In this area, we can visit 10 touristic sights, which elevate the tourist’s soul:

1. The Monument of Tourism at Rusca Montană, unique in the world;
2. The County Museum of Ethnography and of the Frontier Regiment of Caransebeș;
3. The archeologic site of the Tibiscum Roman Camp at Jupa-Caransebeș;
4. The Romans’ Road Dierna (Orșova)- Tibiscum (Jupa Caransebeș) –with the vestiges of the Roman camps Tibiscum, Gaganis(Slatina Timiș) and Ad Pannonis (Teregova) ;
5. The Teiuș Sculpture Park in Caransebeș, with 33 works carved in wood;
6. The monument of “Banat’s Heroes” – The White Cross on the Muntele Mic / Little Mountain;
7. The Țeiuș Stone Sculpture Park in Caransebeș, with 33 works carved in wood;
8. The artificial lakes Rusca-Teregova and Poiana Mărului;
9. The touristic village of Marga renewed for the “Fairies’ Feast” and the “Monument of the Song”;
10. The Monastery “Piatra Scrisă / Written Rock” at Armeniș, the Monastery “Teiuș” at Caransebeș, the hermitage “Sfântul Ilie / Saint Elijah”” on the Muntele Mic / Little Mountain, the hermitage “Înălțarea Domnului / Lord’s Ascension” at Poiana Mărului and the Church “Banat’s Voroneț” (Glimboca).

THE BĂILE HERCULANE TOURISTIC AREA

The BĂILE HERCULANE touristic area is the “emblem” of Banat tourism, being the most famous due to the balneary – climacteric resort Băile Herculane with European fame and the National Park „Domogled- Cerna Valley”.

Băile Herculane is the oldest resort in România, being attested by documents in 153. Its attestation document is an inscription engraved on a white chalk altar, which is now in the museum of the resort. In its over 1855 years of existence, the resort had moments of expansion and of decay. For almost two millennia, the Băile Herculane
resort on the shores of Cerna River transmits the world the fame of its hot mineral springs and of the Hercules hero.

Although situated at an altitude of 168 m, in Băile Herculane one breathes ionised air like that at altitudes of 1500-2000 meters, comparable to the air in the Swiss Alps at Davos or with the air above the Niagara Falls. This negatively ionised air (between 2000 and 6400 negative ions per cm$^2$) is generated by the 20 thermal-mineral springs, by the Cerna waterfalls and especially by the forest of beech, black pine and the fern vegetation the area.

The Băile Herculane resort was visited along time by great personalities, among whom the Emperor Joseph the 2$^{nd}$, the Emperor Francisc the 1$^{st}$ and the Empress Charlotte, the Emperor Franz Joseph and the Empress Elisabeth, the King Charles the 1$^{st}$ of Romania or famous Romania writers.

In this area we can visit 10 touristic sights of great inters and attractiveness:

1. The historical centre of Băile Herculane Resort with the Statue of Hercules;
2. The Museum of the Resort “Nicolae Cerna” in the former building of the Casino;
3. The Roman Baths at Hotel Roman in Băile Herculane;
4. the Romans’ Road Dierna (Orșova)- Tibiscum (Jupa Caransebeș) with the vestiges of the Roman Camp Ad Mediam, at Mehadia. The name comes from the fact that it was situated half the distance between Drobeta (Turnu Severin) and Tibiscum (Caransebeș-Jupa).
5. The railroad station in baroque style of the Băile Herculane resort;
6. The Banat’s Sphinx at Topleş, the rock whose profile resembles the famous Egyptian Sphinx.;
7. The National Park “Domogled- Cerna Valley” where we can visit: Adam’s Cave (160m) with flexible stalactites and stalagmites, unique in the world, the Outlaws’ Grotto (143 m) with traces from the Palaeolithic, The Cave with Steam (14 m) from which hot stream come out at temperature of 52-56$^{th}$, the Corcoaiei Gorges (300 m), in the shape of a tunnel, and the Black Pine of Banat – with its umbrella-shaped crown – in the Domogled Reservation.;
8. The artificial lakes Iovanu and Prisaca, and the “Seven Hot Springs”;
9. The secular trees of the Central Dendrology Park of the resort: Welligtonia Gigantea and Tisa over 100 years old placed in front of the former building of the Băile Herculane Casino.
10. The Roman-Catholic and the Romanian Orthodox Churches situated at the two poles of the Historical Centre of the Băile Herculane resort, as well as the Catholic church “Neprihănita / The Immaculate Conception” at Orșova, and the Monastery of Băile Herculane and The Monastery “Sfânta Ana / Saint Ann” at Orșova.

THE DANUBE’S SHORE TOURISTIC AREA

The CLISURA DUNĂRII / DANUBE’S SHORE touristic area is the “herald” of Banat tourism and it comprises the longest and most beautiful straits in Europe – the Danube’s Straits (144 km), from Baziaș to the dam of the accumulation lake “Porțile de Fier / Iron Gates” (Gura Văii), built in the period 1964-1971.

After gathering its waters from 6 countries (Germany, Austria, Slovakia, Hungary, Croatia and Serbia), and passed through 4 capitals (Vienna, Bratislava, Budapest and Belgrade), eager to tell about what it has seen, the Danube river enters the country on the territory of Caraș-Severin, at Baziaș, and flows along 60 km in the county forming the border with Serbia, and then it continues its route trough Mountainous Banat (120 km) towards Orșova, forming the straits bearing its name.

This territory of a unique charm, limited in the west by the Nera River, and in the east by the Cerna River, is called by locals “Clisura Dunării / Danube’s Shore”.

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The area comprises the two harbour towns Moldova Nouă and Orșova and lies to the west up to the border checkpoint on the frontier between Romania and Serbia at Naidaș.

The waters of the river have carved in granite and chalk this spectacular strait with depression basins and narrow sectors in sequence. Thus, immediately after Coronini, the shores of the river are very close, and the lateral walls are over 100 m high. Near the Almaj Mountains next to Dubova, we can see Cazanele Mari / the Great Boilers where the width of the Danube reaches 200-250 m, and the walls guarding it are over 200 m high. After Dubova, the Danube flows through Cazanele Mici / the Little Boilers for about 5 kms. The landscape is fascinating along this route, and the area of the Danube’s Boilers was declared a unique natural monument in Europe..

When we visit the area by car or by boat, there are 10 wonderful touristic sights it would be a crime to miss:

1. **The Baba Caia Rock** at Coronini with its legends about Old Woman called Caia and other legends woven along time;
2. **The Statue of Decebal** in the Mraconia Gulf, the highest sculpture in rock in Europe (40 m);
3. **Danube’s Great and Little Boilers** (Mehedinți county);
4. **Medieval vestiges**: the “Tricule Citadel” at Svinja (Mehedinți county) and the “Cula Citadel” at Coronini;
5. **The vestiges “Villae Rustica” and the Village Museum** at Gornea – Sichevița;
6. **Tabula Traiana** on the Serbian shore at the exit of the river from the Boilers, as a testimony of the Roman roads built during the Emperors Tiberius, Domitianus and Traian;
7. **The Natural Park “Porțile de Fier / Iron Gates”** where we can visit: the Cave “Gaura cu Muscă / The Hole with Fly”, the cave „ Ghindia’s Hole” with its fragments of rupestre art, for Palaeolithic and Neolithic, the cave Ponicova, the cave Veterani about which it is said to have been the sanctuary of the most important god of Dacians, Zamolxis, The Micro-Delta Balta Nerei where it flows into the Danube and Râpa cu lăstuni / The martins’ precipice at Pojejena;
8. **The accumulation lake Porțile de Fier / Iron Gates**, on the Danube river south of Mountainous Banat. It was built in the period 1964-1971, in co-operation with Serbia (Yugoslavia of that time), having the maximum depth of 60 m at Cazanele Dunării;
9. **The botanical and forestry reservation Valea Mare** near Moldova Nouă with unique Mediterranean and sub-Mediterranean flora species such as: white ivy, white lime, black hawthorn, butcher’s broom and laurel Daphne laurela;
10. **The Serbian orthodox monastery “Sfântul / Saint Sava” at Baziaș, The monastery “Mraconia” at Dubova (Mehedinți), the monastery “Sfânta Ana / Saint Ann” at Orșova (Mehedinți) and the Church „Sf. Arhangheli / Saint Archangels”, monument of Byzantine church architecture and painting at Berzasca.**

### 4. DISCUSSIONS

**S.W.O.T. ANALYSIS OF TOURISM IN MOUNTAINOUS BANAT**

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tbody>
<tr>
<td>1. Geographic location favourable for tourism, in the south-west of Romania, at the border with Serbia at a relatively small distance (under 700 kms) from important cities of Europe such as Belgrade, Bucharest, Budapest, Bratislava, Vienna, Sarajevo, Sofia, Ljubljana or Zagreb.</td>
<td>1. The quality of the access roads is inappropriate along most touristic routes.</td>
</tr>
</tbody>
</table>
2. The presence of a mountainous relief with many elements of touristic attractiveness. One can ski on the Semenic Mountain and on Muntele Mic from October till April.

3. The passage of the Danube river through the longest and most spectacular straits in Europe

4. Existence of the chalky relief with many caves

5. Existence of a high number of cultural-historic touristic sights

6. Existence of the Bâile Herculane Spa with thermal waters

7. There is access infrastructure to the touristic areas with 25 circuits

8. Existence of the 4 natural parks and of the chain of accumulation lakes

9. Organisation of cultural events unique in the country highlighting the value of Banat’s traditions and customs

10. Peaceful cohabitation of people of different ethnic origins

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<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<tbody>
<tr>
<td>1. Good neighbourly co-operation with Serbia</td>
<td>1. Reduced investments in the Mountainous Banat</td>
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<tr>
<td>2. Encouragement development programmes and projects for the 20 forms of tourism</td>
<td>2. Deterioration of the living standard of the majority of the population, especially in the rural area.</td>
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<tr>
<td>3. Transfer of know-how regarding the touristic set-ups in the area</td>
<td>3. Unstable and discouraging legislative frame</td>
</tr>
<tr>
<td>4. Realisation of cultural events in common with Timișoara and localities situated in the Plain Banat.</td>
<td>4. Migration of youth and qualified labour force abroad</td>
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5. CONCLUSIONS

From the conducted research, the following conclusions may be drawn:

(1) **Mountainous Banat**, although it has many natural and cultural-historical sights with uniqueness value in Romania and in Europe, has not been searched and visited by tourists because its sights are not known;

(2) The Banat region is **unique in the Romanian and European space**, being the place where a multicultural model was created, in the true sense of the word, in which each community has succeeded in preserving its culture, and people are quite aware of the values of the others and they speak the languages of the other communities.

(3) Annually one organises cultural, artistic and ethic-folklore events, as well as remarkable scientific manifestations, but each action takes place as an “insular” action, at the local or regional level. What we need is a “symbiosis” among these events in order to reach an **integrated cultural tourism** and this may be achieved only by a common project of county
administrations of Caraș-Severin and Timiș and of the two universities: University “Eftimie Murgu” of Reșița through the Faculty of e.

(4) At present one cannot speak about a balanced distribution of accommodation structures in the Mountainous Banat. The increase of the number of tourists, of the number of night stay-overs or of the duration of the average stay, the development of all forms of tourism, all the above must be reflected through the development of the technical and material endowment.

(5) It is necessary to elaborate a marketing project for the realisation of an European cultural event for the promotion of the Banat’s touristic attractions and sighs in 2001 under the title “Multicultural Banat 2011”, which should comprise a significant number of cultural manifestations throughout the entire Romanian Banat and beyond, with the cultural capital in Timișoara.

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SUSTAINABLE DEVELOPMENT MANAGEMENT IN BANKING SECTOR

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Camelia MORARU²

ABSTRACT
Sustainable development means all forms and methods of socio-economic development, whose background is primarily to ensure a balance between socio-economic systems and elements of natural capital. BRD-Groupe Société Générale is one of the first companies in Romania which integrated sustainable development into management processes. For BRD, social responsibility is a management process through which the Bank contribute to sustainable development of Romanian society and performance.

KEY WORDS: development, bank management, social responsibility, activities

JEL: G34

1. INTRODUCTION

Sustainable development is not a new concept. It defines an economical growth form which provides an adequate level of prosperity not only on short or medium term but also on long term. Development is sustainable if fits with the company's current needs, without jeopardizing the prospects for future generations. Sustainable development combines social, economic and natural aspects, being involved in two major problems of humanity: the ability to create and to destroy.

Sustainable development management is the process that helps to anticipate and coordinate, lead and plan, assess and control changing activities where resources exploitation, investments coordination and direction of technical development and institutional changes are all compatible and allow the satisfaction of present generations needs and aspirations without compromising the ability of future generations to satisfy themselves.

BRD - Groupe Société Générale bank wants to be appreciated in Romania through professionalism, innovation, quality development and profitability. BRD strategy is to develop all market segments, while maintaining a level of sustainable profitability. Social responsibility is integrated into the bank's management processes.

2. SUSTAINABILITY DEVELOPMENT OF BRD - GROUPE SOCIÉTÉ GÉNÉRALE

The integration of sustainable development in banking sector is proceeding in two main directions. The first refers to the integration of social and environmental responsibility in banking operations through environmental initiatives (recycling or

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energy efficiency programs) or social responsibility initiatives (support for cultural events, improving human resources and humanitarian donations).

The second direction is going to the sustainability development integration into the core business of the bank, by integrating environmental and social considerations in its products, policies and strategies design, (integration of environmental criteria in granting credit or in investment strategies, in developing new products that facilitate access to capital based on sustainable business).

The sustainable development strategy of BRD is based on the three common values of all Société Générale Entities of the Group: professionalism, innovation and team spirit. Adapting Société Générale strategy to the Romanian specific, BRD has chosen to support those areas of cultural life, sports, social, completing the image of an actor actively involved in sustainable development of Romanian society.

BRD is committed to the principles set out in documents developed by outside organizations: The 10 principles of Global Compact and the Declaration of Financial Institutions on Environment and Sustainable Development - adopted by the United Nations Environment Programme. Thus BRD - Groupe Société Générale is committed to give a cautious approach on the environment, take initiative to promote an increased sense of responsibility towards the environment, encourage development and dissemination of ecological technologies.

The propose is to minimize the impact of the Bank activities on the environment, on energy and natural resources use in an economical manner and on the importance of financial decisions implications of the bank on the environment. Principles of action are based on company’s values: professionalism, team spirit and innovation. They expressed harshness, cohesion and dynamism. They mark the identity and inspire the organisation and each employee of BRD.

3. HUMAN RESOURCES POLICY, AN INTEGRAL PART OF SUSTAINABLE DEVELOPMENT PROCESS OF THE BANK

The propose of Human Resources Policy of BRD - Groupe Société Générale is increasing the competence and motivation of its staff and also the integration of new employees in the bank. Taking into account the dynamic competitive environment and market trends, a special attention was given to development training programs, in order to increase professionalism of the employees and improve customer service quality and diversity. The average age of BRD employees is 36 years and from the total number of employees 72% are women and the rest men. BRD - Groupe Société Générale is concerned about the access of women to leading positions, as a result 70% of bank managers are women.

The figure 1 presents the number of employees evolution in 2005-2009 period. In 2005, BRD was the biggest creator of jobs in the Romanian banking system. In this year, the number of employees reached of BRD was 5636, 1350 people were recruited and 550 employees promoted. In 2005, BRD had two School Agencies. BRD put performance in the center of its human resources policy basing on the principle that the staff must be competent, motivated and integrated in a favorable social climate.

In late December 2006, BRD numbered 7286 employees. These figures demonstrate professionalism in the recruitment, training, career management and remuneration. These results could not be achieved without a highly motivated staff. Besides the development of new employees priority, a particular attention was paid in
2006 to the professionalisation of specialized professions such as those of commercial customer advisers, counselors dedicated to liberal profession or to chain risk professions for which were created and initiated specific development programs.

![Figure 1](image-url) - Number of employees evolution in 2005-2009 period  
Source: Own processing based on data from annual reports of the Société Générale Group

During 2007, 1,500 new employees had received a complete initial programme training. In 2007, BRD School had three School Agencies and 30 specialised trainers for these courses which include knowledge about products and services, procedures and applications, concepts of risk, behavioral aspects and practical applications. In 2007, BRD has proposed to develop skills and to guide professional development of its employees. To attract and retain those valuable staff BRD invested in key processes that contribute to it: recruiting both external and internal, integration, skills development (training), career development (career path), performance evaluation.

In 2008, human resource activities took place mainly on two major axes: the continuation of a sustained recruitment process due to the densification of the network of branches and agencies, and a more individualized career management, as key part of retaining and managing talents. Number of employees decreased slightly, without major changes during 2009. Measures were taken in anticipation of the crisis since 2008, when the recruitment process was slowed. This allowed, partially, that the number of employees BRD remain constant.

4. THE MAIN PARTNERS IN THE SOCIAL RESPONSIBILITY PROGRAMS

Since 2000, BRD - Groupe Société Générale has been involved in nearly 1,500 partnerships with NGOs. The long-term partnerships bank aims to contribute decisively to the development of modern Romanian society and improve the living conditions of Romanians.

Below are presented the main organizations that have contributed with BRD - Groupe Société Générale in carrying out social responsibility programs in the fields of arts and culture, education, sports, humanitarian and environmental protection.

- **Samusocial Association of Romania** - Since 2004, BRD - Groupe Société Générale supports, as main partner, the implementation of carrying humanitarian programs of Samusocial Association of Romania, for homeless adults. BRD donate 25,000 euros each year for this purpose. Bank employees donate clothes to the homeless

- **Save the children** - BRD started working with Save the Children in 2002. Since then, the Bank supports the work of two day care centers in Bucharest and Iasi for street children school reintegration. Save the Children invest money raised from the auction in projects for children. Save the Children Romania is an NGO which works for children's
rights and to change policies and legislation for children. The organization supports public awareness campaigns and supports children in distress

- BRD Partnership with **Romanian Tennis Federation** started in 2000. Since then, the bank is the official partner of the Federation. BRD supports sport activity from the competitive program. Romanian Tennis Federation (FRT) was established in 1912, in the Romanian Federation of Sport Society. In the same year, FRT was affiliated to the International Tennis Federation.
- The Partnership of the **National Opera of Bucharest** and BRD began in 2002. Bank became then the official sponsor of the National Opera. The partnership continues each year. BRD helps supports the National Opera performances throughout the season.
- BRD became partner of the **National Museum of Contemporary Art** since 2004, from its inception. As the mother-company Société Générale, BRD is a strong investor in art, having a valuable private collection of works of young Romanian artists.
- In 2001, BRD became partner of the Association **Friends of the National Art Museum of Romania**. In 2005 and 2006 BRD was the leading partner of the art exhibitions Ombres et Lumieres and Bourdelle, hosted by the National Art Museum of Romania.
- From 2003, BRD is the sponsor of a project undertaken by **Valentina Romania Association** in Bacau. The project aims to provide educational and psychological assistance for children with mental disabilities. Valentina Romania Association whose mission is to support children in difficulty as a result of parental deficiencies or abandon. Also, the association is fighting to prevent abandon or separation of children from families.

5. RESULTS OF SUSTAINABLE DEVELOPMENT MANAGEMENT WITHIN BRD - GROUPE SOCIÉTÉ GÉNÉRALE

5.1. BRD - Groupe Société Générale with community

BRD - Groupe Société Générale has as mission to promote sustainable development, which consists, in addition to achieving certain economic parameters, the assumption of responsibilities to the community; this is especially true in Romania, where the needs are considerable. Bank relationship with society is one aspect of sustainable development. Through programs developed over time, the Bank has supported vulnerable social groups.

**Samusocial Project.** Since 2004, BRD - Groupe Société Générale supports, as main partner, the implementation of carrying humanitarian programs of Samusocial Association of Romania, for homeless adults. The organization acts as an emergency device to help the homeless. Samusocial of Romania has set up a mobile clinic to provide primary care.

**Alliance for Persons with Autism.** In 2002 established the Alliance for Persons with Autism (APA). BRD - Groupe Société Générale has been close to APA since the beginning to help children and youth with autism. BRD - Groupe Société Générale - APA partnership objectives were: renovating Stationary Day from Titan Hospital and create a playground for children in the hospital courtyard; set up a Stationary Day for adolescents and young adults with autism. The company has offered financial aid to equip the organization with a computer and several pieces of furniture, absolutely necessary to start the activity in APA.
A bridge between people. BRD-Groupe Société Générale - EquiLibre Partnership helps lonely and invalid old people to care themselves. BRD intervention in this program is consistent with an overall company policy to support the elderly. Internally, in 1996, was founded Hope ’96 Association – BRD Pensioners Association. It aims to support pensioners - former employees of BRD.

Donate for life. Can be yours or your loved ones. This is a volunteer project of the employee, undertaken by BRD in partnership with the Blood Transfusion Centre in Bucharest, in June 2006. The program aims, through information and power of example, to encourage blood donation. Since October 2006, BRD expanded national project, involving employees in the country. 325 of bank employees responded to the call to save lives, providing 400 ml of blood each. Gathered 130 litres of blood.

Change a Destiny. Give value to a life. This is a social responsibility program through which BRD employees donated monthly money for social integration programs of children and young people that are in a difficult situation. Under this program, for one year (April 2008 - April 2009), 1040 enrolled BRD employees, donated monthly money from their salary. The collected funds were doubled by a contribution from the bank, thus gathering EUR 100,000.

5.2. BRD-Groupe Société Générale involvement in educational projects

Education was one of the destinations the financial support of BRD. BRD is active in academic life and education. Also BRD develops an educational program, for the familiarization of high school students with banking products.

**BRD Academic Scholarships.** Romania is a country with a high risk of "brain migration". As college graduates with outstanding performance remain in the country, they need to feel valued and rewarded for their efforts. Therefore, BRD helps Romanian universities to reward the best graduates, offering them scholarships. Since 2004, the bank develops the "BRD Academic Scholarships” program.

**YouthBank Cluj.** The current system of pre-university education does not offer to the high-school students opportunities to develop their skills of teamwork, communication and negotiation. YouthBank is an annual project whereby are gathered funds and are financed social initiatives proposed and implemented by high school students from Cluj-Napoca. Organizational core of each edition consists of a high school team. They are recruited and trained at the beginning of the project.

**Ciel Awards.** In Romania there are many young people with valuable business ideas that can bring added value to the business community. But they can not put ideas into practice without a funding source and without a management consulting firm nearby, to guide them at the beginning. In these circumstances, CIEL Awards competition, where BRD - Groupe Société Générale is a leading partner, came to support young entrepreneurs with valuable ideas, but with limited financial resources.

5.3. BRD-Groupe Société Générale participation in arts and culture projects

Culture was consistently one of the main destinations for the financial support of BRD. The bank is involved in long-term partnerships in support actions of authentic values of music, painting, theater. BRD involves many years in modern art.

I am complete through art. In April 2008 Independent Living Association launched the "I am complete through art”. It consisted in organizing a workshop for
plastic arts dedicated to people with disabilities, that were in the association records. The work done in the workshop appeared in a sell-out exhibition. It was held at the headquarters of BRD - Groupe Société Générale. Impressive was the result of the exhibition organized by the Association of Independent Living at BRD office. BRD staff acquired over 40 works, the money being donated to the Association to be reinvested in the project.

**Sonoro Festival.** SoNoRo Association launched the "International Chamber Music SoNoRo Festival" in November 2006. The project aims to promote chamber music, increasingly popular with audiences today. Since the second edition of BRD - Groupe Société Générale is the main sponsor of the project. BRD - Groupe Société Générale, as main sponsor in 2007 and 2008 editions, financed SoNoRo Festival with a total of EUR 50,000.

**Cultural heritage - Finds its value!** Romania has a rich cultural heritage. Unfortunately, lack of funds for conservation and restoration leads to degradation or collapse in their anonymity. In this context, BRD-Groupe Société Générale supports the project of Goodartofnoon Cultural Association. Through the program "Cultural Heritage - finds its value", the two organizations have proposed to signal important historical monuments of Romania, through the placement of informative boards. BRD-Groupe Société Générale allocated 25,000 euros per year for its implementation.

5.4. Results of sport partnerships concluded by BRD-Groupe Société Générale

Through the partnerships with Romanian Sports Federations, BRD encourages performance, spirit of fair play and team spirit, values that the company have adopted in its daily work.

**The Sport in Society.** Children in orphanages have fewer opportunities for interaction with other children from normal families. In December 2006, BRD and School Sport Palestra Foundation started the project "The sport in society." The project enabled children from two orphanages in Bucharest to participate in sports activities with children from normal families. There were selected 30 children, aged between 10 and 15 years, from two orphanages in Bucharest. Selected children were engaged in choosing sports (basketball, volleyball, handball, rugby). Throughout the school year 2006 - 2007 were held approximately 30 courses for each sport discipline.

**10 for Pavel.** The program aims to promote tennis at the national level. To not let the Romanian tennis talents to disappear, BRD - Groupe Société Générale, in collaboration with Romanian Tennis Federation (FRT) has launched a national campaign to promote tennis – „10 to Andrei Pavel”. In 2007, held the first edition of the "10 for Paul", followed by the second edition in 2008. Over 500 young people had the chance to play with Andrei Pavel. All were rewarded with tennis rackets and sports equipment. Since 2000, when it started the collaboration with Romanian Tennis Federation, BRD invested in the white sport 845,000 euros.

6. CONCLUSIONS

BRD is an universal bank, offering services to both individuals and companies. BRD strategy is to develop all market segments, while maintaining a level of sustainable profitability. BRD is one of the first companies in Romania to integrate CSR
into management processes. The results of sustainable development management in BRD - Groupe Société Générale, are reflected in long-term partnerships through which the bank seeks to contribute decisively to the development of modern Romanian society and improve the living conditions of Romania, which led to the development of art, culture, education, sports, humanitarian and environmental protection projects.

Since 2000, BRD - Groupe Société Générale has been involved in several partnerships with NGOs. BRD is working through these partnerships in the five areas in which they operate. The bank with its partners promotes cultural heritage, it involves in educating young people, appreciates the values promoted through sports, supports disadvantaged children and the elderly and not least supports initiatives aimed at environmental protection.

Also, BRD - Groupe Société Générale showed a particular interest in terms of carrying out projects on education. Through these programs the Bank is involved in the field of academic life, and education. Culture is another area where BRD has made its presence felt. In its corporate social responsibility work, BRD supports cultural life, reinforcing its image of an active player in sustainable community development. Much of the sponsorship budget is allocated BRD cultural partnerships. Investing in contemporary art BRD strengthens its image of banking institution with 'artistic inclinations' and its image as an important factor in support of youth people and their community.

Partnerships in the field of sport are based on promoting the same values - well-chosen strategy, dynamism, team spirit. Through these partnerships, which are already a tradition, BRD wants to demonstrate that the image of a leading bank is not only given by its quality products and service, but also by the support that it’s giving to one of Romania’s most important ambassadors, sport.

In the conclusion, it is obvious that the banking sector has played a major role in the global situation evolution, due to its position on the economic scene. Nowadays, corporations have a powerful influence, unsuspected some years ago, they have increasingly more rights and to some extent they govern the lives of billions of people and the planet in general. But with every right comes the conservation responsibility and the development of the environmental situation in which it operates. Until recently, these responsibilities were neglected.

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THE ELEMENTS OF THE MANAGERIAL DECISIONAL PROCESS

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ABSTRACT

In this paper we are discussing the privileged position that the decision system has. The managerial decisional system is made of the ensemble of the decisions made and applied, structured in accordance with the system of goals aimed at and the configuration of the managerial hierarchy.

KEY WORDS: decision process, management, process

JEL: M10

In management, the decisional system has a privileged position assuring the solution on time and in optimum conditions of the issues specific to the social assistance institutions. The managerial decisional system is made of the ensemble of the decisions made and applied, structured in accordance with the system of goals aimed at and the configuration of the managerial hierarchy.

Management represents the action exercised by the subject (manager) upon his object (organisation) in order to maintain its state of operation and stability in a certain structure, in order to adapt it to the modifications of the conditions of its existence and to pass it from the state of existence to another desired state according to certain present goals. It is a complex process of knowledge, judgement and action exercised through decisions.

Herbert Simon, a laureate of the Nobel Prize for economy in 1978, considers that in fact the entire management process is synonym with the process of decision elaboration. The decision is the essential element of the managerial activity, a complex mental activity foreseeing and configuring the real actions.

The decision represents the solution adopted by a system (person, group, organisation, or community) in view of solving a problem. It is studied by the normative sciences, which assure the logical and mathematical conditions of the correct decision, and by the empirical behavioural sciences, which attempt to identify the real mechanisms, used by the real systems in the decision-making. (Zamfir,C.,1993,p.158). The decision is a creative psychic event uniting and turning into action the knowledge, thinking, feeling and imagination (Lange,O.,1970,p.53).

The decision represents a deliberate social act of a person or of a group of persons through which one establishes the goal and objectives of an action, the direction and modality of achievement of that action, all determinant, in accordance with a certain necessity, based on a process of information, reflection and assessment of the means and consequences of the performance of the respective action (Russu,C.,1993,p.76).

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The decision is the mental programme of the action or the action is the modality of achievement (of passing from the possible to the real) of the decisional programme. The decision is closely correlated with liability, which constitutes a human phenomenon, specifically human and one of the most human ones. “Man, unlike other beings in nature, is learned and at the same time burdened with the responsibility of the decision made. This is an aspect of his greatness, but also a limit of his freedom” (Moraru, I., 1997, p.215).

The decision constitutes a rational act of choosing a course of action from among several possible, through which one aims at reaching the goals, considering the available resources and the concrete conditions (Nica, P., 1994, p.152).

In the architecture, functionality and performances of the management system, the decision constitutes an act of high social responsibility which reflects on the one hand a need of the organisation and the modalities to satisfy it, and on the other hand the will of the decision-maker (manager). The decision is found in all the functions of management (prediction, organisation, co-ordination, involvement, control), constituting the most representative product and the most efficient instrument of management. The quality of the decision influences the integration of the organisation into an environment where there are perturbing factors which act continually and make it difficult to reach the set goals.

At the level of the managerial system, the necessity of a decision appears when in the led system one identifies a problem that awaits a solution (if the situation has been foreseen, the variants of solutions are prepared, if not, it is imperative to find the solutions and to apply them in due time). A remarkable importance for the decisional activity of the manager is the way of formulating and solving the problem, followed by the adoption and application of the decision, which materialises an idea, an intention or a project, represents a form of social validation of an action by putting in motion the human and financial resources..

The problem should be formulated appropriately, because “few things are as useless – if not dangerous – as giving a good answer to a wrongly formulated question” (Bruker, P., 1954, p.353). This is the result of the interaction of internal organisational factors (the performance goals, the difficulty of the task to fulfil, the employees’ professional training and expertise, their motivation, the possibilities of information and documentation, the working conditions) and external organisational factors (modifications in the field of activity, legislative restrictions, functional or structural restrictions). Representing the perceived need to reduce or annul the deviation of the existing situation from the desired one, the decisional issue is solved by identifying the alternatives of solving the problem. Then follows the adoption of the decision as a result of an analysis of alternatives and the ruling of the action meant to solve the problem. In the aforementioned stages, a series of factors act upon the decision-makers, affecting in a positive or negative way the rationality of the process, such as:

- Rational factors – quantifiable, rigorously measurable elements, used for the establishment of possible alternatives, their evaluation and the choice of the best course of action;
- Cognitive factors – the level of professional knowledge of the decision-maker, the degree in which he masters the managerial and decisional methods, techniques and procedures;
- Psychological factors – the decision-maker’s personality, interest, motivation, attitude, role and behaviour;
• Social factors – the relations between the decision-maker and his subordinates;
• Legal factors – the ensemble of the regulations with legislative – normative character.

The managerial decision represents the process of selecting a course of action from among several possible ones, in view of reaching certain goals, whose application influences the activity and / or the behaviour of at least one person other than the decision-maker. (Nicolescu, O., 1992, p.109). It is a solution chosen by the manager from among several possible variants, based on significant information, with the purpose of predicting, co-ordinating and controlling the subordinated activities.

The specific features of the managerial decision consist in the following facts:
• It obligatorily means one or several goals to reach and it always involves at least two persons – the manager who makes the decision and one or several persons who participate in the application of the decision;
• It has direct influence at the level of the group where it is applied – in the formulation of the decision it is necessary to take into consideration the interests, motivation, training, behaviour, actions, potential of the members of the respective group;
• It triggers direct economic, human, educational effects, at least at the level of an organisational behaviour.

The managerial decisional process is extremely complex, its results take shape within each function of management and it has the following components (Verboncu, I., 1994):

- The decision-maker – is represented by a manager or a managerial organism that will identify the most advantageous decisional variant from among the possible ones. This is the main component of the decisional process, who by his will triggers the action, engages the staff, so that on the set date the forwarded results should be obtained. The decision belongs to the human factors, it is the act of will of the decision-maker (individual or collective) accompanied by an involvement of the execution entities. In order to elaborate efficient decisions, in the context of the increase of the managerial activity’s complexity, the decision-makers must meet a set of specific requirements and conditions, i.e.:
  • To have personal and statutory authority necessary in the field where they must make decisions;
  • To have professional authority imposed by the domain of activity;
  • To be permanently concerned with self-improvement;
  • To have a behaviour adequate to the democratic style;
  • To stimulate the responsible involvement and commitment of their subordinates in all the actions.

- The set of decisional variants at the disposal of the decision-maker represents means for an action’s achievement. The just establishment of the decisional variants constitutes a stage of maximum importance in the decision grounding; omitting certain possible variants or including among them some variants that are not realistic for the organisation may affect since the beginning the quality of the final decision. The essential problem of the decisional process is determining the optimum variant, as
element of maximum preference of the decision-maker, who has taken into consideration the potential results that may be obtained.

- The set of the criteria of decision or assessment of the variants is represented by the decision-maker’s points of view, and with their help he identifies aspects of social reality within the decisional process.
- The set of consequences of the assessment criteria comprises the ensemble of the potential results that might be obtained according to each decisional criterion and to each state of the objective conditions, by the application of the decisional variants. The level of knowledge is set independently for each criterion and variant. The modality of expressing the consequences differs from one criterion to the other. Thus, if the criteria are quantitative, the consequences are expressed in absolute figures, whereas qualitative criteria are expressed in assessments (very good, satisfactory, poor, very poor). The establishment of consequences constitutes an activity of prediction that cannot always be performed with absolute exactness, as one does not know for sure the causes that might trigger their occurrence.
- The environment is represented by the set of internal and external conditions of the managerial system that are influenced by and influence the decision in their turn.
- The goals / objectives of the decision, formulated by the decision-maker, represent the final element of any decisional process and they express the levels of the decisional criteria proposed to be reached as a result of the decision’s implementation. They depend on the time factor, which imposes a permanent updating, in accordance with the complexity of the ever-changing influencing factors.

The managerial decision aims mainly at harmonising the set goals with the resources, in order to obtain maximum efficiency. The quality of the managerial decision depends on the precision in interpreting the informational elements, on the degree of use of modern calculus methods, on the training level of the decision-makers, and it is influenced by a series of factors (Rusu, C., 1995):

\[
D = f \left( (Fc, Fir) : (V, M, R) \right) \\
V = f (C, Q),
\]

where:
- \(Fc\) = known factors (information, restrictions, influences);
- \(Fir\) = factors of uncertainty and risk;
- \(V\) = value of the human factor;
- \(C\) = the decision-maker’s knowledge and experience;
- \(Q\) = the adaptability capacity;
- \(M\) = the decision-maker’s motivation;
- \(R\) = responsibility (correlation of the decision with its consequences).

The value of the human elements may be resized through training and improvement meant to confer the manager knowledge for: having a bird’s eye view upon the problems to solve, solving these problems by determining the characteristic elements and measuring their importance by means of scientific methods, making
argued and rapid decisions which supposes a sure judgement and courage, collaborating with the supervisors and subordinates in favourable terms.

It is specific to the decisional process the fact that the decision-maker must decide the future based on pieces of information characterising the past and the present, which are insufficient both as regards the quantitative and the qualitative aspects, he disposes only of estimates and hypotheses which include risk and uncertainty. Nevertheless, the more courage the manager involves in accepting the uncertainty state, the more reduced the uncertainty and risk degree, grace to the fact that he attempts to identify and know, gradually and in full awareness, the factors that trigger these decisional situations.

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ADVANTAGE AND BENEFIT OF NETWORKING AND CLUSTER POLICY FOR THE REGIONAL DEVELOPMENT

Peter SCHULTE

ABSTRACT

In this paper there is discussed the importance of regional economic development, the role of clusters and network for the development of the regions, the management of such clusters, as well as some Romanian examples in this respect.

KEY WORDS: regional development, cluster policy, networking

JEL: R10, R11

1. THE IMPORTANCE OF THE REGIONAL ECONOMIC DEVELOPMENT

Europe passed through a hard crisis during the last two or three years, but now the economic development is obviously improving. For example there is a strong economic growth in Germany stronger than during the last fifteen years. The Federal Minister of Economics and Technology even speaks about full employment.

But the economic development isn’t equal within the European countries. The development is also different within various regions. Especially rural areas and old industrial regions which need a change of economic structure have problems.

A good economic development is important for each region, it is important especially for the humans living here. The regional economic development depends on the global and the national development. But each region has also the chance by means of a suitable and target-oriented regional policy to organise the best possible economic structure as the basis for a successful economic development. There is competition between the regions and this competition will increase in the future. It is the big challenge for the region policy to constitute conditions of increasing wealth, economic growth and an employment with a high level.

More and more, a successful economic development requires technological progress and the corresponding structural change, and that globally, nationally and also regionally. Sufficient innovations become increasingly the key factor and the driving force for the future economic development of countries and regions, of all branches as well as of industry, trade and service providers. Therefore research, education and training, knowledge but also the fast transfer of research results into marketable products, services and processes become more important. Innovative companies, foundations of enterprises as well as Universities, research institutes and education institutions become increasingly the basis for economic progress.

At present, continuous improvements of products and processes belong to the important activities of companies and other private and public institutions. Without doubt, continuous improvements are necessary but these alone don’t suffice in order to

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get success within the global economic competition. Necessary conditions are increasingly innovations which really are novelties, especially also innovations which are quantum leaps. The electrical light wasn’t invented by means of the continuous improvement of the candle.  

Sufficient innovations and especially innovations which are novelties and quantum leaps innovations are important more and more for the regional economic progress. The future development of regions needs a creative aim-oriented regional policy as well as innovative companies which have integrated a suitable innovation management into their business administration. Most European regions need more creative innovations and need economic growth to cope with the new global challenges.

In the past, the complexity of innovations increased noticeably. In the future the complexity will further increase because it is more and more necessary to work within an interdisciplinary team in order to solve the present and future tasks and problems. In addition the rise in knowledge accelerates more and more.

It is one of the consequences that individuals on their own are able less and less to provide the needed knowledge, the required skills and competence and the necessary resources in order to solve the present and future complex tasks and problems. Therefore cooperation between appropriate partners becomes more important in order to remain competitive. Especially the aim-oriented cooperation of different companies, small and medium enterprises, research institutes, universities, private service providers and public institutions can create, quickly and effectively, innovations with high potential of added value. Therefore networks and clusters have an increasing importance for the economic regional development as well as for an effective regional marketing.

2. NETWORKS AND CLUSTERS

As mentioned above regions need successful innovations in order to gain prosperity. National and regional governments recognise the potential of regional networks and clusters as a major driver in regional development policy. Many of them have introduced significant measures to strengthening regional economies, creating new jobs and attracting new investors.

2.1 Definition of Cluster and Network

What is the meaning respectively the definition of a network and of a cluster?

A network is a cooperation of several partners, for example the cooperation between companies, universities and other private and public institutions which work together more or less. Networks are characterised by means of interactions and communication between the partners. Usually networks have got common concrete aims.

Clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries and associated industries in a particular field that compete but also cooperate. This implies clusters are specific networks.

Despite the accepted definition the notion of clusters is different in theory. But soft factors like a trusting atmosphere, free information flow, and a collaborative milieu seem to be important for clusters.
Clusters could be important because they allow companies to be more productive and innovative than they could be in isolation. Clusters could be also important because they can reduce barriers to entry and foster new business creation relative to other more dispersed locations.6)

As a consequence, clusters and regionally based networks have increasingly become the focus of public debates, national supporting initiatives, and academic research. Many studies have been published, analysing different aspects of governance, structure, competitiveness and so on7).

There is a wide range of clusters in the real world. Clusters are very different regarding the emergence, the structure, integrated members, the size of interactions and communication, the governance, financing as well as other characteristics. There are effective and prosperous clusters but also unsuccessful clusters.

Clusters could be advantageous for the region. But the success isn’t guaranteed with clusters. For example the Ruhr area, the area between Dortmund at the East and Duisburg at the West, was a very successful region about sixty, fifty years ago. There were big coal-mines and big steelwork companies and a lot of appropriate component supplier. Though cluster wasn’t a theme within the economic literature at that time there were in reality big and successful clusters covered almost the entire added value chain. But now this region is economically underdeveloped and a crisis region. Despite a lot of work, effort and also money the restructuring of this region isn’t succeeded in reality up till now. Successful clusters alone aren’t enough in order to get enduring success.

2.2 Competence Networks

Clusters need an innovative further development. Already in the ancient Greece was known πάντα ῥεῖ, all is flowing. The changing of economy and society proceeds faster and more intensively than before. Advantage within the competition isn’t longer bigness but quickness and innovation.

Furthermore it is better for the member of the cluster and also for the region that clusters cover the entire added value chain and that clusters contain also different branches. The added value chain describes an interbranch cooperation of interconnected enterprises and other private and public institutions from the innovation up to the selling including also suppliers, service providers and other appropriate institutions.

It isn’t assured that a current successful cluster remains a successful cluster also in the future. Therefore the regional policy which decides to use clusters as a method in order to bring forward the region, needs also a suitable cluster policy. This policy requires trustful cooperation of all members of the cluster and the region as well as the further development of an innovative strategy which makes possible self-supporting growth processes. Cluster policy requires a cluster management. A suitable cluster management requires the targeted governance of the cooperation. In order to develop long-lasting successful clusters it is necessary to govern a cooperation of very different partners. This is a difficult task. The cooperation which makes long-lasting success possible should be a network with following characteristics8):

- The network should be focused regionally, but it should operate supra-regionally.
- The network should have a selected focus, for example Microtechnology, Process Engineering, Optical Technologies, Transportation and Mobility or Bionics.
- The network should cover the different steps of the entire added value chain as well as different branches.
- Each partner of the network should interact intensely with the other partners; thereby it is possible to reduce the time period for the cycle of innovation respectively the time from the innovation to market.
- The network should generate innovation with a very high potential of added value chain and should transfer these innovation into marketable products and services. This requires not only a continuous further development but also real novelties and quantum leaps innovation.
- The surroundings of the network should be an area with a good infrastructure and suitable framework requirements; surroundings with a noticeable spirit of innovation are necessary.

In Germany networks with these characteristics are called “Kompetenznetze”, “networks of competence”. Competence nets with a regional orientation are the method in order to develop successful clusters. If the Regional Policy would like to organise a cluster initiative in order to set up successful clusters or in order to increase growth and competitiveness of existing clusters, then universities and research institutes must be partners within these clusters respectively competence nets. Research is an important resource for ideas, which are the starting point of inventions and innovation. Education and training is necessary to qualify people who are able to realise innovation.

The German Federal Minister of Economics and Technology presents the best competence nets of Germany at a special Internet Platform: “Kompetenznetze Deutschland, networking for innovation”. This is also a way of international business development. The Initiative “Kompetenznetze Deutschland” exists for eleven years. Meanwhile there are competence nets in many European countries and they are an important activity of business development for the European Union. In Germany an Advisory Council is responsible to pick out the best networks. I’m member of this Council for eleven years.

### 2.3 Advantages of Competence Networks

Clusters and networks as well as competence networks are an important method of the Regional Policy and they should be the driving force for innovation, growth and employment within the Region. In particular competence nets have got the following advantages\(^9\) for the overall network, the members of the network and for the region:

- **Enhancement of competence by means of cooperation**
  
  At present there is a change in the innovation processes. The cycle of innovation become faster; innovation are more complex and increasing interdisciplinary and many times they have got a systemic character. Therefore successful innovation requires more competences. Networking is a suitable method to obtain this one.

- **Networks are a beneficial location factor within the international competition**

- **Successful competence nets boost growth and employment of the region**

- **Development of new fields of innovation**
  
  The trustful cooperation of different partners within a competence net along the steps of the added value chain initialise more new products, services, processes and procedures as well as structure and organisation than working alone without any cooperation.
- Working within a trustful and advantageous cooperation allows long-term and sustainable development for the partners and also for the whole net.
- Assurance of the place of location by means of protection of copyrights and inventions.

2.4 Criteria of success for clusters and networks

Usually people want to measure the impact of working. The Regional Policy wants to measure the success of clusters and networks or it wants to know why clusters or networks were unsuccessful. It depends of the objectives of the Regional Policy, if clusters or networks are successful or not.

Usually the Regional Policy intends to enhance growth, employment and the national income of the region. These ones require innovation, require competence nets as described above, require knowledge, research, science, education and training in order to develop and realise successful innovation.

A successful competence net needs a future-oriented focus and a suitable number of high-performance cooperation partners along the added value chain, in particular\(^{10}\)
- large enterprises,
- small and medium enterprises,
- service providers,
- education and training,
- research institutes and
- universities.

But this isn’t enough for a successful competence net. The success is determinate also through the network management and the government of the network.

According to my experience as member of the Advisory Council for “Kompetenznetze Deutschland; networking for innovation”, the management of clusters plays a decisive role in the success of the respective clusters. The cluster management serves a functional purpose to provide a range of specialised and demand oriented services to its members. Cluster organisations help to channel, facilitate and provide access to facilities and services, which may include specialised research and test centres, consultancy, training and so on.

3. CLUSTER MANAGEMENT, NETWORK MANAGEMENT

The cluster management including the administrative organisation is important for the overall performance of the cluster and also for the competitiveness of the regional actors.

3.1 Tasks and Responsibilities

Many interactions between the members of a cluster and many conjoint activities of the cluster members are important in order to obtain success and benefits. The communication among the cluster members is a decisive condition for interactions and conjoint activities. The communication among the cluster members depends to a great extent on the cluster manager, and how he or she is linked to the cluster members and how he or she is accepted by the cluster members.
The cluster manager also plays an important role in identifying and implementing demand-oriented services and added values for the cluster members, the corresponding cluster organisation should have sufficient staff to do so. The Cluster Management can be realised by one individual person or by a person group or rather a team.

There are several entirely different approaches to the issue of the organisation of the cluster management in Germany but also in other European countries\(^\text{11}\):

- Firstly: The cluster manager or the cluster organisation itself could be a member of the cluster.
- Secondly: The cluster manager or organisation isn’t member of the cluster itself, but is entrusted with this responsibility by the cluster members.
- Thirdly: An external organisation (for example a service provider or the business development) takes the lead of the cluster.

There are many empirical analyses about the effectiveness of the cluster management\(^\text{12}\). But there isn’t any easy answer. The effectiveness of the organisation of the cluster management depends on the form of governance, but also on the structure, on the selected focus, on the financing, on the number of members and on other characteristics of the cluster.

Each cluster needs an individual solution and it is important to consider the individual structure of the cluster. It isn’t possibly to take a general form in order to organise the cluster management like a blue-line print. But in all cases the person of the cluster manager and his or her character as well as the way in which he or she takes the responsibilities for his or her tasks to govern the cluster, or how he or she is linked to the cluster members and how he or she is accepted by the cluster members is decisive.

In this context the result of many empirical analyses is remarkable: trust among the cluster partners represents an essential element of successful clusters\(^\text{13}\). Trust is an important condition of communications, interactions and conjoint activities within the network. An aim-oriented working cluster management should have influence over the trust among the cluster partners.

The main tasks for the cluster management are the following activities\(^\text{14}\):

- Initiation of the cooperation and setting-up of the network
- Financing of the network, in particular sustainable financing
- Acquisition of projects and of research- and development-funds
- Services for the network
- Increasing the number of members
- Increasing the cooperation among the members
- Information and communication
- Marketing and Public Relations
- Help and assistance in order to organise an international strategy
- Education and training, further education

Cluster Managers or rather network managers are the central persons, the integration persons of a network or a cluster. The success of clusters or networks depends often on the person of the manager, of his (or her) management style, his (or her) aptitude and his (or her) competence\(^\text{15}\).

My experience within the mentioned Advisory Council has indicated that there isn’t an archetype of the network manager. But it is possible to describe quality
characteristics as well as knowledge, skills and competence, which should have got the network manager. These ones are:

- the ability to communicate,
- experiences in public relations and marketing,
- professional experiences within focus of the network or cluster and within the corresponding domain of the innovation,
- motivation capability in order to communicate the culture and the aims of the network as well as to establish trust among the network actors,
- understanding of the cooperation within networks; in this way the network manager is able to contribute to decisions over the aims and the strategy of the network; as well the network manager can define the roles of the several network partners,
- pronounced management experiences,
- the capability to take the role of the driver of the network or rather to be the driving force behind the development of the network, its aims, strategy and further development,
- acceptance of the members of the network.

In summary: The Network manager has to manage a cooperation of partners with different aims and interests. The network manager needs especially the capability to motivate, to communicate, to persuade, to bring together also difficult partners with different aims, to create trust among the network partners, to devise feasible visions. These ones require a cooperative mentality, enthusiasm, but also the ability for aim-oriented, structured work.

The network managers can have got different experience before their work for the network or cluster. It depends on the characteristics of the network, which special experiences are suitable and needed. In general the manager could have experiences as

- networker,
- networker and technical expert,
- technical expert.\(^{(17)}\)

\[\text{4. CLUSTERS IN ROMANIA}\]

The government of Romania also recognised the potential of regional networks and clusters as a driving force behind the regional development. In March 2010 presented the ZENIT GmbH\(^{(18)}\) the results of an empirical analysis about clusters in Romania. ZENIT identified 22 clusters in Romania. In particularly clusters were identified with the focus on agricultural food, tourism, information technology and automobile.

Large problems within Romanian clusters are the lack of cooperation among the cluster members as well as the insufficient number of specialised suppliers. The reason for these problems could be that the economic actors don’t have enough trust in the development of Romania.
5. THOUGHTS ABOUT CLUSTER POLICY IN RESITA AND CARAS SEVERIN

I have not enough knowledge about Resita and Caras Severin in order to recommend activities with regard to clusters, networks or competence networks. But I will try to draft a few general thoughts and basic ideas. From my point of view the quality of life and the infrastructure of Resita became conspicuously better in the last years. Nevertheless there are still needs to improve these ones also in the future. The region is still economically underdeveloped. The region needs still the change of economic structure. But this one is a very difficult task, in particular the change of an old-industrial region requires large efforts.

Cluster Policy or rather the development of a competence network could be a useful method in order to push on the change of economic structure as well as to complement the business development and to improve its results.

Starting point of such activity must be an empirical analysis about strengths and weaknesses as well as opportunities and threats.

The results of the analysis should be the basis of the discussion, which should lead to the appropriate technical focus of the cluster or network. In my opinion the topic of the cluster or network should be suitable for wide applications within several branches like information and communication or new materials or production and engineering. The topic should be in line with the profile, image and characteristics of the region and at the same time the topic should represent an island position as a special competitive advantage.

Important characteristics of the region or rather the regional network are – as mentioned above – spirit of innovation, trust, and a network manager according to my descriptions.

Universities and research institutes must be essential partners within an innovative cluster, network or competence net. Therefore the University of Resita is an important partner for industry, trade, service providers and other actors which want to bring forward the region.

But the University of Resita itself is a member of a special network. The University of Resita is partner within the Resita Network. This is a network for education and training as well as for research and development with the subject “Entrepreneurship and Innovation”.

Partner within the network are professors with the special scientific field entrepreneurship and innovation from the following universities:
- Albania, University of Tirana, Faculty of Economics
- Austria, University of Applied Sciences Salzburg
- Bosnia and Herzegovina, University of Zenica, Entrepreneurship and Innovation Centre, Faculty of Economics
- Bulgaria, Rousse University Angel Kunchev, Faculty of Economics
- Croatia, Josip Juraj Strossmayer University in Osijek
- Germany, University of Applied Sciences Worms, Faculty of Economics
- Germany, University of Applied Sciences Trier, Umweltcampus Birkenfeld
- Macedonia, University American College Skopje
- Montenegro, University of Montenegro, Faculty of Economics
- Romania, University Eftimie Murgu Resita, Faculty of Economics
- Romania, Academy of economic studies (ASE) Bucharest
The main objective of this network is the improvement of students’ qualification in these specific fields of entrepreneurship and innovation. The student should develop the ability to create innovation and to found a firm.

Another goal is the development and enhancement of the intercultural competence of the students. This capability is an essential condition for international cooperation.

Important activities within the network are summer schools for students with the topics “Business Plan” and “Innovation Management, Generating Ideas”. The participants in the summer schools need knowledge and understanding of the theme. On this basis the students have to solve a concrete task within international groups; the students need the ability to apply knowledge and use know-how to complete the task and solve problems. But the students need also the competence to use knowledge, skills and personal, social and methodological abilities. During the summer schools the students must work within an international group; therefore they need also the ability of intercultural cooperation.

The mentioned abilities and also the mentioned themes become more important in the future. The change in our world, particularly the increasing competitive pressure, the rising rate of innovation, the fast growth of knowledge and the cumulative complexity require increasingly knowledge, skills and competence as mentioned.

In addition to education and training are research and development further important tasks of the network. The cooperation between the partners should enhance and improve also the spirit of innovation and the development of innovation skills in the respective regions of the network universities.

In the past especially the subjects “Entrepreneurship” and “Contribution to Innovations” have obtained an increasing importance at Universities.

From the perspective of the regions cooperation of universities with companies and firms as well as the topics entrepreneurship, innovations and university-driven foundations of enterprises are particularly important to the development of regions. Universities are – as mentioned above – an essential partner within a regional innovation-oriented network.

Pooling of capacities and experience of several universities can provide the participating regions with access to the knowledge and the results of research not only of the University within the respective region but also of the universities within the network.

Collaborating within a network could enable the intensive mutual exchange of information. In this way all universities could learn from good experience of the other partners as well as from failure. All universities of the network and the respective regions could benefit from the cooperation.

But let me say again: Not only “hard factors” but also “soft factors” are decisive for success. Doubtless, regions need aim-oriented knowledge on the basis of research, education and training, need the cooperation of important regional actors within
innovative and dynamic networks, need also humans with a high-level qualification. In addition to knowledge, research, education and training regions and networks need also humans with the appropriate mentality, with enthusiasm and the capability, to inspire the region and the member of networks.

Notes:
1) Detected at Siemens AG, Germany.
2) G. Meier zu Köcker, Clusters in Germany. Institute for Innovation and Technology, Berlin 2009.
3) G. Meier zu Köcker, Clusters in Germany.
9) G. Meier zu Köcker, C. M. Buhl, Kompetenznetze initiieren und weiterentwickeln.
10) G. Meier zu Köcker, Clusters in Germany.
11) G. Meier zu Köcker, Clusters in Germany.
14) G. Meier zu Köcker, C. M. Buhl, Kompetenznetze initiieren und weiterentwickeln; G. Meier zu Köcker, Clusters in Germany.
15) G. Meier zu Köcker, Clusters in Germany.
16) G. Meier zu Köcker, C. M. Buhl, Kompetenznetze initiieren und weiterentwickeln.
17) G. Meier zu Köcker, Clusters in Germany.
18) ZENIT GmbH, founded in 1984, is a Public Private Partnership owned by the State of North Rhine-Westphalia, a consortium of banks and an association comprising some 200 enterprises. On behalf of EU, national and regional bodies, ZENIT provides services for the benefit of companies, especially small and medium-sized enterprises, as well as universities and research institutions. ZENIT worked the empirical analysis to clusters in Romania in order of the Romanian Minister of Economics.
ABSTRACT

Increase of competition at international level and intensification of globalization process amplifies the importance of human resources’ management, its international dimensions being thus essential to be taken into consideration.

Companies’ activity extension at international level involves increasing complexity of actions they perform, especially development and diversification of management instruments of human resources applied by those.

The necessity to develop international management models of human resources was generated by the joint action of two factors: internationalization of companies’ activities, the need of multinational companies to analyze and understand the way in which management know-how should be transferred, from the parent company to its daughter companies.

The role and importance of international management models of human resources lie in the fact that they provide a series of management solutions in the field of human resources that might be put in practice in view of elimination of dysfunctions encountered.

KEY WORDS: human resources, strategy, policy, model, international human resource management, international competition

JEL: M10, M12

1. INTRODUCTION

Although human resources management has continuously enriched its content and enlarged its sphere of inclusion, competition increase at international level and intensification of the globalization process amplifies the importance of human resources management, resulting in the necessity to consider more and more its international dimensions (Manolescu A. (2004: 53)).

Extension of companies’ activities at international level involves the increase of the complexity of their actions, particularly development and diversification of human resources management applied in order to manage cultural, economic and institutional variables influencing their activity, at the level of each country. All these evolutions determine the rethinking of the strategic role of human resources within a company, these being approached as the main competitive benefit of an organization.

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2. INTERNATIONAL MANAGEMENT MODELS OF HUMAN RESOURCES

The influence of certain factors on the international development of a company, such as: cultural diversity, international migration of the workforce, development of market relationships and competitiveness in an international framework, etc., has already been known. More and more companies admit the implications determined by the migration of the personnel to other organizational cultures. All these claim specific human resources strategies and policies to be devised by the companies.

The necessity of developing international management models of human resources was generated by the joint action of two factors:
- internationalization of the companies’ activity;
- The need of the multinational companies to analyze and understand the way in which management know-how should be transferred, from the parent company to its daughter companies.

Beyond their function of analysis, the role and importance of international management models of human resources lie in the fact that they provide a series of management solutions in the field of human resources that can be put to practice to eliminate certain dysfunctions encountered.

2.1. Perlmutter Model

Perlmutter H.V. highlights four modalities in which multinational companies can run their human resources activities at international level, namely: ethnocentrism, polycentrism, geo-centrism, region-centrism.

In fact, the Perlmutter model highlights the main approaches (Beardwell, I & Holden, L., 2001: 661-662) in the field of international management of human resources.

*Ethnocentrism* – involves the most direct control by the parent organization on the daughter company in the host country, since the parent company is the one that transfers to the daughter company the policies and practices in the field of human resources.

*Polycentrism* – is opposed to ethnocentrism, since the daughter companies in the host country are relatively independent from the parent company, and the policies and practices in the field of human resources are adapted to the local conditions.

*Geo-centrism* – the multinational company is rather seen as an international entity than as a sum of daughter companies from abroad, which means that the policies in the field of human resources have in view the implementation of the objectives of the entire network of units and maximization of the global results.

*Region-centrism* – is specific to situations where the parent company carries out their activity at the level of regions and the personnel is distributed within those regions. This means that the policies and practices in the field of human resources are coordinated within those regions, and some managers can come from any of the countries belonging to the respective regions.

*Model relevancy* lies in the fact that it highlights the way in which multinational companies develop and implement human resources’ strategies and policies at the level of daughter companies in the host countries. Similarly, the Perlmutter model can also be understood as a compared management model of human resources, since it allows
identification of similarities and differences, and advantages and disadvantages, respectively, of various approach modalities by multinational companies of human resources management activities, at international level.

2.2. The Adler-Ghadar Model

By developing such a model, the authors Adler N.J. and Ghadar F. (Dowling, P.J. et al., 1993: 40), (Manolescu, A., 2004: 59) (fig. 1) tried to highlight the role and importance of international management of human resources, by adapting human resources strategy, function of the stage of development of a product or service. As multinational companies develop their activity at the level of an international market, they will have to concentrate their efforts on various aspects of organizational development. The authors of the model identify four stages of development of an organization:

Stage I – of development of an organization at national level, characterized by concentrating company efforts only in the direction of consolidating the position on the internal market. In this stage, international management of human resources is non-existent.

<table>
<thead>
<tr>
<th>Orientation towards:</th>
<th>Stage I National level</th>
<th>Stage II International level</th>
<th>Stage III Multinational level</th>
<th>Stage IV Global level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy:</td>
<td>national</td>
<td>international</td>
<td>multinational</td>
<td>global</td>
</tr>
<tr>
<td>Internationalization strategy:</td>
<td>Orientation towards foreign clients</td>
<td>Extension of the market beyond the national borders</td>
<td>Supply, production and internationalization of the market</td>
<td>Acquiring a position of strategic competitiveness, at global level</td>
</tr>
<tr>
<td>Expatriated employees:</td>
<td>non-existing</td>
<td>Many</td>
<td>A few</td>
<td>many</td>
</tr>
<tr>
<td>Mission of expatriated employees:</td>
<td>-</td>
<td>Management know-how transfer</td>
<td>Control implementation</td>
<td>Coordination and integration</td>
</tr>
<tr>
<td>Type of expatriated employees:</td>
<td>-</td>
<td>Employees with high performances</td>
<td>professional</td>
<td>Management personnel</td>
</tr>
<tr>
<td>Effects:</td>
<td>rewards</td>
<td>Work well done</td>
<td>Career development opportunities</td>
<td>Opportunities of individual and organizational carrier development inorganizaționale</td>
</tr>
<tr>
<td>Effect on the career of the personnel:</td>
<td>unfavourable</td>
<td>Unfavourable at national level</td>
<td>favorable</td>
<td>essential</td>
</tr>
<tr>
<td>Employees’ integration in the organization:</td>
<td>Rather difficult</td>
<td>Very difficult</td>
<td>Relatively easy</td>
<td>Extremely easy</td>
</tr>
<tr>
<td>Development of resources:</td>
<td>-</td>
<td>limited</td>
<td>long</td>
<td>continuous</td>
</tr>
<tr>
<td>Beneficiaries of human resources’ development programmes:</td>
<td>-</td>
<td>expatriated</td>
<td>Expatriated ones and personnel in the host country</td>
<td>Managers (leading staff)</td>
</tr>
</tbody>
</table>
Performance evaluation:

<table>
<thead>
<tr>
<th>At organization</th>
<th>At daughter company level</th>
<th>At the level of the entire corporation</th>
<th>Evaluation of the strategic position</th>
</tr>
</thead>
</table>

Motivational factors:

<table>
<thead>
<tr>
<th>pecuniary rewards</th>
<th>pecuniary rewards and experience gained</th>
<th>challenge and opportunities</th>
<th>challenge, opportunities, career development</th>
</tr>
</thead>
</table>

Rewards:

<table>
<thead>
<tr>
<th>Additional pecuniary rewards to compensate the influence of external factors</th>
<th>Global rewards, with a less consistence individually</th>
</tr>
</thead>
</table>

Shortest path of skills:

<table>
<thead>
<tr>
<th>internal</th>
<th>internal</th>
<th>international</th>
<th>global</th>
</tr>
</thead>
</table>

Skills:

<table>
<thead>
<tr>
<th>Technical and management</th>
<th>Technical, management, of adaptation to the particularities of the host country</th>
<th>Technical, management, knowledge allowing identification of cultural differences</th>
<th>Technical, management, knowledge referring to the interaction between countries</th>
</tr>
</thead>
</table>

Figure 1 - Adler-Ghadar model of al internationalization of the management of human resources

Stage II – development at international level, characterized by a series of company efforts to operate at international level, by creating daughter companies in host countries. Expatriate managers have management functions in daughter companies, thus providing technical, financial and management know-how transfer from the parent company to the daughter company. Subsequently, management know-how transferred to the daughter companies’ level is acquired by the personnel recruited from the host country as well, some of the locally recruited people being offered even management positions and control of certain activities. In these conditions, human resources management acquires an increased importance from the point of view of recruitment, selection, development and rewarding both the expatriated personnel and of those of the host country. This is because the expatriated personnel need programs to become familiar with the culture and language of the host country, while the personnel in the host country needs training programs for a better knowledge of the activities of the parent company.

Stage III – development at multinational level, characterized by a powerful consolidation of the company position on the international market. In this stage, the parent company benefits of the competitive advantage, acquired by low costs and high quality of its products, focusing its efforts in the direction of creating a system of unitary objectives and values at the level of all it daughter companies. What characterizes this stage is that the parent organization employs at the daughter company level not only expatriated personnel, but also personnel from a third country, other than the host country or the parent country. Generally the personnel from a third country is represented by managers that are transferred from a daughter company of the parent company from one country to another daughter company in another country. In this stage of development of the company, at multinational level, the management activities of human resources referring to development of career and of human resources are emphasized.

Stage IV – global development, where the company becomes one of the most important players of the international market, running its activity in a very large number of countries and regions. In this stage, from the point of view of human resources’ management, the company will develop a series of strategies in view of acquiring the competitiveness advantages, by creating regional development programs of human
resources. Thus the personnel employed in the company in various regions of activity will become more specialized and more competent. The role of human resources management will still be to provide and facilitate knowledge and skills know-how transfer between daughter companies and regions of activity of the parent organization.

He Adler-Ghadar model can be used both as a model of internationalization of the activities of human resources, and as a compared management model of human resources, allowing comparative analyses to be made regarding the way various parent companies transfer and develop practices in the field of human resources at the level of daughter companies. The main disadvantage of this model, however, is the fact that it does not present in detail the connection between parent company and its daughter companies, from the point of view of implementation of human resources’ strategy. In these conditions the Adler-Gadharn model can be useful to make comparative analyses, referring to the orientation that the parent company can adopt, regarding human resources’ management, function of the level: national, international, multinational or global.

2.3. The Taylor Model

The aim of the model developed by Taylor S. (fig. 2) is to explain the way in which the parent company can transfer its human resources practices to the level of its daughter companies. More concretely, the Taylor model completes the main disadvantage of the Adler-Ghadar model. It is a model based on resources, considering that the competencies of an organization are essential in providing the advantage of competitiveness. This model, based on resources, allows identification of situations where the parent organization exerts its control on the human resources strategy at the level of its daughter companies.

In the opinion of the author of the model, the strategic international model of human resources can be defined as the whole of the values, policies, methods and techniques of management of human resources, deriving from the strategic multinational activity of a organization influencing its objectives. Similarly, the strategic international management of human resources can provide the competitive advantage for the organization by developing a total of competencies and of a system of work relationships, which should be assimilated at its level.

Resources that might be used by the parent organization to implement the human resources strategy, at the level of daughter companies can be tangible (personnel, career plans, selection test, performance assessment procedures) or intangible (skills, aptitudes, abilities in each daughter company).

The author of the model identifies three categories of resources that can be used by the parent organization to implement the strategy of human resources at the level of the daughter companies, namely:

- parent organization’s own resources developed in the country of the parent company, which can be used in situations of activity development in an international context;

- system of values, competencies, abilities and attitudes, developed in time at the level of the entire organization;

- resources in the daughter companies, that can provide competitive advantage at local level in the host country.
Strategy of human resources of the organization at international level defines the company’s orientation regarding internationalization of human resources activities, in view of better management of the particular aspects that might come up at the daughter company level. As far as the implementation of human resources strategy at the level of daughter companies, the parent organization can adopt one of the following three orientations:

- **Adapting**, by developing human resources practices only at the level of the daughter companies, considering the particularities that might come up at the level of the host country. Such an orientation involves a high degree of differentiation of practices of human resources at the level of the daughter companies, being synonymous to polycentric approach of the management of human resources;

- **Export**, transfer of human resources practices from the parent organization to the daughter companies, this orientation being synonymous to ethnocentric approach of human resources management. Such an orientation involves a total transfer of practices of human resources of the mother organization to the level of the daughter companies.

- **Integration**, that is identification of the best practices of human resources and their transfer to international level, the organization being rather considered an entity than a sum of daughter companies abroad (geocentric approach).

Adopting by the company of one or the other of the three orientations is influenced by the conditions in the host country and the parent country and the attitude of management in the parent organization.

As far as the organization’s daughter companies are concerned, they play a strategic role, which is conditioned by the quantity of the resources and the way the are distributed between those and the parent organization. Function of this criterion, Taylor identifies four roles that any daughter company can play:

- **Global user**, which involves the orientation of the resources’ flow from the parent organization to the daughter company, the parent organization transferring it own...
resources to the level of the daughter companies. Resources at local level that the 
companies can control and use, are limited. The dependence of the daughter companies 
to the parent organization is extremely high, the latter exerting a total control over the 
daughter companies (ethnocentric approach);

- perseverant player, involving both transfer from the parent organization to the 
daughter companies, of an important volume of resources, and the use of resources, in a 
relatively significant extent, of the resources controlled at local level by the daughter 
companies (geocentric approach);

- mediator, allowing the daughter companies to use in a large extent the 
resources they control at local level, since the flow of resources transferred from the 
pARENT ORGANIZATION TO THE DAUGHTER COMPANIES IS insignificant (region-centric approach);

- local innovator, in this situation the daughter companies are confronted with a 
low availability of resources at local level, supplemented by a negligible flow of 
resources transferred at their level from the parent organization. The dependence of the 
daughter companies to the parent organization is extremely low (polycentric approach).

The first factor conditioning the transfer of resources from the parent 
organization to the daughter companies is the way they are organized, since they can be 
self standing daughter companies of the parent company or can be formed by a local 
partnership. Certain similarities or differences can thus occur between the way the 
pARENT AND THE DAUGHTER COMPANY are organized, which can facilitate or impede 
the implementation of human resources policies and practices specific to the parent 
organization at the level of the daughter companies.

The distance to the parent organization and the culture of the host country 
are essential factors in the implementation of the strategies and policies of human resources 
by the parent organization. Thus, when very great differences occur between the parent 
organization and the daughter companies, then it is better for a polycentric approach to 
be adopted, and for the daughter companies to develop their own strategies and policies 
of human resources at local level.

The third component of the model, namely human resources, influence the 
strategies and policies of human resources by the way in which they are structured. Both at the level of the daughter companies, and at the level of the parent 
organization, the hired personnel is structured depending on several criteria, of which 
the most important is the level of performance obtained. In these conditions, a 
differentiation of policies of human resources is required, depending on the structure of 
the employed personnel and directing the resources to the categories of personnel with 
high performance.

The Taylor model can be used as compared management model of human 
resources, its relevance lying in:

- describes the main factors that might affect the transfer of strategies and 
policies of human resources of the parent organization to the level of the daughter 
companies;

- presents the main orientations an organization can adopt regarding the 
strategy of resources;

- the model emphasizes the importance of providing by the organizations a 
competitive advantage, by means of resources, the structure of the employed personnel 
of the organization playing an essential part in formulating human resources strategies 
and policies;

- allows comparative analyses to be made regarding the way human resources
strategies and policies are implemented at the level of daughter companies, between organizations belonging to different management systems.

2.4. Model of international strategic management of human resources

The authors of the model (R. Schuller, P. Dowling, H. De Cieri) (Beardwell, I. & Holden L., 2001: 664-667), believe that the role of the international management of human resources is to *provide concordance* between exogenous and endogenous factors, which influence the activity of a multinational company. The central element of the model (fig. 3) is represented by the analysis of the correlation between *competitiveness requirements* at global as against regional or local, on the one hand and the coordination and control need of the parent company and the degree of autonomy of the daughter companies, on the other.

The utility of the model resides in the fact that it allows specialists of human resources involved in the activity of multinational companies to clearly follow the background factors at the level of parent company and its daughter companies, so that the strategy and objectives formulate be implemented at the level of the daughter companies as well. This is because the activity background of the company is characterized by a series of features, such as: dynamism, competitiveness, lack of certitude and volatility (Schulle R., et al., 1993, www.findarticles.com & www.journalofmanagement.org). In order to achieve the organization’s objectives, the companies need to enter in more and more markets, since development and promotion costs for new products could not absorbed acting in only one market. The tendency of multinational companies to led globally generates the need to adapt locally. The international character of activities involves administration of a high number of variables, specific to the background (such as: conditions of penetration of a market, degree of diversification of economic activities, institutional background, economic, political background etc.), specific to the parent company (mission, strategy, objectives, management system experience etc.) and daughter companies (culture and legislation of the country where those are found distance to the parent organization, strategic role etc).

*Reactions and solutions* of companies to *global challenges* encountered take various forms, they being concretized in the form of strategies and mechanism of absorption of negative influences. Transfer of management know-how from the parent company to the daughter companies involves an increased attention from the organization management, so that the efficiency criteria claimed by the global character of the activity would be met, and on the other hand, the organization should prove responsibility, flexibility, receptivity and adapatability to local conditions. One of the elements of specificity characterizing *multinational companies* is that they act both globally and locally. Taking into consideration this essential feature of multinational organizations from the point of view of human resources management, a series of questions can be asked (Schuller, R. et al., 1993: 718): *Are multinational companies able to develop unitary applicable strategies and policies of human resource at the level of all daughter companies that should meet not only the need of coordination and management of activities at global level, but also the facilitate and provide the integral transfer of knowledge and innovations at the level of the daughter companies? Can the respective practices of human resources be applied in a unitary way? Will they be proved as being more efficient if the particularities of the local background are taken into consideration?*
The authors of the international strategic management model of human resources endeavour, by developing such an analysis framework, to supply pertinent answers and solutions to all these problems. R. Schuler, P. Dowling and H. De Cieri (fig. 3) emphasize the necessity of promoting an efficient management of human resources, in the context of business extension to international level. Thus, carrying out strategic objectives for companies, for business development, becomes more and more conditioned by human resources efficiency and efficacy of strategies, policies and practices applied in an international context.

The connection between the management of human resources and the strategy of organizations to develop their business at international level, is the expression of the concept of international strategic management of human resources. The principal components of the international strategic management of human resources are: results, functions and policies and practices of human resources, since they influence strategic activities of multinational companies, which in their turn, influence the objectives established at their level.

Utility and importance of international strategic management of human resources can be substantiated like this:

- management of human resources is, in general, the principal means of implementation of the organizations global strategy in global background;
- strategic directions of development of multinational companies’ activity exert a major influence on the management results, functions and practices, at international level;
- factors forming the local context in which multinational companies run their

![Figure 3 - Model of international strategic management of human resources](source: Beardwell I. & Holden L., 2001: 664-667; Schuller R. et. al., www.findarticles.com)
activity decisively influence the strategies of adaptation of organizations to local background. *The global character* of the activity involves a very precise delimitation of relationships or connections between the parent organization and its daughter companies, on the one hand and on the other hand, of the relationships between its daughter companies, considering the fact that the subsidiaries of the multinational companies are located in different geographic regions. All the relationships developed at the level of a multinational company ensures both its integration, and differentiation of its practices of human resources at the level of its daughter companies. Essentially this is the role of international strategic management of human resources. This is because the implemented human resources practices at the level of daughter companies include, more or less, specific elements to the local context where they run their activity (economic, political, cultural, social, institutional, legislative etc. environment). Familiarity of the parent company with the activities run at the level of all daughter companies allow it to ensure a better coordination and an efficient control at the level of its subsidiaries. Thus, the parent organization can exert a total control over its daughter companies or can give them a high degree of autonomy. In the second case, the daughter companies can develop, locally, certain policies and practices of human resources, polycentric approach prevailing. Even in such a situation, the human resources department of the parent organization is the one that develops policies and practices of human resources applicable in case of expatriated managers or personnel. These policies view, in general, integration of the expatriated to the level of daughter companies, their reward and development.

Depending on the strategic position and the level of competitiveness recorded, a daughter company can play, from the point of view of the relationships with the other subsidiary units of the parent company and human resources practices, the following *roles*: centre of excellence, training centre and consultant or expert in the field of human resources, whose services will be taken advantage of by the other units. Development of activities at global level claims development and implementation of competitive strategies in the field of international business by companies, which might be directed towards promoting innovation and progress, cost reduction or promoting quality. Irrespective of the nature and type of strategy chosen, the fact should be mentioned that it exerts a direct influence on human resources policies and practices applied at the level of daughter companies. It is possible to differ from one unit to another.

The relationship between the business strategy implemented at the level of each daughter company and the human resources practices applied at the level of the respective unit is obvious and especially direct. For instance, when at the level of daughter company the parent company applies a strategy of quality promotion, the human resources practices will be centred around promoting team work and equal opportunities. In the case of a strategy of cost reduction, the human resources strategy will be of survival. Analyzing the model of international strategic management of human resources, we can conclude that, in time, the management of human resources acquired a strategic character, being directly correlated to the stages of business development not only at national level, but at international level as well. The opinions of specialists in the field of human resources converge towards the idea according to which the key of *success of a business at global level is more and more provided by the quality of human resources of the respective company and by the way they are used.*
3. MANAGEMENT OF HUMAN RESOURCES IN MULTINATIONAL COMPANIES

The need for competent multinational personnel increased enormously once the business extended worldwide, especially in developing countries. In an international operation the problem of the staff is many times solved locally. This is because people in the countries where companies start their activity are often familiar with the best way to develop a business in that region or territory. From time to time, however, managers from the country of origin of the company are required to train the personnel; they are called “expatriated”. The need for expatriated occurs when certain qualities and experiences are required in a certain place, when there is a significant need for integration in the multinational company of the other divisions in the world and when the needs cannot be met on a local level.

International studies in international management of human resources take greater and greater interest in multinational daughter companies in developing countries. This can be explained by changing the direct foreign investment location in global economy. The tendency in the last years is their relocation to new destinations, such as Eastern and Central European countries, integrated in the European Union, but also to countries such as India and China, called “hot spots” for foreign investments.

To highlight some of the challenges which should be met by the multinational companies from the point of view of human resources, the case of the Eastern and Central Europe countries, to which Romania belongs as well, is treated as a new investment market for multinational companies. Many of the problems with which multinational companies operating in Eastern and Central European countries are confronted with, occur due to the contextual cultural or institutional differences.

In Romania, as well as in most of the East-European countries, the human resources practices specific to multinational companies are highly influenced by the cultural and institutional framework, as well as other background issues. Culture, but especially institutional framework determine many companies to abide to a certain extent by the local norms in the field of human resources and to combine them with the transferred practices, a hybrid resulting in the end from the point of view of practices of human resources. They especially focus on more objective criteria of selection and recruitment of employees. The role of multinational companies and in general of foreign investment in Romania is essential for the economic development and for the creation of a real, durable management of human resources, with strategic results for the entire national economy.

4. CONCLUSIONS

Extension of companies’ activities at international level highly facilitates the transfer between different know-how management systems in the field of human resources. Multinational companies are the principal means to implement this transfer.

International management models of human resources are nor only a modality of formalization of concepts and concerns in the field of international management of human resources, but also a synthesis of the experience in the management of human resources, in the international context.

The Perlmutter model presents in a simplified form the main approaches that that multinational companies can adopt in the process of transfer of human resources’
practices at the level of daughter companies in the host countries. Thus multinational companies can integrally transfer human resource practices to the level of daughter companies or can adapt human resources’ strategies and policies to the specifics of the host country. Irrespective of the orientation adopted by the multinational companies, the substance of the human resources’ strategies has to be adapted and correlated with the development stage of their activity at international level. According to the model developed by N. Adler and F. Ghadar, as multinational companies develop their activities at the level of an international market, these will have to concentrate their efforts on various aspects of the organizational development.

According to the Taylor model, a model based on resources, the competencies of an organization are essential in providing its competitiveness. Unlike other international management models of human resources, the Taylor model allows identification of situations where the parent organization exerts its control on the strategy of human resources at daughter company levels. The resources that the parent companies can use to implement the strategy of human resources at the daughter companies’ level, can be tangible and intangible.

Reactions and solutions of companies regarding global challenges take various forms faced with global challenge, these being concretized in the form of strategies and mechanisms of attenuation of negative influences. Transfer of management know-how from the parent company to the daughter companies involves an increased attention from the organization’s management, so that the criteria of efficiency claimed by the global character of the activity performed be met, and on the other hand, the organization proved responsibility, flexibility, receptivity and adaptability to the local particularities. One of the specificity elements characterizing multinational companies is that they act both on global and local level.

The main components of the international strategic management of the human resources are: results, human resources functions, policies and practices, since they influence strategic activities of multinational companies, which in their turn, influence the objectives established at their level.

Depending on the strategic position and the competitiveness level recorded, a daughter company can play, from the perspective of the relationships with the other units subsidiary to the parent company and of the practices of human resources, one of the following roles: centre of excellence, training centre and consultant or expert in the field of human resources, their services being used by the other units.

Implementation of strategic objectives of companies, of business development, is more and more conditioned by the efficiency and efficacy of strategies, policies and practices of human resources applied in international context.

The internationalization tendency of the economy stimulates a large number of companies to embark on international competition. Those responsible of human resources activities should have to learn to select, train and efficiently motivate a multicultural active population.
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ABSTRACT
This paper defines, initially, the notions of holism (HL) and neuronal networks (NN), proposing then a new method of approach for NN, through HL. In essence, this new approach implies maintaining within the classic model of the excitement threshold of the neuron; far from being constant, the excitement threshold is considered a increasing function of time, the author implying that this function has a complex variable. The introduction of this function in the NN model also signifies the holistic approach of it, the whole not being at any given time the “Democritian” sum of the parts.

KEY WORDS: Holism, Neuronal networks, Feedback, Artificial intelligence

JEL: C15, C20, C40

1. PRINCIPLES AND DEFINITIONS

1.1. The paper proposes the following axioms/principles:

P1. Any system implies a certain degree of organization.
P2. Any degree of organization implies a certain level of intelligence. (N.B.: at least until now there is no record of research carried out upon supernatural/divine intelligence).
P3. Intelligence is either natural or artificial. (N.B.: at least until now there is no record of research carried out upon supernatural/divine intelligence).
P4. Natural intelligence is superior to the artificial one, while both are valued with reference to man.
P5. The extra element of natural intelligence versus the artificial one lies in the influence of conscience upon intelligence.
P6. NI can access all knowledge areas, while AI organizes itself in order to imitate/reach.
P7. There are measurement units for both NI and AI. Measurement is done in volume and flow/speed as well as in intensity/temperature.
P8. While the neuron is the unit that carries intelligence, the bit of AI is only a sign with significance. (N.B.: the distinction between information and intelligence perfectly applies to the difference between bit in AI and neuron in NI).
P9. No container (caldron, closed ogive) breaks at the fixed point established by pressure, density, temperature, movement, volume and resistance of material.
P10. If the substance in the container is precious/fine, the break/explosion will be delayed (at least) infinitesimally.

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1.2. About Holism

Holism is a philosophical concept opposed to Atomism. Atomism (mostly by Leucippus and Democritus in 5th century BC) states the fact that any whole can be divided, analyzed and reunited from component parts, the analysis being pushed so far as to reach even the study of relationships between components of the whole.

In contrast with the atomists, the holists say that the sum of the components of a given item, object, phenomenon, irrespective of its nature cannot represent the whole. In essence, the sum of parts does not equal the whole. It can be smaller or larger, but never the same.

Early holism, the Parmenidian one, developed by Spinoza through his “fundamental vibration”, synonymous to God and Nature, becomes, on the one hand, a source of reasoning and, on the other hand, a powerful and consistent source of science.

In a (still undefined) gallery of holists that do not accept implicitly that the sum of individuals of an arithmetic series (simplistically put) equals the number which results from adding these, there are Parmenides, Spinoza (a genius), Hegel, Marx, Wiener, Bohr, and Heisenberg.

Holists are neither entropic nor catastrophic. They simply sustain the idea that 2 bricks, one on top of the other, represent more or less than 2 adjacent bricks; they can represent a “plus” – the masterpiece - , or a “minus” – the ruin.

In applied economics holism becomes visible in evaluation only. Thus:

\[
1 + 1 = 2 \quad \text{(settled!)}
\]

ACCOUNTANCY!

\[
1 + 1 = 2 \quad \text{(?}, \text{in what proportions); } 1 + 1 = 2 \pm \text{?} \quad \text{ANALYSIS!}
\]

\[
1 + 1 = 2 \pm V \quad \text{(V: value)} \quad \text{HOLISTIC EVALUATION!}
\]

1.3. About Neuronal Networks

In time research carried out in AI evolved towards 2 main models:

- **Expert systems** (or Logical-symbolical models) that use a series of symbolical mechanisms of representation of knowledge and usage of logical models in order to produce new items of knowledge based on facts/data memorized in the database.

- **Neuronal networks** (or connexant model) which, similar to the brain, does not memorize the information within distinct, well-defined and compacted areas, but does so in a diffuse way, throughout the entire network.

In neuronal networks, memorization is done on the basis of corresponding values of weighed synoptic connections among neurons in the network.

Comparing once again AI and NI, neurons are the “hardware” of the brain, while the synoptic connections are the “software” of it. The result of any connection is another neuron linked within a chain, and any chain of neurons represents a new “memory”. Yet neurons come together in neuronal chains following certain synaptic shares that allow the mathematical modeling of the system.

As usual, in order to demonstrate that it is superior to reality, mathematics will take in to account the fact that each neuron is connected to all other 100-200 billion ones. The estimate shows that there are about 10,000 types of neurons, and that each of
these is connected, grossly speaking, to other 5 to 200,000 neurons. Therefore, 200,001 neurons will form the longest neuronal network, probably seldom in reach.

2. GENERAL MANAGEMENT MODEL BASED UPON A NEURONAL NETWORK

Within the rubric:

We consider an NN formed of \( n \) neurons, inter-connected via synaptic weights. Any given \( i \) neuron has \( p_i \) inputs, noted \( x_i = (x_{i1}, x_{i2}, \ldots, x_{ip_i}) \) that come from other neurons or the outer environment. The same neuron has an output \( y_i \) and synaptic weights, noted: \( p_i (w_{i1}, w_{i2}, \ldots, w_{ip_i}) \) 

If \( w : > 0 \) synaptic excitation weight 
\[ < 0 \] synaptic inhibition weight

By definition: 

**Internal neuronal state** (total excitation or activation) of a neuron is the sum of produces of inputs and synaptic weights of the neuron:

\[ S = \sum_{j=1}^{p_i} w_j x_j \]

Modeling implies, above all, imagination. There are several mathematical models of the neuronal network. In the following lines, this paper will consider the McCulloch-Pitts model (simple and practical), in which:

2.1. Every neuron is characterized by an excitation threshold \( e \) (which probably also varies according to time and, specifically, age);

If total neuronal activity \( b \geq 1 \), then \( y = +1 \).

So far, by definition:

The relation \( f : R \rightarrow R \),
\[ f(x) = \begin{cases} 1, & \text{if } x \geq 0 \\ 0, & \text{if } x < 0 \end{cases} \]

is called the **response function** of the neuron.

N.B.: for the response function it is natural to be defined and take values within the set of complex and not natural numbers, taking into consideration the fact that thinking, i.e. NI and AI, are inferential, sinusoidal at least, if not even elliptical.

Based on the response function, we can define the **output function** of the neuron.

\[ f : C \rightarrow C \],
\[ y = f(\sum_{j=1}^{p_i} w_j x_j + e) \]

The value of the excitation threshold is disturbing for the model. Researchers try, erroneously, to eliminate it, for the sake of simplification and seduction of mathematical modeling, implying another input signal \( x_{p+1} = 1 \), with a weight of

\[ w_{p+1} = t \].
In our opinion the essence of the holistic approach of neuronal networks lies in maintaining the excitation threshold within the argument of the response function. Moreover, threshold $e$ must be seen as variable (most likely, a complex one) of time.

In the event of omission of threshold $e$, total activation $s_i$ will be:

$$s_i = \sum_{j=1}^{p} w_j x_j,$$

And the output of the neuron will be: $y = f(s_i)$

In case threshold $e$ is maintained within the argument of the output function, total activation will be:

$$s_i = \sum_{j=1}^{p} w_j x_j + e \quad \text{where } e = f_i(t) \text{ (complex time function)},$$

And the output

$$y = f(s_i) = f(\sum_{j=1}^{p} w_j x_j + e), \quad f : C \rightarrow C$$

We presume $e = f_i(t)$, $f_i : C \rightarrow C$ a complex rising function (time passing, the excitation threshold increases).

The neuronal model NN is the following:

$$e = f_i(t)$$

In model $fb$ is a negative function (feedback), defined through outputs and with values within the set of synaptic weights. Modeling this function is a real challenge for researchers.

In model NN, each neuron has $p$ inputs, each with its own synaptic weight. Owing to the excitation threshold, synaptic weights change in time. This is, even though we may repeat ourselves, the essence of the holistic approach.

The state vector of the neuron is:

$$x_i = (x_{i1}, x_{i2}, \ldots, x_{ip})^T,$$

And the weight associated vector is:

$$w_i = (w_{i1}, w_{i2}, \ldots, w_{ip}).$$

The output $y_i$ of neuron $i$ will be:
Function $f$ varies in form according to the NN model studied and it is called **neuronal function** (of output or activation), while its linearity is a particular case. It is interesting to study the dynamics equation (of evolution of NN consisting of $p$ neurons). It is presumed that:

- $x_i$: input signal of neuron $i$;
- $e_i$: neuron threshold;
- Input signals for any neuron are output signals of the other $p-1$ neurons;
- The threshold of any neuron is included in activation (which is a component of argument of output function);
- State vector of NN: $X = (x_1,x_2,\ldots,x_p)^T$;
- Total neuronal activation for neuron $I$ is:
  \[ S_i = \sum_{j=1}^{n} w_{ij} x_j + e_i \]
  
  - Weight vector associated to neuron $I$ is:
    \[ v_i = (w_{i1}, w_{i2}, \ldots, w_{ip}), \quad i = 1, 2, \ldots, p \]

As a result, the total neuronal activation for neuron $i$ is:

\[ S_i = V_i^T X \]

Notating with $M$ the NN connection matrix (with components of vector $v_i$ on line $i$) and with $A$ the activation vector of NN (whose elements represent individual neuronal activations), the result is:

\[ M = (v_1, v_2, \ldots, v_p)^T; \quad A = (s_1, s_2, \ldots, s_p)^T \]

The activation relation of the network will be:

\[ A = MX \]

In this relation, which apparently is the product of 2 matrixes, the holistic approach takes into account the excitation threshold of the neuron, a complex type of variable. The produce (as a repeated sum of the parts) will not equal the whole.

The holistic approach implies another advantage as well. The variable „time“ is intrinsic to the neuron state, through the changes occurring in time in the excitation threshold. Knowing the neuron state at moment $t$ the state at moment $t+1$ can be determined:

\[ x_i(t+1) = f_i\left(\sum_{j=1}^{p+1} w_{ij} x_j(t) + e(t+1)\right) = f_i\left(\sum_{j=1}^{p+1} w_{ij} x_j(t) + f_i(t+1)\right), \]

\[ i = 1, 2, \ldots, n \]

The state of the neuron at $(t+1)$ moment will be:

\[ x_i(t+1) = f_i(v_i^T X(t)) \]

Notating with $N$ the vector function with values within the set of components of neuronal functions:
\[ f_i, \quad i = 1, \ldots, n \quad \quad N(A) = (f_1(s_1), f_2(s_2), \ldots, f_p(s_p)) \]

The result is that the dynamics of the finite NN considered is given by the following trend equation:

\[ X(t+1) = N(WX(t)) \]

Comprising in \( X(t) \) the holistic –mathematic contribution of values \( e_i = f_i(t) \) (possibly random, but rising in time).

3. CONCLUSIONS, PORPOSALS, CHALLENGES

The HL approach of NN, accepting the mathematical hypothesis/conclusion/demonstration of including the excitation threshold function in the argument of the output function of the neuron does not complicate, on the contrary, simplifies comprehension of the NN model and of its potential implications in the informational and decision-making processes.

The potential of an NN varies in time. More and more neurons can be attracted into the network, and then the potential increases. As time “passes by” (goes from \( t \) to \((t+1)\)), the excitation threshold increases, while the potential decreases.

Obviously holism escapes from now exhaustive human comprehension. Sufficient arguments have still been brought in order to accept and promote it as a cohesive approach of knowledge finalities.

There are now at least two challenges in the study and modeling of NN. One concerns the identification of variables of excitation threshold function \( e = f_i(t) \), starting from the presumption that not only time (i.e. „aging” seen as non-pejoratively) contributes to the value of the threshold.

The second challenge concerns modeling the function (a negative one) of the synaptic weight dependency, the neuronal output (neuronal feedback).

Irrespective of the future of NN in AI and NI, it seems pertinent to consider that the holistic approach is the only valuable one, while its omission corrupts the scientific truth, even more, it falsifies reality. Even within the fascinating game of derivates and integrals, the omission of the „possible” constant turns deform ing and unproductive. In this simple constant, which always takes a different value, lies the essence of holism!

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NEW STRATEGICAL APPROACHES ON DEVELOPING HUMAN CAPITAL

Magdalena VELCIU

ABSTRACT

Major challenges and pressures being faced European and international socio-economic environment, like global crisis, rapidly changing businesses, population growth, the emergence of new Asian economic powers and others forced European politicians and managers to find new and alternative solutions to maintain competitive advantage and economic recovery. Thus, European officials have launched a new European strategy for smart, sustainable and inclusive growth, which lead European countries to emerge stronger from the crisis. In this new approach, investment in research and innovation, exploitation of human capital, finding new sources of competitiveness are some of the most important. This is possible only by thinking again priorities, resources and human potential revaluation, creative and innovative potential, unused right way so far, both at macro and microeconomic level.

KEY WORDS: human capital, economic recovery, adaptability, knowledge society

JEL: E24, H12, J24

1. INTRODUCTION

Today, european environment crosses periods of major challenges such as globalization, ever changing conditions, population growth. All this put pressure on socio-economic processes and human capital management has become a complex process. The global crisis has further accentuated the effects of these global phenomena.

Worst recession in the last eight decades has resulted, not only economic decline but loss of millions of jobs, and is expected that by the end of 2010, reaching 7.5 million in EU countries. Losses could be higher if the taken anti-crisis measures were not appropriate to the situation and if the financial support was given to states and areas most exposed.

Currently, the economic situation improves, but economic recovery measures should be supported adequately to the needs. European states must work together as a Union to get out of the crisis as stronger economy so as to be smart, sustainable and inclusive one.

2. CRISIS AND ITS IMPACT ON LABOR

For crossing times of economic downturn without major losses, most European countries tried to avoid massive layoffs, extend social protection to persons remaining unemployed, and limiting wage increases and restricting spending. Although anti-crisis

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measures and financial support to European States helps economies to cross this recession and preparing for a gradual economic recovery, there are negative effects that will be felt in the labor market, another time from now.

Encouraging firms to promote **flexible working and flexible forms of work** to keep employees at their jobs have an important role for crossing the period of recession. European companies apply a broad range of flexibility measures. Generally, these are not applied in isolation, but are combined with each other (European Company Surveys 2009). Although none of the measures is exclusive to specific geographic regions or sectors of economic activity, some pronounced regional and sectoral differences emerge regarding their application. The survey results shows that about two thirds of european companies use some form of contractual flexibility such as temporary agency work, fixed-term employment or freelance work. The majority of companies regularly check the need for further training, which is a crucial aspect of functional flexibility and innovation. The global economic crisis is likely to cast such schemes in a new light.

If the measures and labor flexibility practices are used rationally and on the short term, these can help to **retain employment, training and providing a potential work** that could help restart economic activity. On the other hand, if flexibility measures are used on long-term, without a sustainable growth strategy, it can lead to precarious jobs and undermine the employment quality and capacity of obtain permanent jobs. Also, to avoid the risk that flexibility measures to prevent economic growth should make the transition to strategical measures, designed long-term, designed to create a European labor market flexible and secure. Also, an approach in respect of the Flexicurity principles aims to provide a secure framework, ensuring workers risks accompanying precarizare flexible labor market and employment.

### 3. A NEW STRATEGY FOR SMART, SUSTAINABLE AND INCLUSIVE GROWTH

European Strategy 2020, launched on March 3, 2010, was designed to guide European countries in the process of economic growth for the next decade. Once the first priority of getting out of the crisis was reached, European countries will be guided by a sustainable growth in future. Europe is recognized worldwide for quality of life supported by a unique social model. These values must be reinforced by the current strategy and also, to optimize employment, productivity and social cohesion within a harmonized framework for better economic governance.

Strategy 2020 is for all EU Member States to make a smart, sustainable and inclusive economy, characterized by high levels of employment, productivity and social cohesion.

To build a picture of the social market economy XXI century Europe, Strategy 2020 provides three **priorities**:

- **smart growth** - development of a knowledge-based economy and innovation;
- **sustainable growth** - promoting a more efficient economy in terms of resource use, respecting the environment and more competitive;
- **inclusive growth** - promoting an economy with high employment rate, able to ensure social cohesion.

To achieve these priority goals, the EU has proposed several key **objectives** that can be translated into specific actions:
- Rising employment, including involvement women and older workers;
- 3% of GDP invested in research and development and stimulate private sector investment in these activities;
- Reducing emissions, improving the use of renewable energy and energy efficiency;
- Improving the educational level, namely reducing the dropout rate and increasing number of people with higher education;
- Reducing the number of persons living below national poverty threshold.

In this context, human capital plays a key role in the new smart, sustainable and inclusive economy. The targets set are interconnected with each other and also have connections, directly or indirectly, with development and capitalize human capital.

Ensuring appropriate education with higher education levels and the adequacy of educational offer with the labor market needs assure a framework for increasing employment and achieving successful professional transitions, without periods of inactivity. Thus employees has more chances and opportunities to adapt to economic fluctuations. Moreover, the providing a job and a stable income will contribute to poverty reduction, which has direct impact on the quality of human capital.

Improved activities of research and innovation in all sectors of economy, combined with more efficient use of resources will improve competitiveness of economic agents and the process of creating new jobs. Also stimulate the acquisition of new knowledge and skills foster the competitive spirit of human capital.

Smart growth means strengthening knowledge and innovation, which can be effectively achieved only by capitalizing human capital. But it is necessary to improve the quality of the education system, boost research and innovation and effective investments, knowledge transfer and use information and communications technology, and thus investment in human capital will return in the form of added value. More so now, out of the crisis is needed to stimulate knowledge and innovation activities, to stimulate recovery process and growth.

Action under this priority will lead to the release of innovative potential of European workers, which will allow achieving competitive advantages and capitalizing the opportunities and advantages of digital society.

The sustainable growth requires building a competitive, sustainable and efficient in terms of resource use to ensure a highly competitive European business environment. And in this area has the role of human capital to ensure the knowledge base to maintain Europe on the first place of ecological solutions.

Inclusive growth is based on providing a stable income for all citizens by encouraging their active participation on the labor market, investment in skills development that allow them to have a secure job. It is also important that workers can rapidly adapt to changes in employment, training, technologies that will take place during their working life.

From the perspective of human capital there is need to create a strategic framework to ensure the anticipation of labor market changes. Also should be created the framework and mechanisms for acquisition of new skills, lifelong learning and enabling workers to adapt to new conditions of continuous change environment.
4. ADAPTING THE ORGANIZATION IS DETERMINED BY THE ADAPTATION OF WORKERS

Companies managers face a number of pressures, including market volatility, global competition and new business models. It requires organizations to be more responsive to market changes and needs, more flexible in how they work, focused more on their basic skills, more agile on effective partnerships and more resistant to external business threats. The company success is dependent on the ability of management organization to develop a workforce that can adapt to these changes.

To learn how these new challenges were addressed and how human resources must adapt to this environment, in 2008, IBM conducted a study named “Unlocking the DNA of the Adaptable Workforce”. The use of the term "DNA" makes us think that the genetic information has the ability to shape, to structure material, creating structural and functional forms, thus creating the possibility (or probability) of life. In organizational life, information, networking and communication are essential elements in the new knowledge society.

IBM interviewed over 400 HR executives from organizations in 40 countries to learn how these challenges were addressed in terms of employment. The study shows that, to succeed to survive on the market, managers and human resource managers should pay particular attention to key issues of human resource management, support human capital development and harnessing its potential performance.

Analysis of results identified four areas that require attention and concern of managers, namely:
- developing an adaptable workforce that can respond quickly to market changes;
- effective leadership to "guide" individuals during change processes;
- an integrated talent management model that addresses the life cycle of the worker;
- a forecasting approach to estimate the impact of changes on performance and competitiveness of organization that can be provided just having a strategic vision of human resources development.

Successful organizations are concerned about estimation of future skills requirements, providing the means to identify and locate experts and participation in partnerships and collaboration between different organizations.

Study results showed that organizations whose workers were considered able to adapt to changing external environment share three characteristics:
- managers have encouraged the skills needs assessment;
- people within the organization were able to identify and locate experts;
- employees were trained in a process of collaboration between organizations, across physical barriers, time zones, cultural differences, trying to connect individuals and groups everywhere.

Harnessing these three distinctive capabilities in order to stimulate the adaptability of workers requires a number of human resources activities and programs, looking for qualification requirements forecasting, improve collaboration, create a culture and organizational values and be responsible.
5. CONCLUSIONS

In these circumstances, the new strategic context, both policy makers and business people have to anticipate and to rethink the development strategy taking into account the human capital dimension.

There is a need for increased attention to human capital development and efficient management. Smart, sustainable and inclusive growth can be achieved only with the mobilization of all resources of knowledge, abilities and professional skills, physical and intellectual resources, creative and innovative ideas.

Meanwhile, the adaptability of workers is essential for the actual changing environment, in terms of technological information, demographic, economic field. Employees have to be able to manage their career opportunities and the transitions of working life.

The investment in human capital and appropriate financial funding for training and development needs, is one of the few truly sustainable measures with long-term effect, that must be taken as a priority in the current period output of the global crisis and revive the economic recovery.

All these are strategic priorities because only people have the intrinsic ability to create, to produce effective changes and to manage complex processes, being in the centre of evolution towards superior stages. "Human capacity to be simultaneously free and responsible enables us to bring to consciousness things that otherwise are determined by market forces of the subconscious, therefore being able to adjust our behavior, giving up the state's role in this regard. (Rudolf Steiner, 1998).

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ABSTRACT
The first ten years of the Economic and Monetary Union (EMU) have generated a remarkable increase in financial integration, even if the extent of convergence varies across different sectors within the overall European financial system. The scope of this article is to illustrate the general issues relevant for understanding European financial integration by focusing on the money market. The link between the money market and the framework for implementing the single monetary policy makes it the natural starting point when trying to point out the impact of the introduction of the common currency on European financial market integration. Among the various segments of the euro money market, the inter-bank unsecured deposit market has achieved the highest degree of integration and, since the start of Stage Three of EMU, has performed an important role in ensuring the smooth redistribution of liquidity among euro area credit institutions irrespective of their geographical location. The 2007/2008 turmoil has led to increased segmentation in the euro area money market. The assessment of the state of financial integration for the last period is made very difficult by the effects of the financial dislocations on rates and spreads across the different instruments and maturities of the money market. However, the integration and standardization of the money market are not yet complete, and further evolution can be expected.

KEY WORDS: European financial integration, money market, common currency, monetary policy, financial turmoil, EONIA.

JEL: E44, E52, G01, G15

1. INTRODUCTION
The elimination of multiple currencies, represented by the creation of the European Monetary Union (EMU), marks the fall of an important barrier against financial integration. Money and bond market integration was an immediate consequence of EMU.

The introduction of the euro and the intercept of the single monetary policy on January 1, 1999, accelerated the pace of change. Before Monetary Union, much curiosity and different points of view surrounded the effect of euro adoption on the financial markets. As regards the money market, attention focused, in particular, on questions such as how smoothly the money market would integrate after the start of

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Stage Three of EMU, whether money markets would perform their role efficiently in the monetary policy transmission process, and to what extent EMU would affect the efficiency of this market compared with that of the predecessor money markets.

At the start of EMU in 1999, the condition of the various money market segments differed greatly with regard to their potential integration, owing to the different nature of the instruments exchanged, as well as the peculiarities regarding market participants and other institutional factors. The gains in terms of integration, efficiency and liquidity achieved in each of the market segments following the introduction of the euro depended on a number of factors such as:

- the degree of proximity of each market to monetary policy implementation;
- the structure of the market (i.e. mainly inter-bank versus a customer-orientated structure, centralized versus an over-the-counter or non-centralized structure);
- its relative complexity (i.e. the number and nature of instruments traded and market participants);
- infrastructural developments and a number of regulatory, institutional and historical features.

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

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

Monitoring the integration of euro area money markets is important for a number of reasons.

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

Beyond these considerations, money market integration is important for the efficient allocation of resources in the euro area and for promoting a more efficient pricing of short-term debt in the euro area.

The article is structured to answer three research questions:

- what is the importance of European money market integration for monetary policy?
- which was the evolution of the euro-money market integration and which is the actual stage, considering its main segments?
- what are the implications of the crisis on the integration of money market?

In order to develop hypotheses on the effect of the EMU on the money markets, the existing literature on the integration of these markets is being reviewed.
2. LITERATURE REVIEW

An immediate consequence of the adoption of the common currency was an integration of the Eurozone money and bond markets (Adjaouté and Danthine (2003), Hartmann et al., (2003)). A number of studies analyze the degree of European money market integration from various angles.

Santillan et al., (2000) investigate the effects of the introduction of the euro in 1999 on euro area bond and money markets; their study concluded that while the unsecured money market segment very quickly became highly integrated, the repo market lagged in this respect.

Hartmann et al., (2001) examine intra-day data for unsecured euro area lending rates during a 5-month period and find cross-border rate differentials to be very small. Therefore, they concluded that the unsecured segment of the money market became very highly integrated almost immediately after the introduction of the common currency.

Gaspar et al., (2001) document the story of what they called the “learning period” in the money market. The period is identified with the three weeks after the introduction of the euro. They argue that the introduction of the new operational framework proceeded remarkably smoothly. If one focuses on volatility or cross-bank dispersion in overnight interest rates, the effects found are much smaller that the effects associated with recurring events such as the end of a reserve maintenance period. This finding is all the more surprising because national money markets, before the start of the single monetary policy, displayed important distinctive features. They also look at the dispersion of interest rates across banks, using the interest rate obtained by the major European banks when they lend funds in the overnight market. In particular, each data point represents the average interest rate charged in that day by each lending bank. The dataset was provided by the European Banking Federation (EBF) and is the one used to compute the time series for Euro Overnight Index Average (EONIA), which is based on data from a panel of more than 50 banks. It is important to emphasize that observations in the EBF database correspond to actual trends. They show that at the very beginning of the single monetary policy, that is, during the first business week of 1999, some banks reporting to the EONIA panel lent at rates above the marginal lending facility.

Galati and Tsatsaronis (2001) and Gaspar et al., (2003) reported that the percentage of cross-border inter-bank lending increased considerably around the time of euro’s introduction, indicating a strengthening of the degree of integration in this segment.

Focusing on inter-country differences, Baele et al., (2004) document the integration of money markets in the euro area, using the cross-sectional standard deviation of unsecured lending rates, among 12 average country rates and confirm the existence of a well integrated market across countries.

Gaspar et al., (2004) also look at the cross-sectional dispersion of the EONIA overnight rate. They characterize the distribution of rates across contributing banks and study how it evolves over time.

As with the money markets, the level of general integration in the longer-term debt securities markets has been impressive. Although spreads are reasonably low in the government bond market, the efficiency and liquidity of that market is constrained by differences in the issuance practices of the member states (Dune et al., (2006), European Commission, (2008)). For corporate debt, spreads can be related to sector and firm-level
characteristics, with no important role for country-level factors. In relation to liquidity, Biais et al., (2006) show that the liquidity of euro-denominated bonds is superior to sterling or dollar denominated bonds, which can be attributed to an open and competitive area wide market in which a large number of banks offer dealership services to a wide array of prospective buyers.

As is emphasized by Pagano and Von Thadden (2004), the growth in the volume of corporate bond issues can be in part attributed in the euro, in relation to the contribution of the single currency to the increase in competition among underwriters, which led to a substantial reduction in issuance costs and improved access for smaller and higher-risk firms. Still, caution is advised when trying to attribute the progress in integration to the EMU alone. It seems that some significant integration has already taken place prior to EMU, as Hardouvelis et al. (1999) document.

The 2007/2008 financial market turmoil has been discussed extensively in the specialized press (i.e. Financial Times, Wall Street Journal, the Economist), and in social publications (Financial Stability Reviews published by central banks, the IMF and BIS). The academic literature is still in the process of analyzing the ongoing events (Ferguson et al., (2007), the articles in Banque de France (2008)). Several dimensions are being explored such as flaws in the pricing models and understanding of credit risk transfer products; the role of securitization, SIVs (Special Investment Vehicles) and off-balance-sheet exposures of banks and their committed credit lines; the role of rating agencies (Ashcraft and Schuermann (2007), Crouhy and Turnbull (2008), Brunnermeier (2009)); central bank operations and their impact (of lack of) money spreads and volatility (Taylor and Williams (2008)); the role of collateral in open market operations (Ewerhart and Tapking (2008)) and the potential moral hazard implications of recent interventions and innovations in central bank operating procedures-i.e. US Fed and Bank of England’s securities swap facilities (Buiter, (2008)).

3. THE IMPORTANCE OF EUROPEAN MONEY MARKET INTEGRATION FOR MONETARY POLICY

By definition, the start of the Third Stage of EMU had a significant impact on the money market’s daily business. The shift in responsibility for monetary policy from the national central banks to the ECB had a clear impact given the banks’ crucial role in the money market regarding the distribution of liquidity and determining the level of short-term interest rate.

The Eurosystem implements monetary policy through the money market. Its operational framework is predicated on a well-functioning monetary market, requiring only a limited presence of the monetary authority. The Eurosystem’s operational framework is based on three key elements.

First, reserve requirements, with an averaging provision other than reserve maintenance period, allow banks to spread out the impact of liquidity shocks over time and thereby help to contain volatility in overnight interest rates. Required reserves also create a structural liquidity shortage for the banking system as a whole, ensuring that the central bank will be regularly required to supply liquidity to the system.

The second key element is standing facilities. The Eurosystem provides two such facilities, a marginal lending facility and a deposit facility. Both are used on the initiative of commercial banks. The two standing facilities define a corridor (or band) for overnight rates (Posen (2005)).
The third key element, open market operations, is used to control liquidity conditions in the market. In its regular main refinancing operations, the Eurosystem uses repos, supplying liquidity by buying assets under a repo or granting loans against adequate collateral. Money market integration is therefore crucial for the implementation of the single monetary policy because it provides the locus for the first step in the monetary policy transmission mechanism.

During the period from January 4 to 21, 1999 the corridor defined by the two standing facilities was temporarily narrowed to 50 basis points, which limited the volatility that might have been associated with the transition to the new regime. When the corridor was widened to its normal size, the market rate (measured by EONIA rate) remained stable and close to the Eurosystem’s main refinancing operations rate of 3%. The dispersion of rates across banks was also already much lower on January 22. However, Gaspar et al., (2001) provide evidence showing that the transition was not, strictly speaking, instantaneous and that learning did take place. They identify a number of inefficiencies and other forms of abnormal behaviour during the first day of the month- for example, the above mentioned trading at rates significantly higher than the marginal lending facility on January 5. However, they also show that banks have adapted quickly and easily to the new environment.

3. EVOLUTION AND ACHIEVEMENTS OF THE EUROPEAN MONEY MARKET INTEGRATION

The most immediate and extensive impact of EMU has been felt on the euro-area money markets for unsecured money and derivatives. Almost from the outset of EMU, interest rate on inter-bank deposits and derivative contracts across euro area converged fully to on the benchmark EURIBOR and EONIA rates. This rapid convergence reflected early acceptance of the single monetary policy among market participants and was facilitated by the availability of interconnected systems for real-time settlement of large-value payments in the form of TARGET, which was recently been replaced with a more integrated platform, TARGET2.

The successful integration of these unsecured markets was crucial to establishing ECB credibility in the very early period of EMU and has provided the basis for a smooth-functioning single monetary policy thereafter.

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

The growth of the unsecured segment of the market was concentrated at the shorter maturities, indeed in overnight transactions, which represented by far the largest share of unsecured operations. While the available information for the euro area money markets is scarce on the price side, the EONIA provides a clear indication for overnight developments. The dispersion of the EONIA prevailing among euro area countries has been very small since 1999. This is a key development because a common short-term interest rate represents the first step in the transmission mechanism of monetary policy.

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

Over the second half of 2007 and the first quarter of 2008, a sharp widening of the dispersion in EONIA lending rates was seen in response to the financial turbulence.
This could have been the result of two joint factors—an increase in the variability of counterparty risk and a temporarily higher home bias for unsecured transactions (European Commission, (2008b)).

This conclusion is supported by the positive trend in the geographical counterparty breakdown for 2006-2008. It appears that over 2007 and the first quarter of 2008 the secured segment has been less influenced by the financial turbulence. Nevertheless some impact has been seen both in terms of reduced cross-border business and increased variability of rates between countries. Outside the euro area, unsecured money market interest rates were also converging up until the emergence of the market turmoil in the latter part of 2007.

Integration has been less complete in secured money markets within the euro area, such as the market for T-bills (Treasury bills), commercial paper and certificates of deposit, as well as the private repo market.

The creation of EUREPO index by the European Repo Council and the European Banking Federation in March 2002 was an important recent initiative for promoting the repo market’s integration. EUREPO, which was introduced as the benchmark for secured money market transactions in the euro area, is the rate at which one prime bank offers funds in euro to another prime bank in exchange for EUREPO general collateral (GC). The fact that EUREPO GC is clearly and uniquely defined for all market participants facilitates cross-border trades and therefore promotes repo market integration.

As far as the integration of these markets is still hindered by the differences in national legal and tax frameworks and by the persistent fragmentation in national clearing and settlement infrastructures that make difficult the cross-border movement of the collateral. However, the implementation of the Financial Collateral Directive (FCD) has reduced the national legal differences and has contributed to the greater usage of cross-border collateral.

Although a source of inefficiency, segmentation in these markets was not considered to be a major opportunity cost for the euro area economy so long as the inter-bank market functioned smoothly. However, the liquidity problems experienced in the euro area inter-bank market since August 2007 amid the ongoing international financial turmoil have highlighted the importance of access to efficient collateralized money markets and suggested a need for further effort in integrating these markets.

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

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

Since June 2006, the STEP initiative aims at fostering the integration of this market by promoting convergence of market standards. In 2007, more than half of the outstanding euro-denominated commercial paper has been assigned the STEP label and its share substantially expanded, even in a period of contraction of the entire market.
(European Commission, (2008a)). The segment has therefore the potential to become a truly integrated euro area market, of a dimension comparable to that of the US market.

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

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

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

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

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

4. MAIN FEATURES OF THE MONEY MARKET IN THE LIGHT OF THE FINANCIAL CRISIS

The European money market has been particularly hit by the turmoil. In our view, asymmetric information on credit risk played a crucial role in the transmission of the US sub-prime mortgage market credit shock to this market. Transactions volumes, especially for longer maturities, have declined, and unsecured rates have been characterized by unusually high elevated spreads. As the financial turmoil unfolded, the dispersion of inter-bank lending rates across countries reached unprecedented levels compared with those observed before the crisis began and even in the initial stages of the turmoil in the summer of 2007. Moreover, there are indications of emerging differences between domestic and cross-border rates in the unsecured money market. In particular, the volumes of cross-border trades declined somewhat compared with domestic transactions.

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

During the financial turmoil, the increase in perceived liquidity and credit risks generated a sharp increase of volatility and a decline in trading activity in the euro area market not only for inter-bank unsecured loans but also in segments of the secured non government repurchase agreements (repo) markets. Many banks no longer accept certain asset types (i.e. ABSs and CDOs) as underlying collateral in repo transactions.

Even in those secured money market segments with high quality collateral, turnover has decreased. The reduction in turnover in these markets has two causes.

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

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

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

Increased concerns about the creditworthiness of counterparties and uncertainty about their own liquidity positions prompted banks to hoard liquidity and to lend funds only for the shortest maturities or only against higher-grade collateral in secured markets.

In the unsecured segment, liquidity became very scarce at maturities beyond one week, even disappearing at longer maturities.

Most inter-bank unsecured lending concentrated on the overnight maturity, but even overnight liquidity remained scarce. The 2007/2008 turmoil has led to increased segmentation in the euro area money market (Cassola (2008)).

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

5. CONCLUSIONS

Responding to the introduction of the euro and the monetary framework, the money market has undergone a process of deep integration and standardization throughout the euro area.

Nevertheless, the degree of integration achieved o date differs among the various market segments.

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Those which are more integrated are the unsecured deposit market, in which banks exchange short-term liquidity without the guarantee of collateral, and the derivatives markets.

Relatively less integrated segments of the market include the repo market, in which participants exchange short-term liquidity against collateral, and the short-term securities markets (T-bills, commercial paper and certificates of deposit).

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

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

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THE INVESTMENT’S THEORY AND PRACTICE FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT

For future investments purposes, to arrive at a sustainable eco-product, mostly the product has to be redesigned as this phase depicts the material usage and environmental load during the entire life cycle. The technology is known as a sustainable production requires a continuous improvement of efficiency and effectiveness.

KEY WORDS: sustainable, investment, development

JEL: E20, E22

1. THE CONCEPT OF INVESTMENT

In every day life we very often hear a word: investment related to someone’s intention to do something. For instance, it is usually for someone to say: I’ll make an investment by buying a property or a car. Others say: my investments are my kids, their education and achievements. The Public administration’s managers and leaders are talking about investments into infrastructure development or sustainable investments. The capital markets’ brokers are also talking about investments.

Other aspects about investments are related with the intangibility characteristics. A good example are the investments in education or professional specialization. For example, the parents and the society through public support system invest in the education of their sons and daughters as your parents did for you, with the hope that the youth will bring more knowledge and skills for their professions.

The government and the public administration are making investments in order to develop the infrastructure or environmental rehabilitation that will support future economic activities. In the case of education, health, environment and infrastructure the investment are not judged from the economic profit point of view but from the benefits brought by time. For instance, having better educated and well skilled individuals a society could develop faster. A better transportation infrastructure (roads, highways, ports, airports, bridges etc) that usually is the subject of public investments represents the support for other economic profitable activities within economy as production, trade, tourism etc.

Investments in health are beneficial for the general state of population health knowing that healthy people are productive and have a low impact on public health insurance budget.

Investments are a present spending for a future gain either profit or other benefits (ecological, social, technical, skills etc.) as mentioned before.

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As a conclusion we relate the investments with the future in all that it concerns. Therefore, we’ll use a new approach different from the classic one in which only the economic profit prevails as a basic indicator. The new approach is to relate investments with the sustainable eco-development concept and the new economy based on the information society concept. That means to care about future and to adapt to the change and to make the investments sustainable. This is not a fashion, it is a reality that already is present in well developed countries. The European developed countries, as the Netherlands, Sweden, Germany, Great Britain, France, Norway, Danmark, Finland, Austria, Belgium, Portugal, Spain, etc. or other great economic powers as USA, Canada, Japan, Australia, or transition economies as China, Russia, Romania etc. are investing in their own economies on sustainable development basis and putting the foundation for a new economy based on information technology.

The non-classical approach, based on sustainable investments and new economy, is necessary for Romania on its access to European Union economic integration.

2. THE CONCEPT OF EFFICIENCY AND EFFECTIVENESS OF INVESTMENTS

The efficiency as a word is well known, too. It is coming from the latin word efficere that means to do well what are you doing, at time and with optimum consume of resources either human, material or financial. If we deal with the economic efficiency of investments that means to put in balance efforts (financial, human, technical etc.) with effects (gains as turnover, profit, production, services, products, impact on enviroment etc.). For example, an investment in a building is efficient if the time of completing and the return on investment (ROI) is fullfiled at the desired time without any timedelays and resources overconsumptions.

Effectiveness is coming also from the latin word efficacere and means to do the right thing, to do with the lowest consumption of resources either uman, material, technical or financial. In a practical way it means that an investment is effective if it is the most adequate for the purpose involved and it is done with the lowest (or optimum) consumption of resources. For example, an investment in a building is effective if the desired utility is fullfiled and the consumption of resources during using is the most appropriate.

3. INVESTMENTS FOR SUSTAINABLE DEVELOPMENT AND THE NEW ECONOMY

The concept of sustainable development has emerged in the seventies due to the general concern about the global environment, as a result of pollution and an increasing usage of sources for raw materials and energy.

Sustainability means the rearrangement of technological, scientific, environmental, economic and social resources in such a way that the resulting heterogeneous system can be maintained in a state of temporal and spatial equilibrium (Brand, 1988), while a Sustainable Development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987).
As a result of the definitions of a sustainable development, a sustainable production can be defined as an industrial activity resulting products that meet the needs and wishes of the present society without compromising the ability of future generations to meet their needs and wishes. As a consequence of this definition, a sustainable production will minimize the pollution of the global environment as well as the use of natural sources of raw materials and energy. A possible way to reach these requirements is by a continuous improvement of industrial activities with respect to:

- reduction of energy usage of non-renewable energy sources,
- usage of recovered goods, parts and materials from discarded goods,
- sustainable product quality.

A sustainable production implies that all phases of the product are viewed with respect to the requirements, from the exploitation of raw material and energy sources until the recovery of materials.

In the chain, the different industrial activities can be distinguished:

- exploration of raw material and energy sources,
- transformation of raw materials into materials,
- product design,
- transformation of materials into products,
- recovery of goods, parts and materials.

To arrive at sustainability for the complete chain, each activity of the chain should be sustainable. That means that three main activities of the chain have to be optimised: product design, transformation and recovery.

The product design determines the material and energy usage of a product during his entire life cycle and the percentage of recovery. During the transformation activity, material and energy usage is depicted by the used processes and systems, while this activity determines the product quality too. During recovery, the quantity and quality of recovered goods, parts and materials are determined by the processes and systems.

Product and production belongs to each other and are coupled on the technology: product-technology-production. Innovations are obtained by new technological opportunities while demand is dictated by the market.

Because of the given relation, the choice of the technology is very important, not only technically but also economically, ecologically and socially. Manufacturing a known product with a known technology does not give risks but the lowest profit rates.

Production of new products, which means products which have not been manufactured before, is more difficult. If these new products are manufactured by means of a known technology the risks can be overseen. Examples can be found in the automotive industry and all other branches of industry where product innovation is applied. Mostly it concerns product redesign and not a totally new product. In order to improve the efficiency of production process, new technologies are used to manufacture a known product. This strategy is applied to reduce the costs (less energy, less waste, less labour, less pollution). Besides, the effectiveness can be improved by means of a higher product quality. For instance, an industrial automation results in a better quality because of a better process control. Manufacturing of new products by a new technology will give high risks. An example is the manufacturing of mega-chips.

To arrive at a sustainable product, mostly the product has to be redesigned, as this phase depicts the material usage and environmental load during the entire life cycle.
The technology is known as a sustainable production requires a continuous improvement of efficiency and effectivity.

For a company, the reduction of materials and energy by applying sustainable production techniques may result in decreasing production costs and indirect costs as a consequence of the avoidance of a polluting production and low quality products and processes. Furthermore, the company will be more competitive because the market will demand for sustainable products in future.

Known technologies are described to arrive at a sustainable product design and a sustainable production. Furthermore, ways are given to introduce the sustainable production concept in the industry. But before the introduction, the market demand for sustainable products and the society demand for a sustainable production is indicated.

4. INVESTING IN PRODUCT ECO-DESIGN

The product design is important for all activities in the chain in order to create an integral chain control with respect to a sustainable development. Almost all limitations are the result of the product design.

A product eco-design can be defined by:
- the development of products where, in the design decisions, an integral chain control is weighted equally compared to more traditional quantities, like economics, quality, functionality, aesthetics, ergonomics, innovation, and image, in such a way, that the potential influence of the products upon the environment and the material and energy sources is reduced significantly (derived from the definition of an environmental friendly design by Brezet et al., 1994).

To create a sustainable investment, the choice of the materials and the way the product structure has been composed, are very important.

Therefore the following activities should have a high priority for the product eco-design:
- minimal usage of virgin materials,
- minimal energy consumption during the production and usage periods,
- usage of materials which can be recovered easily,
- eco-design with easy to divide materials,
- easily disassembled or dismantled oriented product design,
- eco-design so that parts and the product have long life cycles.

The aim is to have the requirements with respect to sustainability from the beginning of the design phase, using concurrent engineering and concurrent economics: a systematic eco-design of products and the processes needed for their production, where all elements of the product life cycle are considered by a multidisciplinary designers team, from the concept until the disposal phase, including quality, costs, planning, productibility, users demand, maintenance and environmental requirements (Constance, 1992).

New views like the environmental requirements can be handled systematically in the design phase, e.g. by applying QFD (Quality Function Deployment) to translate the market demands into a design of a green product.
5. INVESTING IN SUSTAINABLE PRODUCTION. THE EVOLUTION OF SUSTAINABLE PRODUCTION CONCEPT

The purpose of production, at least idealistically, is to enrich society through the production of functionally desirable, aesthetically pleasing, environmentally safe, economically affordable, highly reliable, top-quality products. These noble objectives are often conflicting for economic reasons.

Since the first use of machine tools there has been a gradual trend towards making machines more efficient by combining operations and by transferring more skill to machines.

Technical development has made it possible to attain high productivity rates which are essential for any society willing to enjoy high living standards.

Until the sixties, all that was produced was sold, because of the seller's market. Although the price was important to increase the market share, the pressure to the prices was not extremely as the profits in that time show.

However, as the seller could choose more and more between various producers, the price became an important weapon.

In the past, it was tried to obtain an efficient organisation in order to have a higher production output. But now the price pressure requires an efficient organisation in order to reduce the cost price. To be competitive, management focused on reorganisations and transferring the production to low wages countries.

At the beginning of the seventies, the buyer became aware of the quality of the product. As a part of the industry, and especially in Japan, offered products with a high quality for low relatively low prices, together with efficiency, quality became an important aspect to stay competitive.

At the end of the seventies, the buyer's market changed into a buyer's market. Therefore the battle for the attention of the buyer became more difficult. Especially Japanese firms increased their product assortment and shortened the life time of a product. The buyer liked the choice he could make now and showed this in buying this kind of products.

So, besides being efficient and producing with a high quality, product assortment, delivery time and the look of a product became very important. This all resulted in a tremendous time pressure: companies had to introduce faster new products to the market, so that the development times has to be reduced, while the products had to be delivered faster. So the company had to be flexible too.

To fulfil the requirements, the companies have introduced cost awareness, quality programmes and techniques to become more flexible. This should be handled as a continuous process of improving. The cost awareness implies that e.g. material waste is avoided, the quality programme state care that defect products are avoided while flexibility results in avoiding of time waste. This all means that at the end of the continuous improvements, a state of sustainable internal production is obtained. It is obvious, that these improvement processes are related directly to the design of the products.

On the shop floor, the improvements in costs, quality and flexibility can be measured by using the Transformation Factor (de Ron, 1994). This factor reflects the deviation of the production system from the ideal situation. It is related directly to the activities of the shop floor as it is expressed in terms which are familiar to the shop floor
and the operational departments. Furthermore, the transformation factor should be clear to management as well as relevant.

Maskell (1989), suggests that new performance measures should be introduced because the known measures can not be used satisfactorily. He mentions some characteristics for these measures which are fulfilled by the transformation factor.

A type of technology is used to process the raw materials, other types are used in the production stage resulting in final product. For that reason the technology puts together materials, technological equipment and machinery, human experience and methods of organisation.

To transform an existing production system into sustainable one some of the next strategy could be followed:

- **Total Excluding Strategy**: characterizes the situation in which either it gives no market demand for the product, or the product doesn't fulfil the sustainability requirements; this means that there are no economical-ecological reasons to maintain it.

- **Reconverting Strategy**: characterises the situation in which it gives to a market demand for the products, or the products don't fulfil the sustainability requirements and (the product) could be replaced on the market, with other types of products resulting from other types of technologies; in the mean time the technical facilities (machinery, equipment etc.) could be used in remodelling the process (in a sustainable way) for other (sustainable) end-products with other segment market destination.

- **Reconfiguration Strategy**: characterises the situation in which it gives a market demand for the product at affordable price, but the product doesn't fulfil the sustainability requirements, or the technological chain is not sustainable itself and there are not enough investment funds to finance the total replacing with a new one;

- **Total Replacing Strategy**: characterises the situation in which already exists a market demand for the products, and because these are not sustainable, and the technology to produce them is not sustainable as well but there are enough money to buy another to fulfil the sustainability requirements.

In figure 1. are presented the alternative strategies.
This strategies could be used with success, especially in the Middle and Eastern European Countries in the process of integration in the European Union, because of the characteristic conditions of the transient period from centralised state economy to market economy that made possible deep transformations in the economies of these countries. The economic transient period is characterised by the transfer of the property of production systems from state owned to the private and public owners.

Managerial and technical changes are taking place in the production systems in order to adapt to market demands.

The situation is different from case to case and it requests an adequate analyse because the production systems of Middle and Eastern Europe have specific different problems (some have to be improved, other to be replaced, other to disappear—depending on the requested level of technological quality and on the usage degree).

The overused and old equipment and technologies which are still running couldn't be replace "over the night", because of the lack of investment funds, and socio-economical aspects, therefore a new type of strategy of renewal is requested to combine self-improvement and technology modernisation. That means that self-adaptability, experience and creativity of the people employed in firms to become important resources for self development on a sustainable way.

6. CONCLUSIONS

Investments are a present spending for a future gain either profit or other benefits (ecological, social, technical, skills etc.) as were mentioned before.

As a conclusion we relate the investments with the future in all that it concerns. Therefore, we'll use a new approach different from the classic one in which only the economic profit prevails as a basic indicator. The new approach is to relate investments with the sustainable eco-development concept and the new economy based on information society concept.
Sustainable Development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987).

For future investments purposes, to arrive at a sustainable eco-product, mostly the product has to be redesigned as this phase depicts the material usage and environmental load during the entire life cycle. The technology is known as a sustainable production requires a continuous improvement of efficiency and effectiveness.

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ABSTRACT

Very large urban centers are a conspicuous feature of many developing economies, yet the subject of the size distribution of cities has been neglected by development economists. It is argued that some important insights into urban concentration, especially the tendency of some developing countries to have very large primate cities, can be derived from recent approaches to economic geography. Three approaches are compared: the well-established neoclassical urban systems theory, which emphasizes the tradeoff between the agglomeration economies and diseconomies of city size; the new economic geography, which attempts to derive agglomeration effects from the interactions among market size, transportation costs, and increasing returns at the firm level; and a nihilistic view that cities emerge out of a random process in which there are roughly constant returns to city size. It is suggested that Washington consensus policies of reduced government intervention and trade opening may tend to reduce the size of primate cities or at least slow their relative growth.

KEY WORDS: concentration, costs, development

JEL: E20, E22, O16, O18.

1. INTRODUCTION

Over the past several years there has been a broad revival of interest in issues of regional and urban development. This revival has taken two main directions. The first has focused on theoretical models of urbanization and uneven regional growth, many of them grounded in the approaches to imperfect competition and increasing returns originally developed in the "new trade" and "new growth" theories. The second, a new wave of empirical work, explores urban and regional growth patterns for clues to the nature of external economies, macroeconomic adjustment, and other aspects of the aggregate economy.

The literature on urban and regional issues in development is immense. This article explores a narrow, indeed largely technical issue: what can we learn from looking at urbanization and regional inequality in developing countries through the lens of the specific approach to economic geography that has emerged out of the new trade and growth theories? The article sketches out a minimalist new economic geography model designed to highlight the way a tension between forces of agglomeration and forces of dispersal determines city sizes. The implications of that tension are illustrated by examining a particular issue: how trade policy may affect the tendency of developing countries to have very large, primate cities. Two other factors also are explored that probably have even more important roles in determining urban structure: the centralization of government and the quality and form of transportation infrastructure.

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2. APPROACHES TO URBAN DEVELOPMENT

Urbanization—and uneven regional development, which is a closely related process—clearly involves a tension between the "centripetal" forces that tend to pull population and production into agglomerations and the "centrifugal" forces that tend to break such agglomerations up. The following tabulation lists the major types of centripetal and centrifugal forces that appear in various models of urban growth:

**Centripetal forces**
- Natural advantages of particular sites: Harbors, rivers, and the like; central locations
- Market-size external economies: Access to markets (backward linkages); Access to products (forward linkages); Thick labor markets
- Pure external economies: Knowledge spillovers

**Centrifugal forces**
- Market-mediated forces: Commuting costs, urban land rent; Pull of dispersed resources, such as farmland
- Nonmarket forces: Congestion; Pollution

Several key distinctions among these forces are worth pointing out. Among centripetal forces there is a basic distinction between natural factors that favor a site—such as a good harbor or a central position—and external economies that are acquired and self-reinforcing advantages of a site. Among external economies there is a further key distinction between "pure" external economies, such as spillover of knowledge between nearby firms, and market-size effects, whether in the labor market or in the linkages between upstream and downstream industries.

On the side of centrifugal forces there is a similar distinction between nonmarket diseconomies (such as congestion) and factors such as land prices that are fully mediated through the market. A narrower but sometimes important distinction appears between forces that push business out of a large city, such as urban land prices, and those that pull business away, such as the existence of a dispersed rural market.

Which forces actually explain the pattern of urbanization in developing countries? The answer is, of course, all of them. Nonetheless, to say anything useful we must always rely on simplified models. The typical analytical approach therefore takes "one from column A and one from column B" and thus gets a particular story about the tension between the agglomeration and dispersion that creates an urban system. Several such approaches have achieved wide influence.

3. NEOCLASSICAL URBAN SYSTEMS THEORY

At least within the economics profession the most influential approach to urban development is probably what we might call neoclassical urban systems theory. This approach models the centripetal forces for agglomeration as pure external economies (therefore allowing the modeler to assume perfect competition) and the centrifugal forces as arising from the need to commute to a central business district within each city, a need that leads to a gradient of land rents within each city. In the simplest case the tension between these forces leads to an optimal city size, though there is no guarantee that market forces will actually produce this optimal city.

This neoclassical approach has been extensively developed by Henderson (1974, 1977, 1988) and his followers, who added two important elaborations. First, Henderson
pointed out that if cities are the "wrong" size, there are potential profit opportunities for a class of "city developers"; and as an empirical matter, large forward-looking private agents who seem to try to internalize external economies do play a large role in urban development in the United States. Thus Henderson-type models adopt as a working hypothesis the assumption that competition among developers produces cities of optimal size.

Second, according to Henderson, external economies may well be industry-specific (textile plants may convey external benefits to neighboring textile plants; metalworking plants may do the same, but it is hard to see why metalworkers want textile workers nearby). On the other hand, diseconomies of commuting and land rent depend on the overall size of a city, not the size of an individual industry within that city. Thus Henderson-type models predict the emergence of specialized cities, with each city's "export" sector producing a range of industries with mutual spillovers, and with industries that do not benefit from these spillovers seeking other locations. Since cities are specialized, this approach explains the existence of an urban system with many different types of cities; inasmuch as the optimal size of a city depends on the relative strength of external economies and city-size diseconomies, and external economies are presumably stronger in some industries than in others, cities of different types will be of different sizes. Neoclassical urban systems theory therefore offers a framework that explains the existence not only of cities but also of a system of cities of differing sizes.

While the insights gained from this approach are impressive, it has important limitations. First, the external economies that drive agglomeration are treated for the most part as a kind of black box, making it difficult to think about what might influence their strength and thus making it hard even to start to predict how policy or other changes might affect the urban system. Second, the reliance of much of this literature on the assumption of competition between city developers, while a useful clarifying device, strains credibility when applied to huge urban areas: the Irvine Corporation may arguably have played a major role in developing a particular "edge city" within metropolitan Los Angeles, but could any private agent internalize the externalities of Sao Paulo? Finally, neoclassical urban systems theory is entirely nonspatial: it describes the number and types of cities, but says nothing about their locations. In the past few years an alternative approach has emerged that shares much of the framework of urban systems theory but attempts to deal with these issues.

4. MONOPOLISTIC COMPETITION THEORY

In this new literature agglomeration economies are not assumed but are instead derived from the interaction among economies of scale at the plant level, transportation costs, and factor mobility. Economies of scale at the plant level inevitably imply imperfect competition; this imperfection is modeled using the same (unsatisfactory) monopolistic competition approach that has played such a large role in trade and growth theory over the past fifteen years. The "new economic geography" literature, begun in Krugman (1991a,b), bears considerable resemblance to the urban systems approach, but the black-box nature of external economies is gone, there is a spatial dimension, and the models no longer rely on the assumption of city developers who enforce optimal outcomes. In some respects, in fact, the new approach seems closer in spirit to the "cumulative process" description of urban and regional development associated with geographers such as Pred (1966).
The model described below is in this tradition, so it is worth noting the considerable limitations of this approach. Two points stand out. First, multiple-city systems are difficult to model using this approach. Where the urban systems approach easily tells a story of multiple cities of a number of different types, in monopolistically competitive spatial settings (see, for example, Krugman 1993b) multiple-city systems can at this point be modeled only with considerable difficulty, and initial efforts to get some kind of urban hierarchy have encountered surprisingly nasty problems (Fujita and Krugman 1993). Second, going from the black-box external economies of the urban systems model to the derived agglomeration effects of the monopolistic competition model may involve a degree of misplaced concreteness. We will have a seemingly clear story about linkage externalities in the manufacturing sector, but it may be that, say, informational externalities in the service sector are equally important even in developing countries. Attempts to get specific, to open up the black box, always run this risk; nonetheless, it seems greater than usual in this case.

Finally, we should point out one additional risk in both the urban systems and the monopolistic competition approaches to urban modeling: we may be trying to explain too much, engaging in a kind of Rorschach test in which we are trying to find deterministic explanations of essentially random outcomes. While this notion does not exactly constitute a rival theory of urban systems, the idea that they are largely random creations requires at least some discussion.

5. RANDOM URBAN SYSTEMS

The general idea suggested by the tabulation above—that city sizes are determined by a tension between centripetal and centrifugal forces—seems to imply the conclusion that there will in any economy be a typical, equilibrium city size. In fact, one sees a whole range of city sizes. The urban systems theory explains that there are different types of cities, each with a characteristic size, and that the size distribution is actually a type distribution. While this argument surely has some validity, it may not be a full explanation. For one thing, urban specialization is increasingly difficult to detect in advanced countries.

6. A MODEL OF URBAN CONCENTRATION

This section presents a formal model of urban concentration. As pointed out above, numerous centrifugal and centripetal forces may affect urban concentration. All of them probably play some role in practice, yet the modeler normally chooses only a few to include in any given analysis. In my own work I have generally chosen to include only the centripetal forces that arise from the interaction among economies of scale, market size, and transportation costs, that is, backward and forward linkages. Other external economies are undoubtedly at work in real urban areas, but they are omitted in the interest of keeping the models as simple as possible and of keeping a reasonable distance between assumptions and conclusions.

For similar reasons we can handle only one centrifugal force at a time. It turns out to be useful to move back and forth between two different approaches. One, which is close in spirit to the neoclassical urban systems literature, involves commuting costs and land rent. The other involves the pull of a dispersed rural market. This second approach
has already been described in a number of published articles, for example, Krugman (1991a,b, 1993b); thus the formal model described here does not include this effect.

As we will see, attempting to make sense of the stylized facts described above is easiest when keeping both approaches in mind. The role of trade openness in urban concentration is most easily understood by focusing on urban land rent, while one cannot model the effects of political centralization and infrastructure without some kind of backdrop of immobile population and purchasing power.

To generate diseconomies of urban concentration, I assume that in each location production must take place at a single central point. Workers, however, require land to live on. To make matters simple, we make several special assumptions. First, each worker needs a fixed living space, say, one unit of land. Second, the cities are long and narrow, so that workers are effectively spread along a line. This assumption implies that the commuting distance of the last worker in any given location is simply proportional to that location's population (as opposed to depending on the square root of population, as it would in a disk-shaped city).(3)

The diseconomies arising from the need to commute will be reflected both in land rents and in commuting costs. Workers who live in the outskirts of the town will pay no land rent but will have high commuting costs. Workers who live closer to the city center will avoid these costs, but competition will ensure that they pay an offsetting land rent. The wage net of commuting costs will decline as one moves away from the city center, but land rents will always exactly offset the differential. Thus given any wage rate at the center, the wage net of both commuting and land rents will be a decreasing function of city size for all workers.

To explain agglomeration in the face of these diseconomies, we must introduce compensating advantages of concentration. These must arise from economies of scale. Unless economies of scale are purely external to firms, however, they must lead to imperfect competition. So we must introduce scale economies in a way that allows a tractable model of imperfect competition.

Not surprisingly, the easiest way to do this is with the familiar tricks of monopolistic competition modeling. We suppose a large number of symmetric potential products, not all actually produced. Each producer acts as a profit-maximizing monopolist, but free entry drives profits to zero. The result will be that a large concentration of population produces a large variety of differentiated products. (One might think that the average scale of production will also be larger. Unfortunately, in the Dixit-Stiglitz-type model used in the appendix, this plausible effect does not materialize: all scale gains appear in the form of variety rather than production).

Will this advantage make such a location attractive despite high land rent and commuting costs? Only if there are costs of transacting between locations, so that a location with a large population is a good place to have access to products (a forward linkage) and to markets (a backward linkage). Thus we next introduce transportation costs, both between domestic regions and between these regions and the rest of the world. For technical reasons involving the way that monopolistic competition must be modeled, it turns out to be extremely convenient, if silly, to assume that transport costs are incurred in the goods shipped, an assumption sometimes referred to as the iceberg assumption: if one unit of a good shipped between regions is to arrive, (Characters omitted) units must begin the journey. The same applies to international shipments, except that the transport costs may be different.
We may think of interregional transport costs as "natural" consequences of distance (albeit affected by investments in infrastructure). The costs of transacting with the rest of the world, however, involve not only natural costs but artificial trade barriers. Thus the level of transport costs to and from the outside world can be seen as a policy variable.

The interaction among economies of scale, transport costs, and labor mobility is enough to generate economies of agglomeration; the need to commute generates diseconomies of city size; the tension between centrifugal and centripetal forces provides a framework for thinking about urban structure.

But now throw this economy open to international trade. The typical firm will now sell much of its output to the world market (and perhaps get many of its intermediate inputs from that market as well). To the extent that production is for world markets rather than for the domestic market, access to the main domestic market becomes less crucial—and thus the wage premium that firms are willing to pay for a metropolitan location falls. At the same time, workers will consume more imported goods; they will therefore be less willing to accept high commuting and land costs in order to be close to the metropolitan suppliers. The result can be to make a previously sustainable metropolitan concentration unsustainable.

7. POLITICAL CENTRALIZATION AND REGIONAL INEQUALITY

While the theoretical and empirical relationship between trade policy and urban structure is a surprising, and thus gratifying, insight, it is surely not the most important reason why developing-country cities grow so large, or why regional inequality is so marked in developing countries. Almost surely the most important reason is the role of political centralization.

Political centralization has effects at several levels. The most obvious is that the business of government is itself a substantial source of employment: employment in Paris is larger than it is in Frankfurt in part simply because there are so many more people working for the government, or supplying nontraded services to those who work for the government.

A more subtle source of urban concentration is the importance of access to the government, especially in highly interventionist states. In its simplest form this is simply a result of the concentration of lobbyists. More subtly, if government policies tend to be more responsive to those close at hand (i say, subsidies or protection to prevent strikes are more forthcoming in the capital than in the provinces), this exerts a hard-to-measure but doubtless important attraction of the capital area for business.

Economic modeling per se cannot contribute much to our understanding of these political concerns. It can, however, help us understand a further consequence of political centralization: the multiplier effects on regional concentration that can result from asymmetric government spending.

Consider a variant on the approach described in the last two sections. Put the commuting and land-rent diseconomies to the side and suppose instead that there is an immobile rural population divided between two regions. Manufacturing will be drawn to concentrate in one region by the forward and backward linkages we have already seen in action, but against this force will be the pull of the market provided by the rural population. A model along exactly these lines is worked out in Krugman (1991b).
But now suppose that a government collects taxes from the rural population in both regions but spends it all in one region. Obviously the latter region becomes the larger market, thus attracting more manufacturers. However, the forward and backward linkages that are generated attract still more manufacturing to that region, fostering a cumulative process of concentration.

8. TRANSPORTATION INFRASTRUCTURE

The extent and form of a country's investments in transportation infrastructure can affect the tendency to form large urban centers in at least two ways. First, the higher transport costs are within a country, the stronger the advantages in terms of backward and forward linkages of locating production near an established metropolitan concentration. This effect may be seen directly in equation 5, which asks whether the linkages are strong enough to sustain an established concentration in the face of the diseconomies of urban scale. In this expression the higher are the transport costs, the more likely is the condition for sustainability to be satisfied.

The implication is that the tendency to concentrate economic activity in a single large city may be reinforced if the government neglects the transportation network. This makes intuitive sense, and corresponds to workaday perceptions about the contrast between location decisions in advanced and developing economies. In advanced economies good transportation to markets (and good communications) is available virtually everywhere, whereas in developing countries roads and telecommunications often peter out quickly as one moves away from the capital.

A more subtle issue involves the form of the transport system. A system that is centered on the primate city is more likely to promote concentration than one that does not favor movement of goods and services in any particular direction.

This point also seems intuitively obvious, but it may be worth sketching out how it works in formal models. Imagine, as in Krugman (1993a), a country with not two but three regions. And suppose that instead of being equal in all directions, transport costs between location 1 and both other locations are lower than those between 2 and 3, so that 1 is in effect the hub of the transport system. Then it is straightforward to show that even if all three regions offer the same size market, region 1 will be a preferred location for goods produced subject to scale economies: it offers better access to the national market than does either of the other locations. Of course, such an advantage will not usually stand alone. Typically, concentration of population and centralization of the transport system reinforce one another: transport links point toward the primate city because that is where the markets and suppliers are, and business concentration is all the greater because of the role of that city as a transport hub.

One might speculate that the apparent tendency of developing countries to have more concentrated distributions of urban size is due to an important extent to the way that their relative poverty leads to a limited transport system. In advanced countries the volume of traffic is sufficient to ensure that good roads link even minor centers; railway lines will often provide direct connections that bypass the biggest cities.(6) In developing countries traffic is sufficient to support good roads pointing only toward the capital, if any at all. Here, too, there is probably a political linkage—a system that centralizes political power in the capital is likely to concentrate investment in infrastructure either near it or on projects that serve it.
9. POLICY IMPLICATIONS

One wants to be very careful about drawing policy implications from any discussion of urbanization and regional growth. By its nature this is a subject that deals extensively with external economies and diseconomies; while neoclassical urban systems theory may suggest that competition among city developers yields optimal results, the newer literature does not contain any such suggestion. Yet the extent and even the direction of the deviations from optimality may be sensitive to the particular form of the external effects. One could in principle argue that since the growth of cities necessarily involves positive external economies, the biggest cities tend to be too small. Or one could argue that the diseconomies of congestion and pollution—or the inability of markets to internalize the benefits of creating new cities—mean that primate cities are too big. Most people have an instinctive feeling that the biggest cities are too big. I share that prejudice, but it must be said that it is only a prejudice at this point.

That said, the general moral of the models described here seems to be that a desire for cities in developing countries to be not quite so big may be fulfilled indirectly by the kinds of liberal economic policies currently favored by most international institutions for other reasons. Liberal trade policy appears likely to discourage primate city growth; so does a reduction in state intervention and a decentralization of power. Investment in better transportation infrastructure—a traditional role of government—also seems to work in the same direction.

The tentative conclusion, then, is that neoliberal policies seem likely to have the unexpected side benefit of partly alleviating any problems created by the growth of very large cities. The definite conclusion is that whatever the changes made in economic policies, their implications for urban and regional development within countries are an important, neglected issue.

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CONSIDERATIONS ON THE ACCELERATED INCREASE OF THE BANKRUPTCY RISK IN ROMANIA

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ABSTRACT
The financial crisis in Romania has been obvious and, accordingly, it has brought about serious negative consequences such as the external factors generated by the beginning of the financial crisis in Romania in October 2008 and the internal factors for the society which fundamentally influenced the finance reductions in 2009-2010.

KEY WORDS: economic, crisis, bankruptcy, risk, SME's

JEL: R1, R11

1. INTRODUCTION

Romania has been hugely affected by the global economic crisis which spread worldwide very fast and which, unfortunately, made obvious the serious vulnerability of the Romanian economy.

Thus, the first and most important problem is the current account gap, which is increasingly difficult to be financed, and the second important problem is the result of the excessive reliance on the foreign capital. Unfortunately, during this interval, serious mistakes of the Romanian government are to be observed.

Romania was not and, of course, is not in the position to deal with this type of crisis because in a consumer market as it has, the unemployment rate has already raised and it will continue to increase alarmingly, people’s incomes will become lower, the national currency will go down and poverty will affect more and more people. Another vulnerability concerning the fight against the economic crisis is Romania’s incapacity to absorb European funds. What is considered very difficult to achieve under the circumstances is the social peace as the people are increasingly discontent and suffer more and more as a result of the drastic measures imposed by the Romanian state.

2. EFFECTS OF THE ECONOMIC CRISIS IN ROMANIA

Considering Romania at this very moment, the payment of the loan granted by IMF as well as that of some financial rights obtained in the court of law but whose legal application was delayed for 2012 make the respective budgetary year almost impossible.

Romania has been hugely affected by the global economic crisis which spread worldwide very fast and which, unfortunately, made obvious the serious vulnerability of the Romanian economy.

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On May 31, 2010, the latest report of the Ministry of Public Finance revealed that the public debt out of the Gross Domestic Product (GDP) was of 34.94% but the growth rhythm is extremely alarming so that on February 28, 2010, the Ministry of Public Finance presented a percentage of 22.77% out of the GDP.

The probability that Romania might have economic growth in 2011 or even in 2012 is extremely reduced, which obviously will lead to an additional increase of the amount of the public debt in GIP. At present, in Romania, in order to fight against the effects of the economic crisis, some of the most drastic measures have been taken: increase of the VAT rate from 19% to 24%, decrease in budgetary salaries by 25%, a 15% decrease of unemployment allowances; new taxes have been introduced for small producers such as Romanian PFA – Authorized Physical Person, IIs, IFs, and for any type of independent income which is obtained extra salary in keeping with OUG no. 58/2010, also the “forfetar” tax has been introduced which balanced the whole economy and, in a very short period of time, the laws governing the business world which still existed have been modified. Thus, normative acts of extreme importance for the good functioning of commercial societies and Romanian PFA have been modified: Fiscal Code (several times within a very short interval, without having methodological norms for application during that period of time), law no. 31/1990 regarding the commercial societies, law no. 85/2006 concerning insolvency and the list of the negative effects may continue.

2.1. The Financial Crisis at Company Level

Our country does not succeed in absorbing European funds, which seem to be the only solution to the existing economic crisis, especially because in the direct foreign investments a half cut was noticed in 2009 compared to 2008 while the state drastically reduced the investments in infrastructure.

Unfortunately, Romania together with Greece did not know how to use this opportunity and it is among the last countries on the list as far as the absorbing of the EU funds is concerned regarding domains such as energy, infrastructure and human resources development. The explanations of the Romanian authorities concerning this aspect would be: the long period of time necessary for evaluation and selection, delays in launching the finance process, insufficiency of the financing sources in some fields and the lack of national strategies in some domains. In full economic crisis, European funds would be a real “gold mine” for the Romanian economy. However, Romania is, as we have already mentioned above, among the last countries to absorb EU funds, and
for the last three and a half years it has selected projects which amount only to a percentage of 14% out of the total sum of 19.6 billion euros allocated.

The data presented by the Ministry of Public Finance, included in the balance regarding the absorbing rate of the EU funds, indicate that on March 31, 2010, this rate increased with 3%, the value of the sums received by the funds beneficiaries being of about 3 billion lei.

As a whole, from January 2007 to March 31, 2010, 16,000 projects were presented out of which 7,000 were rejected, over 4,000 were accepted while about 5,000 are still being evaluated.

As far as the effects of the economic crisis on the Romanian companies are concerned, it has become obvious that they have severely been affected by the measures imposed such as: the introduction of the “forfetar” tax, VTA increase, which meant that many firms suspended their activities while some others simply went bankrupt or faced the insolvency process and/or the reorganization procedures. Other effects were: the voluntary closing of the firms, high rate of unemployment, lower standard of living, decrease in supply and demand as well as in consumer market, low people’s confidence in the anti-crisis measures proposed and approved by the government and lower economic productivity.

The global economic recession has affected all the Romanian companies, from the biggest to the smallest ones. Even more, the access to the financing which the banks might have offered to the Romanian businesses was blocked by the state. Practically, through the Ministry of Public Finance which borrowed from the private banks almost the entire monetary mass existing on the market in order to be able to pay the pensions and the budgetary salaries, the Government blocked indirectly the national economy.

Thousands of firms throughout the country have waited an exaggerated amount of time for VAT refunds to which they were entitled and which the fisc delayed to make, deadlines being exceeded many months. Instead, for every invoice issued, but not received, state required further requires for firms to pay VAT decapitalizing them and pushing them towards bankruptcy. Establish flat tax to be paid even by companies not registered corporation has determined that in 2009, 120,509 companies to suspend their work.

Therefore, Romania is under the impact of the international financial and economic crisis and we must resist with the weapons we have and to overcome a phenomenon which was triggered not by the less developed countries, but by developed ones. We fully feel the strategies adopted by the government to combat the current economic crisis, which seems to be not at all suitable in the current context, but fight for strategies to attract foreign investors, which means lower taxes and stifling taxes, and easing the financial year, we fight for the promotion of Romanian industry and SMEs supporting, which can create new jobs. This type of strategy can boost the economy, not on short-term methods, to collect money from the budget for urgent debt, while the future is obscure on the lack of long-term strategies, which should provide the country situation on a lighter background.

2.2. The situation of economic crisis in Romania

Usually the financial crisis means an economic environment that is characterized by an acute lack of liquidity, which goes to more expensive credit bank.
In Romania, 90% of SME’s are affected by economic and financial crisis, difficult economic situation leading to increased number of bankruptcies. Among the measures that companies have taken to decrease the impact of economic crisis, 36% of them have reduced administrative costs, 19% have reduced the number of employees and 9% have reduced the income of employees, as represented in the chart below.

![Chart showing measures taken by Romanian SMEs](image)

**Figure 1 -** Anticrisis measures taken by Romanians SME's
Source: Own contribution

Year 2010 has not yet good signs for Small and Medium Private Enterprises in Romania. Last year alone, over 190 thousand SMEs and authorized individuals have ceased. Specifically, we present in table from below, cases that favor bankruptcy and measures to avoid bankruptcy, some of them being even proposed by SME and NCPSMER (National Council of Private Small and Medium Enterprises in Romania), as measures for the economic crisis (Ionut Mircea Oprea (2009)).
Table 1
Causes that promote SMEs Bankruptcy and Measures to avoid SME’s bankruptcy

<table>
<thead>
<tr>
<th>Causes that promote SMEs Bankruptcy</th>
<th>Measures to avoid SME’s bankruptcy</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Depreciation of national currency.</td>
<td>- Reducing costs through layoffs.</td>
</tr>
<tr>
<td>- Lower transaction with cars.</td>
<td>- Employee salary reduction.</td>
</tr>
<tr>
<td>- Decrease real estate transaction.</td>
<td>- Reducing administrative costs.</td>
</tr>
<tr>
<td>- Reduce your credit line.</td>
<td>- Icing liquidity.</td>
</tr>
<tr>
<td>- Reduced access to financing and funding hinder.</td>
<td>- Simple bookkeeping and halving the tax on buildings.</td>
</tr>
<tr>
<td>- High costs of interest.</td>
<td>- Allocating of minimum 0.5% of GDP for the foundation and development programs for SME’s.</td>
</tr>
<tr>
<td>- Exports decline.</td>
<td>- Widespread of the absence of taxation of reinvested profits and reinvested dividends.</td>
</tr>
<tr>
<td>- Low income.</td>
<td>- Ministry of SMEs of programs on an emergency immediately after the 2009 budget approval.</td>
</tr>
<tr>
<td>- Increasing the CAS’s costs.</td>
<td>- VAT payment when goods are delivered, services are rendered or works are executed.</td>
</tr>
<tr>
<td>- Introduction of minimum tax.</td>
<td>- Elimination of abusive controls on companies.</td>
</tr>
<tr>
<td>- Sales decrease.</td>
<td>- Encouraging exports through subsidies.</td>
</tr>
<tr>
<td>- Price increases.</td>
<td>- Creating Counter-Guarantee Fund of the credits in the first half of 2009.</td>
</tr>
<tr>
<td>- Incapacity of paying.</td>
<td>- Significant and urgent reducing of extra-taxation.</td>
</tr>
<tr>
<td>- Entering into insolvency.</td>
<td>- Simplification of procedures for accessing. Structural funds and increasing access to consulting services in this area.</td>
</tr>
<tr>
<td>- Declining real incomes of Romanians.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own contribution

2.3. Anti-crisis measures taken by Government

Continuing Rabla program, building houses for rural specialists, rehabilitation of thermal and county road blocks, First Silo Program, NHA housing selling to tenants, supporting SMEs and local authorities which are accessing EU funds by providing state guarantees and technical unemployment are other measures already taken by the Government and presented by Emil Boc.

Among the measures to support businesses, the premier noted reinvested taxed profits, deferred payment of outstanding obligations, accelerating tax refund, state aid, incentives for energy and chemical industry, reducing taxes and tariffs parafiscal. Among crisis measures, Emil Boc recalled including VAT at 19% and maintaining a flat at 16%.
But all these measures seem not to be the best and not sufficient for the effective exercise of SMEs because, due to other measures adopted by the Government such as the introduction of flat tax, there are favorable conditions for progress. Experts say the biggest problem of business is restricted access to credit, and bad news is that banks will not finance companies too soon, because it will analyze the situation of companies which will seeking loans on the balance sheet situation of 2009 and 2010, which "looks disastrous."

On the other hand, banks have their own reasons to think twice before approving a loan. In 2009, arrears over 90 days were recorded in loans, over three times higher than in 2008 and represented 75% of all amounts due. Neither in terms of tax payment obligations to the state, companies did not do better. Experts recommend to the companies with debts of more than 45 thousand lei and debts to the budget over 90 days, to avoid insolvency and forced execution by preventive composition with regulated by Law 381/2009. Preventive composition is an amicable settlement between the debtor and creditors that hold at least two thirds of the value of receivables. We also talk about forms of defense of the company listed in the insolvency law (reorganization activity by continuing the activity). Of course, if the company has no chance of recovery, it will become insolvent, but in bankruptcy proceedings, which will result in removal from the register of traders.

2.4. CASE STUDY

The purpose of this research is to analyze the impact of globalization on economic performance highlighted by financial indicators for SC ARABESQUE SA. The research uses a number of financial indicators to quantify the effects of globalization on economic performance analysis method of input and output quantification. The following information was collected for this:

- General data about the company;
- Financial information taken from the annual financial situations (Balance Sheet, Profit and Loss in the period 2004-2009);
- Conditions to be satisfied by a company to be listed on BSM;

2.4.1. Overview of the Company

ARABESQUE is a limited liability company with Romanian capital, of 14.005.000 lei. Company's headquarters is located in Galati, Str. Timis No.1, registered at the Trade Register under the no. J17/666/1994, Fiscal Code: RO 5340801.

ARABESQUE Company was founded in 1994 and it’s active in the trade with building materials. During these years it won the trust of customers through a mix of its products and services. All effort is focused towards continuing improving of this investment mix.

2.4.2. Model proposal for the treatment of bankruptcy risk

In terms of financial crisis is a greater likelihood that a company should enter into default of paying and to present an increased bankruptcy risk. I propose a model for treatment of bankruptcy risk in three phases:
• Phase I: Finding the status of entry in default;
• Phase II: Evaluation of skills for group of executive managers of the company;
• Phase III: Proposals to restructure the company through division, merger or capital infusion.

**Phase I: Finding the status of the default entry**

For finding the probable entry of the company’s in default, we propose to achieve the following simplified model for determining the risk of bankruptcy:

1. *Finding that the company is recorded a loss:*
   - In the last semester of activity: 5 points
   - In the last two semesters of work: 10 points
   - In the last three semesters of work: 15 points

2. *Indicator calculation: “Debt repayment period”* based on the relation, for the last financial year: \( T_d = \frac{\text{Total Debts}}{\text{Turnover}} \cdot 365 \)
   - If \( T_d < 60 \text{ days} \) \( \rightarrow \) 0 points
   - If \( 60 \leq T_d < 120 \text{ days} \) \( \rightarrow \) 5 points
   - If \( 120 \leq T_d < 360 \text{ days} \) \( \rightarrow \) 10 points
   - If \( T_d \geq 360 \text{ days} \) \( \rightarrow \) 15 points

3. *Indicator calculation: „recovery period of the receivable debts”* based on relation: \( T_{rd} = \frac{\text{ReceivableDebts}}{\text{Turnover}} \cdot 365 \)
   - If \( T_{rd} < 45 \text{ days} \) \( \rightarrow \) 0 points
   - If \( 45 \leq T_{rd} < 90 \text{ days} \) \( \rightarrow \) 5 points
   - If \( 90 \leq T_{rd} < 270 \text{ days} \) \( \rightarrow \) 10 points
   - If \( T_{rd} \geq 270 \text{ days} \) \( \rightarrow \) 15 points

4. *Indicator calculation: „degree of indebtedness”* based on relation:
   \( DI = \frac{\text{Total Debts}}{\text{Turnover}} \cdot 100 \)
   - If \( DI < 10\% \) \( \rightarrow \) 0 points
   - If \( 10 \% \leq DI < 30\% \) \( \rightarrow \) 5 points
   - If \( 30 \% \leq DI < 50\% \) \( \rightarrow \) 10 points
   - If \( DI > 50\% \) \( \rightarrow \) 15 points

5. *Indicator calculation: „patrimonial liquidity”* based on relation:
   \[ P_l = \frac{\text{Fl} - \text{Lo} - S_{wsp}}{\text{D}_{st}} \times 100 \]
   Where:
   - Fl – Floating;
   - Lo – Loss in the last financial period;
   - \( S_{wsp} \) – Stocks without sells possibility;
   - Dst – Debts on short terms (smaller than a year);
   - If \( P_l > 160\% \) \( \rightarrow \) 0 points
   - If \( 130 \% \leq P_l < 160\% \) \( \rightarrow \) 5 points
• If $P \in [100\%, 130\%) \rightarrow 10$ points
• If $P < 100\% \rightarrow 15$ points

Interpretation of simplified model for determining the risk of bankruptcy, based on adding the points by proposed score function, is the following:

A Category: Imminent risk of bankruptcy 60 p.
B Category: Major risk of bankruptcy [45 – 60 p.)
C Category: Moderate risk of bankruptcy [30 – 45 p.)
D Category: Low risk of bankruptcy [15 – 30 p.)
E Category: Without risk of bankruptcy < 15 p.

**Figure 2** - Graphical representation of simplified model for determining the risk of bankruptcy interpretation

Source: Own contribution

**Phase II:** Evaluation of skills for executive managers of the company group

After finding a likelihood of bankruptcy, we proceed to assess skills for executive managers of the company group, based on computer application TopProfilGrup. Evaluation will be based on technical skills questionnaire. The application will centralize data and will generate a summary report of assessment for each member of the management team and for the whole group. In this report are made also recommendations on what should be changed to reach level V of proficiency (excellence), based on the principles of excellence and professional skills, developed by Jim Collins (Jim Collins, 2007)).

**Phase III:** Proposals to restructure the company through division, merger or capital infusion

In the third phase of the model for handling bankruptcy risk are made specific proposals to restructure the company and management team preparing to promote new principles and competences of professional excellence. These proposals lead eventually, to outsourcing of the activities with loss through division, merger or capital infusion.
Table 2
SC ARABESQUE SRL - simplified model for determining the risk of bankruptcy

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Crt. Indicator</th>
<th>Year</th>
<th>Symbol/Formula</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of consecutive semesters in which the society registred loss</td>
<td></td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>X₁</td>
<td></td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>Total debts Dt</td>
<td></td>
<td></td>
<td>147,799,262</td>
<td>223,990,476</td>
<td>323,099,868</td>
<td>653,003,248</td>
<td>757,756,347</td>
<td>640,453,931</td>
</tr>
<tr>
<td>4</td>
<td>Turnover CA</td>
<td></td>
<td></td>
<td>513,626,985</td>
<td>734,484,100</td>
<td>1,014,508,826</td>
<td>1,362,083,765</td>
<td>1,742,169,392</td>
<td>1,303,311,899</td>
</tr>
<tr>
<td>5</td>
<td>Recovery period of the debts</td>
<td></td>
<td></td>
<td>105,03</td>
<td>111,31</td>
<td>116,24</td>
<td>174,99</td>
<td>158,76</td>
<td>179,36</td>
</tr>
<tr>
<td>6</td>
<td>X₂</td>
<td></td>
<td></td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Receivable debts C</td>
<td></td>
<td></td>
<td>55,965,906,00</td>
<td>78,072,977,00</td>
<td>110,858,291,00</td>
<td>149,446,060,00</td>
<td>160,700,001,00</td>
<td>148,202,268,00</td>
</tr>
<tr>
<td>8</td>
<td>Turnover CA</td>
<td></td>
<td></td>
<td>513,626,985</td>
<td>734,484,100</td>
<td>1,014,508,826</td>
<td>1,362,083,765</td>
<td>1,742,169,392</td>
<td>1,303,311,899</td>
</tr>
<tr>
<td>9</td>
<td>Recovery period of the receivable debts TRD</td>
<td></td>
<td></td>
<td>39,77</td>
<td>38,80</td>
<td>39,88</td>
<td>40,05</td>
<td>33,67</td>
<td>41,50</td>
</tr>
<tr>
<td>10</td>
<td>X₃</td>
<td></td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Total debts Td</td>
<td></td>
<td></td>
<td>147,799,262,00</td>
<td>223,990,476,00</td>
<td>323,099,868,00</td>
<td>653,003,248,00</td>
<td>757,756,347,00</td>
<td>640,453,931,00</td>
</tr>
<tr>
<td>12</td>
<td>Turnover T</td>
<td></td>
<td></td>
<td>513,626,985</td>
<td>734,484,100</td>
<td>1,014,508,826</td>
<td>1,362,083,765</td>
<td>1,742,169,392</td>
<td>1,303,311,899</td>
</tr>
<tr>
<td>13</td>
<td>Degree of indebtedness D₁</td>
<td></td>
<td></td>
<td>28,78%</td>
<td>30,50%</td>
<td>31,85%</td>
<td>47,94%</td>
<td>43,49%</td>
<td>49,14%</td>
</tr>
<tr>
<td>14</td>
<td>X₄</td>
<td></td>
<td></td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>15</td>
<td>Floating Fl</td>
<td></td>
<td></td>
<td>124,738,472,00</td>
<td>164,837,349,00</td>
<td>209,153,636,00</td>
<td>351,042,223,00</td>
<td>346,471,595,00</td>
<td>10,792,641,00</td>
</tr>
<tr>
<td>16</td>
<td>Loss in the last financial period Lo</td>
<td></td>
<td></td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
<td>6,229,671,00</td>
<td>13,050,151,00</td>
</tr>
<tr>
<td>17</td>
<td>Stocks without sells possibility Swsp</td>
<td></td>
<td></td>
<td>47,939,054,00</td>
<td>61,051,191,00</td>
<td>69,584,404,00</td>
<td>152,446,538,00</td>
<td>132,658,702,00</td>
<td>678,742,450,00</td>
</tr>
<tr>
<td>18</td>
<td>Debts on short terms Dst</td>
<td></td>
<td></td>
<td>55,965,906,00</td>
<td>78,072,977,00</td>
<td>110,858,291,00</td>
<td>149,446,060,00</td>
<td>160,700,001,00</td>
<td>148,202,268,00</td>
</tr>
<tr>
<td>19</td>
<td>Patrimonial liquidity Pl</td>
<td></td>
<td></td>
<td>137,23%</td>
<td>132,93%</td>
<td>125,90%</td>
<td>132,89%</td>
<td>129,17%</td>
<td>-47,32%</td>
</tr>
<tr>
<td>20</td>
<td>X₅</td>
<td></td>
<td></td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>21</td>
<td>Z</td>
<td></td>
<td></td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>25</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>22</td>
<td>Interpretation of simplified model</td>
<td></td>
<td></td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>C</td>
<td>B</td>
</tr>
</tbody>
</table>
3. CONCLUSIONS

In recent years, Romania has been profoundly affected by economic crisis. Because of excessive tax system, economical enterprises (SMEs) faced increasingly more risk of bankruptcy. Over the past two years it was found an alarming increase of companies that have requested the suspension of their business or became into insolvency. In this article we described a model for determining the risk of bankruptcy in which we applied a case study of a big company of building materials distribution on the Romanian market, SC ARABESQUE SRL. For this company it was determine the risk of bankruptcy during the period 2004-2009, and it was proved that the risk of bankruptcy has been increased, even to its maximum, the imminence.

REFERENCES

SOCIAL PROTECTION AND SOCIAL INCLUSION IN THE EUROPEAN UNION IN THE CONTEXT OF THE ECONOMIC CRISIS

Alina HAGIU¹

ABSTRACT

Firm policy intervention and the automatic stabilizers embedded in European welfare systems have limited the economic and social impact of the worst recession in decades. However, the human cost of the crisis is difficult to evaluate fully as yet. The impact on labour markets and on the population, notably the most vulnerable, is still unfolding. Investing in regular monitoring of social trends and enhancing social statistics is crucial for designing early and effective policy responses and assessing their impact.

The crisis has highlighted great diversity within the EU. Its scope, magnitude and effects vary as does the capacity of national welfare systems to provide adequate protection. Not all Member States have the financial means to meet rising demand and some have large gaps in their safety nets. Narrowing these gaps is now a priority.

At the same time, the need to contain the rise in public spending calls for enhancing the quality of intervention, and in some cases setting clear priorities. This means more effective and efficient social inclusion and social protection, in line with the principles of access for all, adequacy and sustainability.

KEY WORDS: social protection, social inclusion, health, pensions, economic crisis

JEL: E24, H31, I38

1. INTRODUCTION

Strong policy intervention and automatic stabilisers played a major role in mitigating the social consequences of the crisis. However, the full impact of the crisis on people is yet to be faced. The Commission forecasts that unemployment could exceed 10% in 2010, with social expenditure rising from 27.5% to 30.8% of GDP between 2007 and 2010.

With 5 million more unemployed than at the outset of the crisis, income has dropped for many households, exposing them to poverty and over indebtedness, and some have lost their homes. Migrants, younger and older workers, and those on temporary contracts, especially women, were affected early on, but unemployment is touching other categories, hitherto fairly safe. Unemployment rates may stay high for some time, with the attendant risks of long-term unemployment and exclusion.

The nature, size and effects of the crisis differ within EU. Unemployment rose from 2.7% to 3.9% in one country and from 6.0% to 20.9% in another. Also, Member States started with different social situations. In 2008, at-risk-of poverty rates ranged from 9% to 26%. The coverage and level of support provided by social protection also varied across countries and social groups. Public perceptions echo these disparities: in

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June 09 while the majority felt the crisis had increased poverty, those who sensed a profound impact ranged from 10% to 69%.

Policy responses also vary in scale and emphasis. The Commission estimates that spending on discretionary measures varies from less than 1% of GDP in some countries to more than 3.5% in others. The Commission forecasts that between 2007 and 2010 social spending will rise, by less than 1 pp in three countries and up to 6 pp or more in another four.

Member States used the European Social Funds to enhance support to the unemployed, to keep workers in employment and to help the most vulnerable facing structural barriers to labour market integration. They used flexibility in the ESF adjusting operational programmes, modifying them where necessary, and used the simplifications proposed by the Commission to improve the effectiveness of the fund. ESF programmes also provide financial support for long-term EU social inclusion objectives, underpinning the recovery and social cohesion.

The crisis emphasises the need to support citizens at a time of major budget constraint. This highlights the EU agenda for more effective and efficient social inclusion and social protection, pursuing access for all, adequacy and sustainability; which is a long term concern of the Social OMC. Short-term responses should be consistent with structural reforms needed to modernise social policy, prevent lasting damage to the economy and society and prepare for long-term challenges, such as ageing.

2. SOCIAL PROTECTION AND SOCIAL INCLUSION

The social climate survey also yields interesting results about how people see some key social policy issues. With a satisfaction score of 1.3, health care provision is regarded as satisfactory by a majority of Europeans. Most satisfied are respondents in Belgium (5.5), followed by those in the Netherlands, Luxembourg, Austria and the United Kingdom, all scoring above 4. The lowest levels of satisfaction are in Bulgaria, Greece and Romania where scores are all below -3. In most countries, more people tend to see past and likely future changes as being for the worse rather than the better, but there are some exceptions — notably Cyprus, Spain, Malta and Belgium.

The people least satisfied are those who report health care needs that are not being met.
Pension provision is perceived much more negatively with an EU-wide satisfaction score of -1.0. The countries with the highest levels of satisfaction are Luxembourg, the Netherlands, Denmark and Austria with scores ranging from 4.6 to 2.9. The least satisfied are the Greeks, Bulgarians and Portuguese, all with scores below
In almost all countries, a negative view of past and future changes prevails, with two notable exceptions: Cypriots tend to see an improvement over the past five years, and a larger proportion of them expect further improvements; Estonians also acknowledge progress over the past five years, but they are pessimistic about the coming twelve months. People's current satisfaction with pension provision seems to be poorly correlated to the relative income of pensioners.

Figure 3 - Provision of pensions
Source: Special Eurobarometer no 315

Figure 4 - Satisfaction with the provision of pensions (QA2.3) and Relative median income ratio (65+/0-64)
Sources: Special Eurobarometer no 315 (index for current situation - see methodology in the introduction of this section) and EU-SILC 2006

With a score of -1.2, the level of dissatisfaction with unemployment benefits is similar to that for pensions. The countries with the lowest scores are Greece, Bulgaria,
Romania and Hungary, all scoring below -4. The highest score is in the Netherlands at 3.5, followed by Austria, Luxembourg, Denmark and Belgium (1.9). In all Member States, a majority of respondents expect the situation to worsen or stay the same over the next twelve months, and there is only one country, Cyprus, where a larger proportion perceive an improvement rather than a deterioration over the past five years.

There is strong feeling of dissatisfaction with the way inequalities and poverty are addressed. The score for the EU as a whole is -2, and there are only four countries scoring 0 or above. Luxembourg comes top (0.9), followed by the Netherlands, Sweden and Finland. Dissatisfaction is greatest in Latvia, Hungary, Greece, Bulgaria and Lithuania, all scoring -4 or below. France, at -3.8, also displays a strong feeling of discontent in this regard. With the exception of Malta, the prevailing sentiment is that the situation has not improved but rather deteriorated over the past five years and will continue to do in the near future. There is a correlation between a country's income inequality and the way that country addresses inequality and poverty.
Relations between people from different cultural backgrounds or of different nationalities are seen in a much more positive light than inequalities and poverty. The satisfaction score for the EU as a whole is positive, although only 0.3. It is highest by far in Luxembourg (2.5), followed by Finland, the United Kingdom, Lithuania, Estonia, Romania and Latvia, all between 1.3 and 1.5. The countries with the lowest scores are Greece, the Czech Republic, Italy, Denmark, Hungary and France, scoring between -1.7 and -0.6. People in the countries with low scores also perceive a deterioration, both in the past and near future, but strong pessimism about the quality of community relations is also evident in the Netherlands, Austria and Slovenia.
The overall picture that emerges from this first European social climate survey is a contrast between relatively high levels of satisfaction and confidence regarding people’s personal situation and a very negative perception of the general economic situation and living conditions and of key social policy issues. While apprehension about the general economic situation and living conditions is perfectly understandable under current circumstances, policymakers should be concerned about people’s dissatisfaction with key social policy issues and their strongly negative view of the way things are going in these areas. Indeed, these views seem to be deep-seated and might call for a review of policies to ensure that they are better designed and better explained.

Another important observation is that, in general, it is in some of the most prosperous Member States that people have the highest levels of satisfaction and are most likely to perceive a positive trend. This may be because the recession hits some of the poorer Member States harder. However, over the long run, it would be reasonable to expect that the poorer Member States would display a positive trend given that they are in the process of catching up with the richer countries, raising hopes for better social conditions and policies. However, this is clearly not the current perception in most of the poorer countries. Many of them are at the bottom of the satisfaction ranking and at the same time among the least optimistic about the changes that have occurred or will occur across the wide range of areas covered by the survey. If these perceptions are not just the reflection of a temporary mood caused by the recession, they could point to an increasing and worrying divergence: countries with good social conditions making further progress and countries with the poorest social conditions falling even further behind.

3. EFFECTIVE AND EFFICIENT SOCIAL INCLUSION POLICIES IN AND AFTER THE CRISIS

Unemployment in the EU is now at 9.1%, and could reach 10.3% in 2010. The rate is more than double for young workers (20.7%) and migrants (19.1%). The loss of
earnings affects all family members, and especially children and other dependants. Young people are also affected by the lack of job opportunities. The maturing of pensions systems has helped reduce poverty risks for the elderly in many countries. However, the crisis threatens the development of adequate pensions where elderly poverty remains very high.

The crisis is also likely to affect those furthest from the labour market, either inactive or long-term unemployed. Even beforehand, the low skilled, people with disabilities or mental health problems, migrant - particularly women - had limited access to training and other enabling services. Recent efforts to boost employability for all may be undermined by lack of jobs and increased pressure on training and employment services.

Maintaining decent living standards for all is both crucial to ensure that people live in dignity, and to sustain their employability and learning capacity. Overall, most Europeans can rely on some of the most effective safety nets in the world. However, there are gaps.

The effectiveness of unemployment benefits vary greatly depending on the coverage, duration, conditionality and replacement rate of the benefits. Young workers with short contributory records and some of the self-employed may not be entitled to unemployment benefits, while workers on part-time or temporary contracts often receive lower benefits than other workers.

Reforms to strengthen work incentives have tightened eligibility criteria, or reduced the level or duration of entitlements. Together with a greater emphasis on activation measures, these reforms contributed to a reduction in long-term unemployment. However, they have not always reduced long-term welfare dependency. In addition, even though several Member States prolonged benefit duration and relaxed eligibility rules in response to the crisis, the pressure on last-resort schemes has started to increase, as unemployment benefits run out for more and more people. This underlines the need to prepare comprehensive exit strategies based on active inclusion principles.

The coverage and adequacy of minimum income provisions vary greatly across EU. In most countries, social assistance alone is not sufficient to lift people out of poverty, but in general it reduces its intensity. Recent efforts to modernise social assistance have focused on financial incentives to work; but, the lack of clear mechanisms to up-rate minimum incomes has in some instances led to deterioration in benefit adequacy over time. In all countries, non-take-up significantly affects the effectiveness of the schemes, though to various degrees. Complex rules, lack of information, discretionary assessment, administrative errors and fear of stigma are some of the multiple reasons that explain non-take up. There is therefore room for increasing the effectiveness and efficiency of minimum income schemes.

Adequate income support is crucial for people in time of need, but policies must also help them to participate in the labour market. Both spending and participation in active labour market measures, including life long learning, have improved overall in recent years. However, more needs to be done to ensure that all are reached, including the low skilled, the young and the elderly, lone parents and those returning from caring breaks, migrants and ethnic minorities, and people with disabilities. Experience shows that long-term unemployment and inactivity tend to persist long after recovery. Modern social security policies are an important tool to prevent people moving on to long-term sickness and disability benefits, or early retirement schemes.
Adequate and individualised social and employment services are also essential to overcome structural barriers to participation in the labour market and in society. The personal, family and social hurdles people face need to be addressed by quality social and health services. It is of particular importance to improve the reconciliation of work and family-life. Supporting children and families is investing in a sustainable future for Europe.

4. CONCLUSIONS

While there are signs that the recession is bottoming out, its full social consequences have yet to materialise across the EU. Unemployment is likely to rise further. Previous recessions have shown that the people hardest hit by unemployment are men working in the construction and manufacturing sectors and young people arriving on the labour market. In several Member States there appear to be gaps in benefit systems, with the result that many unemployed people do not receive any form of social benefit. Over the longer term, the social consequences of the recession will depend partly on the speed of the recovery. Slow growth might result from weak consumer demand due – for instance – to employment insecurity and inadequate social protection or to reduced housing wealth and access to credit. A long period of slow economic growth would imply a prolonged lack of job opportunities and a risk that many people – in particular young people entering the labour market – will suffer long spells of unemployment. To prevent these people from being permanently excluded from the labour market and thus falling into the poverty trap, governments must ensure adequate provision of unemployment benefits and must actively support employment. There will also be a need to closely monitor the social consequences of budget consolidations.

Public spending cuts may also affect the welfare of households in the longer run, for instance, if social benefits and public services (education, child care, health and long-term care) are reduced. Moreover, the financial situation of households could be affected by various policy measures. The Social Protection Committee is constantly monitoring all these social impacts of the economic crisis and the policy responses in the Member States.

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ADDING SOME CONTRIBUTIONS TO UNDERSTANDING THE CONCEPT OF SERVICITY

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Adina POPOVICI

ABSTRACT
Servicity means effectiveness (for the customer) of the provision. For the provider, it means a gain only if, by this effectiveness for the customer, in a marketing optics, he (the supplier) advertises, improves his image, providing his customers and market position over competitors. It is close to the idea that Adam Smith had in mind when was theorizing "the invisible hand" that the businessman’s selfishness is satisfied precisely through customer’s satisfaction, and not by other means, which did not even crossed the moralist Smith’s mind, but which Veblen and others have revealed.

KEY WORDS: servicity, effectiveness, productivity, equivalent exchanges

JEL: A10

1. INTRODUCTION
Servicity means effectiveness (for the customer) of the provision. For the provider, it means a gain only if, by this effectiveness for the customer, in a marketing optics, he (the supplier) advertises, improves his image, providing his customers and market position over competitors. It is close to the idea that Adam Smith had in mind when was theorizing "the invisible hand" that the businessman’s selfishness is satisfied precisely through customer’s satisfaction, and not by other means, which did not even crossed the moralist Smith’s mind, but which Veblen and others have revealed.

2. WAYS OF INCREASING PRODUCTIVITY
In conjunction with the ideational content the introductory paragraph reminded, we can mention the ways of increasing productivity:
- By increasing quality;
- But also (even though it may be considered less - but not negligible) through social channels etc. (servicity reduction).

Moreover, the economy, businesses in general are represented (incited and encouraged) by the difference between what economic agents pay and what they charge, of what they „give” to the environment, as a payment, as costs and what they „take” of it, as an income or revenue.

a) This difference can be increased by exploiting nature: taking from nature, with minimal cost and sale as ”something belonging to the one who sells” (although it is

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rather "something of the nature"). It is essentially the physiocrats’ perception about creating value. But, in addition to agricultural production situation, there are also: forest harvesting, mining, etc., most of them being destructive for the nature.

b) But important and normal developments occur by exploiting some elements of the environment, by paying low prices to the suppliers (including the labour factor) and to the creditors (thanks to a position of relative monopsony or oligopsony) and by high prices charged to the customers (thanks to some positions of power at the other pole: monopoly, oligopoly in relation to the buyers). This form of taking advantage of the environment was not revealed until late, at the post-Keynesians Cambridge economists, and not as a creator of value as written in this paper at the points a, c, d, though, for already more than a century, the economic thinking had assumed - by the neoclassical economists - the assumption that any gain of an economic agent would mean a value creation, "rewarded" through the market mechanisms, for his work (the more profitable for him, the more "productive").

c) The difference we were talking about can be also increased by his own work (i.e. small payments towards the environment, but a too high own energy consumption), which gave the impression (to the classics and Marx) that the economic effects are the result of labour. But, as shown by the neoclassic economists (starting with Jevons' memorable assertions against the value-labour), it is not always rewarded by the market. In addition, nowadays an - apparently new, but with interesting connotations, if it will be examined more deeply and in its essence - problem occurs, namely, today, mankind’s labour of thousands years (especially the agricultural production) proves more and more and widely to be insufficiently "productive"; compared with other economic activities, with other sources of earned value, requiring, therefore, subsidies to maintain its practice: the market laws (the market mechanisms) marginalize the very economic activity that generates the food sources (Jivan, A. and Popovici, A. (2008), "Do People No Longer Need Food? A Few Reflections on the Market Mechanisms and their Effects". Caiete de Drept Internaţional, Studii Economice, Vol. I Teorie Economică, Statistică şi Econometrie: 153-158, Resita, ISSN 1584-01152008). If "no longer worthwhile” to produce the primary biological needs (for food), but for other "needs" - in fact pleasure, trifles and other exaggerations (including perversions), mode and other "needs" created by the suppliers to secure and develop outlets, then the entire economy has become something false, abnormal, and the means by which we orient it (its mechanisms), means that are distorted and, in any case wrong. Correction can not be questioned, but becomes a necessity. And this correction should not be underestimated in agricultural subsidies, but must enter those essences themselves that enable financial speculation on the exchange of someone who has fully covered all food needs to be decreed by the "market law"; as more "productive" than practicing agriculture than agricultural production, and even more productive than the organic, healthy one, which has almost disappeared as a result of industrialization, in the competition with the biologically transformed products; only now, it is slowly beginning to be again reiterated as a "luxury production" for those who, once enriched on the basis of the unhealthy technologies used in the mass production, now afford themselves to pretend to consume only healthy products, as our grandparents consumed and as we still have in Romania, until they will completely fall under the blows of the competition with the distorted, "mutant", "stimulated", "treated", painted or artificially scented productions.

d) The effects of the part that the economic agent gets by the simple action of buying (cheaper) and then selling it (usually processed and, certainly, more expensive)
are higher, the more voluminous the flows which pass "through" the economic agent (inputs sold - after processing - as outputs), to be fleeced as much as possible; and productions of an as large as possible scale (with their respective economies of scale). This reality has created the perception that costs would bring the value: the larger they are, the more the value added appears to be, regularly, higher. This (cost-value) view is an extension of the previous (labour - value), accepted by the classics, but not by Marx.

e) Instead of "work", we speak, extending on other coordinates, of "own creation": the value is realized through creation, because this (the creation) is likely to increase the personal intake (the effects of the economic agent’s activity), but it (the creation) is not always rewarded on the market, either.

3. SUPPLEMENTING THE RELATED COMMENTS

For rigor, we must make the difference between his own effects (the effects for himself, which are, strictly speaking, of his own contribution: only these are really of the analyzed economic agent) and those registered at the economic agent (which are, officially, “his”).

For clarification, we must present all the categories of effects we can distinguish in connection with the economic agent. They can be separated in two groups, as below:

a) The effects for himself, which have two origins, namely:

- Deserved, of his own contribution (self-generated from "inside"); "to him, from him"; these can be immediate, registered at him or official or ambiguous, so unregistered (can not be clearly identified, measured or correlated with the origin or causality), the latter ones having the character of investment; In the applied methodology and in the traditionalist approach (according to the „remuneration” or repartition made according to the market mechanisms), the effects are officially of the economic agent who registers them (irrespective of their origin: this causal problem is ignored or eluded).

- of the environment - received from "outside the economic agent” (from others, from nature or from elsewhere) – consisting of benefiting from the servicity, taking advantages, the (usually destructive) exploitation of the nature, which is, in principle, without the possibility of „reward”, the use of others – without a real reward - scams, thefts, speculations, opportunism (the latter two are actually intermediate, i.e. are the results of their own functioning, of some qualities, such as: cunning, sense of adaptation, capacity of rapid reaction, enterprising spirit; but they are at the limit of the moral values, and are not the effects of the fundamental intrinsic value - intellect, morality); eventually, from the premises; only the continually updated information (which is necessary for them) may eventually fall within the category of intrinsic values, but rather when it represents the basis for enterprising for the scientific knowledge and creation, i.e. for genuine utility pluses, in a constructive, investment sense, unless it is used just for taking exploitative, cheating actions and other forms of taking advantage of others.
b) Effects on the environment (issued outside):

- registered at others; “from him to others”;
- dissipated, without immediately visible effects, on nature, society, future, and an effect of investment (on a long term); “from him, without an exact address.”

Of those detailed above, the effects registered at the economic agent can be better defined (of his own contribution or of the environment) and, of course, his indeed own effects (which are, by destination, classified in effects for himself or for others, and by the way of identification and registration can be distinguished, on one hand, the immediate and/or registered ones and, on the other hand, the unregistered and / or unable to be registered ones).

His own contribution is determined by his own value we have mentioned (useful and usable individual accumulations, even if without the possibility of a direct correlation with the effects) and is reflected in his own effects (at himself and apart from himself), which means the total (gross) contribution. The net contribution is the one which is for others. The contribution for the self person is the only effects registered by the economic agent that are strictly deserved.

4. THE REASONING GOES FURTHER

*Servicity measurement can be (at least) made as in the manners that are presented below. The bellow lines are, implicitly, and logically, also ways of increasing-reducing servicity:*

- The difference between the higher price paid to suppliers and the market price;
- The difference between the normal market price (the price under the conditions of fair competition, i.e. pure and perfect competition conditions) and the lower purchase price paid by the economic agent in the position of monopsony; including the wages paid to the workers from the poor countries by the multinational company (they come in such countries especially for taking advantage of lower wages paid to employees, who living under higher poverty and having lower incomes, under higher unemployment, must bear working at the same level as the Western employees, but being less paid): it is basically the difference between the wages paid by the same company to the English employees, and to the Romanian or Indian employees, for instance (if the company makes such distinctions by nationality or by the country in which they operate, produce, make business);
- the difference between the lower accepted price demanded to buyers and the market price;
- the difference between the monopoly price (the higher price demanded to buyers by the economic agent in a position of monopoly) and the market price, under fair competition conditions;
- In the optics of “buyer’s advantage”, the difference between the price the buyer would offer and the lower price asked by the company (although it could ask for more from that segment of customers);
- the difference between the better quality and the (average) market quality offered to buyers at the same price;
the expenses with quality investments, which do not reflect themselves in higher prices;

• higher costs - with higher wages and other larger payments (and to other suppliers) than the market price;

• Higher costs - with higher quality than that paid by the customer, with better safety and durability than the market level at the same price, (than the usual ones in the consumer society, where companies produce not for quality, neither for protecting the resources of the planet, but for selling as much as possible, so with a calculated outage and by respecting fashion trends, i.e. in the purpose of throwing away those goods, after a certain time and thus others be bought);

• lower income, as presented above;

• unrealized profits on grounds of preserving the nature, the forests of the planet, the ozone layer, the conditions for the future generations of the nation

• incomes and for the country (not only for a certain private person or company) and of the mankind (the Kyoto phenomenon) - but such ideas will not benefit from good advertising, but they can even suffer a negative image, or, more simply, they will be suppressed (refused from being published), because most of the publications are based on the sponsorships received exactly from the big companies (among which very many practice with priority such exploitative practices, taking advantage of their dominant positions, unlike many small companies, which, for getting certain positions on the market, however, need to apply the quality and price reductions ways, ways beneficial to others (the services - but not very productive for them, as regards the profits they obtain), as the pure and perfect competition model and the spirit of the optimistic liberalism preconceives them (and as, on a larger scale, the economic reality had manifested itself until the end of the nineteenth century);


5. EQUIVALENT EXCHANGES?

The “economic” thinking based on the postulate of the equivalence of exchanges could consider that Mozart’s revenues from his concerts or the payments for its works would represent the value of that contribution. And if we add to these the applauses and any other forms of non-economic reward, yet, what he gave to the mankind remains as an absolute plus, of which he has not benefited enough in his short life. But no matter how much he might have enjoyed it, yet, we have to make a net distinction between the payment of one kilogram of potatoes or the payment of one for digging a ditch - which may be considered equivalent (as they cancel each other), under the usual rules of the
exchange economy - on the one hand, and the major contributions, which are never sufficiently rewarded.

There are issues which thus escape economic thought, in that the latter refers only to the “created and distributed surplus”, i.e. what (how much) received the author, producer, owner (initially) and, respectively, the beneficiary (the recipient, the client to whom it was sold - the final owner), considering that, between them, the exchange was equivalent (possibly with some small pluses of the “consumer” or of the “producer”).

In this way, a fundamental fact is being ignored: his net contribution (A), i.e. the difference between the creation, work, production or the respective achievement (O), on one hand and, on the other hand, what contributed to it, including what it is actually being paid (p) to the concerned person “for it”; (obviously, according to the rules of the market economy). This contribution thus contains, in addition to the one of the concerned economic agent (producer) – which we do not deny, but we want to highlight correctly, i.e. without being simplistically extrapolating it to everything he gets hold from the environment - the contribution from outside the concerned producer (B).

We have looked here at the economic agent in his quality of “the one who has something to give”, so the supply. Treated from another angle, of the demand (client, beneficiary) – in the same principle of calculation - the problem of the difference between the consumer’s contribution (in this case, the payment made), on the one hand (that we name O) and, on the other hand, what is actually benefiting (what he “charges”, what he “earns”) from that “bought” consumption or paid by him, in terms of market economy, i.e. according to the principles of the demand and supply and of the market prices, considered as “marginal productivities”).

What he receives from the outside, it is primarily coming from certain sources (which facilitate his effort of paying the price) and certain positions (which can also facilitate this effort and, moreover, may influence the very price to be paid on the market) and, secondly, from his satisfaction as a consumer (the satisfaction of the need, to the extent it is possible to be satisfied).

Any consumption (of individuals, too) is meant to achieve - ultimately, in one way or another - a „production”, too, another offer: at least, as any past that will be followed by a future, it influences somewhat the substantiation of future actions; all links, nothing is isolated, if we are to remain rigorous and not to simplify the economic reality to the extent of distorting its understanding: nowadays, the complexity of the reality does not allow us too many simplifications, unless with the price of misinterpretations.

Therefore, it should be noted (Jivan, A. ”Services and servicity”. Services World Forum Bulletin, no. 3, 4) that, when the term of consumer is considered in its broad sense (not only as a consumption of final goods, but also as of intermediate goods), benefiting takes the shape of what (or, explicitly, how) “it profits”. So, the producer (seen as a consumer)’s profit itself is a form of utility – the profit is included in the utility, it’s one of its forms (Jivan, A. ”Services and servicity”. Services World Forum Bulletin, no. 3, 4).

So, the personal contribution (A) is the difference between the two categories of elements taken into account in both cases that were mentioned above: the input elements (from the environment in the favour of the analyzed case) – inputs, receipts – and the output elements (from the concerned one towards environment) – outputs, payments.
It can be effective (positive) or benefiting could prevail - possible even in the case of large profits, in the case of a higher “marginal productivity” registered at that actor than at other.

It is clear that Mozart, who has not earned enormously during his life, has a tremendous net contribution. Even in the case of geniuses, it would remain so, whatever they would have earned in their shorter or longer lifetime (i.e. a longer reward). But what can we say about those who, after having given mankind priceless values, died poor (and not because they were wasteful; even if they had been so, in their case, if their earnings had to measure their contribution, they should have brought them material abundance) - see the case of the inventors of the industrial revolution times.

But economy deals with the mercantile values, not the human fundamental ones...

But even with regard to them (the pecuniary and material values), the traditional assessment and analysis criteria often ignore the real, actually existing, value, preferring the comfortable appearance of the registered value, i.e. that style which allows to the uncaught thief to appear as an honest merchant ... and, what is worse, a style that often leads to the honest merchant to be poor, and not to have a favourable image on the market (for instance, he did not have enough money to advertise for himself), even if he did well to many, he brought his contribution to the social good, etc..

It is normal that, in economic terms, those qualities which relate to the economy are rewarded, such as: entrepreneurial spirit, professionalism in the field. Among them, diligence is included – about which people are speaking less lately, as well about other moral virtues - being understood that moral is one thing, and economy another thing. In this context, we have never heard anyone talking about fairness as an economic feature, in the sense that it is rewarded as a quality. We consider it should be rewarded, and not as a moral approach, as an approach outside economy (although, for not risking obtuseness, widening would be necessary – more often, and not only accidentally, punctually or when speaking of ”pluridisciplinarity”, if not as a permanent quality – of the economists’ area of perception, comprehension and analysis), but just by the market rules, since the free trade theory (and not only, necessarily, for the case of the market with pure and perfect competition) claims market competition as the supreme criterion for selecting values. We assume that it is that competition that allows a correct assessment and selection of values, so about fair competition, manifested honestly, between “fair traders”; and the more honest are these merchants, these manifestations on market, in their depth, and this competition as a whole, the more some merchants’ success, their advantage over others (supposedly inferior - it is understood that with regard to the mentioned qualities, so also in favour of the honesty,) is more the result of their own value. Otherwise, the postulated promotion of values and the very achievement of optimum, thus the fundamentals of the self-regulating market mechanisms themselves would be questioned. What would be an optimizing adjustment out of the principles of fair competition, quality and other fundamental values - we underline once more: not only generally-human, but also, especially – and well adequated – economic?

Another dimension of the value of the competitors (actors) from the economy, which is at least insufficiently highlighted, if not ignored, is intellectualism (the intellectual level, intelligence, quickness, cultural and professional, general and specialty preparation). Incontestable, even central to overall human values, to economic thinking, they are too little considered, perhaps because of their immaterial character, difficult quantification, etc.
6. TURNING TO PRODUCTIVITY

The traditional productivity awards the actor from the economy exactly what he awards himself, what the market game back brings to him, without searching for subtleties, but limiting himself to official stuff. The theorizing of market mechanisms itself in the traditional way gives science’s “approval” of facts, which, otherwise, could become a topic of discussion and doubt; gives them the quality of natural, of natural law, almost divine, so undeniable.

On the contrary, servicity does not, automatically and conveniently (unverified), equals the deserved and the distributed by the laws of the market game, but tries to separate them, detaching their actual intake as an irreplaceable value criterion (neither by the market game, nor by other manifestations shallowly accepted), which becomes, from now on, inconvenient (for many). Unfortunately, for the scientific rigor of economic research, servicity is, still, only an idea, a principle of deepening the understanding and knowledge, a track open to deepening, and not an effective analysis tool, not being sufficiently perfected in the practical, technical and methodological (applied) respects.

As regards productivity, what matters is what “it is produced” then and there, but “it doesn’t matter” who and where and when loses. For Business, it is absolutely normal to inquire where the plus-product manifests itself, as naturally as the businessman himself - for whom what matters is his own profit - is concerned that this is made in his accounts, as an appropriate productivity.

But, for Economics, it would be important to find out where the surplus is born (and who created it); for the profound researcher, deeply interested to separate the appearances from the understood reality, seen in depth, to know the truth, to discover the flavours (especially when they are more hidden, when the simply perceived forms are misleading), the analysis must find and detail the creative and distribution mechanisms, going beyond the surface and passing to the depth.

The fact that is can not be seen with the naked eye and it can not be determined who, exactly, and how much surplus it creates, must fierce us in the research and not be a reason of comfortable abandon, substituting – with shallowness –to this side of the problem, the formal side of the place where this surplus is appropriated, without even keeping clear the truth (that there it is just appropriated, and not created).

Servicity represents the difference (the opposition) between absorbing, accumulating, releasing and irradiating.

7. CONCLUSIONS

Of the above, it results, among other things, that, in fact, suppliers do not actually look for the quality for the customer, but for the selling price (the revenues for themselves, in their benefit, so, implicitly, against the customers’ benefit), while, for servicity, the selling price must be as low as possible, to the customer’s benefit:

Price increases productivity growth (for the producer), but not (necessarily) the quality for the customer. Servicity is increased with the increase of the quality for the customer, but it is affected by the productivity growth.

Of the above it also results - especially in the practical cases of monopoly and monopsony - that most of the companies have a negative servicity. No comment...
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RELATIONSHIP BETWEEN HIGHER EDUCATION AND THE LABOUR MARKET DEMAND IN ALBANIA: ANALYSIS AND STRATEGIC ALTERNATIVES

Vasilika KUME

ABSTRACT
For almost 45 years, Albania has faced one of the strongest dictatorships in Europe, characterized by an extreme isolation. Consequently, the system of higher education in Albania was obsolete in methodology as well as in the information provided. With regime change, higher education system underwent a series of reforms, aiming at adapting to the new democratic system. Reforms have provided schools with more freedom and academic autonomy and allowed them to establish cooperation with universities abroad. However, public universities still do not enjoy the necessary autonomy in financial and managerial aspects. A number of measures are necessary to prepare the higher education in Albania for the path of European integration.

KEY WORDS: Higher Education, labour market, strategic planning, matching theory, active learning, learning by doing, life-long learning

JEL: E20, E24

1. INTRODUCTION
At the time when our country still prevails a general social uncertainty and confusion about our vision as a society, it is necessary to give value to two important aspects of individual life: his growth as a person through education and finding yourself in a job market that changes every day.

In Albania, is designed National Strategy of Albanian Higher Education, is adopted a National Strategy for Development and Integration, and there is a legal framework for Higher Education. In these conditions, the questions that arise are whether these strategic documents includ the objective of the creation of labor forces with higher education that serve market demand, ie the formation of individuals who are ready, trained and qualified enough to be 'facing the country's development dynamics.

Developed societies are societies of professionals, which mean that the majority of society tends to take as much knowledge, information, specialization to respond to labor market. We are actually offering a variety of schools, courses or trainings, seeking to exploit the opportunities of the labor market. But the fact as the individual finds himself or not, remains to be studied. Secondly, we can say that it is not only the possession of a sufficient degree to achieve what we believe and want. The quality and level of our preparation are also very important to prevail.

There have been many studies to measure precisely the consistency between education and labor market. Among the main variables that are measured have been the

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level of preparation, the selected branch, the labor market offerings, the level of living in the ranks of educated persons, the number of educated persons and the number of those who have found work in the profession, time waiting to find work, the differences men - women, demographic distributions, etc. Studies have shown that often our beliefs and expectations do not match reality. Success on one side of the coin is not necessarily success in the other side, which means that not always exists a strong correlation between educational level and job finding.

In this context, the purpose of this study is:
To determine whether there exist in Albania policies and strategies in the field of higher education, and if they are coordinated with employment strategies, if they support the formation of labor force, prepared for the demands of the market;
To propose strategic options for coordinating the results of the higher education system with employment policies and market demand.

2. SOME THEORETICAL CONSIDERATIONS

2.1 Education and its role in the development of the country's economy

Higher education plays an important role in the economic development of a country through human capital development. A number of studies are focused on the impact that education has in the economy of a nation, emphasizing the role that human capital development has in the growth of the country's GDP.

A study done by Canadian statisticians and the University of Ottawa economists used the results of an international questionnaire on learning to evaluate human capital of the population over 14 countries for a period of time from 1960 to 1995. The results of their analysis showed that if a country improves learning outcomes of 1% of international average, work productivity will increase by 2.5% and GDP by 1.5%. The three countries with the fastest increase in levels of learning had the fastest growth in per worker results. While the three countries in which increasing levels of learning were slow, one of which was New Zealand, growth was slow.

2.2 The role of education in the labor market changes

In response to that individual and social interest often we have a trend towards expansion of higher education, despite poor market conditions of employment for educated people. This results in a situation where highly qualified people are ready to accept inferior jobs which do not require these qualifications, based on the principle that having a job is better than not having any. Public policy is about creating coordination between the offers for qualifications and skills of the education system and demand for qualified people from the labor market. However, these are linked as long as the student demand for places in higher education system will depend on labor market outcomes for specific qualifications.\(^1\)

Coordination is required for different types of education at different times and in different countries. Considering the complexity of this task, the coordination is not easy to achieve. Fit of higher education in future work is difficult as long it is impossible to forecast the evolution of the labor market for a period of time. As a result, workforce planning has been neglected and is replaced by the study of signals coming from the labor markets. This requires a dynamic system to search information from the labor

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market in the country, the unemployment rates according to levels of competence, and opportunities for work and evaluation of employees, their needs and the institutions of higher education on a continuing basis. These signals help the labor market and educational institutions to make adjustments in their capacity to adapt educational programs with labor market changes, thus helping individuals to correct their choices. While social demands and personal demands of the students are based primarily on their social expectations and not the signals coming from the labor markets, this may create opportunities for confusion.\textsuperscript{1}

2.3 \textbf{Matching Theory}

In matching theory, "failure" by the graduates in the labor market, unemployment, or use a low level of knowledge acquired in universities, reflects the clash between the graduates and employers, which may come from a number reasons. For example, Coles and Smith (1998) stressed that in a casual model of compliance, discrepancies between job seekers and employers can come from inaccurate information, which results in higher cost of time and research to find relevant information.\textsuperscript{2}

Probability of finding employment within a short time after graduation can be related to the rate with which practical skills are reflected in university programs:

a. Student involvement in practical work;
b. Involvement of employers in curriculum design;
c. Departments focus on building practical skills.

A different approach is that matches happen in the market place. If any agent, say unemployed job-seekers, require the market and fail to find a suitable place to work, they will become a part of the stock of job seekers. In a symmetric way, employers enter space vacancies in the market, which are filled or, have grown stock. Thus, in this model most matches occur between stock market on one side and a new flow on the other. This alternative model is known as the model of the stock-flow matching and can be seen as a specific form of non-casual model of compliance (Smith, 1993 and Petrongolo, 2003).\textsuperscript{3}

2.4 \textbf{Studies on educational level and labor market}

Ulrich, in a study conducted in 1999 in 10 European countries, represents a genuine study in which has been studying the correlation between higher education and labor market. In the center of the study were about 36 thousand graduates. The study was called "The graduates and their integration in the labor market. The main objective of the study were persons qualified, in terms of time that was needed to find a job according to their profile, positioning in the hierarchy, and degree of connection between the knowledge acquired during the school with those needed in the workplace.

According to this study, a good part of the students begin to look for a job while they were in school, while about 40% of them were looking for employment before graduation, 30% during the last phase of the school, and the rest after graduation. So, part of the students continue to work in their previous work that had no need to start searches, since they were deployed. The inerest of this study was the fact that the expansion of the education system seems to have not evolved in parallel with market demand. This then had led to an inflation of persons that ask for a job. These differences

\textsuperscript{1} Agareal. \textit{Op. Cit.}
\textsuperscript{2} Geoff Mason, G. Eilliams, S. Cranmer. \textit{Op. Cit. f.11}
are from one state to another, linking and explaining this phenomenon with policies that every government follows, existing opportunities and strategies that are used (Table 1).

**Table 1**

*Job search time and type of work required*

<table>
<thead>
<tr>
<th>State</th>
<th>Job search time – During first four years</th>
<th>Still looking after one year (%)</th>
<th>Working part-time seasonal (%)</th>
<th>Almost no work (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Start of research work (months)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norvegia</td>
<td>3.3</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.9</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Finland</td>
<td>5.1</td>
<td>4</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>England</td>
<td>4.4</td>
<td>4</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.7</td>
<td>3</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>5.5</td>
<td>3</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Austria</td>
<td>6.9</td>
<td>2</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>France</td>
<td>7.1</td>
<td>20</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Spain</td>
<td>11.6</td>
<td>10</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Italy</td>
<td>8.9</td>
<td>4</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6.1</strong></td>
<td><strong>5</strong></td>
<td><strong>13</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

Source: Cheers Graduate Survey

It seems clear that the problematic countries are Spain, Italy and France (Table 1). In these countries, labor market was not very well consolidated and complies with the educational system. Education strategies have not been closely linked with those of employment. Problems also significantly reflected in the relations education - employment. From the study came out that those countries that provide immediate employment opportunities for graduates, will have higher level of living, as a result of satisfactory monthly income. As high as the job’s compliance with the field of graduation is, the higher is the satisfaction of employees and their level of life. Different countries have different correlations, depending on the policies and strategies that follow.¹

3. CONSISTENCY BETWEEN HIGHER EDUCATION AND LABOR MARKET IN ALBANIA

3.1 Study Methodology

In this paper, the methodology is selected in accordance with the purpose of analysis and includes various ways and instruments for collecting data. The study had several components:

1. Survey of 2009 graduates
2. Business Survey
3. Interview with Deans of Faculties

4. Interviews with representatives of the policy makers
5. Review of existing studies

3.2 The study sample
The population of this study was final year students in undergraduate studies, faculty deans of public universities and representatives of various businesses that carry out their activity in Albania.

The study sample took in:
- 369 full time students from five public universities of Albania, in their last year of study, so who graduate in the summer of 2009; The distribution of the sample of students by universities was 52% from the University of Tirana, 38% from the University of Shkodra, 9% from the University of Vlora, 2.2% from Polytechnic University and a lower percentage from Agriculture University.
- 59 businesses that operate in the area of Tirana.

Are also conducted three interviews with deans of faculties, as well as representatives from line ministries: the Ministry of Labour and Social Affairs, and Ministry of Education and Science.

To measure the expectations of the graduates on their entry in the labor market, was using a structured questionnaire with 22 questions open and closed, containing four main pillars:
1. Expectations of students regarding employment after finishing school;
2. Professional skills and habits for real life and new skills needed;
3. Support from the university structures;
4. Knowledge of labor market.

Interviews with deans contained five main blocks of questions, which allowed the respondents to express their opinion freely. So, first was obtained information about curriculas, who was responsible for defining – designing, reviewing and estimating their quality.

The study also interested to receive information on the role of practice in the preparation of students, their involvement in scientific research, promotion and further prosecution. For all these, there are interviewed several faculty deans of Tirana, Shkoder and Durres.

The interview with businesses contains structured questions, grouped under the relevant sections: type of business, the total number of employees, separating them regarding higher education, most frequent branches and professions, and some views of managers regarding the needs of labor market and their compliance with the needs of higher education.

4. ANALYSIS OF RESULTS

Analysis of results is intended to define the links that exist between different variables in consideration. Statistical processing of data was conducted through SPSS program by examining interdependence of factors, in accordance with the assumptions and purpose of the study.

Qualitative analysis was based on information obtained from interviewing deans in some faculties and directors (chief personnel) of some businesses. The data obtained were interpreted according to variables of interest to study.

Analyzing the data of three instruments, has resulted a specific connection between them and are provided recommendations and relevant alternatives.
4.1 Structure and politics of higher education in Albania

It is estimated that in Albania (in 2008/9) had about 43 thousand full time students in higher education and 20 thousand part-time students. There is a significant concern on how much these figures are low compared to most of European countries, especially the fact that enrollment ratio in higher education was only 11.15% in 2008/9 which distinguished significantly by 20-30% to other countries in transition (Bosnia-Herzegovina 19%, of Macedonia 23%, Serbia and Montenegro 24%, Romania and Belarus respectively 33% and 34%).

The university curricula cultivate real skills of the profession?
Teaching methods as well as the content of curricula of most university programs do not meet the future needs of society and economy. With regard to teaching methods and style, there is a trend that students have the information ready by asking them to reproduce more of it, instead of encouraging critical thinking. Regarding the content of courses developed in universities, they are often narrow and traditional.

However, even though they agree that the practice remains one of the most important aspects of a successful teaching, deans of faculties are aware that the quality of practice so far has been weak. They agree that it is the need for more hours of practice, but not articulate the importance of qualitative elements of the program.

As the students are involved in research work at the respective departments, deans say that this aspect has not found a stretch in the Albanian education system, although it is one of the most important points of Higher Education Law. Faculties do not have sufficient resources and capacity to do such a thing. In conditions when the teachers themselves are not sufficiently engaged in academic and scientific research, it can not be expected for students to be engaged.

Are higher education institutions associated with the business community?
"Unfortunately in Albania, nor the private sector or government with its agencies does not try to establish links with universities on institutional basis. They prefer to establish direct links with academic particular individual. This is double edged knife. From the viewpoint of the private sector, is one of the biggest administrative headaches to deal with the universities, than to work directly with individual academic - and personal contacts are important. For university academics, is also the simplest and most profitable way to deal directly with employers and there is not any obstacle to behave so. The unfortunate consequences of individual contracts are that benefits are limited to specific individuals and not serve to build capacity within the university as a whole."

When asked about links with businesses, faculty leaders recognize that there are some collaboration with various institutions and businesses, which are sporadic and disorganized.

Even in this regard, the deans remain theoretical and general in their verdict, reflecting the lack of vision and concrete plans on how to strategically intervene in changing the situation. The deans argue that it is need that graduate students to be pursued in the grades of their career after graduation, but actually something like this was not done and there was no indication or measurement of the real situation.

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4.2 Expectations of graduates in 2009: Survey
Their expectations of employment after finishing school

More than half of students (53%), with the completion of studies wish to continue postgraduate studies, looking at the same time to be employed. More than 30% wanted to work immediately. Only 8% of students would like to continue a second school, while 5% of them are still uncertain what they would like to do (Figure 1).

The desire to continue postgraduate studies, is most common to students with residence in Tirana, compared with those residing in their districts (Figure 2).

It seems that there is a difference between men and women regarding their preference for direction that should take after graduation. The desire to continue postgraduate studies (looking at the same time working), has been most common among females than males (Figure 3). It seems as if women are more inclined to search for further qualifications.

There is a positive, significant, correlation between what will predicted to happen in the reality after graduation and desire that all students have. No significant difference in perception “if we could find work in the profession”, in terms of residence/origin of students. However, seems to have more students from districts that express the uncertainty to make predictions for the future.
Students who think that they will be employed in the profession after graduation, as the main reason give confidence in their abilities in profession (31%), followed by the need that exists in the market for their profession (28%), and the dedication and passion they have to work (22%). On the other hand, the reasons why the students think that they will not find a job, are the lack of space in the market for their profession (57%), the fact the jobs can be found only with any support or through friends (23%), and the absence of supporting state policies (19%) (Figure 4).

Professional and other skills necessary for the real life

One of the pillar skills for which the university is responsible, is the proper theoretical and technical formation. Forty-three percent of students felt that the program/curriculum of their branch has not given them the necessary theoretical training, compared with 56% who think that the theoretical training has been sufficient (Figure 5). In a majority of 74%, students felt that the hours of practice in the program were insufficient to create the practical skills of the profession. Only 23% of students agree that the hours of practice were sufficient.

Reasons why students feel prepared for life are the possession of theoretical knowledge (58%), confidence in personal ability (18%), passion and commitment to the profession (11%), the experience gained in different work (6%) and practical skills that they possess (6%) (Figure 6).

Today's market requires that the work force have not only technical skills but also other important skills needed in the work process, as possession of foreign languages and knowledge about information technology. 81% of the students claim that they know fluently at least one foreign language and 82% claim that use better computer and Internet.

Support from the university structures

Most students (84%) say they were not offered advice and assistance for employment and careers. Only 9% of students expressed to the contrary (Figure 7). When asked if their department has expressed interest for the possibilities they have for employment, 75% of them think that this does not happen, versus 13% who say the department shows that interest and 13% are uncertain (Figure 8).
Following this perception, 81% of students felt that the department does not do any lobbying and does not take any action to ensure that they fit in the labor market, compared with only 5% think that the department is active in this regard. Meanwhile, 14% of students are uncertain.

Things that would make students more prepared for the profession would be, largely effective practice during undergraduate studies (49%), as well as carrying out postgraduate studies (36%) (Figure 9).

Even the state structures in general, are not perceived as supportive by the students. 78% of the latter think that respective structures are not conducting any operations to secure jobs for graduates (Figure 10).

Regarding the question, what would help students in finding a job, they rank the first knowledge and personal skills (29%), announcements in the media (21%), work experience and practice (25%), and postgraduate studies (25%).
Knowledge of labor market

46% of students confirm that they do not recognize the labor market for their profession, compared with 43% of students that say the contrary. However, it seems that there is a contradiction in perceptions of students regarding the market need for their profession. 82% say that the market needs their profession, while only 14% of students did not agree with this assertion. This discrepancy means that even though they think that the labor market needs their profession; they do not specifically recognize aspects of the market that will help them finding work in the profession.

It seems that students of engineering sciences are very convinced about the need that labor market has for their profession. They are followed by students of human sciences (philosophy, psychology, social work), 65% of whom think that the labor market needs their profession. About a third of law students think that the market does not need them, while 22% of them declared unsafe in relation to this matter.

Favorite Branches of Higher Education

If we will do an analysis of the labor force produced by higher education, based on statistics of 2008-2009 academic year, it seems that branch of the economy has been successful in business community. Nearly 48% of those who are employed in businesses have graduated in the field of economy (Figure 11). However, economic science in our higher education accounted for only 13% of the total. The same is also noted for engineering sciences that have found employment in 16%, but in our system of higher education in Albania, they represent only 4% of total students enrolled. On the other hand, for philological sciences we noted a discrepancy in the opposite direction, compared with those of the economy and engineering, which means that in this field are producing more work force than welcomed in the market.

Because of lack of data, it is difficult to do the same supply-demand analysis for the state sector. However, what is observed from the existing data is a growing need for staff with higher education, especially for specialists, while there is a decrease in the number of employees.

Business expectations of higher education

60% of businesses surveyed declare that they need people with higher education, against 40% who say they need more workers with different professions, such as construction and mechanic technicals.

Among the fields of higher education which businesses need are: economic (38%), engineering (18%), production technology (13%), design and arts (11.5%) (Graf. 12). 26% of businesses are fully satisfied with the capabilities offered by higher
education. 57% believe that higher education has partially fulfilled their needs. While 17% of businesses believe that higher education has little or no meet their needs. This means that the work force produced by higher education do not match the needs of the business community.

5. STRATEGIC ALTERNATIVES FOR HIGHER EDUCATION AND LABOR MARKET IN ALBANIA

What might happen in the future depends on decisions made today. Therefore it is very important to develop long-term strategies for Higher Education Sector. Following are some suggestions derived from the above analysis.

The study of existing models of other countries in the field of higher education and employment, and their adaptation in the context of Albania.

Different countries around the world, have applied different strategies for coordination of higher education institutions with the business community, with a view to integrating the work forces at the respective levels and profiles. Many are models that are followed. Thus for example in a study for Germany, it is evident that education systems give students clear guidelines for the market and its requirements.

If we refer to studies conducted in different European countries or the one in New Zealand, we conclude that in countries where there is a bridge between institutions of higher education and employment, labor forces have found themselves in the market, and feel satisfied, reflecting economic growth and rising living standards.

Based on the experience of these countries, there are three ways that complement one another, through which higher education institutions could help such a development.

First, securing the extensive degrees, including those multi-disciplinary, and promotion of the concept of "lifelong learning". This should always be in accordance with the requirements and needs of the labor market. Recognition and evaluation of the latter constitutes one of the most important points of this approach.

Secondly, what is offered by universities should include the mainly "basic skills" such as, problem solving, creativity, analytical thinking, etc., which usually requires major changes in the style of teaching and learning.

Thirdly, and most simple to be achieved, would be providing additional classes for all students, in key areas such as information technology or English, as well as the principles of entrepreneurship - that are more needed in economy.

As a conclusion, we can say that one possible solution to Albania would be the drafting of strategic plans for the development of relations, higher education - employment, borrowing successful models applied in the world, and their adaptation to social cultural conditions of the country, and then implemented in accordance with all the factors identified.

Coordination of liberalization of the universities with the needs of the market. Creating links to institutions of higher education with the business community.

Under this strategic alternative, Higher Education institutions will be able to compete globally, to achieve education and research services on a commercial basis. Higher education institutions focus more on what is considered to be profitable, than in teaching or research-development. Many segments of the market are driven by demand, with similar business methods (liability to customer needs, attention to effective
management and administration of institution etc). While prestigious institutions continue to be directed by the offer.

The extent of government support for employment programs to reduce international market competition and increase labor force compliance with the demand.

Most important functions that government must perform in terms of higher education are:

First, ensure that the legal framework is suitable for development and operation of the system - public and private.

Second, to ensure a certain level of public funding.

Third, what is related to the first two, having clear strategic goals for the sector and corresponding policies for achieving these goals.

Law on Higher Education has not provided a sufficient understanding of the need for increased autonomy and accountability, and better management of these institutions. So, it would be necessary to increase the autonomy of universities.

Involvement of stakeholders in the process of drafting strategies and policies by increasing confidence in decision making processes.

Based on this strategic alternative, higher education becomes inclusive by including an intensive network through institutions, students and the other actors like members of the business community. It is a model based more on cooperation than on competition. Cooperation of institutions and the harmonization of the systems allow students to choose courses through a network and to design their own curricula. In this case, students have greater autonomy.

Improving the curriculum and teaching process as an opportunity to enhance the quality of higher education by reducing the number of people intending to be educated abroad.

The need to develop new skills to students, such as analytical thinking and creative problem solving, would require a new approach to teaching style. This would be an important aspect of the quality to be achieved in the future. Changing attitudes will take its time and will require extensive retraining of current academic staff. This will be achieved only if there will be powerful incentives for change. This can be achieved through internal performance-based management, including changes in academic promotion criteria, the application of obtaining feedback from students regarding the performance of teachers, along with the fulfillment of the conditions imposed by the external accreditation process.\(^1\)

Action Learning - an innovation that Albanian Universities should apply\(^2\).

Albanian Universities should put emphasis on interactive learning, being distanced in this way, from the traditional learning/teaching (knowledge reproduction). This will be accomplished through a process of teaching divided into five stages: submission of the problem, the presentation of the method, the separation of the material, guided practice and extensive research. In this way students will not only learn basic concepts, but have also become critical thinkers in the area concerned.

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LIFELONG EDUCATION AND TRAINING - MAJOR CONDITION OF HUMAN CAPITAL DEVELOPMENT

Dina Maria LUȚ1

ABSTRACT

The extent of economic and social changes in contemporary society - a knowledge-based society - requires a different kind of approach to education and training. This type of society requires a reconsideration of the importance and role of human capital in society. It also requires a reconsideration of the role and importance of education and training. In the new knowledge-based economy, the basic factor of wealth is knowledge acquisition and use, not material factors of production. Investing in education and training systems is an essential condition for economic and social challenges of today. This paper presents some aspects regarding the role and importance of lifelong education and training in human capital development, as a major factor for continued and sustained growth. It also shows how the priorities on human capital are reflected in the policies of Romania's economic and social development, after EU accession.

KEY WORDS: human capital, lifelong education and training, European Union, knowledge-based society.

JEL: O15; J24

1. INTRODUCTION

Contemporary society is a knowledge-based society, an information society. In such a society, human capital is recognized as the fundamental factor of overall progress, and experts agree that long-term investment in human capital has strong propagation and training effects at individual, organizational, national, regional and international level.

Europe and the hall world face a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in European and global economy. In the meantime, the world is moving fast and long-term challenges – globalization, pressure on resources, ageing – intensify. Education and training are crucial to economic and social change. The flexibility and security needed to achieve more and better jobs depend on ensuring that all citizens acquire key competences and update their skills throughout their lives. Lifelong learning supports creativity and innovation and enables full economic and social participation.

Human capital, as a component of human resources, is today considered as the most valuable asset of the European Union. Lifelong education and training of human resources is now widely regarded as an essential component of development strategies in the European Union and also in the EU Member States. It is a major factor for continued and sustained economic growth, to improve competitiveness and employment.

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2. CONCEPTUAL APPROACH ON HUMAN CAPITAL

In the context of accelerating integration processes and globalization of economies is felt the need for terminology and indicators coherent, unified, summarizing the phenomena and processes relating to human capital issues. With regard to our country, adopting the communitarian acquir and alignment to the practices of EU’ countries, require a certain compatibility of concepts and methodologies. The approach of presenting a coherent notional package, start from two premises that have the character of economic and social science paradigms:
- in demographic, educational and formative terms, as a potential factor of production, the human capital is a component of the human resources and it shows the both, demographic and formative side of these resources and their actual availability to perform useful tasks, generating income; the human capital is the source of labour supply in the labour market;
- the human capital is a specific form of capital, which has its own characteristics and effects of training and enhancement, who made it one of the major factors of endogenous growth.

Human capital is defined as “all general and specialized theoretical knowledge, the skills acquired in vocational education and training or in workplace experience. This knowledge and skills are used by their owner in the creation of goods and services that produce revenue for both their owner and for society.” (Perţ, 2000) Therefore, the human capital shows the quality side of human resources.

In M. Armstrong's view, human capital is a component of intellectual capital. Intellectual capital is “the accumulation and flow of knowledge available to an organization” (Armstrong, 2003, p.47). They can be seen as intangible resources which, together with tangible resources (money and material assets), give the total value or market value of a firm.

According to Armstrong’s conception, intellectual capital has three components: human capital: knowledge, skills and abilities of employees of an organization, social capital: accumulation and knowledge flows arising from the networks of relationships inside and outside the organization, organizational capital (also called structural capital) is checked institutional knowledge held by an organization, stored in the database, manuals etc. This concept emphasizes the tripartite intellectual capital, as M. Armstrong noted, that although individuals (human capital) are those who generate, store and retain knowledge, such knowledge is enhanced by interactions between individuals (social capital), generating institutional knowledge that possess the organization (organizational capital). Although knowledge and skills of employees are those that create value, however, organizational effectiveness depends on proper recovery of human knowledge. This knowledge must be developed, collected and traded (knowledge management), to create organizational capital.

Defining issues, training, development and use of human capital has been a constant concern in economic and social thinking and practice, from classical economics and continuing with post-war approaches. Since the '60s, the issue of human capital has captured the attention of academics, practitioners and specialists in economic and social policy. Study of human capital has become so, new dimensions and meanings. The concept of human capital has been used since 1961 by T.W. Schulz who believed that "all human abilities are either innate or acquired. Attributes that have value and can be augmented by investment, form the human capital." (Schultz, 1961)
Theoretical developments around this concept were continued by G. Becker and J. Mincer.

However, the idea of investment in human capital belongs to Adam Smith. He suggested in The Wealth of Nations (1776) that the return on investment in vocational skills can be compared with earnings of investment in fixed capital (with the necessary limitations). In Chapter 10 of the book, the author states that "the person who was educated by a major labour and time expense, it can provide an activity to reimburse the cost of his education, with an ordinary income at least equal to the profit made by a capital of equal value." (Smith, 1962) Therefore, it is noted that education was treated as an investment, and educated person was treated with a form of capital.

Technical and technological developments in the second half of the twentieth century have led to increased need for specialists of different professions in all fields. Training was increasingly perceived and treated more as an investment. Consequently, early '60s marked the so-called "human investment revolution in economic thinking." Outlays for education were treated as investment flows that build human capital. Human capital theory, developed by Gary Becker (principal promoter), highlights the importance of education and training for human potential. The theory is based on a model whose assumption is that "education increases the productivity of those who have." (Becker, 1993) Therefore, education is considered an investment in people and this is a new hypothesis in relation to the dominant content of economic analysis.

This new perspective has produced controversy among experts (particularly Marxist economists). Because education was regarded as an investment, the question naturally arose: what is the profitability of this investment, so it can be compared with other alternatives? Such a comparison is useful to provide priorities for allocating public funds to different levels of education, to explain the behaviour of the individual or entity on demand or lack of demand for certain levels or types of education.

In the next period after human investment revolution in economic thinking have been made many estimates of the profitability of investment in education. Politicians and experts in economics admit, in their majority, the argument that investment in education, properly harnessed, is fundamental and also one of the most profitable investments to achieve a balanced and continuous economic, social and human development. Given examples of the contemporary world, must be made clear that education systems can become the main support of economic and socio-cultural development that meets the aspirations of a nation, but under appropriate conditions for such systems.

In terms of organization, human capital theory highlights the added value that can help people in an organization. Under this theory, people are viewed as assets, underlining the idea that investing in people will bring significant gains. Therefore, human capital theory is the base of human resource management philosophy which supported (as was developed in the 80s) that employees should be treated as an economic asset rather than a cost to the organization. This concept, under which employees are in the same category as equipment and material facilities, was regarded by experts as limited and questionable because employees are able to exercise active control over their professional existence. Investments made by employers in training and developing people is a means of attracting and retaining human capital and a way to get better gains from investments.

Human capital theory argues that it is possible to create and amplify differences between individuals through investment in training and education. Even though the
approach in terms of human capital approach was a breakthrough (he tried to justify the
income differences between individuals not only through inborn characteristics - the
natural qualities of the individual but also in terms of education and productive
characteristics acquired by human investment), the explanatory power of this theory has
remained low. Although we see a correlation between level of education and training,
on the one hand, and incomes earned, on the other hand, it can not argue convincingly
enough, the dispersion of income for individuals who have the same duration and
content of training. Differences in earnings are explained by variables correlated very
poorly. The two variables - the individual's innate characteristics and education -
explain conjugate the earning distinction, without being able to determine how much
each is owed. In addition to these operational limits of the human capital theory, its
assumptions have been challenged as well.

Key assumption of the theory - increasing productivity by increasing the level of
education - was attacked both directly and indirectly (through the organization and
functioning of the labour market). The result was the enrichment of human capital
theory and development of other theories on the subject.

One of these is “the filter theory” (Arrow, 1973), which emerged in the early
’70s in various configurations, by the contribution of several authors: Arrow, Taubman,
Wales. This theory holds that education does not add anything to the productive
characteristics of individuals, but only helps to highlight certain features (intelligence,
perseverance, work capacity, sense of discipline) appreciated by the productive system.

Another theory has come to enrich the human capital theory or to correct its
limits, is “the theory of attitudes”, which states that productive apparatus require people,
above all, the ability to integrate the division of labour system based on sharing tasks
and strong hierarchical control. Therefore, it calls for an attitude of conformism,
obedience, docility and acceptance for group work and for the control. Secondary
school is organized to develop these attitudes, while at upper levels it has a completely
different function, which is to prepare leaders - managers and innovators.

3. LIFELONG EDUCATION AND TRAINING - VECTOR OF HUMAN
CAPITAL DEVELOPMENT

Although the value of human capital or cost includes several components, the
essential active component is education and training. The extent of economic and social
change in contemporary society - a knowledge-based society - requires a different kind
of approach to education and training. This type of society requires a reconsideration of
the importance and role of human capital in the society and above all, education and
training. Investing in education and training means to promote growth, given that in the
new knowledge-based economy the basic factor of wealth is firstly, knowledge
acquisition and use and not material factors of production. Education and training is
now a global concept under which they are meeting all aspects of education and training
in the formal, non-formal and informal system.

The new knowledge-based society offers great potential for reducing social
exclusion and cohesion, both by creating conditions for increasing economic welfare
(the economic growth and employment) and by opening new avenues of participation in
social life. All these benefits carry a certain risk: the distance created between those
with access to new knowledge and those who are excluded, due to inadequate
educational and training system. Removing this risk can be made through efforts to
improve the competencies, abilities and skills, tackling unemployment and creating jobs. In current conditions, education, through its functions, is an important pillar of economic and social development, as far as meeting the requirements of society and to the extent that is capitalized by using the skills and qualifications acquired through learning. For this reason, education and training is enjoying a major concern and a priority position in EU programs, particularly in developed countries, in close relation to economic, demographic, social and political processes.

The right to education is provided in the Universal Declaration of Human Rights. Over time, content and meaning of this law have evolved quality, from initial education, to the lifelong education and training, as a result of economic, social, cultural transformation, and as a result of transition to the knowledge-based society.

During the period 1940-1960, the emphasis is on initial education, respectively, the acquisition of basic knowledge for the entire population of school age. The major objective of that period is the eradication of illiteracy in the world. Although there have been significant expenditure in this respect, the results were below expectations. During the period 1960-1970, the focus has shifted from initial education to basic education (preschool and primary education) considered fundamental and binding. This is the starting point of the ongoing process of lifelong education. Therefore, education can not be interpreted only as a means of tuition, but it is the basic factor of fundamental and lifelong learning, beyond the training in specialized institutions through training courses or work in the workplace, etc.

Since the '70s, the focus is, more and more, on lifelong education and training. If at first the initial education and continuous professional training were considered complementary concepts, those concepts were then integrated into a single concept that covers all aspects of education. According to Faure Report (UNESCO 1972), continuous education and training is not only a coherent system, but is the principle that underlies the organization of the entire global system of education and training and, consequently, the development of each of its parts.

The new concept of lifelong education and training appeared as a response, as an alternative to the major problems facing humanity, as a result of globalization, under new requirements imposed by knowledge-based society and knowledge-based economy. In such a society, human capital becomes a strategic asset and the investment in such assets is critical to economic and social development. Lifelong education and training is one of the major targets of the EU and this actually came as a result of the study and understanding of current economic and social environment and the challenges it posed. This concept was reconsidered at each stage of work on European Employment Strategy (EES 1997), as evidenced by the debates which took place in the European Council meetings in order to establish the strategy to be followed every year in this respect: the Lisbon European Council, March 2000, European Council in Santa Maria de Feira, June 2000, the European Commission Memorandum of Lifelong Learning, October 2000 and subsequent European Councils (Stockholm - 2001, Barcelona - 2002 Brussels - 2003, 2004, 2005).

When European Employment Strategy was launched, lifelong education and training was conceived as "all useful learning activity, permanent aimed at improving knowledge, skills and competence." (European Commission, 1999) This way of defining the concept, has created controversy in the debate to cast European strategy for education and training, considering that lifelong learning activities would have a restrictive, controversy finally led to a universally accepted definition: "lifelong
education and training includes all acquired learning activities throughout life in order to improve knowledge, skills and competencies in terms of a person, environment or civic employment prospects." (European Commission, 2002).

According to this definition, the concept of lifelong education and training includes all forms of learning and training, operated by the person during its existence: formal education, non-formal education, informal education. As stated in the European Commission Lifelong Memorandum, "lifelong learning ... must become the guiding principle of education and participation in continuous learning process. (...) Learning is the common umbrella under which all classes should be aggregated to learning and instruction. The implementation of lifelong learning requires that all work together effectively - both as individuals and as entrepreneurs." (European Commission, 2000)

Education and training are central to the Lisbon agenda for growth and jobs and a key element for its follow-up with the 2020 perspective. Creating a well-functioning "knowledge triangle" of education, research and innovation and helping all citizens to be better skilled are crucial for growth and jobs, as well as for equity and social inclusion. The economic downturn puts these long-term challenges even more into the spotlight. Public and private budgets are under strong pressure, existing jobs are disappearing, and new ones often require different and higher level skills. Education and training systems should therefore become much more open and relevant to the needs of citizens, and to those of the labour market and society at large.

Policy cooperation at European level in the areas of education and training has, since 2002, provided valuable support to countries’ educational reforms and has contributed to learner and practitioner mobility across Europe. Building on this approach, and fully respecting Member States’ responsibility for their education systems, the Council endorsed a Strategic Framework for European Cooperation in Education and Training in May 2009.

The Council set itself ambitious objectives in the Education and Training 2010 work programme. In turn, these support the achievement of the Lisbon guidelines for jobs and growth. These objectives can only be achieved by sustained long term effort. There has been a general improvement in education and training performance in the EU. However, the majority of the benchmarks set for 2010 will not be reached in time, while in the case of the vital benchmark on literacy performance is in fact deteriorating. Attaining these benchmarks will require more effective national initiatives. The economic downturn, combined with the demographic challenge, serves to underline the urgency of reforming while continuing to invest in education and training systems to meet core economic and social challenges.

The content and meaning of the concept of lifelong education and training, with its specific issues, vary depending on the existing diversity of national policy and markets policy at a time (supply and demand for education and training), and according to other aspects derived from national characteristics and priorities. Long-term goal of these systems is to contribute to full expression of individual personality, by acquiring a high quality training, by highlighting their traits and talents, by stimulating their development.
4. REFLECTING THE PRIORITIES ON HUMAN CAPITAL IN ROMANIAN ECONOMIC AND SOCIAL POLICIES OF DEVELOPMENT DURING THE PERIOD 2007-2013

Following the integration of Romania into the European Union, Romania's strategic objective is to ensure convergence with European Union member states, in terms of individual welfare of its citizens and large society. In macro-economic terms, convergence with the EU means ensuring a growth rate higher than the EU average for a sufficiently long time (tens of years). The experience of Member States which have achieved convergence with the EU shows that success is guaranteed if the state's role focuses on developing infrastructure to support development of economic sectors, according to the situation of the EU Internal Market and the global market. In other words, the state must establish, first, the prerequisites for the development of economic sectors and to avoid direct involvement in their development.

As stated in the Post-Accession Strategy of Romania -2007-2013, the general pattern of economic development is changing the promotion of economic sectors and increasing the share of value added knowledge-based sectors. State intervention in support of uncompetitive social sectors or protectionist measures do not contribute to sustainability and are proven vulnerable to the challenges of globalization. Development must take into account the competitive advantages of European trends and globalization in general. There will also be encouraged and stimulated sectors able to seize the opportunities offered by the Internal Market. Physical infrastructure development correlated with human capital development is the Romanian correct approach to these challenges (Guvernul României, 2006).

Therefore, human capital development is one of the major directions of future development of Romania, in order to ensure socio-economic development of European type. Convergence with the EU can only be ensured in the long term and requires the development of two major categories of infrastructure, the physical infrastructure and, respectively, human infrastructure. Developing physical infrastructure (transport, environment, telecommunications and energy) has long term benefits and also medium-term economic benefits, meaning that major investments are generating growth and lead to the development of related economic activities. On the other hand, investment in human capital (through education, training, lifelong learning, strengthening the link research - development - innovation, effective public health policies, social policies and modern occupational) ensure sustainability of economic growth, since an educated and healthy population is efficient and adaptable to the EU and globally.

During the period 2000-2010, the Lisbon Strategy, launched in 2000 and revised in 2005, has provided the framework for coordination between national and European measures in order for European Union to become "the most competitive and dynamic knowledge-based economy in the world, able to have sustainable economic growth with better jobs and more and greater social cohesion" (European Comission, 2000).

2010 must mark a new beginning for the EU. Economic realities are moving faster than political realities, as we have seen with the global impact of the financial crisis. We need to accept that the increased economic interdependence demands also a more determined and coherent response at the political level. Europe can succeed if it acts collectively, as a Union. Europe need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. The strategy "Europe
2020” sets out a vision of Europe’s social market economy for the 21st century (European Commission, 2010).

Consistent with the programmatic documents of the European Union, human capital development in Romania will be held on four main areas, listed in the Post-Accession Strategy of Romania, 2007-2013, as follows:

1. lifelong education and training;
2. research, development and innovation with significant impact on the economy;
3. increasing labour flexibility and security (flexicurity), improving labour market access by minimizing bureaucratic constraints, by the elimination of discrimination (based on sex, age, origin, etc.), social inclusion, social protection (social insurance and pensions);
4. improving public health.

In the context of ensuring convergence with EU member states, a particularly important role is the National Development Plan 2007-2013 (NDP) as an instrument to accelerate the process of Romania’s economic and social convergence with the EU. Its main goal is to just reduce swift socio-economic disparities between Romania and EU member states.

Priority number four in the NDP 2007-2013 is: "human resources development, employment, social inclusion and strengthening administrative capacity." (Guvernul României, 2005). The overall objective of this national priority is the development of human capital and increases its competitiveness on the labour market by ensuring equal opportunities for lifelong learning and by developing a modern labour market, flexible and inclusive, leading, by 2015, to sustainable integration in employment of 900,000 people. General objective and specific objectives of national development priority, "Development of human resources, employment, social inclusion and strengthening administrative capacity", is achieved through actions grouped into four sub-priorities: developing human capital, promoting full employment, promoting social inclusion; administrative capacity and good governance.

In the context of the NDP 2007-2013 was developed Human Resources Development Operational Programme 2007-2013 (Guvernul României, 2007), which sets the priority axes and key areas of intervention of the Romanian human resources. This program is an important tool in supporting economic development and structural changes, taking into account investments in human capital that will complement and give long-term sustainability of productivity growth. A highly skilled workforce with a high level of education, the ability to adapt to new technologies and changing market needs, is essential for a dynamic and competitive economy. Romania will promote active market policies to increase adaptability and flexibility of its workforce and invest in services for its productive capacity. It seeks to achieve such a high participation rate as the labour market as the foundation of a competitive economy.

Human Resources Development Operational Programme 2007-2013 supports the Lisbon Strategy in terms of achieving the objectives of full employment. In this respect, the programme aims to reintegrate inactive population in the labour market (long-term unemployed). Also, it takes into account the hidden unemployment in rural areas and the vulnerable groups. Of these groups, the main target group is the Gypsy population to be attracted into the labour market. For all these groups and also for the active population is mandatory lifelong education and training, to acquire human capital performance in the coming years.
5. CONCLUSIONS

Human resource development, sustainable integration into the labour market are possible, while promoting lifelong learning as a principle and framework for restructuring and development of education and training, to ensure consistency between the key skills and formal, non formal and informal learning.

At present we can not talk in our country, about an articulated training system and a coherent framework of qualifications applied to both initial training and lifelong training that allow partial certification qualifications, which requires implementation a National Qualifications Framework, by the end of 2010. In its current form, the formal education and initial training is not yet ready to meet the specific requirements of the knowledge-based society and of the European labour markets. School is still a lifelong learning resource center, but it is a provider of initial education. This limits the population of adult lifelong learning.

In conclusion, relying on the example of developed countries, we can say that investment in human capital has proved that is the most sustainable and profitable long term investment, with long-term beneficial effects of continued and sustained growth.

Therefore, in contemporary society, human capital is rightly regarded as the main determinant of economic growth.

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ASPECTS OF ENTREPRENEURSHIP IN CARAŞ-SEVERIN COUNTY

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ABSTRACT
The entrepreneurs are the leaders of market economy and their achievements provide society with wealth, jobs and diversity of choice for consumers. As a response to the public's expectations regarding the impact of business upon society and the environment, many large companies have adopted official strategies in assuming the social responsibility of the corporation. It includes offering the integration of social and environmental issues into the business’ operations and in their interaction with the shareholders, acknowledging the fact that a responsible business behaviour may trigger the success of a business. This behaviour may include for instance a commitment to produce in a friendly environmental manner or to observe the consumers' needs and to build a business in a friendly manner with the customer.

KEY WORDS entrepreneurship, economic fields, direct research, consumer

JEL: O52, M21, M29

1. INTRODUCTION
Entrepreneurship may also play a positive part in the process of health protection, of education development and of a good and efficient service providing; the social–economic enterprises encourage the participation of shareholders in this type of management and the providing of such services, encouraging innovation and customers’ orientation. Such an approach can enhance public resources and expand the scope of services supplied to consumers.

People's attitude towards the involvement in entrepreneurship varies in the EU member states, and the differences are even more visible among regions. On the average, the EU does not lack business owners. Anyway people’s inclinations towards the development of new entrepreneurial initiatives in the EU can be improved. By comparison with the USA, there is less entrepreneurial dynamism in the UE. The

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Europeans are less involved than the Americans in new entrepreneurial initiatives and the European businesses do not grow as fast as they do in the USA.

2. DIMENSIONS OF THE ENTREPRENEURIAL PHENOMENON IN CARAS – SEVERIN COUNTY

The persistence of a high unemployment rate in the EU is a pressing issue for some member states, which suggests that efforts should be made for a better exploitation of the creative potential of the entrepreneurial activity. Besides encouraging new entrepreneurial initiatives, the increase of the existing firms' potential would also be necessary.

The challenge for the EU is to identify the key factors for building a climate in which the entrepreneurial initiative and businesses may prosper. The political measures directed towards the strategies of economic development and globalisation should support the entrepreneurial levels of the Union, by adopting the most appropriate way to produce more entrepreneurs and to help more companies to develop.

In order to determine the development level of entrepreneurship in the WESTERN REGION of the country, more precisely in the CARAS-SEVERIN county, we have performed a direct research in the period May – June 2010, also involving students of UEMR under the co-ordination of the authors. The realisation of this survey aims at predicting the level of economic – social development of the Banat region.

In order to underline all the previous aspects, we shall make appeal to methods of direct study of entrepreneurship in the Western area of Banat, which are founded on getting the information directly from purchasers, i.e. consumers of the REŞIŢA town. In order to perform an efficient survey, we need first of all a research scheduling, establishing the necessary stages and resources in view of an optimum performance of the research and for obtaining the most important information required by the decision-making process.

The research performed was based on the QUALITATIVE STUDY / SURVEY passing through the following stages:

- Establishment of the number of interviewed persons;
- Sampling;
- Questioning deployment;
- Presentation and interpretation of results.

In our case, the interviewed subjects represent the population of the town of REŞIŢA compressed in a representative sample.

The sampling method we used is the method of quotas, i.e. a rational selection of individuals, aiming at obtaining at the level of the sample of a structure by genders, age groups and occupations identical with the structure of the town’s population, using for this purpose data obtained from the general presentation of Reşiţa’s population on 01.01.2009.

As for the form of research, we used the structured individual inquiry, based on a questionnaire made of 12 closed questions. The questionnaire comprises 9 content questions and 3 questions intended to identify the interviewed person.
3. CONCLUSIONS

THE CONCLUSIONS OF THE SURVEY may be synthesised as follows:

1. Most interviewed subjects think that the Banat area has remained representative grace to its mineral resources, and a small percentage think that the Banat area is renowned for its reusable material resources.

2. Most interviewed subjects consider that the optimum prospect for economic development in the area would be the development of tourism, whereas a small number of subjects think that this prospect would be a more intense involvement of the private business environment.

3. The majority of the interviewed subjects believe that the opportunity for the future for the heavy industry in the region is its conservation in the industrial park, while a few subjects think that this future opportunity for heavy industry in the area would be its replacement with other economic branches.

4. Most subjects think that after the Revolution the Banat region has known new development directives, such as the explosion of financial and banking services, whereas a reduced number of subjects consider that after the revolution the Banat area has known new development directives such as the growth of the civil constructions domain.

5. The majority of the interviewed subjects would recommend for the economic-social enhancement the following factors: development of the region through the implementation of European projects, whereas a few subjects would recommend for the economic-social re-launching a better support for the private business environment in the area development.

6. The majority of the interviewed subjects, if they had money, would orient themselves towards the economic domain of services providing, while a small number would orient towards the economic field of education.

7. Most subjects consider that the Banat region could be re-launched from the economic and social viewpoint in 10 years, while a small percentage consider that the Banat region could be re-launched from the economic and social perspective in 5 years.

8. Most interviewed subjects consider that for the development of the entrepreneurial spirit in the Banat zone one should attract foreign investments, and a reduced number of subjects think that for the development of the entrepreneurial spirit in the Banat area a high-performance management should be implemented.

9. The majority of the interviewed subjects, in the following 5 years, would like to have a job in the financial and banking field, whereas a small percentage of the subjects, in the next 5 years, would like to work in agriculture.

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THE REGIONAL ECONOMIC DEVELOPMENT AND THE LOCAL TOURISM

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Abstract:

Romania concentrates at a continental scale "natural and cultural interferences of European scale" of wide diversity, supported by the generous geographical frame: mountains, hills, fields, lakes, the Danube Delta, the Black Sea riviera etc. It is well known the fact that the uncontested picturesque of the various natural areas of Romania, completed by the real treasures of culture - sometimes of universal interest - constitutes the motivations for tourism.

The flow of tourists and visitors in different regions is, of course, determined by the attractiveness, the value, the number and the quality of the tourists objectives from the respective regions, but also by the level of knowledge and presentation, that is by the advertising and the ingenuity of its elaboration.

Very often there are situations - not isolated - in which some tourist products from countries with tradition in the field are "packaged" and presented much more consistent and sometimes even exaggerated compared to the real product value. The majority of the Romanian suppliers are not even at an average level from this point of view, thus the foreign visitors are still wondering that "a country so beautiful and with such a clean and generous nature is so less advertised for tourism" or it is poorly advertised, not emphasising the real elements of tourist potential (let's remind the recent scandal of the Leaf from the Tourist Brand of Romania: Explore the Carpathian Garden!). It is true that, objectively but also subjectively, the suppliers and the sellers of the Romanian tourist product are confronting with the lack of funds for promotion and for advertising (although the above-mentioned logo "consumed" over 900 thousand EUR). It is also real the fact that part of them have great deficiencies in the profession of choice, many times without the calling for tourism, in which, lately, everybody is an expert.

KEY WORDS: Regional, tourism, economic development, fiscal facilities

JEL: C42, C44, C82, L83

1. INTRODUCTION

The complex of negative factors (the status of the infrastructure, the outdated mentalities, the poor professional training, the economic crisis etc.), to which we add a certain inertia and/or superficiality of some local public administrations which means and defines the local development of tourism, explain the difficulties through which this branch passes, so dependent on the general status of the national economy.

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That is why the existence of a national program of regional development of the sustainable tourism is of utmost importance, identifying for the beginning with the priority objectives of some less evolved areas.

Thus, in the conditions of a well directed regional development, we consider that the first thing to do is to carefully train the persons who are involved in the organisation of the local, county and regional development. There is not sufficient statistics from this point of view; it has to be completed with the exhaustive identification of the local resources.

There are counties that have carefully inventoried, for truth and value, the entire natural and cultural endowment which they dispose of as tourist objectives, so that a re-evaluation of the heritage of priorities to promote or advertise is necessary, in order to properly determine the necessary funds.

Within the regional policy, regarding the revaluation at a European level of the tourist objective of value, correctly categorised in terms of attractiveness, intrinsic value, national importance etc., the financial means for their protection must be provided.

It is known that from ignorance, indifference and lack of education, the important elements of the national, natural and cultural heritage are left drifting, with uncountable repercussions.

In order to avoid this thing, I consider necessary the elaboration of a regional development project of tourism, which consists of:

− the identification of all the tourist objectives;
− the evaluation or re-evaluation of the tourist objectives on the grounds of their real value;
− their categorising as an opportunity for economic support and protection;
− recommendations on the promotion or improvement of the current promotion;
− the appreciation of the economic influences from their properly organised revaluation through tourism;
− the number of persons working in tourism and their level of training.

The quality of the tourist product is influenced to the highest degree by the level of education and professional training of the personnel involved in tourism, which determines the quality of the direct services. From the contact with the providers and the careful analyses of the evolution of the quality of tourism services, it is revealed that the evolution is very slow, in general proportional with the privatisation.

Until the change of the aspects connected to heritage, in the sense that the scales incline towards the private property, we can count only on the regulation of real quality and on control actions, organised especially regionally.

The strategy of the regional development, especially for the regions that consist of real valuable tourist objective, must take into account the fact that the increase in tourist flow, of any origin, positively influences the regional economy:

− directly, through the total of the money cashed from the tourist consumption (housing, meals, fees, shopping);
− indirectly, through the contact and the local bilateral cultural influences, the knowledge of the local economic values and of the eventual business opportunity, the employment of the workforce in the services field, the creation of a favourable image, the civilisation of the infrastructure involved.
We needn't insist on the direct influence, because it is obvious that the local money cashed from tourism may represent an important income for the community and for the region. We present only the fact that the tourist are the best customers for the shops network, the fairs with different profiles, the exhibitions etc., fact that, besides the direct cashing, encourages the development of the organised trade, the increase of the number of shops and their quality.

It is said that the best and most profitable advertisement for tourism is the one made by the tourist after his/her return home. His/Her impressions are shared with the family, the relatives, the friends, the acquaintances, who shall be tempted to benefit of similar holidays if the stories are exciting (the slogan "a good tourist brings other 10" is well known).

The effects of such an advertisement are very rapid from a tourist point of view and very penetrating in terms of the image which is created for the locality and/or the area (this is our local case: The Danube Gulch, which we cannot say that it has benefited from the favours of the promotion of the responsible persons from the Romanian tourism, on the contrary! Locally, the efforts made by the Association for the Promotion of Tourism Mehedinti-www.aptmh.tk or http://www.aptmh.tk/have managed to offer its well deserved place among the tourist destinations of European excellence - see the Pilot project coordinated by the European Commission http://www.destinatiieeuropene.ro/noutati/36-de-proiecte-concureaza-pentru-titlul-de-destinatie-europeana-de-excelenta-30/).

The prosperity of a region as an effect of the tourism development is manifested in more stages:

− immediately, as a consequence of the direct consumption of the tourist product;
− on a short term, through the continuous absorption of workforce and the encouragement of the aggressive trading;
− on a long term, through the focus on capital for investments in the general infrastructure and in the tourism's one, in accommodation structures for tourism and in the development of urban services.

The regional development must be correlated and must integrate tourism, necessarily, among the other components of the local economy, taking into account the fact that this clean industry, metaphorically named the industry without smoke, does not affect the environment and, in general, does not involve large investments. A good project of tourism development, comprised by the "regional development program", means less costly investments in this activity the more harmoniously the integration is performed.

Finally, we think that we must mention the influence - not at all negligible - that tourism has on the increase of the quality of life of the areas where it enjoys the attention of the public administration and it is treated with the proper professionalism.

The dynamic, the depth and the amplitude of the transformations from all the sectors of the economic and social life are reflected, among others, on the change in the economic structures, the hierarchy of the component branches in concordance with the requirements of the scientific and technical progress, with the rational exploitation of the whole potential of resources and the increase of efficiency, with the exigencies of the improvement of the quality of life. Major changes in the models of economic growth take place at the same time, by focusing on the intensive types, the fields of sustainable development, globalisation and integration. In this context, tourism is manifesting as a
social component, with a significant participation in the general progress and, not least, as a promoter of globalisation and a factor of the sustainable development.

Through its size and complex content, tourism engages a vast natural, material and human potential having profound implications on the dynamic of the economy and society, on the international relationships.

The sustainable tourism represents a distinct field of activity, a very important component of the economic and social life for a larger number of countries of the world. From an economic point of view, tourism constitutes as a main source of revival of the national economies of those countries which dispose of important tourist resources and exploit them properly. Its action is manifesting on a multitude of levels, from the stimulation of the economic development to the perfection of the social structure, from the superior revaluation of the resources to the improvement of the life conditions and last, but not least, as an important generator of work places. The unfolding of tourism means a specific request of goods and services, request that engages an increase in their production sphere.

The tourist demand determines an adaptation of the offer which materialises, among others, in the development of the material and technical basis of this sector, and indirectly, in the stimulation of the production of the branches involved: the construction and the equipment of the accommodation and catering spaces, the modernisation of the road network, means of transport, leisure installations etc. In this context, the main arguments which determine the necessity of the tourism development result from the following aspects:

1. The tourist resources being practically inexhaustible, tourism represents one of the economic sectors with real perspectives of long term development;
2. The exploitation and the complex revaluation of the tourist resources accompanied by an efficient promotion on the external market, can constitute a source of income
3. Tourism represents a safe market of the work force and of the redistribution of the unemployed work force from other structured economic sectors.
4. Tourism, through its multiplicative effect, acts as an dynamic element of the global economic system, generating a specific demand of goods and services which engage an increase in the production sphere, contributing thus to the diversification of the national economy sector structure.

Tourism and travels, seen as an intensely technological industry, can help Romania obtain and apply the technological systems of information and telecommunication at a competitive level. A larger part of the operations in tourism and travels - as well as all the virtual operations of sales and distributions - communicate through the telecommunication systems. The development of the electronic businesses within the current network of information society offers multiple opportunities for the elevation of the level of existing workplaces occupation, stimulates the economic development and the investments based on innovation, in the interest of the companies. E-business in tourism means only the promotion of the business on the internet and the on-line booking. By combining the traditional tourism activities with the modern approaches for e-business, the market share and the competitiveness can be increased, the costs can be reduced and the company's profit can be increased. E-tourism means the achievement of the traditional tourist trading activities through electronic means and, mainly, through the technologies based on the Internet, transforming the manner in which the promotion of tourism is achieved, the support of the resources management
and the concept of group marketing. The most visible form is the on-line purchase of group or individual packages of tourism products.

On a competitive global and more and more developed market nowadays, there is a great need for a powerful national branding of tourism management which could optimize the resources, could concentrate within a nucleus the interests - the public and private sector, the national, local and regional sector - and capture the tourists' attention. This will need a certain type of interest for a coordinated approach on marketing and distribution through the internet in order to optimize the vision on Romania. Of course, the development of such a facility must develop in parallel with the development of the internet and of the telecommunications at the level of the whole country. The recommendation of the World Tourism and Travel Council (WTTC) is that the Romanian Government follows the policy of an open market of telecommunications, which will generate low costs and services of better quality for tourists and tourism companies. c) The organisation and the finance of the communication activities - in many cases a destination is formed of numerous different offerers. The application of the cooperation between these and/or the strategic alliances are a strong instrument to cope with the competition of the large tourist companies with branches or activities all over the world. The public sector must supply the organisational frame which allows the creation and the good operation of a body for the trading of a destination as a whole.

Its main source is that of trading the region or the country as a tourist destination and to globally improve its image.

The harmonious development of tourism on the entire territory contributes to economic and social growth and to the mitigation of the unbalances occurred between various areas, constituting a very important source for increasing the incomes of the population. The policy of regional development mainly aims at:

- the reduction of the existing regional unbalances, with an accent on the stimulation of a balanced development and on the revitalisation of the less favoured areas (with a late development);
- the foreseeing of the new unbalances occurrence;
- the compliance with the criteria for the integration in the structures of the European Union and of access to the financial instruments of assistance for the member states. Thus the European Commission has declared its availability to finance the development of tourism, between 2007 - 2013, through the structural funds (the European regional fund for development, the cohesion fund, the social fund, the European fund for agriculture and rural development, the European fund for fishing). For the period 2007 - 2013 Romania will benefit from a financial allowance of approx. 30 billions.

The structural funds include the European Fund for Regional Development, the Cohesion Fund and the Social Fund.

A. From the European Fund for Regional Development, tourism shall benefit of a financial allowance through two operational programs, the Sectoral Operational Program Competitiveness and the Regional Program - Regional Development.

Within the Sectoral Operational Program Competitiveness, the funds are destined to the national promotion, the achievement of a national network of informational and tourist and specific tourist products promotion centres.

Within the Regional Operational Program - Regional Development, the funds are destined to the regional and local development of tourism through projects of
the local public authority and projects of the private sector for the increase of the quality of the services and the development of the tourist entertainment.

**B.** Through the Social Fund, the projects for the human resources will be supported, including the ones for the training for professions and jobs in tourism.

**C.** Through the Cohesion Fund, the projects for the infrastructure and the environment shall be supported; here we must include the projects for the management of the protected areas as well which imply the tourism component as well.

**D.** Through the European Fund for Agriculture and Rural Development, the projects for tourism which shall contribute to the diversification and the reorientation of the activities and the workforce from the rural space shall be supported. All these operational programs are working at the moment on the elaboration of the complementary programs through which the manners of access to these funds are set forth. We mention that ANT benefits from the European regional fund for development which shall be used for the promotion and the preservation of the cultural heritage, shall stimulate the private initiative and shall encourage the policies in the field, shall push forward the cross-border experience exchanges; the correlation with the governmental sectoral policies for development; the stimulation of the interregional cooperation, internal and international, which contributes to the economic development and which is in compliance with the legal stipulations and with the international agreements concluded in Romania.

Tourism represents a form of development of the rural areas, through the extension of the specific offer area and the creation of work places in the rural environment, other than the traditional ones, improving the life conditions and increasing the local population's incomes;

− The diversification of the local industry through the support for the constitution of SMEs;
− The development of the non-polluting industries connected to tourism and of consumption goods (craftsmanship, furniture, leather etc.);

Under the conditions of complying and promoting the principles of sustainable development, the local tourism constitutes a way of protecting, preserving and revaluating the cultural, historic, folk and architectural potential of the area (let's not forget the existence of the Iron Gates Natural Park, protected area which does not allow the unfolding of any form of tourism, but only of eco-tourism, offering numerous opportunities in this sense).

Through the adoption of a strategy of tourist sustainable development and through imposing some measures of protection of the environment, of the fundamental values of the human existence (water, air, flora, fauna, eco-systems etc.), tourism has at the same time an ecological vocation.

On a social level, tourism manifests as an active mean of educating and elevating the level of training and civilisation of the people, having a special role in using the free time of the population.
2. CONCLUSIONS

The Regional Development Policy aimed by the Romanian Government for the period 2007-2013 having as objectives:

- The reduction of the existing regional unbalances through the stimulation of the increase of competitiveness and through the revival of the less favoured areas.
- The balanced regional development through the correlation of the national public policies of sectoral development with the public policies of local development: infrastructure and transportation, the increase of the work force employment, the rural development, education and health, environment and sustainable tourism.
- The elaboration of a procedural normative frame that defines the components of different levels of strategic decision, the identification, the engagement and the solidarity of the local actors based on the partnership for the support and the actual achievement of the local and regional projects, the evaluation of the local human, physical, natural, economic, financial resources etc.
- The correlated development of the urban and rural areas through the cooperation between the local, county authorities, the regional councils and the regional development agencies to integrate the plans of local development into the regional ones and the monitoring of their implementation.
- The promotion of the public-private partnership in order to reduce the regional unbalances.
- The elaboration of a set of criteria for analysis and evaluation of the local public administration in order to identify and reduce the unbalances between these, through supporting the absorption of structural funds, the allocation of the state aid strategy etc.
- The insurance, for the local public administration, from the state budget, of the sums necessary for the preparation and the co-finance of the projects.
- The intensification of the cross-border and cross-nation cooperation at the level of the regions and the stimulation of the development of interregional programs in the field of infrastructure, the territory planning and of the hydrographic works, especially the ones through obtaining the European funds.
- The development of the human resources and the revaluation of the potential of cooperation with the private sector and the local educational system.
- The use of experience of the European banking institutions in the elaboration of the projects through the use of more community initiatives known as the "three J initiatives": JASPERS - Common assistance for the support of the projects in the regions of Europe; JEREMIE - The European resources for the small and medium sized enterprises; JESSICA - European common support for the sustainable investments in the urban areas.
- The adaptation of the legislation in order to mobilise the banking potential and of the warranty funds for the support of the development programs from a financial as well as the management expertise points of view.

It is well known that tourism implies commercial trading, commitments, development and cultural sustainability, for the tranquillity and the satisfaction of people' aspirations.
The world crisis means a moment of incertitude, but also opens immense possibilities. It is true that we confront with one of the highest economic deficits of the last half of the century, with an economic disorder, with the increase of unemployment and with the reduction of the trust in the market, all these generating a recession whose end is not entirely known. The fact that this crisis overlaps the problems caused by the climate changes, determines the big difficulties in the creation of new work places, in the imperious attempt to reduce poverty.

This crisis places, at the same time, a constant pressure on the tourists, but also on the employees of the tourism field and on the tourist market, threatening the policies and the current practices.

It is true that, for several decades, the tourist activity sector has known numerous come backs, confronting with serious crises because of natural causes or as a result of human activity. But, like Phoenix which revives from its own ashes, tourism has always proven a remarkable capacity to revive even stronger, demonstrating that it is a perfectly viable sector.

The re-launch is synonymous with this sector of activity. This economic crisis does not have very clear terms, but in tourism it is certain that a new state of mind is necessary. History shows us that the most difficult periods were also the ones that offered major opportunities. The leaders of the world, who have had divergences over a number of problems, are now engaged together in the battle against the crisis and work in harmony, unimaginable a while ago. They collaborate in the economic field, looking for solutions to reduce the effect of the climate changes, with disastrous effects on tourism, all in favour of a global development.

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APPROACHING THE IMAGE OF LAW AND ITS MEANINGS
BEYOND CUSTOMARY CLICHÉS

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ABSTRACT
The common note of interpretation methods is the relatively numerous attempts to analyse the main structural-phenomenology ideas, even sometimes on a comparison line with other law systems, for detaching the main directions and meanings of what they emit. It was stressed out the importance of the advanced hypotheses having relevance the innovative, semantic, conceptual, the integration of contemporary sciences data in the construction of the ontological principles of interpretation. The complexity of legal interpretation from the structural-phenomenology, perspective, of the ontological model of the interpretation principles has not rarely the occasion of expressing different points of view in their assessment, on certain sides even in opposition. Therefore, it was considered that the interpretation principles have an ontological character, characterized by a kind of form monism, their simply reading being telling, but for more clarity the content of each part should be shown.

KEY WORDS: globalization, law crises, judicial transplants, clichés

JEL: K33

1. INTRODUCTION

Positivist ontology type remake the science data, remaining in its rear, but it should not be forgotten other values of the ontological (let us call them anti-positivistic), proactive, constructive, useful in interpretative approach.

As a follow of this approach for a better understanding of the concept of law an analysis should be done for those elements or features essentially common to law and e.g. the law constants, giving great importance to the substance, content and form of law.

The etymology of legal rights suggests different meanings, being multi semantic, designate diverse hypostases and involved complex relationships. Therefore, the term derives from the Latin rectum, directum. This word relates accordingly to everything that is right - receiving thus the meaning of referral, guidance - and opposes to what is divergent from that line. Also in this context are to be mentioned different language ratios, but with more or less similar meanings as that term is seen as in other languages. In German, recht - send us to gerecht - just and to gerechtigkeit - justice. Therefore, the legal right is what is just. For subjective legal right it is used the term Berechtigung. In English, the right is designated as subjective and law is referring to the objective right. In French, the objective right is usually spelt with capital letters - Droit, and the subjective right is point out with lowercase letters - droit.

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2. TYPOLOGY OF EXPLICATIVE LANDMARKS OF LAW

It is important to achieve a right image and the significance thereof, beyond the blocks with which we are accustomed to, finding that due to its complexity, right may not be reduced to a single and unique representation. This was literally understood by ancient Greeks, when, to describe the phenomenon of law, they have recourse to personify it. Thus, in Greek mythology, we meet on the one hand, Themis, which symbolizes the law dictated by a power, and on the other hand, one of his daughters as a result of union with Zeus, Dike, which is embodying that law in action, concrete justice, implemented by people. (I. Isac, (2001)).

Theoretical guidelines of explanation are noticed in time and concentrated on the major current schools of legal thought (natural law, the German historical school of law, positivism, Marxism), in addition to any such legal thinking and thinking have had over the old ages and all over the world, an effervescent dialectics. In an attempt to establish a clear picture of how the right was set up and imposed we should refer to modern trends, which have exerted strong influence on the evolution of legal thought and philosophy of focusing on the idea of law oscillation between two current with all their variants: idealism and positivism.

Law is regarded as a system along with the applications structuralist method - the systematic regularity of knowing the organization and operation of the right as a system of social organization. Hereby it should be noted that the elucidation of this concept is particularly important in surprising the law substance. It can not exist but only as a system because legal standards as the basic cells, are set up in structures more and more complex in order to give the right configuration, which generates such order.

Starting from simple to complex it was observed that the legal standards as a common regulation, meet in the branches of law. In turn, branches of law are constituted as elements of the integrative system of law, component of the society. Giving a particular importance to the relationship between law and value, we must underlined the bivalent and reciprocal determinate links that are established during the historic old ages between these two essential concepts that are completing each other in a logical manner with the position analysis, role and functions of law in the finality of relations that are governed by them, relations which, necessarily, fall under the regulatory scope of other social rules (moral, religious, common, etc.) (Mihăilă Marian, (2005)).

2.1. „Law crisis”

It should not be omitted to mention of the phenomenon of "crisis" of the right, a phenomenon increasingly mediated lately, in the context of the crisis of other values (family crisis, culture, political crisis, the crisis of ideologies and institutions, etc.). Analysing through this the new paradigm of law, noting in each historical era, founding that it produces, through its social practices, by its language, through its provided experience an imaginary structure called paradigm by historian and philosopher Thomas Kuhn. What causes the change of this frame of reference, its movement, is changing people's vision as a result of accumulating new feelings and experience. In the legal field, the crisis is determined by the relative discrepancy between the apparent irreducible complexity of social change and the acceleration of its rhythm, on one hand and a rigid, formal legal system, on the other hand.
Law “crisis” matches” the state “crisis”, both of law, and of the providential. The state no longer dominates a reality becoming more and more varied, making use of uniform regulatory scheme or too general, which affects the unity of the legal rule and affects the legitimacy of law (I., Pârvu, (1981)).

It is imperative to decode the concept of law also by the attempt to correctly define this notion, but not before presenting the justice as a foundation, a basis of law, starting from the fact stated by great philosopher Aristotle, who said in his “Policy” that "the right is the decision of what is just". Obviously, the attempts of theorists to define the law are numerous, but this approach should take account of the notion that any definition can not express the phenomenon fully and perfectly under the definition, as a following of the the problems of abstraction and essence of which the law is subject to.

Determining the permanent of law is a constant concern of the doctrinal, the axis around which revolves the legislature and the major objective of the law applicant.

The analysis made for of the concept of law brings its contribution to the completion of positive emptiness law through a continuous process of adapting the law to the reality of social phenomenon. Along with the domestic law, the international law is conditioned and is a subject of interpretation of law by various members of international society. Contemporary system of international law produce sensitiveness on the view of civilized nations regarding the universal eternal values: equality of states, people freedom, unity and responsibility of the states for the future of humanity, righteousness (justice) etc. between peoples. International legal consciousness is deeply marked by the general principles of law, pre-existing to the fundamental principles of public international law. Around the law idea the internal and international juridical life is developing.

The concept of law is a matter of extreme resonance in legal thinking the rebirth of natural law is both a revival of the concept of law, major part of human nature (conscience). (M., Rosenfeld, (2000)).

Regarding the configuration we uncounted the natural environment in a broad sense, the socio-political frame, including the economic component, ideology or all prevailing beliefs and fundamental values in a society (in this category is included also religion), other social structures, the human factor and not at least the phenomenon of globalisation, which, because its scale and complexity effects may be considered as an important factor of the current configuration of the existing law.

2.2. Configuration of “judicial transplants” in the globalization age

Closely related to the issue of globalisation is the legal transplants problem and on a more general plan, the "portability" of concepts and legal institutions, which should be addressed in considering the practical relevance of our law system. Legal transplants are multiplying exponentially in this globalise world. Countries of the former socialist bloc and the development countries of the Far East or Latin America imported legal solutions from the Western legislative orders with the pragmatic purpose of promoting the economic and social development. We believe that the legal issues of transplants is a very current aspect for the Romanian law, it can provide a comprehensive study material in this area, given the fact that an overwhelming proportion of our current legal framework consists of legal rules "imported from ..," or "imposed" by the order of the community or the Anglo-American system.
The development of a theory of legal interpretation involves the building of a system of statements that constitute an explanatory model about something from exterior, i.e. to explain the field. This system includes basic concepts and principles of interpretation, on the one hand, and on the other hand, sentences and concepts derived. Legal theories have a specific component that shows a direct observational and a dual significance, factual and normative. (H., Rabault, *Le problème de l’interprétation de la loi*, Référence électronique).

The problem of legal theories terms is one relating to the meanings production and fixation derived from interpreting the legal, regulatory, and their exterior. These meanings can be thought as not only regarding the functions of terms within the deductive and inductive organization of such theories but also that of their participation in legislation and case law.

A characteristic feature of contemporary scientific knowledge is focused on construction, testing and application of scientific theories. The problems are formulated within the framework of theories in which are developed or summarized assumptions, that can only be validated through the test of theory and then as a following within their framework it is incorporated the significance of rules and their analysis. The main meta theoretical categories are such defined as being in relation to the overall ordered assumptions that constitute a theory. Action itself as far as it is based on rational it is built up upon a scientific theory.

What we should point out is that right, not concept nor operational, it is not the amount or the rules system caught by the hierarchy of normative acts, but much more - it is the justice that the legislative authority seeks volitional and interested to catch, to capture and to determine it in some way.

Being the first structural element of positive legal order, the legal rules defined through the entire as a public rule of conduct, general and impersonal, aimed to inter subjective exteriorisation of private conscience erected in its universality, creating ultimately a typical behaviour on individuals in agreement with the followed social model, required under the legitimacy of its collective consciousness level and that on need may be brought out by coercion.

The interpretation principles along with the law ones are the ideation and deontic source of legislature in the norm process of social relations and are requirements that exceed the legal boundaries of the rules in the commission of justice. Or, as M. Djuvara says, "... the interpretation of positive law must be above all dominated by the imperatives of justice. The judge, who in the name of positive borders is narrowed by a strict sense only extracted from the text and makes abstraction from their supreme reason for being, namely justice, commits a mistake which is a crime against the law itself".

Explanatory value of the principles of interpretation lies in the disclosure of rationale founder of social values, they contain the grounds of evolution and transformation. Unlike the principles, teleological explanatory value of legal norms is quite secondary, their purpose being to preserve and safeguard the social values beyond the reason of explaining their existence.

Legal rules are the "coat" of the principles of interpretation, even if they do not have the power and scope of the absolute content for those. Therefore, we can appreciate the law principles and the legal interpretation ones with precedence and superiority over the new texts of law, legal regulations themselves. Obviously there are principles that are brought in the last analysis for the texts of laws themselves and
therefore are based only on them. But there should be other principles, such as those that rely on legal interpretation and other that go beyond the law texts because otherwise the right would not move forward, being still in place, and could no longer receive any application. (Del Giorgio Vechio).

It is true that in a sea of positive rules, the supreme principles that rationale impose does not appear at first sight, they remain of obnubilate be the interest of interpretation of technical rules itself. But it is sure that the interpretation principles are losing any meaning without the ideas that underlie them. (H., Rabault, (1997)).

3. THE NEED FOR AN INTERNATIONAL AUTONOMOUS JUDICIAL ORDER AND OF STATAL JUDICIAL SYSTEMS

Positive law is always based on higher principles when issuing his headquarters, which can not be understood only by the light and principles of legal interpretation. Between principle and rule of law is not only an unequal importance, but also a difference in kind. “Therefore, the principles unify the rules and give them rational basis, without them the rules do not receive the respect and principle free of rules remain without enforcement”. Gheorghe Mihai categorically states that the principles are not rules because they do not have a source of laws and penalties attached to them; "... if a principle is required, then it loses its characteristic theme. Instead, a binding rule even if it is called a principle, performs the role of what is right."

Principles, whether of law or fundamental or legal interpretation, are components of the ontic plane of legal reality of society and are the ideate precursors of legal rules. Legal rules are the components of the deontic plan of legal reality, which lose their sense outside its premises.

On the basis of legal conceptualism, an intellectual controversial process that raises many interpretations is the relationship between fiction and principle. Fiction is actually defined as a distortion of reality, but a "necessary evil" for the preservation of order and legal certainty. R. Ihering has brought the most complete explanations, after A. Vălimărescu on the role of fiction, convincingly illustrating the trinity of law principle - rule of law - legal fiction.

Thus, I consider that fiction raises a triple function: dogmatic, historical and logical-sociological. Historical function of fiction is to introduce some new rules of law, but without building a new principle, but only considering that some cases fall within an old principle, although the work is inaccurate, and only to change the principle. The historical role of fiction specific to conservative countries, responded with the safety requirements of social and state order. The prestige of law could not be broken through the continual change of its fundamental principles.

The dogmatic function of fiction is to keep the logical unity of the legal system. A legal system must be logical and coherent, and innovations must be made, of course within the limits in the framework of existing principles.

The logical function of fiction also implies the preservation of unity and coherence of a legal system. The sociological function of fiction is to maintain security and stability and to promote the idea of legal principles. Any legal system must be considered as closed or complete to the extent that any dispute can be resolved by recourse to the legal system. It is open, or permeable, in that, according to its own rules of transformation (change) may incorporate rules from other systems or maintain other revealed reports (eg., subordinations ratios). The only
exception is a set of constitutional rules that make contact with international law: the rules that define the powers of the state in matters of international treaties virtually and indirectly. Typically, constitutional intern rules that relate to international law create a screen between them and the subjects of domestic law. (S., Bellier (2007)).

The consequence is the absence of any potential conflict of rules between the two systems because they present themselves to the analysis as complete or closed systems, which de plano excludes the conflict rules. But from the autonomous nature of law it does not necessarily result the thesis that the two types of legal order can not communicate, or that they are on a horizontal level, of absolute equality. Autonomic does not mean impenetrable or impermeable. If you look at the practice of some states that formal (constitutional) are dualist, we see that dualism remains more a principle than a legal reality.

Dualistic primary premise is that international legal order and state legal systems are necessarily autonomous because the rules of each system has specific conditions of validity, being applied to different legal subjects and in different situations. An international treaty, for example, is addressed more often to the state bodies and currently does not confer international rights and obligations of other subjects of national law. In the absence reception mechanisms the effect of international rules for individuals and businesses in the internal system is null. Monism, however, has two variants, a radical one, which asserts the primacy of internal law over international law and which today represents a not sustained theoretical position, primarily because it has no support in the current positive law, and one that states the primacy of international law over the internal law that has its support in the practice representative states of the international community.

The most prominent representative of the theory of monism with the primacy of international law remains Hans Kelsen. The internal rules derived from international norms that determine the powers of the states, as such they can not be contrary to their content. This is essentially the argument. We should not understand there as sometimes happens in alder or newer Kelsens'analysis, that Hans Kelsen was not aware of the dualistic reality. Kelsen's monism is "politically oriented" to the extent that eminent jurist was involved in building peace after the Second World War. (A., Văllimărescoți, (1999)).

Monist perspectives served as a coherent theoretical support for the centralizations to be established in the international legal system, and to that the monism with the primacy of international law try to build a theoretical basis for legitimacy. You should not ignore, however, the fact that dualism has dominated the entire interwar period, and the Permanent Court of International Justice was strongly influenced by dualistic doctrine. Currently, even if the practical and moral reasons require monism with the primacy of international law, the various national solutions that are observed in the constitutional practice of states show that the rule of international law in its relations with the law is indisputable for international jurisdictions, however, sometimes remain purely nominal for state courts.

In the current system of international law, despite the fact that monism which asserts the primacy of international law has gained enough ground in theory, he does not provide a model for descriptive adequacy ratio between systems. It is naturally, because in the radical variant, involves however, a level of centralization that international law is still far to be reached. In other words, the effectiveness of monist theories is a relatively low even in states in which monism is declared constitutional (International Law is Law
of the Land), for example in the United States, case law and doctrine distinguished self-executing treaties from those who do not possess this character. This is due to the fact that as long as the state, within its territorial jurisdiction, it is not claimed as an international illicit, the two systems are maintained in an irrelevant report.

Internal law of a state is considered his reserved powers, while it does not defeat rules and principles binding erga omnes. In addition, in the absence of international complaints that accuse the illicit of rules in conflict with international rules of this type, the states remained with a considerable free movement.

Monism and dualism put in this way the centralization of the international system. It is clear that all the central subjects of international law are illustrating the effectiveness of monist theory. Meanwhile, dualism is not completely without legitimacy because it reflects the decentralized level of international relations and international law.

In conclusion we can say on the one hand, the relative autonomy of national and international systems because the rules that are contrary to international law can not be voided in general in domestic law order and remain un opposable in the international order, and on the other hand, the systems interaction because the international law incorporated sources within some of its formal spring rules from the state rules, but there are a relatively small number of international rules of law with direct applicability in the sphere of state competence, the so-called self-executing international standards.

Because there is no rule of positive law of supra ordination the systems, usually the applicability of an international rule in internal law involves reception procedure. The effect of this special operation consists in transforming the international of the rules into a internal character. As Heinrich Triepel observed, by reception (even by the most pure reception, which leaves unchanged the international rule content) international law is transformed into domestic law, because its validity source (its legal spring) is one of domestic law (the law of ratification) and not one of international law. (M. Virally, (1964)).

4. CONCLUSIONS

Between international law and national law there may be references in that it stated a rule X of a system refers to a rule or a definition of the other Y system. These references are sometimes mutual. From the perspective of international law, monism and dualism are constitutional positions that reflect national concepts of the field reserved for sovereign states and the attitude towards the phenomena of international legal centralism.

Therefore the distinction dualism - monism, far from being obsolete, remains a permanent solution of national attitudes towards international law. Trying to interpret the materialistic monism of particular philosophers like Aristotle’s ones could encounter major difficulties arising from the characteristics of the latter: dualistic ontology and philosophy, with strong inclination towards idealism. In Aristotle there is not an ontic priority (or ontological) of matter, shape or form or no form, but possibly a logical precedence, no matter or form, as principles, are not in a precedence or posterior relationship ontologically speaking.

On the contrary the fundamental presupposition of materialist monism is the ontological priority of matter over consciousness, spirituality, etc. ideal. Matter has in
this concept an first ontico-ontological character, without derivation, consciousness being ulterior in the order of appearance in the bosom of existence.

Aristotle’s dualism postulates somehow a parallelism of principles, a ipostaziere: their interaction is somewhat forced, even if it is presented as natural. The principles are constituents to existence, but relations between them requires a careful examination, the option to monism, dualism or pluralism assumptions being made referring to a philosophical concept. Then, categories and fundamental ontological of existence are semantic and epistemological defined by Aristotle’s concepts, which are likely opening the way to an ontological and methodological dualism.

Limits and interpretative differences that I have tried to briefly analyse have their applicability in the context of political-ideological period, which in any case can not be abstracted. Moreover, the used terminology is not a sufficient basis for an assessment of concepts, especially when in ages of juncture, thinkers are forced to choose approved names or in any case, the least suspected one for the dominant political regime.

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PROPOSAL FOR AN ENTROPIC APPROACH OF THE VALUE OF INTELLECTUAL CAPITAL

Mirela MINICĂ¹

ABSTRACT
The paper attempts at providing a definition of the intellectual capital in the context of presenting the main methods of measuring the intangible capital. By highlighting the micro and macroeconomic aspects of the intellectual capital, the authors aim at introducing an innovative approach of this capital from the perspective of the entropic law of value.

KEY WORDS: intellectual capital, intangible capital, the law of value, low entropy

JEL: J11, J21, J24

1. INTRODUCTION

The notion of intellectual capital has been rather recently taken over by economic sciences. It risks to be mistaken with that of human capital or labour resource.

1.1. Definition of intellectual capital

We shall start our defining effort from the assertion of Thomas Stewart, ex-editor at the “Forbes” business journal who describes the intellectual capital as “something that cannot be touched, but which can easily make you rich”.

Dr. Karl-Erik Sveiby² points out the present changes according to which “to be rich in resources acquires a new meaning when the energy and knowledge of the population become the only value-generating resource”.

In general the term of intellectual capital is used with reference to the intangible goods or tangible production factors used by companies, which have a major impact on the performances of most of the successful businesses, even though their value is not found in the accounting balance sheet.


The market value of a company is thus given only by the following elements:

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² Sveiby is considered the founder of the Knowledge Management, being the first who realised the application Tango for business knowledge simulation.
Creating value represents the fundamental goal of any human activity. Due to a strictly materialist conception, the elements from the right of the diagram do not have a unitary system of measuring and are highlighted only intuitively in the appreciation of a business market value.

The concept of intellectual capital and its implementation impose a new perspective of strategic management, a new taxation system, new management methods and a new measuring system.

Leif Edvinsson\(^1\) starts a new research direction, considering the present system of measuring and bookkeeping the economic information both at the level of companies and at national level as being incomplete, as long as that value of the intangible capital is ignored. How can the governmental decision-makers be convinced to invest in the human capital, to provide fiscal facilities for the investments in intangibles if these expenses are not recovered in the future, based on certain revenues?

The very incoherence of a measuring system for these elements generates confusion and an insufficient appreciation of the created value.

1.2. Method for measuring the intangible capital

There are several approaches for measuring the intangible capital, among which, in chronological order, we should mention J. Tobin as the first who materialised his preoccupations in the ’50s by introducing the “q factor” as the ratio of the total market value of the company per its accounting value.

These preoccupations were continued and detailed as regards costs and bookkeeping of human resources by Flamholtz (1985), Johansson (1996) and in 1989 Sveiby introduced the “The Invisible Balance Sheet”, the Swedish reference model for the approach of the “family” of capitals: human capital, organisational capital and relational capital (customers).

\(^1\) He was the first Director of World’s Intellectual Capital, CEO of Universal Networking Intellectual Capital
The model was improved by Sveiby (1997) through the Intangible Asset Monitor which selects certain indicators of correlating the strategic goals of the company with the purpose of measuring four aspects of value creation (growth, amortisation, use/efficiency, and risk dissemination/stability) from the perspective of three categories of intangible capital: employees’ competencies, internal structure, external environment of the company.

Skandia Navigator implemented by Edvinsson and Malone (1997) starts from the analysis of 164 indicators (91 of intellectual nature and 73 conventional) in order to measure the intellectual capital from the following perspectives: 1) financial, 2) of customers, 3) of process, 4) of replacement and development, 5) of personnel.

This model was continued in 2004 through the MAGIC project, partially financed by the European Commission.

Bontis introduced the National Intellectual Capital Index in 2004, an adaptation of Skandia Navigator at the level of nations. Thus, public health and education are assessed as components of intellectual capital and thus generating value.1

2. THE HUMAN CAPITAL

2.1. The microeconomic approach

For the transition from the industrial era to the knowledge era, the human capital becomes the engine of transformation.

The human capital includes all the employees with all their individual and collective knowledge they have acquired under the form of abilities, capacities, behaviours, experience and emotions.

The employees become human capital only if they are able to transform their knowledge and aptitudes into action (in accordance with the company’s goal) contributing to the creation of tangible and intangible value (added value, new customers, an enhanced image, more efficiently organised activity, innovating and improving the goods and services, functional partnerships).

Competencies have two sides, i.e. professional (according to which the employees are able to make efficient decisions), and social, related to habits, behaviours, abilities of communication and adaptation to the organisational culture, emotional competencies.

The collegial relations with customers and partners generate value via the synergy effect of teamwork, of participating management and belonging to professional communities, aiming at the exchange of expertise and knowledge for a continual learning and improvement.

Collective values are at the basis of organisational culture. The employees must be inoculated with values such as: loyalty, honesty, responsibility, commitment, values oriented towards the support of goals and personal ambitions towards the company’s needs.

2.2. The macroeconomic approach

“If in the future you lose or win depends on the manner of obtaining, leading and using the information” (Bill Gates)

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The human capital of a nation has a potential value, becoming operational, generating value, only if the mechanisms of the labour market allow its implementation. The labour market is a market with an imperfect competition, powerfully settled, in which the process of negotiation among the owners of supply and labour demand is in most cases guided and not mediated by the governmental organisms.

The major macroeconomic lacks of balance (unemployment, inflation, deficits, indebtedment) increase the human capital losses at the national level.

The public investment in the labour force realised through the educational, medical, defence and security systems can be recovered and will generate economic growth only to the extent to which the qualified, motivated and efficient labour force produces marketable and competitive useful final goods and services.

At the level of individual investments (of households), any forms of human capital (family education, school training and lifelong learning) are justified only to the extent to which each investor in human capital recovers his costs through higher revenues, safety of the workplace, and of revenues (reduction of unemployment risk, social security, pensions), high living standard and equitable relation between the labour time and leisure, that can allow the maintaining of the physical and psychical integrity of each individual.

The mere axiom of the education-living standard correlation is no longer limited to a certain territorial area (connected to a certain national economy), the free circulation of persons and implicitly of the human capital generating “free exports” of competencies, knowledge and abilities from the less developed countries to the advanced ones.

This flux of human capital will contribute, in the future, with a much more important weight to the reduction of the national wealth than any other form of net negative export (imports higher that exports at national level). The fact that the stock and capital flux of human capital at the national level cannot be assessed yet according to a unitary methodology allowing the comparison among countries does not justify the ignoring of this tendency, with major implications on a long and medium term.

From the viewpoint of organisational capital, the functioning of the system of national economy supposes the observance of certain ethical and moral norms in economic, political and social plane.

The institutional component of this system involves relations of subordination, transversal co-operation and functioning mechanisms based on the dynamics between freedom and interventionism.

As by definition the public sector comprises activities whose results, i.e. the public services, do not have monetary value on the market\(^1\), it is difficult to implement the institutional mechanism of profit and bankruptcy.

In Mises’s conception, the private sector is defined by the management for profit, and the public sector by the bureaucratic management,\(^2\) which creates the germs of an antagonism that can generate losses at the level of organisational capital.

From the perspective of the relational capital, it can be predominantly integrating or predominantly differentiating. The relations of economic-social nature among diverse entities can generate evolutionist synergy or on the contrary they can be the source of conflicts and inequities (social polarisation, poverty).

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2 Ludwig von Mises – Bureaucracy, Centre for Futures Educations, New York, 1983
Each of the three components of the intellectual capital: human, organisational and relational, have a certain importance only taken together, without being able to realise their hierarchy. Plastically speaking, the human capital represents the structure of strength and resistance, the organisational capital sets the distribution rules between matter, energy and information, whereas the relational capital identifies the nature of interior relations and of relations with the exterior of the system.

3. THE INTELLECTUAL CAPITAL IN THE CONTEXT OF THE LAW OF ENTROPIC VALUE

The holistic approach of intellectual capital, based on the elaboration of a disciplinary matrix, is imposed in the context of an economy based on knowledge. The present is nothing else than the past conjugated in the future tense.1

In this context, the present crisis is the consequence of a major deviation from the requirements of the law of entropic value according to which the existence of value does not derive from the stationing of products in stocks, but from a continual process of transformation.

Education and technological innovation, in other words knowledge management generates economic growth and improvement of the humans’ living conditions.

The economy is the engine of human society, but its research and interpretation can be made only in the context of the general laws of Nature.

The law of entropy formulated by Clausius in 1865 may be synthesised as follows: the transformations taking place in open systems are done with losses, the useful results for the respective systems being smaller than their entries.

The transformation is the existence mode of the economic potential and thus of value.2

Entropy3 expresses the measure indicating the degree of a system’s organisation. A low entropy is a necessary condition for a thing to be useful.

From the purely material perspective, the economic process is entropic, it neither creates nor consumes matter of energy, but only transforms low entropy into high entropy.

The approach from the entropic perspective of intellectual capital and of other intangibles opens new research directions.

Man cannot penetrate the cosmic dimension of time and space and cannot reach too far into the macrosoms, because its way of thinking is not integralist. One analyses the individual elements, without understanding the mechanisms of correlations of the ‘matter, energy, information’ type. For us only the material form matters, and not the subtle or immaterial form, and although we are not able to quantify the latter, this does not mean that it does not exist, or that it does not matter.

The economic value generated by the intellectual capital and low entropy is a relation of the same type as the ‘price-economic value’ binomial. The water-diamond paradox is typical for proving the limits of our way of thinking and of the theories of value it generated in time.

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1 Paul Bran, Economy of Value, Economic Publishing House, Bucharest, 1995, p.139
2 Idem, p.13
The real “product” of the economic process does not consist in a physical flux of waste but in the “pleasure of living / la joie de vivre”.¹

It is useless to invest in the human capital in order to become more and more performant or in super-efficient organisational structures, aiming at generating an informatised and dynamic relational system, if the individuals loose the essence of their existence, which is ‘la joie de vivre’, as the French put it, meaning the joy of living.

Irving Fischer identified as factors with direct action upon the daily pleasure of living the largest quantity of consumption goods possible, as much leisure as possible; among the factors triggering its reduction he listed the prolonging of labour time and the extra efforts that must be made (which are stress-generating).

In the economic analysis the notion of income is thus associated with the psychical flux of the individual. The distribution of revenue, under its form of real income and leisure, has become a social issue.²

The individual aims at increasing the income it can claim in accordance with his present positions and with the norms of distribution of income, through two methods:

- Searching for the modality of qualitative improvement of the means he already possesses;
- Increasing his share from the stock or flux of social means, i.e. by changing the existing distribution relations.

At the microeconomic level the ecofield that surrounds the enterprise grants value a social dimension … in motion.

According to the theory of entropic value the factors engaged in obtaining the value come from the natural environment, society and the system of the enterprise approached from the perspective of production and consumption.

4. CONCLUSIONS

The theoretic effort of authors attempted only a brief review of the role and importance of intellectual capital, aiming at highlighting the necessity of issuing new paradigms from the perspective of an entropic approach of its value.

In order to transpose the theory of entropic value to the specificity of intellectual capital, in the future the authors aim at forwarding a new direction of research in cooperation with all the interested colleagues.

In order to do that, the following steps will be necessary:

- To realise a symbolic generalisation of the potential and factors of influence;
- To identify the weight of the factors engaged in the obtaining of value: the natural environment, society, the system of the enterprise;
- To forward a new paradigm able to provide solutions for solving the main problems encountered by the management of the intellectual capital.

The matrix of the present ecofield is not favourable to the radical economic reform, ³ precisely due to the fact that it should correspond to a free market economy with wide social and ecological features.

² Idem, p.310
³ Paul Bran, op.cit., p.271
The paper aims at being a starting point in an innovative theoretic action, an avatar of value, and a systemic approach in which obtaining value is regarded as a process of entropic transformation of potential.

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THE METHODOLOGY FOR ELABORATING A STRATEGY FOR LOCAL DEVELOPMENT

Nicolae Eugen MUNTEANU¹

ABSTRACT

The regular evaluation of Romania’s progress in the process of European integration constantly proved the necessity to strengthen the institutional capacity of local public authorities in order to access non-refundable European funds through projects reflecting specific needs of development. The process of elaborating a local development strategy places great emphasis on the role of the citizen, seen as a partner in decision making at community level, but also on the internalization of this strategy by local elected officials assuming responsibility and putting it into practice.

The methodology proposed can be used as a tool by administrative-territorial units in order to establish a unified direction for the community in terms of its operational goals. Furthermore, it provides the basis for allocating resources to achieve these operational objectives.

KEY WORDS: administrative-territorial units, strategic planning, development strategy, partnership.

JEL: O18, P48, R58

1. INTRODUCTORY CONCEPTS

Planning is a future oriented activity by means of which various objectives and the steps to be taken in order to reach such objectives are set. Subsequent to planning, decisions could be taken with respect to what needs to be done, when it needs to be done and who should do it.

Strategic planning is a systematic process by means of which the community, which could be an administrative-territorial unit, a region or a micro-region, agrees upon certain priorities, which are essential for the fulfillment of its mission and are in conformity with the evolution of the surrounding environment.

Strategy is defined as the setting which guides the choices and which determines the nature and direction of the community. The strategy helps to set a conjunct direction for the community according to its operational objectives and it provides the basis for the necessary resources allocation for its orientation towards the reach of such targets.

The strategy for local development represents a participating instrument which involves the entire community and which has as target to ensure the economical development. In most of the cases, a strategy for local development is a long term process, being a future projection of the community. This vision on the community with respect to its future development should be shared by all the significant local actors and it should be mirrored by a set of particular objectives and by a concrete action plan.

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The strategy is nothing else but an instrument which allows decisions taking based on previous assessments, as explanatory evidences.

1.1. Types of strategies promoted by public institutions
The main types of strategies promoted by public institutions are:

- **Development strategies:** are such documents elaborated at local, district, regional or national level by which certain priorities and their fulfillment actions are set and resources are allocated.

- **Transformation strategies:** are such documents which occur as a natural necessity arising from the new existing conditions in a specific field of activity. The transformation strategy will be the basis for the elaboration of all the other strategies, conceptions, action and implementation plans from a certain field of activity.

- **Protection strategies:** are such documents arising from the desire to be protected against certain unforeseen evolutions of the field of activity. We could mention: The strategy for copyright protection, The National Strategy for Civil Protection, etc.

- **Political strategies.** The expression “political strategist” comes from The United States, as part of a process in which certain techniques of analysis, sociological research and media manipulation, used in the commercial marketing, were transferred in the field of elections campaigns.

1.2. Planning dimensions
In this respect, the specialized literature has in view:

- **Top-down planning** occurs when the planning idea and the actions contained by the strategic plan come from superior hierarchy levels and it is used for planning at all levels of the community. This type of planning has some deficiencies because even the actions which seem most likely to succeed could fail because the top hierarchy level which makes the programming fails to take into account by itself all the aspects which are important for the community. The top-down planning ensures unity and it communicates the vision of a certain hierarchy level, but it sometimes fails to involve the persons which should later implement the actions comprised by the action plan.

- To avoid such problems, the experts recommend for a process of **bottom-top planning** to be implemented. Within such a vision, the superior hierarchy level expresses its ideas of interest (it gives the vision), and the proper planning is performed by the sector’s responsible individuals or by the leaders of the theme work group, since they are closer to the issues. An advantage of the bottom-top planning is represented by the increase in the appurtenance and involvement feelings of those responsible with the planning. The disadvantage is that, when taken to extreme, this procedure leads to a lack of coherence and loss of the conjunct vision at the community level.

Methodologically, each administrative-territorial unit is advised to elaborate a strategy for economical and social development, in order to have a clear image regarding the initial situation and the point desired to be reached in a certain time horizon. The development strategies should be elaborated for well-determined periods of time, from one to four, seven or even more years. Within the European Union
strategies are elaborated for a cycle of seven years, but considering that the local elected individuals perform their activity during electoral cycles of four years, shorter time horizons could be chosen.

The localities’ development strategies should be integrated within the county or regional strategies, and also they should contain the guidelines of the National Development Plan for Romania for the period 2007-2013 in order to be covered by the financial instruments which are available for the projects identified to be of priority.

1.3. Features of strategic planning

The process of strategic planning requires a proactive and dynamic attitude and a capacity to adapt to changes. It could be said about this process that:

- it is **strategic** because it involves the selection of the most efficient way to respond to the evolutions of a dynamic environment;
- it is **systematic** since it involves a process which is both centered and efficient;
- it implies the selection of **priorities** – decisions on the scope and means on both short and long term;
- it involves the construction of a **common agreement** and drawing to us those persons interested in reaching the mission.

The main **features** of strategic planning for local development are:

- ✓ It has in view the development, being based on the existing practices, and also the introduction of new opportunities for action;
- ✓ It operates within a well-defined territory, both spatially and administratively;
- ✓ It approaches the issues at macro level and it does not focus on isolated issues;
- ✓ The political support is an essential element;
- ✓ It brings new elements in the technical, management and financial fields, by adapting the experiences which proved to be successful;
- ✓ It generates resources, setting a direct connection between planning and implementation.

2. STAGES OF STRATEGIC PLANNING

2.1. Initiation of planning process

The initiation of the planning process is based on a preliminary analysis of the interested factors.

The **interested factors** are the individuals, groups of individuals, institutions, professional organizations, the economical and social environments which are representative at the community level and which could be directly or indirectly interested in at least one of the fields which are the object of the strategic planning.

The planning process could be started by: an important issue for a large number of inhabitants, a disaster which could occur at a large scale within the community, or by an exploitation opportunity of an economical advantage.

Thus, all the relevant local factors, which could have a positive or negative influence on the result of the planning activity, will be identified. After identifying the interested factors, the **formation of the work team** will be reached. In general, this team will be made of representatives of the interest groups at the level of the respective
locality/area, representatives of the local public administration and specialty consultants.

A complex work group can support the planning process with information during its performance, both in the elaboration phase of the strategic planning and also, very important, in the strategy implementation phase.

The Venn Diagram is a method which supports the identification of the key characters for the successful performance of a strategic action, by identifying the interest of each member of the work group within the planning.

As methodological action, the Venn diagram implies the positioning of various key factors against a certain issue by drawing small, medium and large circles. To a certain issue we could have the following situations:

- drawing an *external circle* to the problem it represents the fact that its authors do not have as main target to reach that respective objective. It is very important to understand the reason which lies behind such a position. A neutral position is preferred to an adverse one.
- drawing a *tangent circle* represents that next to the issue under discussion there must be an exchange of information between the actors (those which initiate the action and those who are interested on the theme).
- drawing a *circle which shows a partial overlap* it means the start of the actions for a certain cooperation between the various actors.
- drawing a *circle which shows an accentuated overlap* inevitably means an intense cooperation.

Graphically, the 4 situations could be represented as follows:

![Figure 1 - Graphical representation of Diagram Venn](image)

Subsequent to such an action, we deal with the clarification of the participants’ situation against the action which is to be performed. Also, this analysis assesses the *expectations* of the interested factors, as needs (positive or negative), but it also assesses their possible contribution in the strategy implementation.

### 2.2. Building partnerships

In order to maintain the core of the work group, periodical consulting sessions and/or partnerships conclusions are imposed. Subsequent to the analysis made through the Venn diagram or by use of other techniques, a series of *partnerships* with the local
groups of interest will be built. These groups are made of individuals, groups or organizations which hold the necessary information, can support the actions, the resources or the results of the proposed planning actions and which are interested in and will be affected by the results of the completed strategic plan.

Besides the identification of the existing and potential partners, it is extremely important to express the possible major issues in the clarification and operation of a partnership structure, between the planning team and the main involved actors. The partners’ identification is made based on the three general motivations of a partnership relationship: an already existing collaboration and common objectives, a potential collaboration and common objectives or a conditioning for the accomplishment of one or several objectives.

During this stage, the responsible team for the strategy building is formed, using criteria related to preferences, diversity of professional formation and a balanced distribution of the resource individuals. Also, important elements related to the team’s work method are set, such as: meetings scheduling, preparation of daily agenda for each meeting, communication between the team members, communication with persons who are not part of the team (for example, the press), elected officials, settlement of disagreements, taking decisions, selection of new members.

The Work Group will have a core made of a reduced number of persons, their selection being decided by the members of the extended Group. For this selection the following elements should be taken into account: their availability degree for the performance of this activity, their opening to such responsibilities, good skills of written and oral communication, good knowledge of the community.

The elaboration and implementation of the strategies for local development involve several action levels:

Experts’ level:
- Internal experts, from within the institutions which are the beneficiaries of the strategy (local promoters, Local Council, Town’s Hall, County Council, local elected individuals). The advantage of the internal experts is given by the very good knowledge of the local particularity.
- External experts: Romanian or foreign consulting companies, development agencies. It should be noticed that the experts which are from outside the institution are more objective in their analyses and proposals, but also they are more expensive.

Political level:
A development strategy, regardless of its method of implementation, shall have practical effects only if adopted and undertaken by local authorities. In case of strategies for local development, they must be adopted by the Local Councils, the District Councils for the district strategies, respectively by the Council of Regional Development in case of Regional Development Strategy. The Law 215/2001 regarding the local public administration provides that the decisions in connection with the adoption of strategies and programs for development should be validated through vote by two thirds of the total number of councilors.

Civil society:
Any development strategy must be distributed and subject to public debate. In this respect, the citizens and the civil society should be informed and consulted in all the stages of strategies and programs elaboration, they should contribute actively with
improvement proposals of the program documents and they should sustain and implement the adopted measures.

2.3. Structures created for the elaboration of a strategy for local development

In order to carry out the process of strategic planning at the community level, a series of structures could be created in order to support the planning activity. In this respect, consulting committees and/or coordinating committees could be created to join the work group.

2.4. Analysis of the documents elaborated at the administrative-territorial unit level

The planning action imposes the study of the existing materials on the community. In this respect, the strategic planning action is facilitated by the existence of certain standard documents: monograph of the community, general urban plan or the zonal urban plan could give valuable information on the community and on the development intentions.

2.5. Analysis of strategic documents elaborated at superior hierarchy level (county, regional, national level)

Taking into consideration the spatial and territorial coordinates of any community, in the planning process will be considered a series of documents with strategic character.

For any community within the West Development Region, the reference documents for the elaboration of a strategy of local development are: the Regional Development Plan, the Strategy of County Development, Laying-out Plan of the National Territory, National Development Plan.

2.6. Collection of information on community and elaboration of the social-economical analysis

In this stage it is established the type of data necessary to support the team in formulating decisions which should sustain the recommendations made and convince the responsible persons about their implementation. The types of necessary data are set, but also the collecting methods to be used.

This stage is dedicated to the diagnosis formulation as result of the analysis of the status of the existing situation. Various types of analyses are used, such as the analysis of the potential, of the dysfunctionalities, of the priorities, retrospective and prospective analyses. Further, the key issues of development are defined, enunciated and clarified and the diagnosis is formulated.

The main domains of analysis which could be distinctly diagnosed by means of a strategy of local development are:

- Population, human resources and labor force
- Infrastructure and territory equipment
- Environment protection
Tourism
Agriculture and / or development of rural/urban environment
Research, innovation and technological transfer
Development of SME sector (small and medium enterprises)
Enterprises’ activity
Industrial restructuring
Culture and sports

The main steps to be taken are:
✅ Performance of a first assessment of the existing situation, based on the raw information received from the collected indicators;
✅ Collecting more data, information and ideas by consulting the population, interviews, questionnaires, combination between interviews and questionnaires, analysis of other documents, direct observation, team’s experience and intuition;
✅ Data compilation and analysis, organization and analysis of their resources for a better comprehension of the problem or opportunity.

2.7. SWOT analysis

The analysis of strengths, weaknesses, opportunities and threats (SWOT) was initially created as a formulation instrument of the enterprise strategies. This instrument makes possible the quick analysis of the key strategic points and also the identification of strategic alternatives. SWOT is currently implemented in the territory analysis and is used as instrument to facilitate the participating planning within the public administrations.

The SWOT analysis is based on a codified surrounding, which obliges the individuals involved in the planning process to follow precise stages, starting from analysis up to strategies, passing through a complete assessment of the implications / consequences of each performed selection.

Briefly, the SWOT analysis represents a complete and consistent framework which could be used by the individuals involved in planning in order to make more realistic selections. This work method helps in making the distinction between problems, solutions and strategies.

Theoretically, the SWOT analysis is oriented towards the welding of the involved individuals’ preferences.

The first necessary condition in order to perform a feasible SWOT analysis is to involve all the individuals from the territorial context who might contribute in the development of an analytical SWOT network.

The strongest message sent by the SWOT analysis is that, regardless of the set actions, the decisional process should include the following elements: build on Strong Points, eliminate Weak Points, exploit Opportunities, and remove Threats.
2.8. Identifying the general objective and the particular objectives, the strategic directions, the intervention fields and the priority projects for community

Based on the Social-Economical Analysis and on the performed SWOT Analysis, the strategy mission is established and also the development directions by the team which elaborates the strategy for local development.

The strategic planning is focused on the vision formulation, unlike the efforts and actions which are focused on immediate solving of the problems which characterize the action planning.

- The formulation of the strategy mission is made using key words integrated in a phrase with a clear message, which should express the targets to be reached on medium and long terms.
- When setting the development directions, the fields which were diagnosed in the local social-economical analysis must be had in view;
- For each development direction primary axes are set;
- For each primary axe, the corresponding intervention domains (measures) are set;
- For each identified intervention domain, the team which elaborates the strategy for local development will set some operations (which represent a group of projects in the same time).

2.9. Validation of the strategy for local development

In order to be effective, the process of strategic planning must be:

✓ Comprehensive – to engage in the process the entire range of groups of interests;
✓ Interactive – to confront the current situation with the potential situation;
✓ Integrating – to connect in conception and in action all the levels;
✓ Repeatable – to admit the fact that the systems and their environment are in a permanent change.

In order to be able to say about an exercise of strategic planning that it is efficient, the resulted document should be subject to a public debate, by organizing work meetings, conferences, publishing in the community promoting materials (newspapers, magazines) and/or on the internet web page. Representatives of the local public administration, the political organizations, civil societies, public institutions, mass-media will be consulted.

Within the consultation a great focus will be put on the citizen’s role, being seen as a partner when decisions are taken at community level, especially that the strategy elaboration starts from the citizens’ needs. All remarks received from the consulting / validating activity will be centralized and processed, being transferred, if relevant, in the final document.

Subsequent to the public validation, the strategy for the local development will be approved and undertaken by the Local Council.

2.10. Monitoring the implementation of the strategy for local development

The implementation of a strategy for local development could be financed from the following sources: the state budget, the local budget, external funds – bilateral
programs, refundable funds and non-refundable funds, donations, sponsorships and other contributions from physical persons or legal entities within the country and abroad, other financing sources, in conformity with the current legislation.

The implementation of the measures and actions established in order to reach the general objective of the development strategy involves a process of well-judged planning based on the local objectives and needs, but especially on the material, financial and human available resources. The concrete projects and measures listed within the large framework of the strategy have in view the elaboration of action plans, which could be revised annually.

Under these circumstances, the monitoring and the assessment of the undertaken measures represent an activity of maximum significance, which allows the analysis of the impact of the adopted policies and the redefining of priorities, according to the discovered realities and to the evolution of the social needs.

The monitoring is performed on three levels:

- **general monitoring** – to be performed by the institution which generates the planning process (usually the Local Council);
- **sector monitoring** – to be performed by the individuals appointed as theme group leaders or by a specialized service (with competencies in the respective field) from within the Town’s Hall;
- **monitoring on development projects** – to be performed by the coordinators of the project implementation teams appointed at the community level.

The monitoring will be periodical and mandatory and it will imply the elaboration of periodical reports regarding the fulfillment degree of the general and particular objectives. The monitoring process should provide credible and useful information, allowing the integration of lessons learned and good-practices in the future planning process.

The monitoring process of the strategic planning could be carried out during the implementation period of the development strategy (“intermediary monitoring”), upon its completion (“final monitoring”) or after the period proposed for the implementation of the actions plan (“ex-post monitoring”), in order to help for a better guiding of the implementation of the development strategy or to learn useful lessons for future planning exercises.

The monitoring results are notified to the initiator of the planning process in order to define other action directions, measures or actions which will be the object of a new strategy.

### 3. CONCLUSIONS

In the current context, when the Romanian economy deals with the significant effects of the world’s economic crisis, the local public authorities incur difficulties in settling the problems they meet and in finding development solutions for a long term. The local public administration is the main agent in the local economical and social development in Romania.

The efforts for local development of the administrative-territorial units had a great success in the situations when the structural opportunities were used by a systematic mobilization of the existing energies and resources at local level, by means of certain coherent projects and strategies for development.
In this situation, the financial support offered by the European Union to its member states by means of structural instruments represents a significant development opportunity for the administrative-territorial units.

The strategy for local development represents a participating instrument which involves the entire community and has the target to ensure the economical development. In most of the cases, a strategy for local development is a long term process, being a future projection of the community. This vision of the community with regard to its future development must be shared by all the relevant actors at local level. Part of the local public authorities of the West Region knew how to use and value by development projects the financing opportunities offered by the structural funds, but unfortunately there are many administrative-territorial units that did not access yet non-refundable financing through projects, because of lack of knowledge or because of financial restraints which were incurred (the high degree of indebtedness makes for the co-financing to be impossible).

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CONSIDERATIONS ABOUT IMPLEMENTING BUSINESS EXCELLENCE PRINCIPLES DEVELOPED BY JIM COLLINS, IN ROMANIA

Gheorghe NEGŒSCU

ABSTRACT
Jim Collins led a research team to answer the question what are the reasons that have allowed to some prestigious american companies to significantly increase their share value above the general increase in capital market. In this paper I propose a strategy for revival in 10 years based on the principles of excellence business, principles proposed by a team of researchers from the United States of America led by Jim Collins.

KEY WORDS: business, principles, leader, debt, excellence

JEL: O1, O16

1. INTRODUCTION
We used to say we have four branches of government. The first is the legislative power represented by the Parliament which builds the country's laws on behalf of people that appointed it. The second is the executive power, meaning government of a country which implements the laws passed by Parliament. The third power in the state is justice which ensure that country's laws apply. The press is the fourth in the state and the youngest, because it was appointed as a particular power in the last 20 years, based on the following arguments: that informs the public, influences and shapes the public opinion and in many cases, handles the society’s decisions (population) which it serves.

According to some authors (Apostol Daniel (2009)), there is a fifth power in the state represented by the crisis with the argument that the economic crisis or on the basis they were "dictated responses, actions, decisions of all leaders: the policy and those in business.

A peculiarity of the fifth power in the state is that, unfortunately, dramatically influences the other four powers of state activity.

2. ROMANIA’S ECONOMIC RECOVERY STRATEGY IN TEN YEARS

In the book "Business Excellence" during nine chapters, Jim Collins and his colleagues come to define a set of concepts and principles that enabled the leap from good to excellent in business. Essentially these principles are presented in the figure below:

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**Figure 1** - Principles that allowed to some American companies to make the sault from good to excellent in


Table 1
The meaning of key terms presented in the figure above

1. **LEVEL V LEADER**
   - are leaders who have had outstanding results in the management of the companies they lead; are removed, quiet, reserved, even shy; these are a paradoxical blend of personal humility and professional will.

2. **First “who” and then “what”**
   - in the management of companies first there are chosen the right people for the job first and then is determined “what” they have to do and in “what” conditions

3. **Disciplined people**
   - are those people who fail to maintain unwavering faith that can and will eventually succeed, despite all difficulties, while they possess the needed discipline to confront the most brutal facts of current reality, whatever is

4. **Reality confrontation**
   - are those people who fail to maintain unwavering faith that can and will eventually succeed, despite all difficulties, while they
possess the needed discipline to confront the most brutal facts of current reality, whatever is

5. Hedgehog concept
- to move from good to excellent, is needed an understanding of the three circles that intersect and lead to a simple concept, clear and correct

6. Culture’s discipline
- all companies have their own culture and discipline. When a company has disciplined people do not need no more hierarchy and bureaucracy. Also there is no need for excessive control.

7. Technology accelerators
- technology is never the primary means of triggering the transformation of a company's performance. In different companies, the role of technology is differently designed.

8. Flywheel and decline chain
- jump to excellence does not happen ever in a single blow. It takes perseverance to use centrifugal force to a flywheel. Those programs that trigger dramatic change, revolution and forced restructuring will not succeed to move to excellence.

9. Acumulation and the bres
- sustainable change follows a predictable pattern of accumulation and vulnerability. Pushing a giant heavy flywheel requires a great effort to incite, but through a persistent movement in a direction consistent over a long period of time, the flywheel creates momentum, eventually reaching the point of vulnerability.

Figure 2 - Principles to enable the strategy to revive the economy of Romania in order to pay its debts to IMF and significantly reduce external debt in ten years.
| 1. First “who” and then “what” | - IS ESTABLISHED THE " FIVE LEVEL POLITICAL LEADERS” SCHOOL. EACH RECOGNIZED PARTY DESIGN A NUMBER OF PERSONS, PROPORTIONAL TO VOTES RECEIVED IN THE LAST COMPANY TO FOLLOW A SCHOOL-LEVEL POLITICAL LEADERSHIP. |
| 2. Five level political leader | - are leaders who have completed political leaders school with magna cum lauda. |
| 3. Disciplined population | - TVRI program, will hold a set of programs that lead to increased public knowledge in areas like democracy, entrepreneurial culture, leadership of non-profit organizations. |
| 4. Reality confrontation | - are those people who sought to maintain unwavering faith that can and will eventually succeed despite all difficulties, the same time they possess the necessary discipline to confront the most brutal facts of current reality, whatever these are . |
| 5. Conceptul de arici | - to move from good to excellent, is needed an understanding of the three circles that intersect and lead to a simple concept and clear and concrete. |
| 6. Culture’s discipline | - all companies have their own culture and discipline. When a company has disciplined people do not need no more hierarchy and bureaucracy. Also there is no need for excessive control. |
| 7. Technology accelerators | - technology is never the primary means of triggering the processing performance of a company. In different companies, the role of technology is designed differently. |
| 8. Flywheel and decline chain | - jump to excellence does not happen ever in a single blow. It takes perseverance to use centrifugal force to a flywheel. Those that trigger dramatic programs change, revolution and forced restructuring will not succeed to move to excellence. |
| 9. Debt’s payment | - economic conditions are created for the gradual payment of debt so that people do not feel this effort. It requires cultivating an indebted country-specific education to sacrifice "feasible" acceptable for us to be better tomorrow |
2. JIM COLLINS PRINCIPLES FOR AWARENESS A COMPANY’S MANAGEMENT. TOPPROFIL TOOL

The model proposed by Jim Collins (Collins, Jim (2007)) on promoting excellence in business is one of the strongest currently available on the market. TopProfil (TopProfil (2009)) instrument built in Romania is the only evidence, starting from the premises to promote business excellence by Collins. From this point of view, using the sample may be useful in identifying people and team performance, especially in identifying a number of strengths and areas for further development to increase performance at work.

2.1. Operational core model

Operational core: the heart of the organization, responsible for business performance motor.
Core operational areas:
- People - people who are responsible and accountable to employees and their job duties - creation and action capacity of the core operations;
- Processes - the processes governing the organization and structure work - thinking of all the shares in the form of strategies, tactics and procedures;
- Technology - how the act occurs or when the organization performs the proces.

2.2. Impact of excellence principles

Individual Tuning
- maximize professional behavior management individually evaluated with Top Profile tool. Each manager may choose to use "plug individual tuning" based on skills development skills to increase individual performance excellence in management.

Powers of excellence:
- behavior acquired by learning to think and act on the principles of business excellence.

Performance:
- transforming powers of excellence in results or actual visible effects and measurable to assumed objectives.
  Individual excellent disciplined = Disciplined individual performance x (Disciplined thinking + Actions disciplined).

Tuning core operational:
- maximize the potential of excellence evaluated by the tool Profile Top to the teams and groups of managers level can determine the final jump from good to excellent organization. Transforming the organization is leading by "culture of discipline" indicator which the group or organization teams of managers fail to build on the individual tuning.
  Future organization is what managers are for it to become by:
  - The discovery potential for excellence;
  - Understand the principles of excellence;
  - Promote excellence skills;
• Transform the organization.

People disciplined organization performance excellence = Disciplined people x (Disciplined thinking + Disciplined actions).

3. CONCLUSIONS

The data collected indicate the usefulness of the proof in coaching and training segment, enabling people and teams alike to become more competitive, by implementing the suggestions offered by HR consultants, after TopProfil review.

Top Profile is a comprehensive assessment tools based on managerial behavior "business excellence" principles identified by Jim Collins.

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THE SUBJECTS OF THE FREEDOM OF EXPRESSION AND SPEECH AND OF THE RIGHT TO PRIVATE AND FAMILY LIFE

Adriana Nicoleta ODINA

ABSTRACT

The issue of the bearers of freedom of expression and of the right to private and family life approaches, first of all, the problem of the individual’s capacity of being subject of international and internal law. Human rights, as rights inherent to the human being, are, in their essence, individual rights, whose bearer is the individual. The promotion of human rights within the international law brings back to the present interest the traditional debate regarding the place of the individual in the international legal order.

KEY WORDS: Bearers of the freedom of expression and of the right to private and family life, subjects of international law, relation between internal and international law, obligations: negative and positive.

JEL: K11


The stipulations of the Charter of the United Nations Organisation in the field of Human Rights have a general character, settling only legal obligations in the charge of the signatory states, without specifying however the human rights and liberties or the nature of the obligations assumed by the States. The Charter thus does not contain specific regulations regarding the freedom of expression and the right to private and family life.

The international document marking the beginning of a new stage in the domain of the regulation and protection of human rights is the Universal Declaration of Human Rights, adopted on 10 December 1948 by the General Assembly of the United Nations Organisation. It is the first international document with vocation of universality in this field which consecrates rights specific to man. Among the consecrated rights we encounter also the freedom of expression and speech (art.19) and the right to private and family life (art.12).

The declaration represents a unique combination of diverse categories of rights (political and civil, social, economic and cultural), having at their basis equality and non-discrimination. It does not represent a treaty in se, but it was unanimously accepted as document comprising general principles and norms, expressing a staring standard in the field of human rights.

Under the aspect of the subjects of the two rights, we shall take into consideration both their bearers and the receivers of the obligations correlative to them.

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1. **The bearers of rights**

In order to approach the issue of the bearer of the freedom of expression and of the right to private and family life, we should approach first of all the problem of the individual’s capacity of subject of international and internal right.

Human rights, being rights inherent to the human being, are, through their essence, individual rights, whose bearer is the individual. The promotion of human rights within the international law brings back to the present interest the traditional debate regarding the place of the individual within the international legal order.

At the general level, human rights cannot be conceptualised outside the legal categories and especially outside the category of subject of law. (Sudre F., (2006)).

As D. Lochak remarked that “human rights can be conceived only the moment one postulated that man is a subject of law endowed with the capacity to have rights and to use them in relation with the authorities. (Lochak D., (1984)).

At the level of international law the issues of assigning the capacity of subject of international law to the individual stirred heated doctrinaire controversies.

M. Virally, for instance, considers that the issue of assigning the capacity of subject of international law to the individual is challenged by a principle response: the international legal order acknowledges as subjects of law only the States and, by extension, the inter-state organisations, the individuals being able to accede to the international law only by means of the diplomatic protection. In short, as the international law regulates the inter-state relations, the individual could not be a subject of the international law. (Virally M.)

In this respect, the Permanent International Court of Justice, in its notification of 3 March 1928, affirms: “According to a principle of well-established international law, an international agreement cannot, in itself, directly create obligations for private persons. One could not dispute nevertheless that the object of an international agreement, in the intention of the contracting parties, could be the adoption by the parties of certain rules able to create rights and obligations for individuals and susceptible to be applied by the national courts”.

The position expressed in this respect by the Court as regards the theoretical possibility of the individual to be subject of international right is nuanced. Although the Court reaffirms the principle according to which, for reasons belonging to the historical development of the international law, the State is a common subject of international law, does not exclude nevertheless, at least at the declarative level, the possibility of the individual – traditionally subject of internal law – to be also subject of international law when the norm of international law is personalised and individualised, i.e. at the moment of its adoption, the States clearly expressed the intention to confer to private individuals rights and obligations within the international legal order.

This hypothesis is fulfilled in the case of international norms which consecrate human rights, as these norms confer the individuals specific rights, and in this sense the representatives of the objectivist school of international law (for instance G. Scelle) claim that the international society is a society of persons, and thus the persons are the beneficiaries of the international law and subject of such law.

In relation with this aspect, other authors express a less categorical point of view, showing that, theoretically, nothing impedes the individual, subject of internal law to be also subject of international law; however for the individual to constitute an active subject of the international legal order, he needs more than being the bearer of certain rights or obligations created by the international law. He must furthermore be
recognised the aptitude to act at the level of the international law. One can conclude
thus that the individuals may be subjects of the international and European law of
human rights, but they are always subjects of minimum importance. (Sudre F., (2006)).

In order to clarify the issue of the individual’s capacity to be subject of
international law, we think that we should analyse if the natural persons are direct
beneficiaries of the rights and obligations inscribed within the norms of international
law, if they can act at the international level in order to claim these rights and if they can
be made liable at the international level for the breach of these obligations.

Generally, the international conventions and treaties, as sources of international
law, create, from the strictly legal viewpoint, obligations only among the states - parties,
although the norms and principles inscribed in them regard the natural persons and
induce in the charge of the States the obligations to guarantee rights and liberties to their
citizens.

Depending on the conception of States as regards the relations between the
internal and the international law, it is necessary either to adopt a national law, or to
adopt a law of ratification of conventions or treaties, so that the natural persons to whom
their norms refer could benefit from the rights and liberties it consecrates. Consequently the rights and liberties for the citizens result from the national law, it
either stipulates them expressly or ratifies a treaty consecrating certain rights and
liberties.

As regards the treaties on human rights, a remarkable interest is represented by
the situations of the treaties granting the individual the right to address himself, with a
petition, directly to certain international organisms and courts, against their states, when
they consider that the rights stipulated in those treaties have been infringed.

Thus, the Pact regarding the civil and political rights, the Convention for the
elimination of all forms of racial discrimination of 1965 and the Convention against
torture of 1984 regulated such procedures which allow the natural persons, after the
breach of their rights, to address themselves with petitions directly to the committees
created for these treaties.

Moreover, from among the legal instruments in the matter of human rights
adopted at the regional level, within the Council of Europe, in the inter-American
system and more recently in the African one, one consecrates the right of persons to
bring petitions directly before the Courts of Justice created within these systems of
protection, the latter being the real contentious instances that can pronounce decisions
obligatory for the member states.

Some authors (Diaconu I., (2010)) consider nevertheless that, in fact, the rights of
persons to make appeal to international procedures, by presenting petitions and
complaints before the jurisdictional organisms or to organisms of experts created by the
States, in order to obtain obligatory decisions (the case of the European Court of Human
Rights, of the American Court of Human Rights and of the African Court of the rights
of Man and Peoples) or recommendations addressed to the State (the case of the
committee for human rights created through international treaties), are the reflection of
the obligations assumed by States through the same documents, to have a certain
behaviour towards its own citizens and other persons under their jurisdiction. The
author considers that in these cases we deal with a procedural right, established as
substantial rights and obligations through treaties between states, the persons being
only their beneficiaries that does not confer the individual the capacity of subject of
international right.
As for the prosecution of individuals at the level of the international law for the breach of certain obligations stipulated through treaties or conventions, one should point out that some of these documents (the Convention of 1948 for the prevention and the punishment of the genocide crime, the Convention of 1971 regarding the psychotherapeutic substances, the Convention of 1982 regarding the sea law, etc.) stipulate the possibility of prosecuting natural persons for having committed crimes provided in these international conventions.

In most cases however, in the very respective conventions, one stipulates the requirement that the states – parties adopt national laws that should incriminate the respective facts, so that the modalities of prosecution of the respective persons are established in the internal law, and the persons are prosecuted in their capacity of subjects of internal law, and not as subjects of international law.

In the analysis of the individual’s capacity to be subject of international law, as shown by some authors (Buergenthal T., (1981)), we should not ignore the fact that all the rights and obligations for a subject of law come necessarily from the legal order in which his capacity of subject of law was recognised. A subject of internal law can be also the beneficiary of certain norms of international law.

Last but not least, in the matter of the individual’s capacity of being subject of international law, we conclude that on this topic the doctrine offers at least three solutions: some authors consider that the natural persons are subject of international law, other authors claim that the natural persons are subjects of international law together along with the states and other subjects, and others have reached the conclusion that the natural persons do not have the capacity of being subjects of international law.

We consider that, specific for the international and European law and of human rights is the fact that it offers the individual certain possibilities to act directly. This possibility of the individual is however limited, as, with the exceptions shown above, the international legal instruments in the matter of human rights do not acknowledge the individual the right to directly institute a legal action at the international level for the breach of his rights. This possibility is limited also under the aspect of the individual’s subordination to the will of the State to ratify a certain agreement related to the human rights, to denounce it or to not renew its acceptance. Consequently, in the matter of the international or European law of the human rights, the individual has the capacity of subject of law only in specific cases in which he is recognised the aptitude to act on the plane of international law for the optimum use of his rights.

The natural person remains mainly a subject of internal law, quality which confer him the capacity to be subject of rights and obligations and the capacity of an optimum use of these rights, irrespective of the fact that these rights and obligations come form the national and international legal order.

Another issue related to the bearers of the right to private and family life and of the freedom of expression, takes into consideration the aptitude of the legal person to have this capacity.

In order to see if, along with the natural persons, the legal persons can also be bearers of these two rights, we should attempt an analysis of the relevant provisions comprised in the main international legal instruments in the matter.

The Universal Declaration of the Human Rights, in art.12 and 19 consecrating the right to private and family life and the freedom of expression, uses the terms “no one” and “any person”; from this formulation we understand that the legal persons may also be bearers of rights.
The international pact regarding the civil and political rights, in art. 17 and 19 referring to the same two right uses the same syntagms.

The European Convention of Human Rights, the American Convention regarding the human rights and the African Charter of human right equally use the generic terms “any person”, and the situation is the same in the case of the Declaration of the fundamental duties of Asian peoples and states or of the Arab Charter of Human Rights.

From the content of the international regulations it follows thus that “any person” may be bearer of the freedom of expression and of the right to private and family life, consequently both natural and legal persons.

In fact, the right of legal persons to free expression was recognised by the European Court of Human Rights in several cases when this issue was raised. For instance, in the case *Autronic AG. versus Switzerland*, the Court rejected the argument of the Swiss government contesting the applicability of art.10 of the European Convention of Human Rights in the case of a legal person, motivating that “neither the State or the commercial character of operations, nor even the nature of the freedom of expression could prevent the claimant society to benefit from art.10 of the Convention. It is applied to any natural or legal person”. Furthermore, in the case *Plon versus France*, the Court pointed out that the “editors, either associating themselves or not with the content of the works they publish, participate in totality in the exercise of the freedom of expression, supplying a support to the authors”. The European Court of Human Rights expressed itself on the same sense also in the cases Sürek versus Turkey, C.S.Y. versus Turkey, Sunday Times versus Great Britain, Markt Intern Verlay GMBH and Klaus Beerman versus Germany.

In fact, and with referral with the right to private and family life, the doctrine and practice admitted also that the legal person might bring before the court some aspects of private life (for instance the European Court in the case Kroon et al. versus the Netherlands).

From all the above we may conclude that the bearers of the freedom of expression and of the right to private and family life are the natural and the legal person, as subjects of internal law, first of all, and as subject of international law, that they are acknowledged the aptitude to act directly for the optimum use of this right.

2. The beneficiaries of the obligations correlative to the freedom of expression and of the right to private and family life.

The international and European law of human rights recognises the individual's right, but also induce correlative obligations in the charge of states.

The specific feature of human rights consists in the fact that, unlike the international law in general, they induce in the charter of States obligations whose execution is not subordinated to the principle of reciprocity. More precisely, the state which is a signatory party in an international convention of human rights protection has not only the obligation to guarantee the protection of the rights of their own citizens, but he has to conform to this obligation in the case of all individuals who are on its territory, irrespective of nationality.

In this respect, art.2 of the Pact regarding the civil and political rights, art.1 of the European Convention of Human Rights and art.1 of the American Convention of Human Rights uses similar formulations. “any person under its jurisdiction” or taking into account the “competence” of the state.
From the analysis of the regulations of the international legal instruments regarding the obligations of the states-parties, it usually results that in the content of these provisions there are affirmations with general character, of the type “any person or any citizen has the right to”, “all the persons have the right to”, or “no one will constitute the object of a certain conduct expressly interdicted, being exceptions the cases in which in the texts consecrating human right as such, one explicitly stipulated the conduct that the State should follow or one stipulated specific obligations.

The obligations imposed to the states are stated in stipulations with general character and which refer to the ensemble of the rights and liberties consecrated through the respective legal instruments.

As a rule, the main international legal instruments provide that the States are obliged to observe and assure the rights and liberties regulated through them (the International Pact regarding the civil and political rights, the American Convention of Human Rights), or obliges the States to recognise these rights and liberties and to adopt measures in order to grant them effect (the African Charter of Human Rights). More rarely, the states are required to protect or support certain values (family, children, marriage).

The State’s obligations to observe the human rights and liberties means for it the obligation to not breach these liberties and rights itself, to do nothing with this purpose. (Diaconu I., (2010)). The State’s obligation to assure the rights and liberties has a larger sphere, including also the obligation to observe these rights, and consists in the duty of the state to take all the necessary measure for allowing the persons to use them appropriately or to exercise the guaranteed rights.

In art.1 of the European Convention of Human Rights another type of obligation is stipulated, the text of this article stipulating that “the states pledge themselves to recognise the “rights inscribed in the convention”.

In the interpretation of this regulation, the European Court of Human Right stated that the commitment of States to recognise the rights and liberties inscribed in the Convention signifies the fact that these rights are directly recognised to any person under the jurisdiction of the contracting states, which obviously results for the countries in which the Convention was incorporated into the internal legal order. (C.E.D.H., the decision of 18 June 1971) The Court has shown that practically at present, the Convention, which lives though the jurisprudence of the Court, has direct applicability in all the contracting states. (C.E.D.H., the decision of 27 March 2003).

Through the interpretation of the dispositions of art.1 of the Convention, the European Court has shown that none of the dispositions of the Convention obliges the states to incorporate the norms of the Convention in the internal law, but, in accordance with the self-understood object and purpose of the Convention, as they appear in its first article, each contracting state is obliged to assure in its internal order the defence of the rights and liberties guaranteed by the Convention and of its additional protocols. It is fundamental for the protection mechanism established by the Convention that the very national interest of law might allow the remedy for possible breaches that took place. The Court, exercising its control or with the observance of the principle of subsidiary. From this viewpoint, art.13 of the Convention, which imposes the existence of an effective internal way of attack in such of situation, appears as having a crucial role. (C.E.D.H., the decision of 10 May 2001).

From the analysis performed, we appreciate that we can understand that, in view of fulfilling the duties to observe, assure or recognise the rights and liberties consecrated
through international legal documents, the states have the obligation to adopt legislative and administrative internal measures meant to assure the benefit and exercise, in adequate conditions, of the human rights and liberties, by the most explicit stipulation of these rights and the corresponding duties, as well as of derogations that can be brought to them. Moreover, the States have the general obligation to assure the persons whose rights have been breached, the right to an effective recourse and appeal before the national courts, materialised in the “granting of just damages and to extents that should prevent the repetition of the breaches, and to assure the prosecution of the guilty parties”.

We may conclude that in general the international legal instruments in the matter of the human rights impose the State two types of obligations, some negative and others positive. In relation with the negative obligations they have, the states must abstain from bringing any harm to the rights guaranteed through the respective regulations. In relation with the positive obligations it assumes, the States must take all the necessary measures so that the persons under their jurisdiction could exercise and use in an optimum of the rights stipulated in the international regulations which consecrate them.

These positive and negative obligations are in the charge of the states as regards the freedom of expression and the right to private and family life.

The content of these obligations was determined in a jurisprudential manner, the jurisprudence of the European Court of Human Rights being relevant in this respect.

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THE INTERDEPENDENCE OF SERVICES WITH ECONOMIC DEVELOPMENT

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ABSTRACT
Given the fact that in the last two to three decades, the services have gained a role and a well determined place, being much more developed and rendered differently than in previous periods, the most modern and dynamic services are critical to the whole economic activity regardless of the field in question. We refer here to the financial and banking services, maintenance, research and development, consulting, advertising, insurance, consulting and services as the primary, which are themselves in a larger share of the increasingly high in all countries.

KEY WORDS: services, economic development, GDP

JEL: O 11, O 44, F 59

1. INTRODUCTION

The share of services in GDP and the share of employment in the tertiary sector are just two very expressive indicators to demonstrate the importance of this sector in all economies facing new trend called "service economy" that is, the "situation in which resources are used depending on the service, in which the targeting storage, transmission and processing is a growing part of the whole " [4].

Such indicators may open the way to our understanding of proportion and a claim that the economic development services, which reflects the extent to which economic growth can be based on factors related to the intensive training, new advancements in technology and science. However, we can notice, the degree of efficiency of the activities contained in the tertiary sector, as shown by the low level of material costs and the results obtained by using a large amount of living labor, intelligence and creativity.

2. THE PLACE OF SERVICES IN THE MODERN ECONOMIES

If services have more than 2/3 of GDP, the unprecedented scale of services in developed economies has put in inferiority many fields of industry. In addition to the economic function of services, given in principle by their share in GDP, and hence increase economic progress should not be omitted or social functions and the

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environmental protection functions of these activities enhances major role in the economy. So what dominates economic life in the current period is that quality-structural phenomenon that translates into strong growth in the tertiary sector and in particular of modern services. The services have experienced unprecedented, and many industries are facing increasing competition more intense.

In less developed countries, the above weights are lower, but there is an increase that is based on developing basic services, those services that require a large consumption of working life.

The changes in the economy is largely due to the role played by information technology, microelectronics and telecommunications, that have brought changes in the organization itself and the economy operating at both micro and meso level, and why not macroeconomic.

In recent decades have led many scientific approaches on services. Even if the older issues of "accounting" still continues to be important, they are considered in a much more in context, being subordinated to qualitative aspects, which allow exploration of the diversity of services, their qualitative characteristics, their social functions, the causes and implications of their growth. In parallel with this trend to investigate the specific features and services, it outlines a variety of different analytical approaches: post-industrial society, information society, society neo industrial services company.

The merit of these theoretical approach is to highlight the economic importance of services that is much larger than depicted by conventional statistical tools we have at present to assess the place and role of these activities in the context of contemporary national economies, and promoting the perception that a efficient supply of services is a strategic ingredient in the development and impact of technological progress in contemporary strategic valences are increasingly two-way services: by virtue of deepening relations between the interplay and integration of services and other economic sectors; by virtue of opportunities for growth and development by extending the sphere of international transactions in services.

3. SERVICES IN DEVELOPING COUNTRIES VERSUS SERVICES IN POOR COUNTRIES

Noting that there aren’t significant differences between rich and poor countries the share of services in final expenditures, but the differences are notable for their contribution to GDP creation services, Kravis (1983) concludes that the explanation lies in greater proportion in developed countries transactions in services between users and producers of services in the outsourcing path, a conclusion subsequently reaffirmed by many other authors such as Nusbaumer (1984), Bhagwati (1987). Rajan (1987), Gershuny (1987), Porter (1992).

In the last decade, in the economy of developed countries, the services have become the main element of economic competition. It is noted, moreover, that the products are bought for the services they offer.

The growing importance of services in the economy and their spectacular upswing from last time have intensified concerns the knowledge of this sector of activity.
In an economy based on services are produced, mainly, their complementary goods. Satisfying as more and better consumer requirements are based on both quality of services due to increasing competition and the use of complementary goods and services.

Growing importance of the role of services in all countries make membership of the global networks of services become necessary condition for integration and operation of the new global economic climate, which means countries have integrated, respectively, to develop an infrastructure with a high technological level, corresponding to international standards that allow them to integrate all aspects [3]. As a result, the shaping of the role and place of services in the economy of a country should consider both the objective conditions of international economic development and the ever increasing demands of society and the population of each country. [6].

Concerning the participation of developed countries and developing transactions in services is found that developing countries have both the dominant part of the total world exports of services (about 90%) and imports (approx. 85.2%).

However, it appears that developed countries, overall, are relatively large exporters and importers of commercial services than goods. At the same time, many developed countries have a surplus balance of services. Although the share of developing countries as a group in international exports of services is reduced, encouraging is the fact that their share is growing. It is true, however, that this group are different growth patterns, is the most dynamic nations of East Asia.

4. ANALYSIS OF SERVICES IN DEVELOPED COUNTRIES

In the last half century, it was noted at the global level the trend of development in a faster pace compared to other services industries. This process has led to some reduction in the share of population employed in agriculture and even industry, and on the other hand, the share of services in gross domestic product. If in industry and agriculture development is clearly linked to the existence of forms of communication without which raw materials and finished products cannot be moved, in the case of addiction is not so clear. [8].

EU internal market is based on the free movement of persons, goods, services and capital, and Romania, adopted by order, go to the third component freedoms, that of services. This will stimulate growth and reduce unemployment, both in the developed countries and those who have recently joined the European Union. Directive is a direct response to new global trends and the effects of globalization " [9].

“The development of service market is an important source of economic growth, in terms of growth, primarily in labor productivity. Free access to quicker and more competitive single market, inviting service providers to streamline product quality will encourage firms to invest in new technologies that will ultimately lead to an increasing share of employment in services” [10].

However, no services can not thrive without a quality transport infrastructure.

A phenomenon is present in all countries the share of employment growth in services, a phenomenon manifested by a greater intensity in developed countries. Thus, in countries like USA, Germany, Britain, France, Belgium, Denmark, Switzerland, Austria, Netherlands and Sweden, the share of employment in services exceeds 70%. Even in countries with average or below average development such as Spain, Portugal, Greece, Croatia, Hungary, Slovenia, Slovakia and Poland, the share of employment in
services exceeds 60%. Of course, there are features of the country, especially related to weight the various sub-branches of the service sector.

For example, in some countries is more developed tourism sector (especially in Spain, Portugal, Greece, Croatia and Slovenia), while in others (Turkey, Poland, Slovakia and Hungary) observed a greater development of the transport sector. As regards Romania, the share of employment in services is only 51% of the total. Referring only to the tourist and transport services, Romania has a basis for developing both domestic and for export of such services. Romania could become an exporter of transport services and tourist services, whereas on the one hand, has a special geographical position in the course of trade between European Union countries of Central and South Asia - East and on the other hand, has a great natural potential. Exports of services in these sectors should contribute positively to the trade balance and current account to GDP growth and consequently of income.

5. SERVICE DEVELOPMENTS IN ROMANIA AND DEVELOPED COUNTRIES

Summary developments of services in developed countries and Romania during 2004 - 2008 and 2009 respectively, are shown in the following tables:

In table 1 are given on the index of freight transport relative to GDP of developed countries and Romania in the period 2004-2008.

<table>
<thead>
<tr>
<th>Countries</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27 countries)</td>
<td>105,4&lt;sup&gt;bs&lt;/sup&gt;</td>
<td>105,4&lt;sup&gt;s&lt;/sup&gt;</td>
<td>106&lt;sup&gt;s&lt;/sup&gt;</td>
<td>106,5&lt;sup&gt;s&lt;/sup&gt;</td>
<td>104&lt;sup&gt;s&lt;/sup&gt;</td>
</tr>
<tr>
<td>Denmark</td>
<td>93,9</td>
<td>91,1</td>
<td>80,7</td>
<td>77,9</td>
<td>73,8</td>
</tr>
<tr>
<td>Germany</td>
<td>104,5</td>
<td>106,1</td>
<td>109,7</td>
<td>111,7</td>
<td>110</td>
</tr>
<tr>
<td>Spain</td>
<td>128,1&lt;sup&gt;s&lt;/sup&gt;</td>
<td>130,1</td>
<td>129,4</td>
<td>133,1</td>
<td>123,9</td>
</tr>
<tr>
<td>France</td>
<td>92,7</td>
<td>87,2</td>
<td>87,6</td>
<td>88,7</td>
<td>83,4</td>
</tr>
<tr>
<td>Italy</td>
<td>101,7</td>
<td>108,2</td>
<td>95,5&lt;sup&gt;s&lt;/sup&gt;</td>
<td>91,2&lt;sup&gt;s&lt;/sup&gt;</td>
<td>92&lt;sup&gt;s&lt;/sup&gt;</td>
</tr>
<tr>
<td>Hungary</td>
<td>93,6</td>
<td>105,1</td>
<td>118,4</td>
<td>132,4</td>
<td>131,1</td>
</tr>
<tr>
<td>Austria</td>
<td>104,3</td>
<td>98,5</td>
<td>102,2</td>
<td>97,7</td>
<td>91,4</td>
</tr>
<tr>
<td>Romania</td>
<td>145,1&lt;sup&gt;s&lt;/sup&gt;</td>
<td>174,2</td>
<td>171,4</td>
<td>165,6</td>
<td>148,5</td>
</tr>
<tr>
<td>Turkey</td>
<td>84,2</td>
<td>82,2</td>
<td>81,7</td>
<td>79,8</td>
<td>-</td>
</tr>
</tbody>
</table>


It is seen from the above data that the transport services have an increasing trend throughout the EU until 2008 when financial crisis erupted, followed by sharp economic crisis. It may be noted also that the freight index value becomes important in Romania, given our view that the share of transport services in GDP is high compared with other states. However, and in Romania there is a considerable decline in 2008, as financial instability and other negative effects of the imbalance that we face. Significant share is also found in Denmark, Germany, France, Italy, Spain, Hungary, Austria and Turkey.
Table 2 presents data on carriage of goods in Romania and EU countries during 2005-2009, the desire to explain some evolutionary aspects of transport services.

Table 2
Air transport of goods (tonnes)

<table>
<thead>
<tr>
<th>Țări</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27 countries)</td>
<td>-</td>
<td>-</td>
<td>12471146</td>
<td>12905336</td>
<td>7617090</td>
</tr>
<tr>
<td>Denmark</td>
<td>7465</td>
<td>7363</td>
<td>7431</td>
<td>254100</td>
<td>155438</td>
</tr>
<tr>
<td>Germany</td>
<td>3005967</td>
<td>3269210</td>
<td>3418376</td>
<td>3568668</td>
<td>3341222</td>
</tr>
<tr>
<td>Spain</td>
<td>526125</td>
<td>504763</td>
<td>510579</td>
<td>539803</td>
<td>502585</td>
</tr>
<tr>
<td>France</td>
<td>1476721</td>
<td>1591982</td>
<td>1706769</td>
<td>1668136</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>754302</td>
<td>810446</td>
<td>906680</td>
<td>814995</td>
<td>-</td>
</tr>
<tr>
<td>Hungary</td>
<td>55473</td>
<td>64882</td>
<td>67591</td>
<td>62544</td>
<td>54138</td>
</tr>
<tr>
<td>Austria</td>
<td>181533</td>
<td>202685</td>
<td>206643</td>
<td>206221</td>
<td>-</td>
</tr>
<tr>
<td>Romania</td>
<td>17980</td>
<td>20738</td>
<td>19229</td>
<td>24431</td>
<td>23482</td>
</tr>
</tbody>
</table>


The data presented in the table above shows that the period under review the EU 27 handled loads using air transport is growing by the year 2008 when there is a very sharp downward trend, given the new economic conditions. The volume of goods decreased from 12905336 tons in 2008 to 7,617,090 tons in 2009. The same trend persists in the analyzed countries, including Romania where the reduction is not as drastic as in the EU 27.

With regard to tourism services as data the number of tourists who spend at least four nights in a team.

Table 3
The number of tourists who spend at least four nights in a team (1000)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>2721</td>
<td>2814</td>
<td>2756</td>
<td>2756</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>44828</td>
<td>57955</td>
<td>57111</td>
<td>44993</td>
<td>44715</td>
</tr>
<tr>
<td>Spain</td>
<td>11823</td>
<td>14656</td>
<td>16702</td>
<td>16551</td>
<td>16612</td>
</tr>
<tr>
<td>France</td>
<td>29829</td>
<td>31620</td>
<td>31515</td>
<td>31610</td>
<td>35147</td>
</tr>
<tr>
<td>Italy</td>
<td>24316</td>
<td>24471</td>
<td>24782</td>
<td>24932</td>
<td>-</td>
</tr>
<tr>
<td>Hungary</td>
<td>4141</td>
<td>4238</td>
<td>2983</td>
<td>2866</td>
<td>4365</td>
</tr>
<tr>
<td>Austria</td>
<td>3588</td>
<td>3743</td>
<td>4320</td>
<td>4094</td>
<td>4286</td>
</tr>
<tr>
<td>Romania</td>
<td>3839</td>
<td>3583</td>
<td>3152</td>
<td>5086</td>
<td>5264</td>
</tr>
<tr>
<td>Greece</td>
<td>3333</td>
<td>4460</td>
<td>4179</td>
<td>4040</td>
<td>4106</td>
</tr>
</tbody>
</table>


It is seen from the above data that the number of tourists who spend at least four nights in Romania, registered an upward trend in 2004, followed by a period of decline in 2005-2007 and then in 2008, Romania is growing again increases are due to a series of collaborative actions between the countries tourist. Germany is ranked first in the
number of tourists, followed by France, Italy, Spain, Hungary, Austria, Greece and Denmark, which is in last place.

About telecommunications services we can say that since 2002, mobile telecommunications subscription services to 100 residents, increase considerably from one year to another both in Romania and in other developed countries. Increased application of mobile broadband, demonstrates the need for a more coordinated approach to management of service activities each mobile operator. This increase is due to the telecommunications industry factors such as quantitative and qualitative in nature, such as increasing the number of service providers and users, broader choice and improved service quality.

<table>
<thead>
<tr>
<th>Countries</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27 countries)</td>
<td>40</td>
<td>41</td>
<td>47</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Denmark</td>
<td>72</td>
<td>77</td>
<td>77</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td>Germany</td>
<td>57</td>
<td>61</td>
<td>64</td>
<td>69</td>
<td>71</td>
</tr>
<tr>
<td>Spain</td>
<td>28</td>
<td>33</td>
<td>38</td>
<td>44</td>
<td>49</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>35</td>
<td>46</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td>Italy</td>
<td>24</td>
<td>27</td>
<td>30</td>
<td>33</td>
<td>39</td>
</tr>
<tr>
<td>Hungary</td>
<td>21</td>
<td>29</td>
<td>38</td>
<td>47</td>
<td>52</td>
</tr>
<tr>
<td>Austria</td>
<td>41</td>
<td>47</td>
<td>55</td>
<td>57</td>
<td>64</td>
</tr>
<tr>
<td>Romania</td>
<td>-</td>
<td>11</td>
<td>16</td>
<td>22</td>
<td>28</td>
</tr>
</tbody>
</table>


From the above data shows that Romania is the poorest in a small percentage of Internet use from Denmark, which is in first place in internet use and a continuous increase from Romania, followed by Germany and the EU. One can observe not only Romania is underdeveloped in terms of internet usage, but also other countries. The Internet can be most valuable to firms in developed countries, because market access opportunities and participate in internal and foreign trade.

6. CONCLUSIONS

The services sector holds the largest share in most macroeconomic indicators in developing countries, particularly in the employment and GDP. This situation only lasts for decades. The importance of the services sector varies when comparing developed countries to developing ones. Overall, however, the growing importance of services in the global economy can be considered a general trend.

All developing countries are beginning to play an important role in trade in goods and services. Experts say that in 2030 the country will provide 65% of goods imported from developed countries. At this time, the total is 40%.

Although economic growth and development paths may differ, all countries now located at high levels of economic development have certain common characteristics.
In conclusion, although services are faced with many problems, it is expected in the coming period, these services to know mutations appreciable positive, both from a quantitative and qualitative.

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THE LABOR MARKET AND THE EMPLOYER-EMPLOYEE RELATIONSHIP

Nicoleta SÎRGHI 1  
Mihaela NEAMŢU 2  
Renata Antonie NITU 3  
Emőke-Szidónia FEDER 4

ABSTRACT
Labor market is one of the most complex market forms in the economy, since labor represents the transaction factor. This factor is made up of several demographic, academic, professional and behavioral features, which clearly differentiate it from any other factor involved in the exchange relationships on other markets. One of the most significant objectives of the New Lisbon Strategy is the most efficient capitalization of the human capital in the economy, within the conditions of restricting this resource from the forecasted demographic evolutions, and its implication in obtaining competitive advantage through the capitalization of the entrepreneurial, creative and innovative qualities of the active persons.

This paper presents a labor market analysis on the specific case of oligopoly using game theory as a working instrument. This paper approaches the labor market at a microeconomic level, as the employer-employee relationship plays an important role on this market. The players can use the same or different strategies. Based on, in the present paper we consider an oligopoly game with heterogeneous players, where each player thinks with different strategy to maximize his output. Finally, some conclusions and future research possibilities are offered.

KEY WORDS: labor market, oligopoly, strategic behavior, the signal market, game theory

JEL: D86, D43, C71, E24, J31

1. INTRODUCTION

Labor market transactions are focused on the workforce, defined as the whole of the physical and intellectual human abilities that are used when the human being creates economic goods (Duta et.al.,2009). Labor market is one of the most complex market forms in the economy, since labor represents the transaction factor. This factor is made up of several demographic, academic, professional and behavioral features, which clearly differentiate it from any other factor involved in the exchange relationships on other markets. The importance of knowledge of the market mechanisms, of the

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relationship between price and other economic variables, is generally recognized both at micro and macro level. The trader called player in the game theory, whether seller or manufacturer must define its behavior and to formulate strategies for future action. The traders concern regarding strategies development is obvious being often reduced to a price game.

Economic models and economic-mathematical modeling practice constituted an excellent instrument for studying the economic games, stimulating research in this area. Currently a number of modeling methods of economic and mathematical theory were used to study the evolution of the social-economic status parameters. From this perspective the study, in a dynamic environment, of the oligopoly market mechanism is an extremely important issue. Based on these considerations it is possible to approach the microeconomic problems working with a modern instrument, namely game theory.

The game theory has not changed the principle of rationality, but developed it by using strategically and informational complex, thus raising questions on the hypothesis of rational behavior for oligopoly type market structures (Sirghi (2008)). The oligopoly market is an imperfect market structure that is found mostly in the actual economy, characterized by a limited number of company proceedings. The strategies of oligopoly companies are different and adapted to each actual situation on the market.

Oligopolies are typical forms of production and capital concentration in large companies. Unlike in perfect competition, where the consequences of changing one or another producer’s offer on the market are imperceptible, under oligopoly, each company’s actions have a significant impact on the market in general.

2. THE LABOR MARKET THEORIES

The content of the labor market has been the subject of various optional theories, some in favor of work, while others in favor of other production factors – the capital or the natural factor. Reality proves that labor remains the fundamental value which characterizes the life and evolution of individuals and human communities throughout their various development states, by way of scientific creativity, efficiency and ethics.

Labor market is the meeting point of labor offer and demand. There are several points of view regarding the labor demand. According to J. M. Keynes, labor demand from companies depends on the anticipated demand of households, which, in its turn, is influenced by the salary of the people who are already employed. J.M. Keynes was mostly concerned with identifying macroeconomic equilibrium, which cannot be achieved without using a maximum extent of labor force. Keynes points out those workers formulate their demand in terms of nominal salary and not in terms of real salary (Duta et.al.,2009). A high level of employment can be achieved by stimulating demand and investments. Keynes suggests the state intervention to unblock the economy and stimulate insufficient demand. Keynes states that the state must stimulate individual consumption and redistribute income to those willing to spend in the detriment of excess savings.

In modern economies, workers sell their services to capital owners within the labor market. According to neoclassic, labor demand depends on the real salary, i.e. the increase of the real salary causes the decrease of labor demand, while the latter causes the increase of unemployment. These divergences in terms of labor demand factors may be explained by the ambivalence of the notion of salary. In the neoclassic vision, salary
is a production cost (which should be as low as possible) while in the Keynesian theory salary is viewed as an income (which should be as high as possible).

The neoliberal theory brings into focus the classical and neoclassical views of the labor market and emphasizes the notion of voluntary unemployment to explain the sufficient unemployment of the population. The neoliberal theory is based on the idea that voluntary unemployment is opposed to involuntary unemployment, i.e., the labor market offers jobs, but many refuse these jobs, due to low salary or other considerations. With this idea in mind, the neoliberal theory develops several theories which have marked the study of economics.

Theories of the 60’s stated that labor market represented all relations established during the buying and selling of labor services. Among these, the theory sustained by Robert Solow, a famous American economist, winner of the Nobel Prize in Economics states that labor market was a failure. This means that the labor market mechanism shows imbalances and failures due to multiple economic and monoeconomic factors which influence the labor supply as well as non-economic factors because of the higher expenses implied by the labor demand.

The “Club of Rome” theory stated that labor market was represented by all workforce sale deeds that generated their own relations. Issued in early 1970s, the theory points out that labor and the labor market have gradually entered an obvious crisis. Related to the large technical-scientific and economic restructuring, the crisis has deepened, becoming an unprecedented one.

Structural theories of the labor market suggest that labor market includes the specific transactions in terms of buying, selling or hiring-out of labor of a certain structure and quality for a predetermined period of time. Those in favor of such theories point out that the labor and the market are overwhelmed by a deep structural crisis involving all their components, a crisis that manifests itself under specific aspects at all levels: microeconomic, macroeconomic and global economy.

Some recent theories assert that in the context of national and global economic restructuring, a prominent process involving the expansion of a new economic growth model takes place based on modern techniques and technologies and the decrease in the use of labor resources.

Theories related to the special quality of the transaction object and their dimensions on the labor market. Those who adopt these theories take into account the major changes in relation to the specific contents and sphere of labor supply and demand. Thus, some theories consider labor market as an economic area where transactions are concluded between the workforce suppliers and requestors, the balance being ensured by means of the price resulted from the competition among the economic agents. Other theories see labor market as a complex mechanism maintaining the balance between labor supply and demand, by way of a real salary. Other theories regard labor market as the entire communication means by use of which the suppliers and requestors inform each other about the special quality and price of the human capital that is traded.

Certain specialists state that the structure of the labor market is not determined only by the confrontation between the forces of the competitive market but also by some monopolistic elements. Both the unions’ intervention (trade unions and employers’ associations) due to negotiations and collective contracts and the state involvement - that establishes the legal framework of the labor right, may set forth the conditions pertaining to the enactment of such right and labor remuneration, therefore promoting a
certain wage policy - represent other two main factors of the labor market. Furthermore, the contractual and participatory aspects of the contemporary labor market are also pointed out. Such theories emphasize the essential role played by negotiation and the labor contract in wage formation and in the development of other operating conditions of the market. Labor market is not only unique but also segmented, i.e. made of relatively separate markets, which explains the extremely complex characteristic of the contents of this particular market, since labor represents specific merchandise.

Labor market may be approached both at microeconomic level, with accent of the employer-employee relationship, and at macroeconomic level (unemployment-inflation). This paper analyses the labor market at company level, since any relationship between the company and the employer is materialized in a work contract. The implied contract theory was initiated by Azariadis (1975), Baily (1974) and Gordon (1974) (Sirghi (2004)). Salary and unemployment are the main issues analyzed. By partially abandoning the hypothesis of a perfectly competitive world, the contract theory sees labor as an exchange object between companies and employees. This type of signed contract is characterized by a high degree of uncertainty, as the employers are unaware of the “state of nature”, i.e. what will happen in future. To avoid such risks, the economic agents must conclude various insurance contracts which anticipate certain possible risks. Applied on the labor market, this idea breaks off from the traditional neoclassical theory and has numerous consequences both on jobs and on salary.

Generally speaking, a contract is an agreement concluded between two parties. The effective materialization occurs subsequently, and the “state of nature” may occur in the meantime. Let us suppose, for example, that a company may face two situations: in the first situation, the demand for its goods increases, therefore the economic conjuncture is favorable; this is a case of “good state of nature”; in the second situation, the demand for the company’s goods decreases and this is a case of “bad state of nature”.

If companies could set the number of jobs and the salaries after observing the evolution of the demand for goods and services, there would be no uncertainty, as they would know the economic conjuncture before any decision-making. This is a theoretical situation which can only occur on a perfectly competitive market. Salary changes more than the jobs level according to economy variations. However, in reality, the situation is completely different, as the salary is rigid to decrease and economy changes only affect the jobs level.

A company can act as an insurer to its employees, in the following way: it will obtain an “insurance premium” from its employees in case of a favorable economic conjuncture and, in exchange, will preserve the same salary level regardless of the economic situation. This is the case of an optimum contract which implies a constant salary level, regardless of the state of nature. In this situation, the company shall grant its employees a complete insurance against the economy fluctuations. The more favorable the economic conjuncture, the higher the number of jobs. On a perfectly competitive market, jobs are characterized by production efficiency, as the real salary is equal to the marginal productivity of labor. Within this type of contract, there is no production efficiency, because the salary is lower than the work productivity. In contract theory, salary plays an important part in setting the occupational level. In early 1980s, several economists (Solow 1979, Salop 1979, Calvo 1979 etc.) began developing this concept (Duta et.al., 2009).
There are four versions in the economic theory which explain the link between salary and productivity. The most popular is based on the hypothesis that employees’ actions are unknown to the employers. In this situation, the employees have the possibility to set the level of effort they make; while the employers must set a mechanism to reach their objectives (maximize profit). Another explanation is based on the idea that a company manager cannot observe the whole set of individual competences of the employees. In this case, a high salary level could be set in order to attract the best employees. According to the third, more traditional explanation of efficiency wages, lower salary level determines the rotation of the workforce, which causes the decrease in productivity, both in the short run and in the long run. An explanation of the productivity-salary relationship has a sociological determination, i.e. the employers should normally induce the employees the feeling that they are well treated. The Solow model explains the theory of efficiency wages starting from the traditional company theory, where a certain production level is associated to each production factor. The effort made by each employee becomes an individual variable, because the employee will choose the level of effort made according to certain advantages or disadvantages. The following factors can be taken into account by an employee when setting the level of effort to be made: the salary level, his/her career objectives, the fair play feeling and the work environment.

3. THE GAME THEORY AND THE LABOR MARKET

The game theory studies the decision-making in situations of competition, where more rational agents act, each of them pursuing a particular purpose, being independents regarding the choice of their decisions but dependents on the results (Neamtu and Opris (2008)). This situation is mentioned in the mathematical concept of the game. In the game theory, a game, describes a situation where individuals interact whose interests are often opposite. In the game theory, a situation can be considered as game if it involves the following elements: a list of individuals, called players; a set of possible choices known as strategies for each player, the results associated to each choice of the players called the game solutions.

Players’ decisions depend on what they think will do, and these decisions can take many different forms, often unpredictable. The origin of this problem lies in the fact that players have in generally conflicting interests: the best solution for one is not necessarily the best solution for the other player.

The analysis of companies’ strategic behavior in oligopoly case can be analyzed from the framework of an economic game situation, formulated in terms of game theory. Performance of an oligopoly game is possible by formulating and identifying the following elements: rules of an oligopoly game, oligopoly game strategies; gains of an oligopoly game. Rules of an oligopoly game are made starting with the economical, social and political environment features of the oligopoly market, the laws that operate in business practices.

One of these rules refers to the number of players meaning the number of companies operating on the market. The oligopoly game strategies represent possible actions of each player. It establishes an exhaustive list of game strategies. Thus, possible strategies in an oligopoly game can be: to increase, to low or to maintain the same level of prices; to increase, to reduce or to maintain the same level of production; to do more, less or to maintain the same level of advertising; to improve, to reduce or to leave the quality unchanged, etc.
The results of an oligopoly game may be represented by economic profits or losses of each company. The strategic variables chosen by the companies are manifold. They may refer to prices, produced quantities, quality of goods, compliances, marketing, advertising costs, production techniques, innovation, etc. These decision variables may be classified according to their frequency or speed to which they can be changed. The optimal strategy of a company depends on the strategy to be adopted by the others, because each decision cannot maintain the chain reactions that do not necessarily converge to a stable balance of the labor market.

We will continue to analyze efficiency wages by focusing on the workforce rotation cost, which can confirm or infirm the salary-productivity relationship. Workforce fluctuations occur when the employees of a company decide to leave their current jobs, for various reasons. When an employee leaves his/her job, the company incurs significant costs (training costs), because it is forced to hire other staff. The decrease of the workforce fluctuation rate at company level is an indicator of the increase of the work productivity due to salary increase. Thus, we can infer a positive relationship between the salary level and productivity.

The first models that are the basis of the existing relationship between salary, fluctuation rate and productivity were formulated by Stiglitz (1974) and Salop (1979). The relationship between the three variables may be explained starting from the following model formulated by Carmichael (1990) and Picard (1993) (Sirghi (2008)).

In analyzing this model, we start from the hypothesis that the work relationships evolve in two stages. In the first state, new employees are trained according to their respective position. At the end of the training period, each employee has the right to leave the company if he/she is not satisfied. Those who stay will integrate in the company activity according to the competences they acquired during their training.

During the training period, the employees can determine whether they will be satisfied or not by staying in the respective company. The satisfaction level is marked with $\theta$, while the company offers its employees a real salary equal to $w$. In this case, the utility level obtained by the employees is equal to: $w + \theta$. A condition for an employee to stay with the company at the end of the training period is that the level of utility they get if they stay should be higher than the utility they should have by leaving the respective job, i.e.: $w + \theta > q$ ($q$ represents the level of utility the employees can acquire by leaving the company). Each employee’s satisfaction from a certain job is subjective. We can therefore consider $\theta$ as a random variable, while $H$ is its repartition function. At company level, the probability that employees leave their jobs should not be confused with the exit rate. For this reason, the exit rate is calculated as follows: $p(w) = H(q-w)$, and $p'(w) < 0$, i.e. an increase in salary decreases the workforce fluctuation rate (Binmore K. (1999)).

Let us consider the case of a company whose production function is marked with $F$. If the company decides to hire $L$ employees, it will only benefit from $(1-p(w))L$ employees in the end, as the rest will leave the company. For each person employed, the company will pay a training cost equal to $c$. In this situation, the company’s profit is equal to: $\Delta = F[(1 - p(w))L] - CTL - w(1-p(w))L$. In this case, the efficient work quality becomes: $L^*e = (1-p(w))L$. (Binmore K. (1999)). To obtain the optimum salary $w^*$, the total unit cost of the workforce must be minimal: $w^* = \min CTL$. The efficient occupational level $L^*e$ corresponds to the equality between marginal production and marginal cost of the workforce, as follows: $F'(L^*e) = CmgL(w^*)$. This method of labour market analysis is the basis of the conclusions formulated by Solow, as the salary is not set by
confronting labor demand and offer, but depends on the work productivity (Romer D. (1996)). Efficiency wage may also be approached from a sociological perspective, as work productivity depends on the way the employers treat their employees.

The sociological approach was elaborated by Akerlof, with the aim of theorizing the concept of efficiency wage. Akerlof believes that the productivity of an employee can increase if the employee feels that he/she is treated well by his/her employer. In these conditions, if the company offers the employee a higher salary than the reserve salary (i.e. a salary he/she can obtain from another company), the employee’s productivity will grow (Binmore K. (1999). In his approach, Akerlof starts from the premise that the employees generally make similar efforts to their peers. We can therefore speak of an “effort norm” at the company level. In its turn, the company sets an effort norm for each salary level, which it imposes to employees.

According to Akerlof’s model, there are two types of employees within a company: those who make greater efforts than the group’s norm and those who do not feel the effort as a utility and tend to offer lower effort levels. The proportion of the two groups in the total number of employees allows the calculation of the average work efficiency. Akerlof’s conclusion is that the company is interested in setting a lower norm than that adopted by each group, thus inducing its employees the feeling that they are well treated. As an effect to this reward, employees make greater efforts, and work productivity will grow.

Efficiency wage may be explained starting from the premise that a company manager cannot observe the whole set of individual competences of the employees. This is a case of adverse selection. Adverse selection and efficiency wage show that each potential employee has certain competences that cannot be known to the employer after a simple job interview. The employer could get information from former employers or test the employee, but such procedures are time-consuming and would involve high employment costs.

In this situation, candidates for a job must inform the potential employer as to the amount of money (reserve salary) they wish to receive. For the employer, this is a **signal** which reflects the level of knowledge the candidate holds. In other words, the reserve salary is an increasing function as compared to the competences of each potential employee. The optimum salary which results from these conditions is called **efficiency wage**. The company will have no interest in reducing this salary level, because work productivity and, eventually, the company profit would decrease. If an employee accepts to work for a lower salary than the one for which he/she qualified, he/she will reduce his/her chances to get the job. The employer will believe that the candidate’s productivity is lower based on the signal he/she transmitted.

The reserve salary, i.e. the salary requested by the candidate for a job has certain interesting aspects. The company declines a candidate who requests a lower reserve salary than the one the company set, based on the assumption that the respective candidate has a low productivity. However, it is possible that the candidate to a job requests a lower salary on purpose, with the objective of getting the job. This is a case of **adverse selection**. Reserve salary represents a selection criterion for the employer. If the efficiency wage is set at a higher level than the equilibrium wage, this will lead to involuntary unemployment. Due to salary increase, there will be fewer jobs, and there will be no opportunities for those who wish to get hired for lower salaries. On the other hand, those who request a higher reserve salary than the efficiency wage will also be unemployed, since they respect the “signal theory”.
4. CONCLUSIONS

Employment and unemployment are two important components of the labor market both on the national and international level. Although they receive significant attention, they are far from showing a positive evolution. Both employment and unemployment show trends that may be considered as threats to the social peace. Unemployment has negative effects both at the society level and especially at individual level, because it involves personal and moral losses.

This paper approaches the labor market at a microeconomic level, as the employer-employee relationship plays an important role on this market. By understanding the labor market at a company level, we will better understand the labor market at a macroeconomic level. The employer must stimulate the employee to make as much efforts as possible in carrying out his/her tasks, without being able to quantify these efforts. That is why the employer must offer the employee an efficiency wage, which is expressed by the positive correlation between the work productivity and salary. On his/her turn, in order to obtain an efficient work contract, the employee, must ensure a “good signaling” on the labor market, i.e. a reserve salary that matches his/her competences and knowledge. The contract concluded between the two parties is optimum when the salary is constant, regardless of the economic conjuncture, but at an employment level which is below optimum.

In conclusion, the game theory uses modern instruments which allow solving the problems related to a good operation of all market structures. By using the game theory the companies can coordinate their decisions in an environment with imperfect competition, affected by risk and uncertainty.

In conclusion, all processes and trends in the employment area and the means used up to now must be reconsidered in order to take more effective political and employment measures. Enhanced efforts are required to strengthen the administrative ability to manage and implement the Social European Fund. Significant progress had been made in the fields of social inclusion and social protection, but the success in implementing measures lies in the existence of sufficient resources.

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CHRISTIANITY AND GLOBALIZATION. THE CONTEMPORARY MAN BETWEEN DIGITAL PROGRESS AND ETHICAL ORIGINS

Alina STANCOVICI

ABSTRACT

The roots of the processes that led to the formation of the new identity of the globalization’s economic and minority „recent man” are more profound. At stake we have the ontological conflict of Christianity and religious metaphysics, on the one hand, and on the other hand we have the technical reality „artificially created by man, he himself made in the retorts of social, political, economic, and more severely, genetical engineerings.

KEY WORDS: globalization, christianity, culture, religion, ethics.

JEL: R10

1. INTRODUCTION

The arguments of globalization are of economic, social and humanitarian nature, but we also talk about issues of the flow of the ideological „traffic” and of the unitary application of concepts and theories in all the development plans of the human existence, offering a series of flexible ideologies, perfectly adaptable to any human typology. But, as the man moves away (in terms of time) from the moment of Resurrection, Ascension and Pentecost, this world becomes more and more vulnerable to the temptations of the „antagonist” (under their different materializations).

Actually, since 1054, the pace of unsacralization, was faster and faster, culminating with the post-modern era, which, assimilating the past centuries, created in its retorts all the arguments and conditions necessary for the creation of the Babel Tower: the globalization.

As regards globalization, under a strictly interpersonal relational report, it denotes the compression of distances through new technologies, the interconnection, the integration of financial and commercial markets, finding solutions to some of the global problems, the development of transnational identities.

Thus, globalization will include all the spheres of human existence and will constitute the model of the society to which humanity will have to participate as a whole. As it is nowadays, the world is ranked absolutely unfair and unacceptable. For this reason, in the process of a new economy and a new global society rise, it’s the entire humanity that can bring great benefits, not only the elite that controls the science, the technology, the communications and the resources of the planet.

The phenomenon of globalization includes the total of existing fields, from science, ideology and religion, to the cultural, social and political-economic aspect.

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2. GLOBALIZATION: SCIENCE AND KNOWLEDGE

The Christian Gnosis exists since the first century as an attempt to harmonize the dualist Greek philosophies with the disclosed Christian truth. Being the knowledge of a supersensitive reality, a proclamation of salvation through knowledge, the New Gnosis appeared in the academic circles after WWII, being called „The Gnosis of Princeton, 1969”. It is also analysed by the French Raymond Ruyer. The new gnosis contains also criticism on modernity, the neognostics not agreeing to adapt the philosophy and religion to the social and economic organization. Later on, David Bohm and Fritjof Capra developed scientistic ideologies that provide the scientific framework ideal for globalization. In the volume „Wholeness of the world and its order”, David Bohm develops a holistic concept according to which man fragmentizes life, world, Cosmos, conscience through a reasoning fragmented from the impossibility of looking at the whole.

David Bohm’s holistic vision supposes the existence of a fundamented ontological level (the implicit order) which is fragmentarily revealed in the different ways of organizing the world (the explicit order), determining the becoming of the entire world. With no separate particles, things continuously imply one another in an order of the primary, undivided whole. This paradigm proposes the existence of a permanent dynamics in order to set up new totalities, being a solid argument in favour of the world globalization.

3. GLOBALIZATION AND RELIGION

Throughout human history, people have inevitably devised various trends of thought, different views of the world and of the place that man owns in the world. There are two main directions, fundamentally different: the religious approach and the scientific one.

Convinced of the human’s natural orientation towards spirituality, the artizans of globalization had to provide a support for the new religious conscience. In order to satisfy the people of all possible religious traditions, the global world offers a unique religious alternative. It is a religious offer of globalization. Its materialization is the New Age movement, that includes absolutely all the religious ideas. The New Age ideologists speculated the spiritual void in man, left by the historical evolution of the second millenium and used the fals spiritualist speculations of the Orient in order to fill it up with delusive hopes according to which the world is a unitary and divine whole, from mineral to man, and his soul is not individual and unique, but a vital force. Thus, political globalism becomes a natural necessity of the religion.

4. GLOBALIZATION AND CULTURE

Culture derives from cult and is an almost successful attempt of replacing the latter in the contemporary human mentality and conscience. In all civilizations, culture occurred strongly tied to the temple, developing firstly in a religious sense and then devided into specific cultures, identifying themselves with the particularities of the human existence: „technical culture”, „political culture”, „economic culture”, „religious culture”. However, all these particular cultures tend to join into a „total culture” which
Tudor Vianu defines as „the capacity to live the world in all its aspects, to cherish it for all the values that it virtually closes”.

From the „dream” of the total culture, the world awakes to the multiculturalism, the global culture reality without any cultural tradition. Thus traditional culture vanishes in a global cultural disaster perceived as a show and a merchandise, a mass and consumption culture.

5. GLOBALIZATION, ECO-SOCIOLOGY AND THE NEW ECONOMY

The theory of globalization developed especially around economic and social arguments. Thus, globalization views characteristic processes regarding the integration of capital and commercial markets, the massive production buy-out, so that competition is free to speak up in merchandise traffic.

Related to the problems of direct social and economic implication, globalization is argued as a concrete opportunity of solving some special situations such as: environment and water sources protection, rational exploitation of mineral resources, etc. Thus, the creation of global bodies constituted a first step: ONU, G 8, Bildeberg Group, World Bank, etc. These issues were treated in studies, pro as well as against, by authors such as Samuel Huntington in „Collision of civilizations”, Benjamin Barber in „Jihad against McWorld” or Robert Kaplan in „The Coming Anarchy”.

We should note that this argument is perfectly viable in a humanist, secular perspective. De reținut este că acest argument este perfect viabil într-o perspectivă laică, umanistă. The eradication of poverty, the increase of individual and community welfare should constitute sufficient grounds for an unconditional acceptance of globalization. Eradicarea sărăciei, creșterea bunăstării individuale și comunitare, ar trebui să constituie suficiente motive pentru o acceptare necondiționată a procesului de mondializare. Că este așa o arată chiar și părerile mai multor tineri, care pleacă în alte țări, cu scopul mărturisit de a trăi bine (în sens de confortabil!!!).

Globalization is justified morally only if the economic results (the gains) will be followed by a global distribution on social criteria.

Throughout history, the scientific knowledge passed from the elitist spirit of the genius to the anonimous team-spirit of the current research collectives, in which each individual is highly specialized in its field of activity and absolutely ignorant in the others. The new model of knowledge led to the definition of the new human society model, in which life, from social relations to economic and political ones, changes its meanings, goals and ways of living.

6. INFORMATIONAL SOCIETY AND NEW ECONOMY

Nowadays, information becomes the essential resource in the development of the modern, politically, socially and economically evolved societies. The vitality and complexity of the new type of society, that causes a continuous increase of the volume and diversity of the processed information, led to the concept of informational society. As defined by the promoters of globalization, the informational society represents a new stage of human civilization, a new way of living that implies the use of information in all the fields of the human existence, with a significant economic and social impact. Thus, the progress towards informational society ensures an economic rise in terms of an increased protection and therewith the objectives of sustainable development are
integrated. The new digital technologies perform the access, the storing and the transmission of more and more easy and accessible information. Disposing of the digital information, this can be changed in new economic and social values, creating huge opportunities for the development of new products and services. The information becomes the key-resource for the digital economy. The notion of „new economy” refers especially to the current changes of the economic activity as a result of the digital technology use. The new economy is characterized by the increase of knowledge embedment into new products and services, globalization and sustainable development. The enormous volume of information changes the market business, making possible the enterprises restructuring and the show-up of new opportunities for the creation of value through the exploitation of available information.

However, the construction of the new model of society raises at national level, as well as at international level, major socio-political problems of the „digital divide” phenomenon attenuation (exclusion of some social categories and of some geographic areas from the benefits of the new technology) and of social cohesion, or preservation and/or promotion of the culture of each nation or community.

As regards the digital technologies, they seem to be the materialization of the Pythagorean and Kabbalist dream to explain life and the universe through numerology. The digital techniques developed on the electronic possibility to change its information in measurable electrical signal. The necessity of electronic processing of some numbers led to the current, explosive evolution of digital techniques.

From early history, communication was the expression of the need of communion and was solved according to the possibilities of each era. Nowadays, communication is not only an interpersonal relation, but is based on an entire modern system, conducted by the Internet, which practically cancels any boundary between states and communities, any differences between individuals as well as any prejudices or moral restrictions. At this level, i.e that of communication, of interpersonal relations, globalization is performed. The Internet is a virtual world by its definition, but very real by manifestation. We can say that it virtually represents the globalized world, the social, economic, cultural life lived on the network. Thus, the Internet is the clear, defined model of the globalized world. Its success proved that it is not only the model of globalization, but also its infrastructure and vector. Nowadays, man can benefit of the Internet’s advantages, but it can also mould consciences, which leads to implications on a moral level. We don’t talk of a network ethics yet, but as we talk about „cyber-relationship”, „cyber-space”, it won’t take long until we can talk about „cyber-ethics”.

Hence, through digital technologies we tend to create a huge, unique, worldnetwork, helping mankind in its activities, guaranteeing the freedom and security of individual actions. However there is a problem: how real is the freedom of movement in a network based on the strict control of transfers? And isn’t it possible that the numerous advantages of the digital technologies integrated on the Internet represent a hidden path towards the annulment of freedom in all its aspects?

From a religious point of view, the challenge called Internet is treated like any other challenge „Nothing new under the sun” says the Ecclesiast (1,10); more clearly, Father Paisios Aghioratul Aghiorâtul synthetizes the clerical approach of intellectual things: „... and when the work is complex, the mind must be caught up, but the heart not. The heart will be by God, as well as the thought, but the mind will be working.”

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Once technologically and culturally created, globalization will be created also from an economic and a political point of view. The world will not be a global political
entity, but an economic one, and politics will be subordinated to the economic efficiency.
But globalization, in terms of our lives, the ethical-religious life, has implications at the level of the conscience. The functions of conscience are led towards a stressed dilution. People no longer recognize their vocation, multiplying each of the talents received from God through various means, more or less clean for their own comfort. The globalized man refuses many times the solidarity within the circles of traditional existence: family, nation, conscience or behaving distortedly.

At the level of the city, globalization will mean the imposition of the community right, making it a priority to the social rights, specific national. However, globalization wants to impose not only immoral, but also anti-Christian laws. The imposed community rights are political and judicial and are morally reflected as the release of the animal in man, greedy to consume all the promised rights and freedoms, making him a slave of money, greed, consumption and senses. The right of the individual becomes the right of the individualist, alienated through the break-up with the group where he was ethnically, socially, professionally shaped. Thus, for the conscience, globalization brings a lot of important mutations, sometimes even cancelling its classical functions.

7. CONCLUSIONS
The society open to the global world, a result of the tormenting of two Christian millenniums, ended up in cancelling the borderline between virtue and sin, changing the values, inventing other axiologies. Christian virtues are nowadays circumvented or ridiculed today, faith is intellectualized, streamlined and the ecumenical religion wants to be the precursor of globalization. From the perspective of globalization, faith moves from the "Living and Omnipresent God", to a distant God and, finally, to the man who’s become his own god.

The essence of the globalization’s influence on human nature is a phenomenon that defies all the known paradigms, a huge civilizational mutation, traumatising at all levels of existence and which manifests itself as a clear break from all hierarchies of value, tradition, Christianity and Western humanity.

The changes produced by globalization will continue to make its way beyond any boundary. However, the borderlines will not be erased equally everywhere, but in different ways and in different places.

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THE ENGINEER ALEXANDRU POPP – A EUROPEAN MANAGER OF THE ANONIMOUS SOCIETY UD REŞIŢA, A FIRM OF CONTINENTAL SCOPE IN INTERBELIC EUROPE

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ABSTRACT
The entire professional activity of the engineer Alexandru Popp, the dignity shown in the years of unjust detention, remains an example for future generations and gives us the opportunity to write this paper so that Alexandru Popp may be remembered by posterity.

KEY WORDS: economy, interbellic, Romania, growth, depression, capital.

JEL: N4, N44

At the end of the First World War, the larger part of the Banat, which covered the estates of the anonymous society STEG (Privilegiert österreich-ungarische Staatsseisenbahngesellschaft), namely the steel works and mines became property of the Romanian state, fact ratified by the peace Treaty of Versailles. The state sought to nationalise this society as it was the largest industrial firm within its boundaries.

After several negotiations, in December 1919, the Romanian state and STEG concluded a protocol for turning over the steel works and estates to an anonymous society. Also, it was decided to found a railway engine factory for production and repair as well as the expansion of the armament production facilities. In February 1920, through the Journal of the Council of Ministers No. 230, the founding of a Romanian stock based society was authorised for the exploitation of the steel works, of the mines and of the estates in and around Reşiţa, formerly in Austro-Hungarian property, as well as of the mines and steel works from Hunedoara and Cugir. On June 8\textsuperscript{th} 1920, as noted in the Journal of the Council of Ministers No. 2455, the great enterprise known as Uzinele de Fier şi Domeniile Reşiţa (UDR) was founded, the French name being Acieres et Domaines de Reşiţa Societe Anonyme.

UDR was in the interbelic period the most powerful industrial society in Romania, in production and sales together with the facilities of Hunedoara and Cugir. UDR supplied the Romanian economy with coal, iron or, steel, pig iron, steel products, arms (armoured cars, cannons), but also machines used for oil exploitation, electric engines and locomotives, railway tracks, bridges etc. Also, UDR contributed to the industrialisation of Romania by training valuable staff and workers who were later employed in other industrial branches.

Among the exceptional things, there are worth mentioning the industrial work sheds produced by the UDR, the metallic frame of the Rugifer plants (Malaxa) in Bucharest, the gangways in Griviţa and Militari Bucharest, the building of the

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Telephone Service Bucharest, the seat of the insurance company Adriatica also from Bucharest (1935), the building of the Administrative Service for the Romanian Railways, Bucharest, the carriage depot for the Bucharest Tram Society, with many more examples of performance being able to follow.

On the European level, UDR became known as one of the most performant and reliable anonymous societies from the interbelic period, fact that was universally recognised and accepted at that time.

These models from UDR were intrinsically linked to the name of the engineer Alexandru Popp, who was the last General Manager of this said society. Sadly, on his life descended an unjust and undeserving silence of fifty years, as the engineer Dan Gh. Perianu correctly noticed, after the Second World War. This is why we are trying by means of the present lines to pull into light the portrait of the person who was Alexandru Popp.

He was born in Bucharest in 1898, in a magistrate’s family, Originary from Transilvania. He attended school in Iasi and Bucharest and graduated in 1922 from the Polytechnic university of London. One should notice that he was the first Romanian engineer employed at the UDR. As a substitute engineer he worked in the newly established locomotive factory, were he led the boiler work shop, the assembly work shop as well as the repair work shop. From that period he earned a brevet, namely the Popp safety valve, according to Dan Perianu.

In 1931 he was the head of the Manufacturing Service, quality in which he supervised all the workshops. His organisational and professional qualities made him a Manager and later on the First Manager of the UDR. We must mention that he was only 36 years old, and that promotion in a firm such as UDR, in which the principles of age and seniority were fundamental, can give insights on the merits of this personality.

He remained in charge of the UDR for fourteen years, the plants going through one of their most prosperous periods. Alexandru Popp had very good relationships with the European industrial circles, especially with Douglas Vickers, thus facilitating the accession of the UDR to the exclusivist club of the great industrialist of Europe. The access to the newest technologies was thus enabled.

Sadly, the professional career of the engineer Alexandru Popp came to an end after the Second World War, more precisely after the accession to power of the communists in Romania, naturally with the help of Moscow. This was followed in our country by a genuine purge of important personalities, labelled enemies of the totalitarian regime, among the victims being also Alexandru Popp.

At the end of October 1948, in Bucharest, a show trial was started. It was quite large involving twelve people (engineers, industrialists, military persons and legionaries). These were charged with having a collaboration plan to sabotage the national economy, being logistically sustained by the American intelligence services. The list of the defenders starts with engineer Alexandru Popp, the former general manager of the UDR. He was a member of the Administration Board for the General Union of Industrialists of Romania during the war years and was charged with being a collaborator of Marshal Ion Victor Antonescu. The indictment act was a clear case of trumped up charges: “Using their position as leaders of the most powerful industrial facility in the land, UDR, in the carrying out of American directives. The accused Max Auschnitt and Alexandru Popp have begun to organise sabotage acts, with the purpose of inflicting damage on the heavy industry and undermining the trust in the governments’ measures to rebuild the economy. On may gather that as a consequence
of the sabotage acts initiated at Reşiţa, the production has dropped catastrophically, in
the mean time, the defendants Auschnitt and Popp have hindered through hording of
products, the flow of goods towards the economic circles of the country, those goods
which they allowed on the market being of inferior quality”.

Obviously the charges were forge, lacking veridicity, but in November 1948,
Alexandru Popp was convicted in the trial of the “Great Finance” to hard labour for the
remainder of his natural life. After several years of detention, he was released and died
in Bucharest, his native city in 1967.

We do not know too many things about the difficult time when Alexandru Popp
was in detention, but data has been referred to by his colleague of suffering professor
doctor Nicolae Mărgineanu (1905-1980) was an important figure of Romanian culture and spirituality.
Doctor in psychology (1929) of the Babeş-Bolyai University Cluj-Napoca he also
studied at the universities of Leipzig, Berlin, Hamburg, Paris, London, after which he
began to work at the University Cluj-Napoca. He was also a Rockefeller fellow at the
universities Duke, Yale, Columbia and Chicago (1932-1943). In Romania he started the
vocational training for apprentice schools.

In 1948 he was imprisoned for his activity at the Romanian-American
Association, activity in favour of Romania retaining Transylvania. During the detention
years he became close with the engineer Alexandru Popp, starting a long friendship,
which helped him surpass the horrors of the communist dungeons. We find it useful to
remember the personality of Nicolae Mărgineanu, as he helped shed some light on the
life and activity of Alexandru Popp, a key figure of the Romanian interbelic industry.

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