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Contents

Bachev, H. - State and Efficiency of Management of Agro-Ecosystem Services - the Case of Bulgaria	5
Breuer, A.; Lesconi-Frumușanu, N.M.; Bilianaciurea, J. - Investments and Economic Recovery	29
Brutu, M. - The Improvement of Processes' Quality in Organisations Using the Six Sigma Concept	37
Burja, C.; Burja, V. - Analysis Model for Inventory Management	43
Chirtoc, I.E. - The Importance of Human Resources on Romania's Labor Market	51
Ciocodeică, V.; Prodanciuc, R. - Miners' Opinions Regarding the Influence of the Unions over the Socio-Economical Conditions in the Jiu Valley	59
Ciumag, M.; Ciumag, A. - Book-Keeping and Dividends Tax Fiscality	69
Dima, I.C.; Ciurea, C.; Voicu, I.; Sandu, M. - Particularities of the Human Resource Motivation in Public Administration	75
Dumbravă, G. - The Concept of Framing in Cross-Cultural Business Communication	83
Ganciov (Miculescu), A.; Pribac, L.I. - Knowledge and Information - Factors of Economical and Social Development	91
Gangone, A.; Chirila, C. - The Role of The Code of Ethics in the Contemporary Firms Activity	103
Giurca Vasilescu, L.; Popa, A. - Bankruptcy - A Possible New Start for the Small Business?	111
Ishwara, P. - Entrepreneurial Opportunities in Food Processing Units (With Special References to Byadgi Red Chilli Cold Storage Units in the Karnataka State)	119
Jurchescu, M.D.; Lesconi-Frumușanu, N.M. - Internal Audit Comparative Analysis - Management Control Concepts	129
Lupu Dima, L.; Edelhauser, E.; Ionică, A. - E-Learning Platforms in Romanian Higher Education	137
Mălăescu, S. - What is Found beyond the Diffident Impact of Several Western Successful Intervention Models?: The Genuine Romanian Territorial Reality	149
Man, M.; Marin, R.M. - Financial Risks Associated with the Governmental Public Debt's Portfolio	161

Marcu, M.; Gherman, C. - The Efficiency of Promotional Instruments Related to the Product Life Cycle Stages	169
Mazilu, M. - A New Strategy for Relaunching Tourism in Europe	177
Megan, O.; Crășneac, A. - The Role of European Funds for Research as Engine of Economic Growth	183
Nistorescu, T.; Ploscaru, C. - A Strategic Approach of the Construction Sector in Romania	193
Njanike, K. - The Impact of Globalisation on Banking Service Quality in Zimbabwe (2003-2008)	205
Njanike, K. - Derivative Market: An Integral Part of the Zimbabwe Stock Exchange	217
Obigbemi, I. - The Role of Competition on the Pricing Decision of an Organisation and the Attainment of the Organisational Objective	229
Pârvulescu, I.; Pleșa, R.; Ridzi, R. - Socio-Economic Issues Characteristic to the Jiu Valley Residents	249
Pleșa, R. - Aspects Related to the Socio-Economic Situation of the Retired Persons in Romania	257
Popescu, R.I.; Corboș, R.A. - Strategic Options in the Construction of the Bucharest Brand through the Application Analysis of the Measuring Instruments for the Urban Brands	267
Pribac, L.I. - Intellectual Investment. The Prospects in Education in the USA and in the EU	279
Puiu, S. - The Model of the Five Competitive Forces on Romanian Retail Market	289
Pup, A. - An Agenda of Morality for Business Ethics	299
Radneantu, N.; Gabroveanu, E.; Stan, R. - From Traditional Accounting to Knowledge Based Accounting Organizations	307
Răvaș, B.; Monea, A. - The Role of the Financial Information in the Tourism Services Quality Control	319
Secară, M. - Statistic Analysis of International Tourism on Romanian Seaside	327
Shome, S.; Tondon, S. - Balancing Human Development with Economic Growth: A Study of ASEAN 5	335
Turkes (Vint), M.C. - The Globalization of the Banking and Financial Crisis on International Level	349
Uța, T.; Coman (Andrei-Coman), N. - Accounting Public Institutions from Classic to Modern	363
Zaharia (Crivac), G.M.; Uța, T.; Vasilescu (Gheorghita), A. - Those Issues and Management Accounting Principles in the Organization Entities Milk Industry	371

STATE AND EFFICIENCY OF MANAGEMENT OF AGRO-ECOSYSTEM SERVICES – THE CASE OF BULGARIA

HRABRIN BACHEV *

ABSTRACT: *This paper incorporates New Institutional Economics and analyzes the state and efficiency of management of agro-ecosystem services in Bulgaria. Firstly, it presents framework of analyses of management of agro-ecosystem services including: definition of agro-ecosystem services and its management; specification of management needs and spectrum of governing modes (institutions, market, private, public, hybrid); assessment of efficiency of different form of management in terms of potential to protect eco-rights and investments, assure socially desirable level of agro-ecosystem services, minimize costs, coordinate and stimulate eco-activities, meet preferences and reconcile conflicts of related agents. Secondly, it identifies and assesses the management of agro-ecosystem services in Bulgaria. Transition and EU integration have brought about significant changes in the state and management of agro-ecosystems services in the country. Newly evolved market, private and public governance have led to a significant improvement of a part of agro-ecosystems services introducing modern eco-standards and public support, enhancing environmental stewardship, disintensifying production, recovering landscape and traditional productions, diversifying quality, products, and services. At the same time, the novel eco-management is associated with new challenges such as unsustainable exploitation, lost biodiversity, land degradation, water and air contamination. Moreover, implementation of EU common policies would have no desired impact on agro-ecosystem services unless special measures are taken to improve management of public programs, and extend public support to dominating small-scale and subsistence farms.*

KEY WORDS: *agro-ecosystem services; environmental management; market, private, public and hybrid modes; eco-impact of EU policies; Bulgaria*

JEL CLASSIFICATIONS: *D23, L22, Q12, Q13*

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1. INTRODUCTION

The problem of assessment and management of ecosystem services takes increasing attention in recent years (Boyd & Banzhaf, 2007; Daily, 2000; Duraiappah, 2007; Farber, et al., 2002; Hanson, C.; et al., 2008; MEA, 2005). It is recognized that maintaining and improving ecosystem services requires an effective management at various levels - individual, organizational, community, regional, national, transnational. It is also known that effective forms of management are rarely universal and there is a big variation among different ecosystems, regions, countries. Efficiency of environmental management depends on specific management structure which affects in dissimilar ways individuals behaviour, gives unlike benefits, commands different costs, and leads to diverse actual performances (Daily, 2000; Duraiappah, 2007; Bachev, 2007).

Agro-ecosystems comprise a considerable portion of ecosystems and are associated with diverse services (Bachev, 2009). Nevertheless, research on management of this specific ecosystem services is still at the beginning stage (AEHP, 1996; Antle, 2007; Jolejole, et al., 2009; WISP, 2008). Most studies focus on certain hotspots or type agro-ecosystems (e.g. pastoral, crop) and individual modes of management (formal, contract, business, public). What is more, significant costs associated with eco-system services management (known as transaction costs) are not entirely taken into account. Furthermore, uni-disciplinary approach dominates, and efforts of ecologists, economists, lawyers, behavioural and political scientists are rarely united. Besides, there are little studies on specific natural, economic, institutional, international etc. factors responsible for the variation among different ecosystems, regions and countries. With few exceptions (Bachev, 2009; Gatzweiler, et al., 2002) there are no publications on specific modes and efficiency of management of agro-ecosystem services in transitional and new EU states.

This paper incorporates interdisciplinary New Institutional and Transaction Costs Economics framework (Furuboth & Richter, 1998; North, 1990; Williamson, 1996) and analyzes forms, efficiency and perspectives of management of agro-ecosystem services in Bulgaria. First, it presents a holistic framework for analysis and improvement of management agro-ecosystem services. Second, it identifies and evaluates market, private and public modes of environmental management in Bulgarian agriculture. Next, it analyses structures for management of agro-ecosystems services in Zapadna Stara Planina, a mountainous region in the North-West part of the country. Finally, it assesses the prospects for evolution of environmental management in the conditions of EU common policies implementation.

2. FRAMEWORK FOR ANALYSIS OF THE GOVERNANCE OF AGRO-ECOSYSTEM SERVICES

Humans benefit from multiple resources, products and processes supplied by natural ecosystems known as *ecosystem services*¹. *Agro-ecosystem services* comprise

¹ They include: *provisioning services* (food; water; pharmaceuticals, biochemicals, and industrial products; energy; genetic resources), *regulating services* (carbon sequestration and climate regulation; waste

ecosystem services provided by agro-ecosystems. The later implicitly includes agricultural activity (crop production, raising animals, and natural resource management) as a *key* component. Type and amount of agro-ecosystem services depends on natural evolution of ecosystems, progression of farming practices, development of social demand and preferences. Therefore, *in the beginning* the analysis is to specify different ecosystem services associated with various agro-ecosystems. Modern science offers precise methods to classify diverse ecosystem services (including agro-ecosystems ones), and their spatial and temporal scales (MEA, 2005). For instance, Figure 1 illustrates the spectrum of services of Agro-ecosystems in Zapadna Stara Planina in Bulgaria.

Maintaining a sustainable supply of agro-ecosystem services requires an effective *social order* (governance). *Environmental management* means management of environment preservation and environment improvement *activities of various agents*. It requires a system of coordination and stimulation of eco-activity which will induce *appropriate behaviour*² of individuals and *coordinated actions* at local, national, and transnational levels.

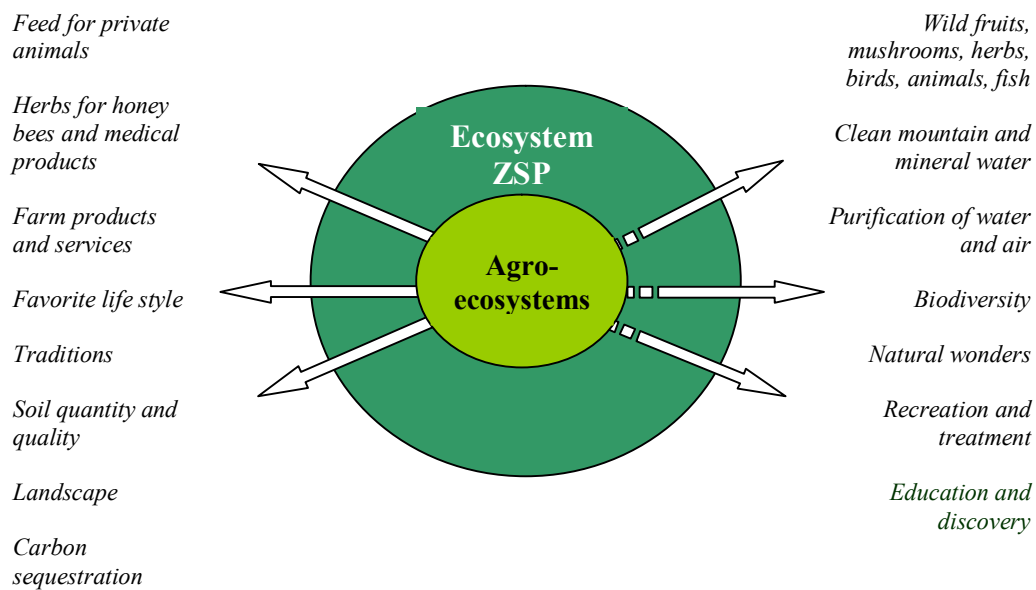


Figure 1. Services of Agro-ecosystems in Zapadna Stara Planina, Bulgaria

According to (awareness, symmetry, strength, harmonization costs of) interests of agents associated with agro-ecosystem services there are different *needs for*

decomposition and detoxification; purification of water and air; crop pollination; pest and disease control; mitigation of floods and droughts), *supporting services* (soil formation; nutrient dispersal and cycling; seed dispersal; primary production), *generation and maintenance of biodiversity, and cultural services* (cultural, intellectual and spiritual inspiration, recreational experiences, scientific discovery) (MEA, 2005)

² "pro-environmental" actions, "anti-environmental" inactions.

management of actions. For instance, Farm 1 has to manage its *efforts* and *relations* with the Farm 2 since both receive services from the Ecosystem 1 and affect (positively or negatively) service supply of that ecosystem. Besides, both farms are to manage their relations with consumers of services from Ecosystem 1 (agents in Social system 1) to meet *total demand* and *compensate costs* for maintaining ecosystem services to that direction. In addition, Farms 1 and 2 have to coordinate efforts with agents in Social system 1 to *mitigate conflicts* with agents in Social system 2 (affecting negatively services of Ecosystem 1). Furthermore, Farm 1 is to manage its relations with Farm 3 for effective service supply from Ecosystem 3, and manage its interaction with Ecosystem 2. Moreover, Farms 1 and 3 have to manage their relations with Farms 4 and agents from Social system 1 (consumers of services of the Ecosystem 3) and Social system 2 (consumers and destructors of Ecosystem 3 services). Finally, Farm 1 affecting adversely the Ecosystem 4 services is to manage relations with agents in Social system 2 (consumers of Ecosystem 4 services) to reconcile conflicts and secure effective flow of ecosystem services. Therefore, the Farm 1 is to be involved in *seven* systems of governance in order to assure an effective supply of the services from ecosystems of which it belongs or affects.

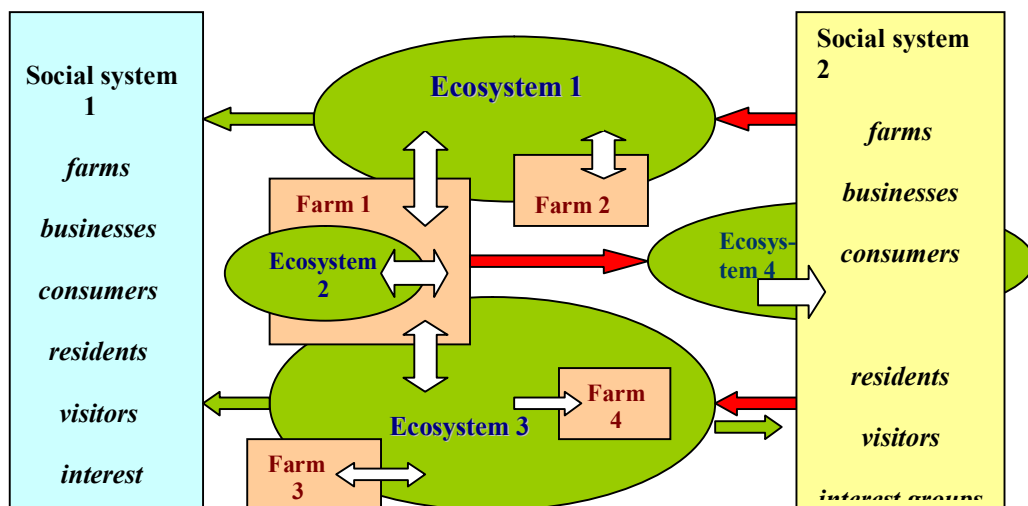


Figure 2. Governance needs for effective supply of agro-ecosystem services

Therefore, the *second* step of the analysis is to identify specific *management needs* for each agro-ecosystem service. They depend on particular characteristics of ecosystem (services, scale, interactions with other eco-systems), and the number and interests of related agents. Simultaneously *trends*, *factors*, *problems* and *risks* associated with services of agro-ecosystems are to be clarified. Modern science offers precise methods to evaluate trends and risks in the evolution of various ecosystems, and to identify driving ecological and social factors for their progression (MEA, 2005). In any case *persistence of serious eco-problems and risks is an indicator that an effective system of management is not put in place*.

The *third* step is to identify *available and other fusible modes* for management of agro-ecosystem services, and assess their *efficiency* and *complementarities*. Individuals' behaviour (actions) are affected and managed by a number of *distinct* modes and mechanisms including:

- *institutional environment* (“rules of the game”) – that is the distribution and evolution of formal and informal rights and obligations between individuals, groups, generations, and system(s) of enforcement of these rights and rules (Furuboth & Richter, 1998; North, 1990). The spectrum of rights could embrace material assets, natural resources, intangibles, certain activities, labour safety, clean environment, food security, intra- and inter-generational justice etc. A part of the rights and rules are constituted by the *formal* laws, regulations, standards, court decisions etc. In addition, there are important *informal* rules and rights determined by tradition, culture, religion, ideology, ethical and moral norms. Enforcement of rights and rules is done by the state, community pressure, trust, reputation, private modes, and self-enforcement.
- *market modes* (“invisible hand of market”) - those are various decentralized initiatives governed by free market price movements and market competition – e.g. spotlight exchanges, classical contracts, production/trade of organic products, origins etc.
- *private modes* (“private or collective order”) – those are diverse private initiatives and special contractual and organizational arrangements – e.g. voluntary actions, codes of behaviour, eco-contracts, eco-cooperatives etc.
- *public modes* (“public order”) – these are various forms of public (community, government, international) intervention in market and private sectors - e.g. public guidance, public regulation, public taxation, public assistance, public funding, public provision, property right modernization.
- *hybrid forms* – a combination of other modes.

Efficiency of different forms of management will depends on *personal characteristics* of agents (preferences, believes, capability, risk aversion, bounded rationality, tendency for opportunism, trust), and *specific* features of each eco-system (type, scale, services, interactions, risks etc.). Divers management modes are to be assessed in terms of *absolute* and *comparative potential* (limits) of protect eco-rights and investments of agents, assure socially desirable level of agro-ecosystem services, minimize related costs, coordinate and stimulate eco-activities, reconcile conflicts etc. in the *specific* economic, institutional and natural environment.

Analysis is to include the *overall* (private and public) *transaction costs*³ associated with individual management forms. However, assessment of precise levels of transaction costs in eco-activity is often not possible or very expensive (Bachev, 2009). That is why the analysis is to focus on *combination of critical dimensions* of eco-activity and transaction⁴ - the factors responsible to the variation of transacting costs between alternative modes of management (Figure 3).

³ Transaction costs have two *behaviour origin* – agents *bounded rationality* and *tendency for opportunism* (Williamson, 1996).

⁴ “*Frequency*”, “*uncertainty*”, and “*asset specificity*” are identified as critical factors of transaction costs by Williamson, 1996 while “*appropriability*” added by Bachev and Labonne, 2000.

Generic modes	Critical dimensions of transactions								
	Appropriability								
	High								Low
	Assets Specificity								
	Low				High				
	Uncertainty								
	Low		High		Low		High		
	Frequency								
	High	Low	High	Low	High	Low	High	Low	
Free market	Y	Y							
Special contract form			Y			Y			
Internal organization					Y		Y		
Third-party involvement				⚠				⚠	
Public intervention									⚠

Y - the most effective mode; ⚠ - necessity for a third party involvement

Figure 3. Principle modes for governing of ecosystem service transactions

For instance, eco-activity (transactions) with good appropriability, high certainty, and universal character of investments could be effectively managed by *free market* through *spotlight* or *classical contracts*. There are widespread market modes for selling *pure* “ecosystem services” (eco-visits, hunting, fishing, harvesting wild plants and animals) or “ecosystem services” *interlinked* with other products and services (e.g. organic, fair-trade, special origins, on-farm sale, self-pick, eco-education, eco-tourism, horse-riding, eco-restaurants etc.).

Transactions with low specificity and high appropriability could be effectively managed through a *special contract*. For example, eco-contracts and cooperative agreements between farmers and interested businesses⁵ or communities are widely used including a payment for ecosystem services, and leading to production methods (enhanced pasture management, reduce use of agrochemicals, wetland preservation) protecting water from pollution, mitigating floods and wild fires etc.

Transactions with high frequency, big uncertainty, great assets specificity, and high appropriability, have to be governed *within* internal organization. Very often the effective scale of specific investment in agro-ecosystem services (minimum required for eco-impact, exploring economies of scale and scope) exceeds borders of traditional agrarian organizations (family farm, small partnership). If specific capital (knowledge, technology, equipment, funding) cannot be effectively organized within a single organization⁶, then effective external form(s) is to be used - joint ownership, interlinks, cooperative, lobbying for public intervention. For instance, environmental cooperatives are very successful in some EU countries (Hagedorn, 2002). Nevertheless, costs for initiation and maintaining collective organization for

⁵ e.g. drinking water companies in Germany (Hagedorn, 2002), mineral water company Vittel in France (Hanson, et al., 2008)

⁶ coalition made, minimum scale of operations reached, economy of scale/scope explored.

overcoming *unilateral dependency* are usually great (big number of coalition, different interests of members, opportunism of “free-riding” type) and it is unsustainable or does not evolve at all.

Furthermore, transaction costs analysis let us identify situations of *market* and *private sector failures*. For instance serious problems arise when condition of assets specificity is combined with high uncertainty and low frequency, and when *appropriability* is low. In all these cases, a *third part* (private agent, NGO, public authority) *involvement* in transactions is necessary (through assistance, arbitration, regulation) in order to make them more efficient or possible at all. Emergence and unprecedented development of special origins, organic farming and system of fair-trade, are good examples in that respect. There is increasing consumer’s demand (price premium) for these products but their supply could not be met unless effective *trilateral governance* (including independent certification and control) is put in place.

Respecting others rights or granting out additional rights could be managed by “good will” or *charity actions*. For instance, a great number of voluntary environmental initiatives (“codes of behaviour”) have emerged driven by farmers’ preferences for eco-production, competition in industries, and responds to public pressure for a sound environmental management. However, environmental standards are usually “process-based”, and “environmental audit” is not conducted by independent party, which does not guarantee a “performance outcome”. In any case, voluntary (charity) initiatives could hardly satisfy the entire social demand especially if they require considerable costs.

Management of most ecosystem services requires large organizations with diversified interests of agents (providers, consumers, destructors, interest groups). Emergence of special *large-members* organizations for dealing with low appropriability is slow and expensive, and they are not sustainable in long run (“free riding” problem). Therefore, there is a strong need for a *third-party public* (Government, local authority, international assistance) *intervention* to make such eco-activity possible or more effective (Bachev, 2009).

Various modes for public intervention in eco-activity (transactions) is to be assessed in terms of correspondence to the needs of third-party involvement (Figure 3) and comparative (coordinating, stimulating, costs-minimization) efficiency to other feasible modes of public intervention (assistance, public-private partnership, property rights modernization etc.) (Bachev, 2009). The overall implementation *and* transaction costs are to be taken into account. The later would depend on uncertainty, frequency, and necessity for specific investment of public involvement (Figure 4).

<i>Level of Uncertainty, Frequency, and Assets specificity</i>					
<i>Low</i>	←-----→				<i>High</i>
New property rights	Public regulations	Public taxation	Public assistance	Public funding	Public provision

Figure 4. Principle modes for effective public intervention

The analysis will let define efficiency and potential of divers mechanisms and modes of management (institutions, market, private, public) to deal with problems and risks for sustainable flow of agro-ecosystem services. It also unable us to predict likely cases of new public (local, national, international) failures due to impossibility to mobilize sufficient political support and resources or ineffective capability for implementation of otherwise “good” policies in the specific economic and institutional environment of particular ecosystem and region. Since public failure is a feasible option its timely detection permits foreseeing persistence or rising of certain eco-problems and conflicts, and informing (local, international) community about associated risks.

3. BULGARIAN EXPERIENCE IN ENVIRONMENTAL GOVERNANCE

Post-communist transformation and EU integration has been associated with significant challenges and opportunities for agro-ecosystems and their services. During most transition diverse eco-rights (on clean and athetic nature; preservation of natural resources, biodiversity) were not defined or badly defined and enforced (Bachev, 2009). Inefficient public enforcement of laws and contracts has been common. Outdated system of public regulations and control dominated until recently which corresponded little to the contemporary needs of eco-management. There was no modern system for monitoring state of soil, water, and air quality, and credible information on the extent of eco-degradation. There existed no social awareness of “concept” of eco-sustainability and ecosystem services or “needs” them to be included in public policy and private and community agenda. Lack of eco-culture and knowledge has impeded evolution of voluntary measures, and private and collective actions for effective management of ecosystem services.

Before EU accession (January 1, 2007), country’s laws and standards were harmonized with immense EU legislation. The later introduces modern framework for eco-management including new rights/ and restrictions on protection of environment, preservation of traditional varieties and breeds, biodiversity, animal welfare. EU accession established and enforces “new order” - strict regulations and control; tough quality, food safety, eco-standards; financial support. External monitoring, pressure, likely sanctions by EU improve enforcement of laws and standards.

Good part of new “rules of the game” is not well-known or understood by various authorities, private organizations, individuals. There is not enough readiness for effective implementation of new public order because of lack of experience in agents, administrative capacity, and possibility for enforcement of novel norms (comprehension, deficient court system, corruption).

Often enforcement of eco-standards is difficult/impossible since detection and penalizing costs are high, or there is no direct links between performance and eco-impact. For example, although burning fields is banned this harmful for environment practice is widespread. Permanent deterioration of soil quality, wasting accumulated (photosynthesis) soil energy, extermination of soil micro-flora and habitats, significant contribution to green-house emissions, multiplying forests fires, diminishing visibility, increasing traffic accidents, come out as result (EEA, 2007).

Harmonization with EU legislation and emergence of eco-organizations generate new conflicts between private, collective, public interests. Results of public choices are not always for effective eco-management – e.g. strong lobbying efforts of particular individuals/groups led to 20% reduction in numbers and 50% reduction in area of initially identified sites NATURA 2000.

Newly evolving market and private structures were inefficient in dealing with various eco-issues. Privatization of farmland and assets of ancient public farms took 10 years to complete. During much of that period, management of farmland and eco-resources was in ineffective “temporary” structures (Privatization Boards, Liquidation Councils, Land Commissions). Sales and long-term lease markets for farmland did not emerge until 2000, and annual leasing was form for extension of farm size until recently. That was combined with high economic and institutional uncertainty and big inter-dependency of agrarian assets.

Most farming activities were carried-out in less efficient and unsustainable structures - reorganizing public farms, part-time and subsistence farms, production cooperatives, huge business farms based on provisional lease-in contracts (Table 1). Market adjustment and intensifying competition has been associated with a significant decrease in number of unregistered farms and cooperatives since 1995.

Table 1. Number, size and importance of different farms

	Public farms	Unregistered	Cooperatives	Agro-firms	Total
Number of farms					
1989	2101	1600000	na	na	1602101
1995	1002	1772000	2623	2200	1777000
2000	232	755300	3125	2275	760700
2007		458617	1281	5186	465084
Share in number (%)					
1989	0.13	99.9			100
1995		99.7	0.1	0.1	100
2000		99.3	0.4	0.3	100
2007		98.6	0.3	1.1	100
Share in farmland (%)					
1989	89.9	10.1			100
1995	7.2	43.1	37.8	11.9	100
2000	1.7	19.4	60.6	18.4	100
2007		32.2	24.7	43.1	100
Average size (ha)					
1989	2423.1	0.4			3.6
1995	338.3	1.3	800	300	2.8
2000	357.7	0.9	709.9	296.7	4.7
2007		2.2	613.3	364.4	6.8

Source: National Statistical Institute

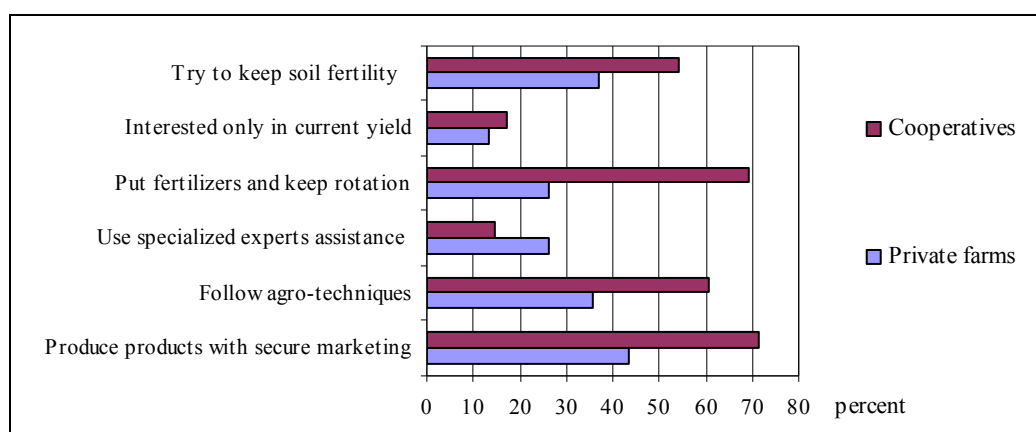
Larger business farms operate mainly on a leased land and concentrate on high pay-off investment with a short pay-back period (cereals, sunflower). That has been

coupled with ineffective outside (authority, community) pressure for respecting standards for ecology, crop rotation, nutrition compensation, and biodiversity. Survivor tactics (“concentration on products with secure marketing”) rather than a long-term strategy toward sustainability (preserving soil fertility, observing crop rotation and agro-techniques requirements) are common among commercial farms (Figure 5).

Table 2. Number and size of livestock holdings, 2008

Type of holdings	Share		Share		Share		Average heads
	farms	heads	farms	heads	farms	heads	
	1-2		3-9		20 and >		
Dairy cows	79.8	36.1	16	25.2	1.6	26.8	2.7
	1-9		10-49		100 and >		
Ewes	85	37.1	12	24.5	1	23.4	8.6
She-goats	97.1	75.3	2.7	17.4	0.1	3.2	2.8
	1-2		3-9		200 and >		
Breeding pigs	78.8	12.8	14.9	8.8	0.5	57.4	7.8

Source: Ministry of Agriculture and Food



Source: Survey data

Figure 5. Share of farms implementing different strategies (%)

During transition agrarian long-term credit market was practically blocked while newly evolving farming left unassisted by government. Despite progress in public support in recent years (SAPARD, CAP) the overall support to agriculture rests very little (Table 3). A small proportion of farms benefits from public aid most of them large enterprises from regions with less socio-economic and eco-problems.

EU accession brings new opportunities for a public support for private and collective activities related to agro-ecosystem services. The National Plan for Agrarian and Rural Development 2007-2013 (NPARD) provides significant funding for area-based and agro-environmental payments (organic farming, management of agricultural lands with high natural value, traditional livestock, protection of soils and water, preservation of land shaft); modernization of farms, processing, marketing;

diversification of activity; infrastructural development; keeping traditions; training. Cross-compliance (with safety, animal-welfare, eco-standards) for receiving public support is introduced. Funding for projects related to eco-system services is also available from Fund LIFE+, Operational Programs “Environment”, “Fishery and Aquaculture”, “Regional Development”.

Table 3. Share of EU and national support in Net Income of farms, 2008 (%)

Type of farm	Share of subsidies in Net Income	
	Current	Investment
Field crops	63.2	2.1
Horticulture	1.3	1.8
Permanent crops	0.4	2.2
Livestock	0.3	0

Source: Ministry of Agriculture and Food

Mostly bigger farms participate in public programs because they have a superior entrepreneurial experience, available resources, capability for adaptation to requirements, and winning projects. It has been impossible to reform inefficient system of management of public programs and significant EU funding was blocked by EC (2008) while Special Assistance Pre-accession Program for Agrarian and Rural Development (SAPARD) support lost. A minor amount supported farms (agro-ecosystems), deficiency of clear criteria for eco-performance, and lack of effective control led to little contribution of public measures to improvement of eco-situation.

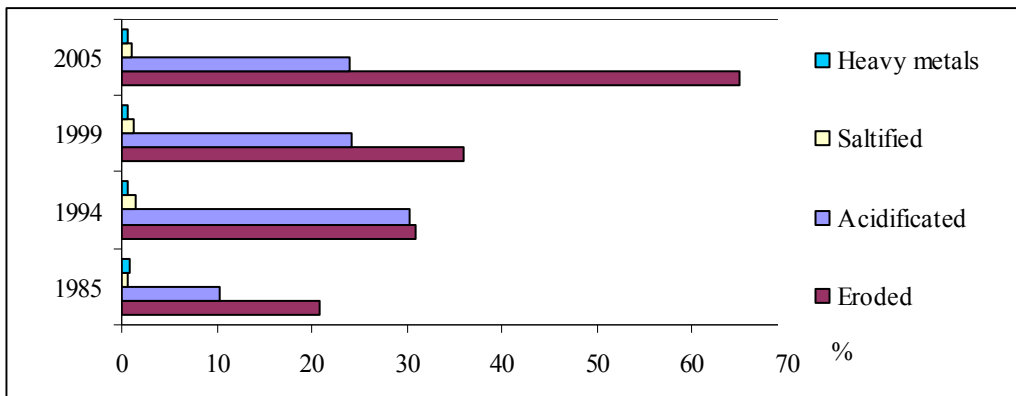
Market management has led to sharp decline in all crop (but sunflower) and livestock (but goat) productions comparing to 1989. Smaller size and owner operating nature of most farms avoided certain problems of public enterprises such as lost natural landscape, biodiversity, nitrate and pesticide contamination, huge manure concentration, and uncontrolled erosion. Subsistent and small-scale farming has also revived some traditional and more sustainable technologies, varieties, and products.

Private mode has introduced incentives and possibilities for integral eco-management (including revival of eco/cultural heritage; anti-pollution, esthetic, comfort measures) profiting from inter-dependent activities such as farming, fishing, agro-tourism, recreation, processing, and trade. There are also good examples for foreign investment in cereals, oil crops, integrated with farming vine and food processing, which introduce modern governance, technologies, quality, and eco-standards.

A by-product from dominating “market and private management” has been considerable disintensification of agriculture, ease of general eco-pressure and pollution comparing to pre-reform level. The total amount of used chemical fertilizers and pesticides has declined considerably, and now their per hectare application represent 22% and 31% of 1989 level (MAF, Annual reports). A sharp reduction in chemical use has diminished drastically the risk of chemical contamination of soils, waters, and farm produce. A good part of farm production has got “organic” character obtaining reputation for high quality and safety.

A negative rate of fertilizer compensation of N, P, K intakes dominate and average of 23595,4 t N, 61033,3 t P₂O₅ and 184392 t K₂O have been irreversibly removed annually from soils since 1990 (MAF, Annual reports). Monoculture or simple rotation is constantly practiced by large operators concentrating on few profitable crops (sunflower, wheat). These practices further contributed to deterioration of soil quality and organic matter.

There has been considerable increase in farmland affected by acidification (Figure 6). That is a result of long-term application of specific nitrate fertilizers and unbalanced fertilizer application without adequate input of phosphorus and potassium. Besides, since 1990 no effective measures are taken to normalize soil acidity and salinity.



Source: EEA

Figure 6. Share of degraded agricultural lands

Erosion is a major factor for land degradation. Due to ineffective management one-third of arable lands are subjected to wind erosion, 70% to water erosion as total losses varies from 0,2-40t/ha in different years. Progressing level of erosion is affected by agro-techniques, anti-erosion measures deficiency, uncontrolled deforestation (EEA, 2007).

There is a reduction of irrigated farmland since 1990 as 2-5% of irrigation network has been used. Consequently, irrigation impact on erosion and salinization has been diminished considerably. Decline in irrigation has a negative effect on crop yields and rotation. Irrigation is not effectively used to counterbalance adverse effect of global warming on farming (extension of season, increased water requirements, rainfalls fall) and degradation of farmland.

There has been a significant reduction of overall GHG emissions from agriculture. N₂O emissions comprise 59% of total agriculture emissions, as sector is the major ammonia source accounting for two-third of the national (EEA, 2007). Most NO₂ emissions come from agricultural soils (87%), manure management and burning fields (13%). Methane emission from agriculture represents about quarter of national. Biggest portion of CH₄ comes from fermentation from domestic livestock (72%) and manure management (24%).

Private management has been associated with less concern to manure and garbage management, over-exploitation of leased and common resources, contamination of air and groundwater. Illegal garbage yards in rural areas have noticeably increased. Farms contribute extensively to waste “production” with organic and industrial materials, leading to negative changes in beauty of scenery, and air, soil, and water pollution. Pollution of soil and water from industrial activities, waste management, and improper farming activities is a serious environment and health risk - in 7% of soils concentration of pollutants is higher than the critical limits (EEA, 2007).

Around a quarter of river length does not meet standards for water quality (MAF, Annual reports). Monitoring of water for irrigation shows that in 45% of samples, the nitrates concentration exceeds contamination limit 2-20 folds. Nitrates are most common polluter of underground water with slight excess over ecological limit (EEA, 2007). Lack of effective manure storage capacities and sewer systems in most farms contribute significantly to the persistence of problem. Livestock activity is carried out by a great number of small and primitive holdings often located within residential borders - 0,1% of livestock farms possess safe manure-pile sites, around 81% use primitive dunghills, 116 thousands holdings have no facilities (MAF, Annual reports). That contributes significantly to pollution of air, water, soils, and disturbing population comfort (noise, odour, dirty roads).

There is significant degrading impacts of agriculture on biodiversity - all 37 typical animal breeds have been endangered during the last decades, among them 6 are irreversibly extinct, 12 are almost extinct, 16 are endangered, and 3 are potentially endangered (MEW, 2007).

Since 1990 a considerable portion of farmlands have been left uncultivated for long time or abandoned, and significant part of agro-ecosystem lost “agro” character turning into natural ecosystems. That has caused uncontrolled “development” of species allowing development of some and suppressing others. Some of most valuable ecosystems (natural grassland) have been severely damaged. Part of meadows has been left under-grazed or under mowed, and intrusion of shrubs and trees took places. Some fertile semi-natural grassland has been converted to cultivation (crops, vineyards, orchards). This has resulted in irreversible disappearance of plant species diversity. Certain public (municipal, state) pastures have been degraded by unsustainable use (over-grazing) by private and domestic animals. Besides, a reckless collection of valuable wild plants (berries, herbs, flowers) and animals (snail, snakes, fish) have led to destruction of all natural habitats.

Market driven organic farming has emerged recently. It is a fast growing approach but it is restricted to 432 farms, processors, and traders, and covers less than 3% of Utilized Agricultural Area (UAA) (MAF, Annual reports). There are few livestock farms and apiaries certified for bio-production. In addition, 242677 ha are approved for gathering wild organic fruits and herbs. Organic form has been introduced by business entrepreneurs who managed to organize and fund this new venture arranging independent certification and finding buyers for highly specific output. Produced bio-fruits, vegetables, oil plants, herbs, spices, and honey are for export since a tiny internal market for organic products exists. Slow development of organic market is caused by the high prices of products, and limited consumer

confidence in authentic character of products and certification. Eco-labelling of processed farm products (self-regulation) has also appeared but it is perceived more as a part of marketing strategy of companies rather than genuine eco-action.

Evolution of farmers and eco-associations has been hampered by the big number and diversified interests of agents – a different ownership size, operation, type of farming, preferences, age, and horizon. There are few examples for effective organizations mostly with small-membership and strong common interests of participants. Government and local authority involvement in eco-governance has not been significant, comprehensive, sustainable, or even related. Budget of the Ministry of Water and Environment accounts for 1,5% of National, and agriculture is getting a tiny portion of total public eco-spending (MEW, 2007). Recultivation of degraded farmlands by MAF is under way recently accounting for 200-250 ha per year (MAF, Annual reports). Serious eco-challenge is caused by state deficiency in storing and disposal of out-of-dated pesticides of ancient public farms – currently 82% of all polluted localities in the country are associated with these dangerous chemicals.

In passed years a number of national programs have been developed to deal with specific eco-challenges - preservation of biodiversity and environment; limitation of emissions of Sulphur Dioxide, VOC, Ammonia; waste management; development of water sector; combating climate change; developing organic agriculture; management of lands and fights against desertification; agrarian and rural development. National monitoring systems of environment and biodiversity are set up and mandatory eco-assessment of public programs introduced. Nevertheless, actual eco-policies rest fragmented and largely reactive to urgent eco-problems (natural disasters, floods, storms, and drought) rather than based on a long-term strategy for sustainable development. There have been a numerous international (UN, EU, NGO) assistance projects to “fill the gap” in local failures but they are limited in scale, unsustainable in time; often overtaken by local groups, funding improperly used; and with no significant impact. Moreover, the National Agricultural Advisory Service (NAAS) does not serve majority of farms, and include rural development and eco-issues. As a result of inefficient priority setting and management (bad coordination, incompetence, corruption), and insufficient administrative capacity a minor impact of public programs prevails.

4. THE CASE OF ZAPADNA STARA PLANINA (ZST)

ZSP⁷ is a mountainous region in North-West Bulgaria (Map 1). Agro-ecosystems in ZSP are a part of the unique ecosystem of ZSP providing a wide range of services (Figure 1). A great number of agents from and outside region benefit from and affect services of ago-ecosystems – natural resources owners⁸, farmers, residents, businesses, visitors, consumers, scientists, interest groups.

Approximately 70% of the farmland comprises meadows and pastures (MAF, Annual reports). They provide abandon feed for farm and household animals creating

⁷ ZSP region covers 4043 km² (2099 km² in Bulgaria and rest in Serbia) of which 60% is forests and rest is farmland (Grigorova & Kazakova, 2008).

⁸ 50% of the population own farmlands.

good conditions for grazing livestock (sheep, goats, cattle, buffalos, horses) and domestic animals (poultry, rabbits, pigs). There are plenty of wild flowers and herbs which favour a herbal honey production, and collection of natural medical plants.

Map 1. ZSP ecosystem



Map 2. Natura 2000 Habitat directive (light), Bird directive (dark)



A wide range of farm products is produced used for provisioning of population and marketing. Local farm-based produces are well-known for quality, unique taste, original character (strawberry, raspberry, blackberry, berry jams, herb honey, sheep yogurt and cheese, lamb meat, wool, fur, prune, plum brandy) and marketed at regional, national, and international markets. They favour development of related productions and services being important income source for population – (jam, dairy, brandy, leather) processing, dyeing wool, weaving and crafts making, on-farm and direct marketing, agro and rural tourism.

For many local and not-permanent residents interactions with agro-ecosystems are favourite mode of recreation (part-time and hobby farming, short and longer-term visits) or life-style (weekend and summer houses). Traditions and ethnic culture of Torlaks and Karakachans are closely related to agro-ecosystems and farming system – specific agricultural and related products (Chiprovtsi hand-made carpets), crop varieties and animal breeds, production methods and technologies, festivals, cuisine, and crafts. Unique shape and quality of landscape is a critical feature of agro-ecosystems dominating by natural and semi-natural mountain pastures, riparian meadows, stony and rocky terrains. All these attract many visitors from region, country, and abroad.

Agro-ecosystems contribute significantly for maintaining soil quality - vegetation cover reducing soil loss, degradation, promoting water infiltration. Carbon sequestration is important service of grasslands, berry bushes, orchards, and vineyards storing considerable amount of CO₂. Agro-ecosystems provide combined services with the larger ecosystem of ZSP. A great variety of wild fruits, herbs, chestnuts, mushrooms, birds, animals, and fish are picked up or hunted by population and visitors. Some are commercially gathered for processing and sells bringing additional incomes for 20% of population (Grigорова & Kazakova, 2008).

Ecosystem ZSP is a source of clean mountain and mineral water used by farmers (animals, irrigation), residents (drinking, household needs), businesses (inputs, bottling), and health centres (balneotherapy) in the region and neighbouring areas. It purifies water and air, and regulate climate making region one of the destination for tourism, recreation, and treatment. Well-known mountainous resorts like Berkovitz, Varshetz, and Izketz are located there. Some of country's most popular natural wonders (Belogradchik Rocks, Iskar Gorge), and a number of picks, waterfalls, and caves is situated there enhancing cultural services of the ecosystem.

Territory of ZSP is with a high ornithological and botanical importance designated as NATURA 2000 site (Map 2). Maintaining this rich biodiversity is a great service of the ecosystem. These increase educational and scientific services of this ecosystem as well. Various market, private and public modes are used for managing agro-ecosystem services (Figure 7). Reforms transferred agrarian and agro-ecosystem services related activity from large public farms into market and private governance.

Market	Private	Public
Informal branding Organic (berry) farming Organic apiaries Organic livestock Organic wild fruits, herbs gathering Specific origins (lamb, cheese, berries, carpets, crafts) Organic processing (berries, milk, herbs) Eco-labeling On farm and direct marketing Clientatlisation (cheese, meat, berries) Agro and eco-tourism	Voluntary initiatives Long-term supply contracts (milk, berries) Vertical integration of farming into processing, services, marketing (shops, hotels, restaurants, export) Interlink organization (dairy) Diversification of production/services Cooperatives NGO's Organic alliances	Environmental regulations Eco-information, monitoring, assessment Promotion or joining eco-initiatives (festivals, networks, ads) Designated zones of eco-importance (natural parks, NATURA) Area-based direct payments Leasing out public land for private management Cross-compliance requirement Agro-ecological payments (voluntary contracts) Support to traditional, original productions Support to farms, processing modernization Support for semi-market farms Support to young farmers Support for adaptation of quality, safety, eco-standards Support to collective actions (producers groups, cooperation) Support for diversification of activity (eco-tourism, heritage) (Mandatory) eco-training Program for development of agriculture North-West Bulgaria Fox vaccination Recultivation of degraded farmlands Garbage taxation State company Vratza Natural Park Support to trans-border initiatives

Figure 7. Modes of management of agro-ecosystem services in ZSP

Private management and market adjustments have been associated with domination of small-scale and subsistence holdings (Table 4), a sharp decline in crop and livestock productions, and general disintensification of activity. Private ownership introduced better incentives for environmental stewardship while small size led

overcoming eco-problems of public enterprises. It also revived some traditional and sustainable technologies, varieties, and products.

Table 4. Major characteristics of farms in ZSP

Indicator	Value	Indicator	Value
Number farms	12151	Share farms with cattle (%)	17,2
Average UAA (ha)	0,997	Average cattle per farm	2,9
Share arable land (%)	33,6	Share farms with sheep (%)	51,1
Share cereals (%)	18,4	Average sheep per farm	5,5
Share horticulture (%)	4,3	Share farms with goats (%)	62,7
Share grassland (%)	58,7	Average goats per farm	2,6
Share permanent crops (%)	4,9	Share farms with pigs (%)	47,2
Share farms with bees (%)	6,3	Average pigs per farm	1,5
Bees colonies per farm	7,1	Share farms with poultry (%)	69,0
		Average poultry per farm	14,2

Source: MAF, 2005

A positive result of market and private management has been the overall improvement of agro-ecosystems services. Farm and related productions have got “organic” character obtaining a reputation for products with high quality and safety. Region has become attractive destination for many tourists willing to experience genuine nature, traditional cuisine and lifestyle, or buy authentic farm products.

Market-driven certified organic production has also emerged but it is restricted to few farms, processors, and traders. Country’s biggest producers of organic raspberries and bee honey are located in ZSP. Informal branding of fresh and processed farm (eco, origin, quality, low costs) produces has been increasing and marketed though farmers and street markets or clientalisation between individual sellers and buyers (on-farm sells, home delivery).

A number of effective private modes have evolved and manage relations between farmers, processors, food stores, and consumers. High specificity and capacity dependency are widely safeguarded by cooperation (services, processing), long-term contracts (marketing of milk, organic berries), interlinked organization (milk marketing against free-provision of cooling vanes, credit), or a compete integration (diversification of farming into processing, agro-tourism). Often non-agrarian agent (processor, food store, restaurant chain and exporter) driven by market or institutional demand initiates, funds, and integrates eco-farming. That is the case with Danon buying milk from big dairy farms (enforcing safety, quality, animal-welfare, eco-standards), a Japanese investor financing organic apiaries and exporting bio-honey, a leading restaurant-chain (from Sofia) integrating dairy farming and processing.

There are cases of informal small-scale (milk, meat) processing and marketing enterprise developed for petit-producers aiming to overcome missing-market and monopoly situation, and (more recently) significant institutional (milk and meat safety standards, quotas) restrictions. Output is mostly for households consumption or marketed though informal channels.

The cooperatives have been typical mode having a great potential to organize highly specific to members transactions (critical inputs and services, processing,

marketing), explore economies of scale and scope, manage common resources, diversify in new businesses (eco-tourism), mediate relations landowners-users, adapt to requirements of banks and public institutions.

Market, private, voluntary, non-for-profit, and for-profit forms contribute significantly to improvement of eco-governance but their scope is restricted to a portion of agro-ecosystems (services). A fifth of agricultural lands is abandoned which caused expansion of some species, and suppressing others. A part of permanent natural and semi-natural meadows have been left under-grazed or under-mowed, and intrusion of shrubs and trees took places putting pressure on priority species (like Souslik) and related chain (Marbled Polecat). Some of fertile semi-natural grasslands are converted to cultivation (crops, berries, vineyards, orchards) which caused irreversible disappearance of plant species diversity. Communal and private pastures close to settlements have been degraded by unsustainable use (over-grazing). Uncontrolled collection of wild plants (berries, herbs, flowers) and animals (snail, snakes) have jeopardized natural habitats.

Erosion has been a major factor for land degradation as a result of land abandonment, inappropriate agro-techniques, deficiency of anti-erosion measures, and uncontrolled deforestation. Lack of effective manure storage capacities in most farms and modern sewer and garbage collection systems in the rural areas bring about air, soil, water pollution, and affect the beauty of scenery.

Furthermore, a great number of smaller commercial farms and agricultural cooperatives have ceased to exist due to inefficient management, low adaptability to market competition, aging population, and labour exodus. Most dairy farms and processors have failed to adapt to tough EU (safety, environment etc.) standard and had to stop commercial activity. What is more, private interests have harmed legitimate public rights to ecosystem services due to restricting access, conversion of proper use (farmland and forest into construction), or escaping public order on natural resource management.

Due to restricting criteria⁹, complicated procedures, bad design, and high transacting costs, most farms (small-scale, subsistent holdings) can not participate in public support schemes. Less than 5% of farms comprising 18% of grasslands and 8% of arable land are registered in Land Parcels Identification System (land eligible for CAP support). From SAPARD agro-ecological measures benefited less than 100 farms (MAF, Annual reports). Due to limiting requirements and insufficient funding few farmers got support under measure “Young farmers”. Insufficient “demand” is responsible for few applications and low utilization of funds for “Semi-market farms”, and “Organizations of producers”.

Introduction and enforcement of most biodiversity and eco-standards is difficult in remote mountainous region with insufficient administrative, financial, and training capacities. Often costs for detection of offenders are extremely high and formal enforcement unproductive – e.g. prohibited marketing of fresh milk, uncertified cheese and meat is common; fake labelling, certification is widespread; forbidden

⁹ For direct and agro-ecological payments minimum farm size is 1ha (permanent crops 0.5 ha) and 0.5 ha (landless livestock holdings are not-eligible). NPARD does not provide support for restoration of abandoned farmland, and organic livestock (but forage) production.

fields burning is practiced; minimum-maximum numbers of animals on pastures, milk quotas are not respected; and illegal lodging common.

5. PROSPECTS OF ECO-MANAGEMENT IN CONDITIONS OF EU POLICIES IMPLEMENTATION

EU integration and CAP implementation provides new opportunities for Bulgarian farms. EU funding which agriculture receives from 2007 on is 5.1 times higher than the overall support to farming before acceding. Huge EU markets are opened which will enhance competition and let local farms explore comparative advantages (low costs; high quality, produce specificity and purity). Novel conditions of market competition and institutional restrictions give strong incentives and pressure for new investments for increasing productivity and conforming to higher product, technology, and eco-standards.

Larger and business farms are most sensitive to new market demand and institutional regulations since they largely benefit or lose from timely adaptation to new eco-regulations. They have a higher capacity to generate resources and find outside (credit, equity, public) funding to increase competitiveness and meet institutional requirements. Process of adaptation is associated with appropriate land management and intensification of production. The later could revive or deepen some eco-problems (erosion, acidification, pollution) unless a pro-environmental management (public order, enforcement) is put in place.

Small-scale producers and most livestock farms are having hard time adapting to new competition, investment needs, new food safety, animal-welfare, and eco-standards. Significant EU funds for rural development would let more and smaller farms to get access to public support and invest in modernization. New essential activities are also effectively funded allowing a diversification and pro-environmental activity. These would bring additional employment and income increasing economic and eco-sustainability of farms.

Mostly bigger farms participate in public programs and get bulk of public support because of superior entrepreneurial capability, resources, possibilities for adaptation, and potential for winning projects. Thus, agrarian and rural development funds will less contribute to decreasing economic and eco-discrepancy between different farms, sub-sectors, and regions.

CAP implementation will improve eco-performance of commercial farms. There is “eco-conditionality” for participating in public programs. Besides, direct payments are inducing farming on previously abandoned lands, and improve eco-situation. There is huge budget allocated for special eco-measures and the number of farms joining agri-environmental programs gradually increases. CAP measures would affect positively eco-performance of large business farms and cooperatives. These enterprises (potential big polluters) are under constant administrative control and punishment (fines, losing licenses, ceasing activities) for obeying new biodiversity, eco-standards. They are strongly interested in transforming activities according to new eco-norms making necessary eco-investments, and changing production structures. Larger producers are motivated to participate in special agro-environmental programs,

since they have lower costs (economies of scale and scope) and higher benefits from long-term public contracts.

Experience of old EU states demonstrates that some terms of eco-contracts are very difficult to enforce (Dupraz, et al., 2004). The rate of compliance with these standards would be even lower in Bulgaria because of the unawareness, insufficient control, “personal” relations, and bribes. Therefore, more farms than otherwise would enroll will participate (including biggest polluters) and outcome of implementation would be less than desirable (“European”) level.

Costs for conforming to requirements of eco-programs in different farms vary considerably, and they have unequal incentives to participate. Voluntary character of most support instruments would leave biggest producers of negative impacts (large polluters, non-compliant) outside of schemes (highest eco-enhancement costs). Moreover, Government is less likely to set up high performance standards because of perceived “insignificant” eco-challenges, strong political pressure from farmers, and possible problems (punishment) with EU control on cross-compliance. Therefore, CAP implementation will probably have a modest positive impact on eco-performance of farms.

Public support and demand will push further development of market modes such as organic farming, industry driven eco-initiatives (eco-labelling, standards, codes of behaviour), protected high-quality products, system of fair-trade, alternative (wind, manure) energy at farm etc. Significant EU market and lower local costs create strong incentives for investment in organic and specific productions by large enterprises - farms, partnerships and joint ventures (including with non-agrarian and foreign participants). New incentives for production of bio-fuel and clean energy would induce development of a new area of farm activity to meet that new market and public demand.

Small farms have less capacity to put together necessary capital and expertise for initiating, developing, certifying and marketing in these ventures. Coalition (development, management, exit) costs between small-scale producers are high to reach effective operations (economies of scale and scope, required minimum inputs). The later either stay out of these new businesses or have to integrate into larger ventures. Assuring (origin, quality) traceability for small farms is costly and they are not preferable partner for integrators (processor, retailers, exporters). Internal market for organic and specialized farm products would unlikely develops fast having in mind low income of population and confidence in public and private system of control.

Some economic and ecological needs (economizing on scale and scope, high interdependency of assets) would continue to bring about change in size and management of individual farms, evolution of group organization, cooperation, and joint ventures – e.g. a big interdependency of activities require concerted actions for achieving a certain eco-effect; a high asset dependency between livestock manure supplier and nearby organic crop farms necessitate a coordination etc.

A special management size or mode is imposed by some institutional requirements – a mandatory minimum scale of activities for joining certain public programs (marketing, agri-ecology, biodiversity, organic farming, tradition, cultural heritage); signing a 5 year public eco-contract dictates a long-term lease or purchase of

land. Our survey proves that 41% of non-cooperative farms and 32% of cooperatives are investigating possible membership in professional organization. Besides, producers grouping are stimulated by available public support (training, advising, funding) for farmers association.

Some production cooperatives profit from comparative advantages (interdependency and complementarity to individual farms, potential for exploring economy of scale and scope on institutionally determined investment, adapting to formal requirements for support, using expertise, financing and executing projects, non-for-profit character), and extend activities into eco-projects, eco-services, and eco-mediation. Immediate result of new market and public opportunities for getting additional benefits from eco-products and services will be amelioration of economic and eco-performance of number of farms and households and augmentation of agro-ecosystem services.

CAP implementation pushes modernization of farms structures through widening contractual and organizational innovations - specific sort contracts, new types producers associations, spreading vertical integration etc. Special forms emerge allowing agents to take advantage of public programs - specialization in project preparation, management, and execution; investing in "relations capital" and "negative" entrepreneurship; forming lobbying modes and representation; making coalitions for complying with formal criteria (minimum size of UAA for direct and agro-ecology payments, membership requirements for producers' organizations etc.).

CAP and competition foster restructuring of commercial farms according to modern market, technological, and eco-standards. A large part of agrarian inputs, technologies, and outputs increasingly has mass and standardized character, and market transacting dominate at farm gates. There is a parallel tendency toward specialization into productions for niche markets and products with special quality - specific technologies, special time of delivery, special origins etc. That requires investments with higher specificity to particular buyer(s), and "integrated" management in farming, eco-conservation, processing, retailing, exporting. Moreover, diversification of enterprises into related activities (trade with origins, agro-tourism) for dealing with market risk is growing. All these bring more special modes for private management - long-term contracts, collective agreements (codes of behaviour), trilateral modes (independent certification and control), "quasi" or complete integration.

Many livestock farms are unsustainable because of the low productivity, competitiveness, compliance with safety, animal welfare, and eco-standards. That is particularly truth for small-scale producers dominating the sector. Few livestock farms will be able to adapt through specialized investment for enlargement and conforming to institutional restrictions and will be closed or restrict to subsistency. Reduction of farms and animals, and improved manure management, will be associated with a drop of eco-burden by the formal sector (less over-grazing, fewer manure production and mismanagement).

Few semi-market farms would undertake market orientation and extend present scale because of the high costs for farm enlargement and adjustment - no entrepreneurial capital and resources available, a low investment and training capability of aged farmers, insufficient demand for farm products etc. The specific

support to “semi-market” farms would have no considerable impact on subsistence because of the inappropriate criteria¹⁰ and insufficient level of support. Besides, this measure focus on less prospective structures with low potential for adaptation to volume, quality, safety, animal welfare, eco-requirements, and needs of processors and distributors. For two years of implementation of that measure only few thousands applications are made (merely 5% of the projected potential beneficiaries). For authority is practically (technically, politically) impossible to enforce the official standards in that huge informal sector of economy. Therefore, massive (semi)subsistence farming with primitive technologies, food safety, animal welfare, and eco-standards will exist in years to come.

Enforcement of most labour, animal welfare, and eco-standards is very difficult (or impossible) especially for the informal sector (high political and economic costs). Here “punishments” do not work well while the overall damages from in compliance are immense. Thus policies should be oriented to market orientation of subsistence farms, support for collective modes, and eco-programs for informal farms and groups. Principally public support to voluntary eco-initiatives of farmers and rural organizations (informing, training, assisting, funding) and hybrid modes (public-private; public-collective) would be more effective than mandatory or pure public modes (given incentive, coordination, enforcement, disputing advantages). Besides, involvement of farmers, farmers organizations, interests groups in priority setting and management of public programs at all level is to be institutionalized in order to decrease information asymmetry and possibility for opportunism, diminish costs for coordination, implementation and control, and increase overall efficiency and impact.

Many of EU regulations are not known by the implementing authorities and majority of farmers – 47% of non-cooperative farms and 43% of cooperatives are still “not aware or only partially aware” with support measures of CAP different from direct payments (Bachev, 2009). Furthermore, 62% of farms will not apply for public support due to the “lack of financial resources” (26%), “not compliance with formal requirements” (18%), and “clumsy bureaucratic procedure” (17%). Most farm managers have no adequate training and managerial capability, or are old in age with small learning and adaptation potential¹¹. Improving education and training of agents (farmers, residence, consumers, administrators) and relaxing of (some) eligibility criteria for public support is essential. Furthermore, improving organization (access, efficiency) and programs (environmental, project management) of NAAS is crucial.

Some “blank points” in national legislation must be filled – e.g. terms “agro-ecosystem services” have to find adequate place; the “whole farm” is a subject of support in agri-environmental measures but its borders are not defined. The later creates serious difficulties since land and resources of most farms are considerably fragmented and geographical dispersed. Lack of readiness, experiences, and potential for adaptation in public and private sectors alike would require some time-lag until “full” implementation of CAP in “Bulgarian” conditions. The later will depend on pace of building effective public and private capacity, training (learning by doing experience) bureaucrats, farmers, and other agents. Consequently, farms modernization

¹⁰ EU criteria for defining “semi-market farms” (1-4 ESU) is quite big for Bulgaria.

¹¹ Average age of farm managers is 61, 70% are older than 55 (MAF, Annual reports).

and adaptation will be delayed, and their competitiveness and contribution to agro-ecosystem services diminished. Besides, there will be inequalities in application (enforcement) of laws and standards in diverse regions, agrarian sectors, and farms of different type and size.

Finally there is a growing competition for eco-resources between different industries and interests. That push further overtaking natural resources away from farm governance and change into non-agricultural (urban, tourism, transport, industry) use. What is more, needs to compete for and share resources would deepen conflicts between various interests and social groups, regions, and states. That would require special management (cooperation, public order, hybrid form) at local, national and transnational scales to reconcile conflicts related to ecosystem services.

6. CONCLUSION

Post-communist transition and EU integration has brought about significant changes in state and governance of agro-ecosystems services. Newly evolved market, private and public governance has led to significant improvement of part of agro-ecosystems services introducing modern eco-standards and public support, enhancing environmental stewardship, disintensifying production, recovering landscape and traditional productions, diversifying quality, products, services. It is also associated with some new challenges such as unsustainable exploitation, lost biodiversity, land degradation, water and air contamination.

Implementation of common EU policies is having unlike results in “Bulgarian” conditions. In short and medium term it will enlarge income, technological, and eco-discrepancy between different farms, sub-sectors, regions. In a longer-term eco-hazard(s) caused by agriculture will enlarge unless effective public and private measures are taken to mitigate existing eco-problems. Specific structures for management of farming activity (small commercial, semi-market, subsistence farms, production cooperatives, large business firms) will continue to dominate in years to come. Significant improvement of public (Government, EU) interventions is needed to enhance sustainability of prospective farms and sustainable agrarian development. Implementation of EU common (agricultural, environmental, regional) policies would have no desired impacts (on socio-economic development, regional and sectoral discrepancies, flows of agro-ecosystem services) unless special measures are taken to improve management of public programs, and extend public support to dominating small-scale and subsistence farms.

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INVESTMENTS AND ECONOMIC RECOVERY

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JEANINA BILIANACIUREA *

ABSTRACT: *The present paper approaches the notion of investment in order to demonstrate the necessity and importance of investments in an economy of transition, as it is the case in Romania and in a period of crisis, as it is the case of the current global economy. Through the evolution of investments in Romania and at the level of EU in the last years, we demonstrate that a high level of investments leads to economic prosperity, generally, in Romania the foreign investments having the effect of economic recovery. The performed research brought us definite arguments for the stimulation of foreign investments which would lead to the reduction of unemployment, inflation, to the increase of the products and services quality, i.e. of economy.*

KEY WORDS: *investment; direct foreign investment; economic recovery*

JEL CLASSIFICATION: *O11, M11*

1. INTRODUCTION

Investment means placing the capital in the capitals of other economic entities with the expectation of profit. According to the same source, the investment can also be seen as the allotment of an amount of money and of other material means for the creation of new fix funds, in order to enlarge and modernize the existing ones. Making a parallel between the theoretical and the practical plan; theoretically the investment is defined as a complex and controversial financial category, practically it is a reality which marks the past and places landmarks in the future (Stoiana, 2008).

From another point of view, the investment represents the placing of money in securities ensuring income under the form of interests, dividends or capital gains, respectively

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the acquisition of inputs. Simply put, the investment is defined as the totality of expenses performed for the purchase of capital goods.

As a conclusion, we can affirm that the investment represents funds allotted by the economic entity either in the capital of another economic entity with the expectation of profit as income or interests, or the sums allotted for the development of one's own business by placing the funds in the acquisition of new means necessary for the development of the activity or for the development of the existing means.

2. ROLE OF INVESTMENTS IN ECONOMY

The necessity and importance of investments in the economic life, and not only, through extrapolation even talking about their importance for the development of human community, firstly derives from the fact that the main engine for the development and the economic recovery is represented by investments. The performing of investments, viewed in terms of volume, leads to the economic increase, by increasing the goods and services, and through the quality of the performed investments we obtain the increase of the consumers' life quality, the investments being considered "as spreading new, sharing their own novelty" bringing lots of improvements (Vasilescu et al., 2000).

The role of investments in the economic recovery derives also from the fact that they are a factor for the stimulation and increase of demand and tender on the market. Firstly we talk about the development of the production of goods and services that appear on the market, bring diversity of assortments, hence the increase of the demand brings with it the development of the economic entity, as well as the creation of new work places. Thus, the investments are very important in the development of the human community as well.

Strictly viewed in economic terms, the investments lead to the economic recovery and increase through the cyclic character of incomes obtained from the investment performance. Thus, the implementation of a new investment, attracts incomes for the implementing entity but also for other economic entities, because the performance of an investment means the launching of the demand and tender in that field, the demand from the entity that performs the investment, and the tender from the connected entities that can offer the goods and services necessary for the investment performance. As a conclusion, the investment performance attracts incomes for the entity that implements it, but also incomes for the entities that participate to the investment by offering goods and services. The incomes obtained in both cases go back to economy, attracting other investments and the creation of new incomes.

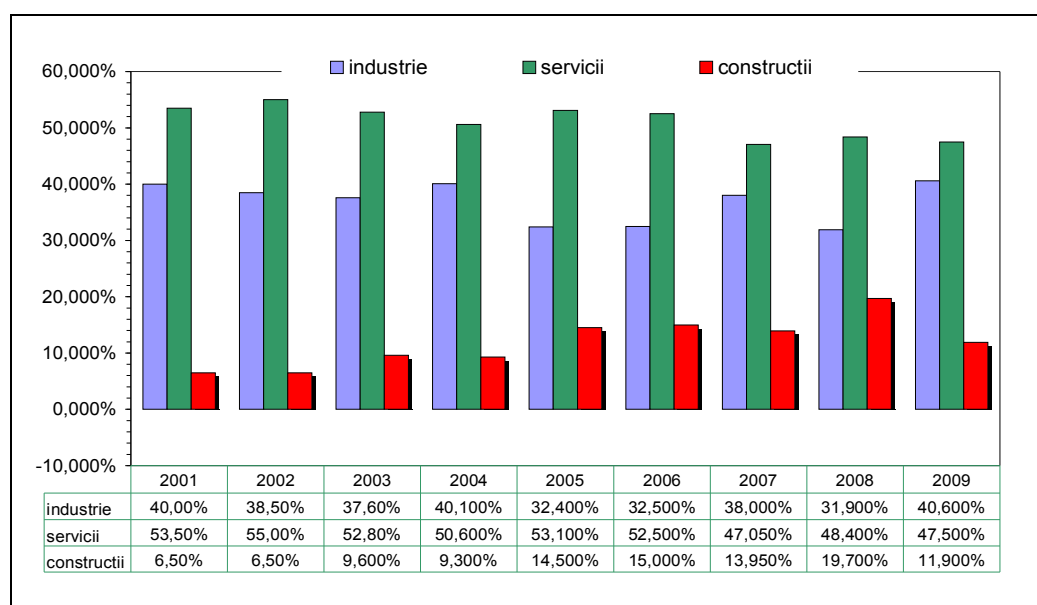
As for Romania, the necessity and importance of investments are even higher as Romania had to face a transit economy (from communism and centralized economy to democracy and free economy), and starting with 2008, it had to face an economic crisis which distorted the economic reality in many countries considered strong and stable (USA, Germany, Greece, etc).

Once with the negotiations for the EU accession, Romania benefited from an investing push, from two points of view. Firstly, due to the funds received from the EU, and secondly, because it represented an attractive market for foreign investors, due

to cheap labour force and taxes, especially the profit tax, smaller than the ones in the European community. This situation remained the same after 2007, the year of Romania's accession, but compared to the years before the accession, the volume of investments diminished, and once with the economic crisis, they decreased drastically.

3. EVOLUTION OF INVESTMENTS IN EU AND ROMANIA

The evolution of net investments in the national economy during the period 2001-2009 (figure 1) encountered fluctuations in all fields, but especially in the main ones as industry, services and agriculture, and also constructions. Analysing the data supplied by the National Institute of Statistics for the period 2001-2009, we can notice that the industry has encountered in the period 2001-2003 a descendent trend losing 2.4%, but the lowest drop registered in the year 2005, when it lost from one year to another (2004 compared to 2005) 7.7% and later it followed the same trend, namely that of recover in 2007 (38.00%) and again a drop in 2008 (31.90%). What attracts the attention in net investments in the Romanian economy is not the fact that in 2008 the investments registered a drop of 6.10% in industry, which is very normal taking into consideration the global economy and the economic crisis, but the fact that in 2009, in full economic crisis, the investments in industry registered a higher increase of 8.7%, which is a good thing because the industry takes second place at the incomes collected for PIB, after services and commerce.



Source: elaborated by the authors processing the data supplied by INS

Figure 1. Net Investments on the main sectors of the national economy for the period 2001-2009

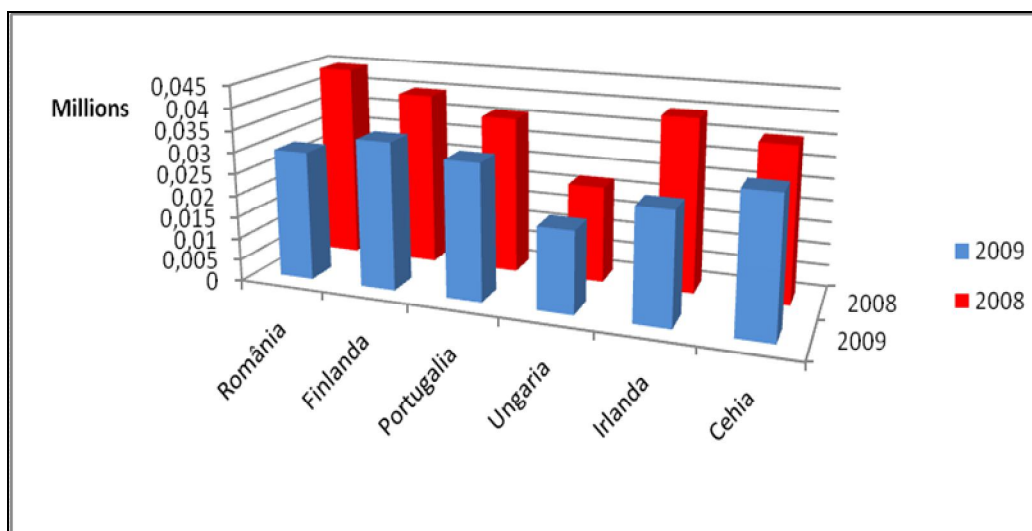
Referring to commerce, services and agriculture, the trend followed by investments is approximately the same with the one in industry, but in the period 2001-2006 no major fluctuations were registered, the percent afferent to investments in this field being round the percentage of 50% (between 0.6% and 55%). The year 2007 is the first year when the investments afferent to this segment of the national economy was under 50%, knowing a drop of 5.45% from 52.50% to 47.05%. The years 2008-2009 did not bring any substantial changes in commerce, services, agriculture, the registered fluctuation being a normal one, that of a slight decrease in the conditions of the current economy.

The constructions sector was strongly marked by the global economic crisis because, after knowing a strong development in the period 2001-2006, registering rises of over 100%, from 6.50% in 2001 to 15% in 2006, they encountered a slight decrease in 2007, with 1.05% and in 2008 with 5.75% (19.70%). The largest decrease in investment in all areas, i.e. 7.8% in 2009, was registered by the construction sector, reaching values close to the ones from 2004, i.e. 11, 90%.

At the level of the European Union the situation of investments does not look any better. In the period 2001-2008, at the level EU27 we registered a continuously rising trend from 1935103.5 million Euros, in 2001, to 2638393.2 million Euros in 2008, thus the global economic situation shaken by the economic crisis broken out in 2008 led to the reduction of investments with around 400.000 million euro, registering in 2009 a value close to the one in 2005, i.e. 2274234.7 million euro. If in Romania, at the EU27 level, the investments registered a rising trend from 2001 to 2008, registering a rise 5 times higher (from 9295.3 million euro in 2001 to 44605.6 million euro in 2008) the year 2009 meant the reduction with almost half of the investments, their volume registering a value of 29676.5 million euro.

In 2008 (figure 2), when Romania registered the highest level of investments from the analysed period, 2001-2009, their volume represented 1.69% from the total of investments at the EU27 level, outgoing countries like Finland (1.51%), Ireland (1.49%), Portugal (1.36%), the Czech Republic (1.37%), Hungary (0.83%). On the other hand, in 2009, Romania kept its progress just in the case of Hungary and Ireland, in the other countries the decrease of the level of investments not being that high.

Because the economic crisis, the global economy confronted with, did affect all the segments of economy, the European Union launched in 2008 „the European Plan of economic recovery”, approved by the European Council in December 2008. It implies a financial support of at least 200 billion EUR (1.5% from PIB) from the EU and national budgets in order to recover the demand and the economic activity and to keep the labour force and create new ones. Measures taken by the European Union for economic recovery also stipulate the protection of the population, the workers and the entrepreneurs affected by the economic crisis. It proposes more support for these vulnerable groups, including investments meant to strengthen the professional competences and help people keep their workplaces or find other ones. Also, EU will fasten the distribution of social and regional funds – 6.3 billion Euro- and intends to allot financial incentives to enterprises strongly affected by the crisis, from the construction sector and the car sector that produce ecological cars and build efficient buildings from an energetic point of view.



Source: elaborated by the authors processing the data supplied by Eurostat

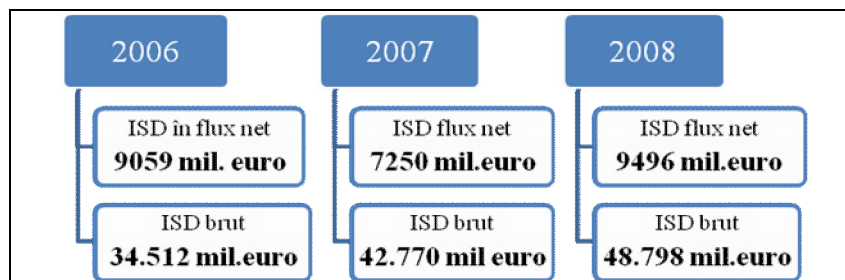
Figure 2. Comparison between Romania and other member states for the years 2008-2009 regarding the investments at the EU 27 level

„The European plan of economic recovery: investments in value of 5 billion EUR”, according to the press conference given by the European Parliament on 6th May 2009, is another measure taken by EU for economic recovery. According to this package of anti-crisis measures, 3.98 billion Euros will be invested in the infrastructure for electricity, natural gases, wind-power energy, and carbon storage. The European Parliament supports the allotment of 1.02 billion Euros for projects in the rural development. To retain is the fact that Romania benefits of financing for the projects of gas interconnection Romania-Hungary (30 million Euros) and Romania-Bulgaria (10 million Euros) and of the development of equipment infrastructure that should permit the inversion of gas flow in the case of a short interruption in supplying (80 million Euro).

Romania's economic recovery was sustained, and still is, first of all, by the direct foreign investments, including here the grants as well as the investments from foreign investors. The direct foreign investment represents the long investment relation, between a resident entity and a non-resident one; usually, it implies the exertion by the investor of a significant managerial influence in the enterprise in which it invested. Direct foreign investments are the following: paid capital and the reserves of a non-resident investor that holds at least 10% from the subscribed social capital of a resident enterprise, the credits between this investor and the enterprise in which it invested, as well as the profit reinvested by it.

Because FDI is an important part of our investments in the country, which is reinforced by the fact that, according to press release of 12/02/2010 NBR in 2009 the current account deficit of balance of payments amounting to 5 054 million was funded at a rate of 96.9% by non-residents' direct investment in Romania, which recorded 4 899 million, down 48.4% compared to 2008 (NBR, 2008).

We continue to analyze the situation on the structure of foreign direct investment and sources of origin, referring to their balance for the period 2006-2008 (figure 3). From data provided by B.N.R. in conjunction with INS, we see that the gross amount, ie FDI result of adding balance to the opening balance of net FDI flows and the difference value positive / negative revaluations resulting from exchange rate and price changes of assets and the value accounting restatement of opening balances for the period under review, investments increased progressively from Euro 34.512 million in 2006 to 48.798 million in 2008, but viewed in terms of net FDI flows, they decreased by 0.8% in 2007 from 9.059 billion Euros in 7250 million in 2007, because then in 2008 to increase to 9.496 billion Euros and in 2009 to record the highest drop so far, i.e. the reduction with 48.4 %.



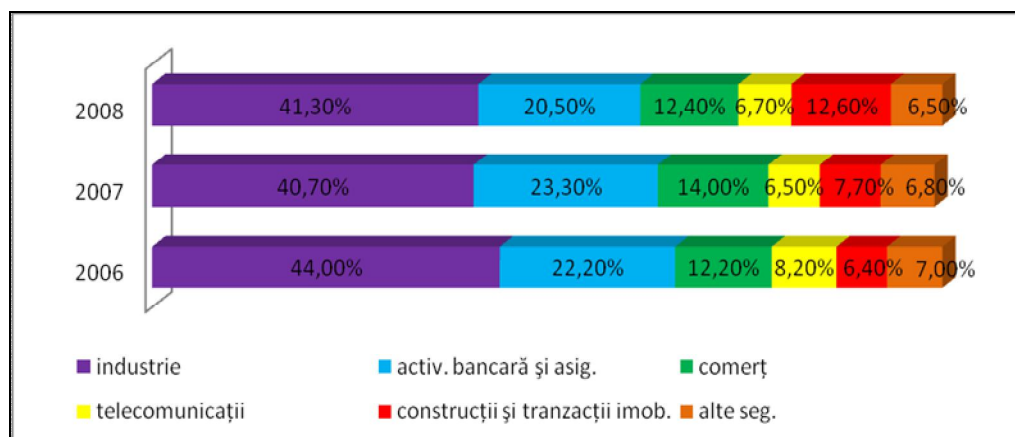
Source: elaborated by the authors through the process of data supplied by B.N.R.

Figure 3. FDI in Romania in net flow and gross value

From a structural point of view, FDI also contain investments in industry, in the banking activity and insurances, retail and wholesale, telecommunications, constructions and real estate transactions and foreign investments in other fields (figure 4). The largest share in FDI is held by the investments in industry, ranged around 40%, on the second place being the banking activity and insurance with a percentage between 20.5% and 23.3%. The other segments of the national economy in which foreign capital investments too place, registered fluctuations, the greatest decrease registering in telecommunication where from 8.2% in 2006 it got to 6.5% in 2007, respectively 6.7% in 2008. As opposed, the constructions and real estate transactions increased with 6.2%, i.e. almost double in terms of percentage, and as in terms of value, the rise is even more spectacular, the sum derived from the direct foreign investments tripling from 2208,77 million Euro in 2006 to 6148,55 million Euro in 2008.

The first place was occupied by Austria, its investments representing 23% in 2006 and dropped to 18.8% in 2008. The next country investing in Romania is Holland which in 2006 had a quota of 17.1%, dropping to 16.3% in 2007 and then in 2008 it got back to 17,2%. DFI performed by Germany in Romania followed a trend opposed to the rest of the countries, i.e. from a share of 10.1% in 2006, it increased to 11.7% in 2007 reaching a share of 15.4% from the total of DFI in our country in 2008; in terms of value, Germany doubled its investments in our country in the period 2006-2008 starting from an investment of 3473 million Euro, reaching a total investment of 7509 million lei. As opposed we have Spain, in 2006, with 263 million Euro, Canada with

210 million Euros and Israel with 107 million Euros. Starting with 2007, after Romania's accession to EU, the list of DFI contained the European Bank for reconstruction and Development (EBRD) which in 2007 invested in Romania 103 million Euros, and in 2008, 152 million Euro. Also in 2007 at the end of the top list was Gibraltar with 112 million Euros, and in 2008 was Lebanon with 159 million Euros, but in 2007, Lebanon invested 179 million Euros in our country.



Source: elaborated by the authors processing the data supplied by B.N.R.

Figure 4. The DFI in Romania in the period 2006-2008

4. CONCLUSIONS

As a conclusion, from the above presented issues, we can depict the importance of investments for the economic recovery and development of each country. If we consider the ex-communist countries, for which progress was forbidden for years, then we have to specify that investments are of great importance for development and recovery, but the direct foreign investments are vital due to the lack of native capital and efficient investment strategies, but also due to the lack of experience in management.

The main issue in Eastern Europe, as it is the case in Romania, is that, by shutting out from the rest of the world due to the countries politics, the technical and technological progress is not at the same level with the rest of the countries. The economic recovery through investments results in new technology, equipment with last generation assets leading to substantial progress of the economy. The technological progress brings with it the increase of labour production in all fields, through the increase of the labour force output, the increase of the economic entities incomes, further leading to other investments.

The fact that external investors showed up on the intern market, either by opening new branches or subsidiaries, by creating new economic entities or by placing funds in native companies for their development, leads to the increase of workplaces thus reducing unemployment. It also leads to the increase of the population's

consumption, through salary incomes, further leading to the increase of life standards generating incomes for the economic entities, creating other incomes and investments.

Financially, the foreign investments attract strong currency inflows (Euro/USD), thus maintaining a low exchange rate, leading to the increased power of the national currency. Another aspect that should not be neglected is the strong currency inflow that helps the government not to apply for external credits, leading to the reduction of external debts, or at least maintaining them at a constant level.

We should also mention the qualitative aspect of products and services on the intern market which must increase their quality if they want to survive on the market, because the appearance of foreign investors leads to competition between economic entities, to the implementation of another qualitative level to which the native entities see themselves forced to adjust.

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THE IMPROVEMENT OF PROCESSES' QUALITY IN ORGANISATIONS USING THE SIX SIGMA CONCEPT

MĂDĂLINA BRUTU *

ABSTRACT: *Six Sigma is a problem-solving methodology. In fact, it's the most effective problem-solving methodology available for improving business and organizational performance. Bill Smith from Motorola first developed in 1986 the specific elements of Six Sigma. At the beginning, it was a set of practices which have been used in the manufacturing processes in order to eliminate the defects but, as time passed, the concept has been extended so as to be used in other types of businesses, too. The 6th Sigma level corresponds to a 99,9997% performance, respectively 3,4 defects per a million of occasions. A Six Sigma process is a re-designed business process and has three basic elements: Process Improvement; Designing/re-designing the process; The Process Management.*

KEY WORDS: *Six Sigma, 3,4 defects per a million of occasions, DMAIC, DMADV, DPMO*

JEL CLASSIFICATION: *M1, M2*

1. INTRODUCTION

Six Sigma is not a theory, it's an action!!! Six Sigma is not a business caprice connected with a single method or strategy, it is rather a flexible system for improving the company management and performance. Six Sigma starts from the most important ideas and practices in management and succeeds in creating a new philosophy for the companies' success in the 21st century (Pande et al., 2009, p.25).

Six Sigma is a strategic management process which has been developed by Motorola; a sort of more detailed quality control. It is used in the entire world, the name being derived from the Greek letter sigma (a symbol used in the statistics in order to express the „standard deviation”- an indicator of the variation or unsteadiness in a group of articles or in a process).

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Six Sigma has as the main target reaching a high performance while maintaining a low number of defects and a low cost (<http://www.askdeb.com/six-sigma/>). Bill Smith from Motorola first developed in 1986 the specific elements of Six Sigma. At the beginning, it was a set of practices which have been used in the manufacturing processes in order to eliminate the defects but, as time passed, the concept has been extended so as to be used in other types of businesses, too.

2. DEFINING SIX SIGMA

In the book *Six Sigma for Dummies* the authors define in a simple manner the Six Sigma concept: “Six Sigma is a problem-solving methodology. In fact, it’s the most effective problem-solving methodology available for improving business and organizational performance” (Gygi et al. 2005, pp.9). Another interesting definition is: “A comprehensive and flexible system for reaching, maintaining and maximizing the success in business. Six Sigma is only guided by the close understanding of all the clients’ needs, by the proper use of facts, information and statistic analyzes as well as by the special attention paid to administration, to the business process reshaping and improvement” (Pande et al., 2009, p.11). The Sigma performance levels can be expressed through DPMO- “defects per a million of occasions” as shown in table 1.

Table 1. The Sigma conversion table

If performance is...	DPMO is...	The Sigma level is...
30,9%	690.000	1,0
69,2%	308.000	2,0
93,3%	66.800	3,0
99,4%	6.210	4,0
99,98%	320	5,0
99,9997%	3,4	6,0

So, the 6th Sigma level corresponds to a 99,9997% performance, respectively 3,4 defects per a million of occasions. *Things can also go further to the 7th Sigma level which would correspond to a 99,9999981% performance, respectively 0,019 defects per a million of occasions, but this is however too much* The main benefits of Six Sigma are shown in Figure 1.

Besides all these, we can also add (<http://www.siliconbeachtraining.co.uk/free-resources/six-sigma-benefits/>): defects are reduced; communication is Improved as the whole organisation works towards common goals; employee satisfaction improved; productivity is increased; capacity and output are improved; quality is improved; reliability of products and processes are improved; unit costs decreased; designs improved; better delivery time.

2. THE SIX SIGMA PROCESS

A Six Sigma process is a re-designed business process. Any business process which does not fulfils the established goals has flaws either in design, either in

application or, in the worst case, in both stages. Through the used methodologies, Six Sigma is able to re-shape the flawed process with the purpose of reducing the resulting variations to a minimum level. The type of methodology is different according to the business process that the company intends to re-shape.

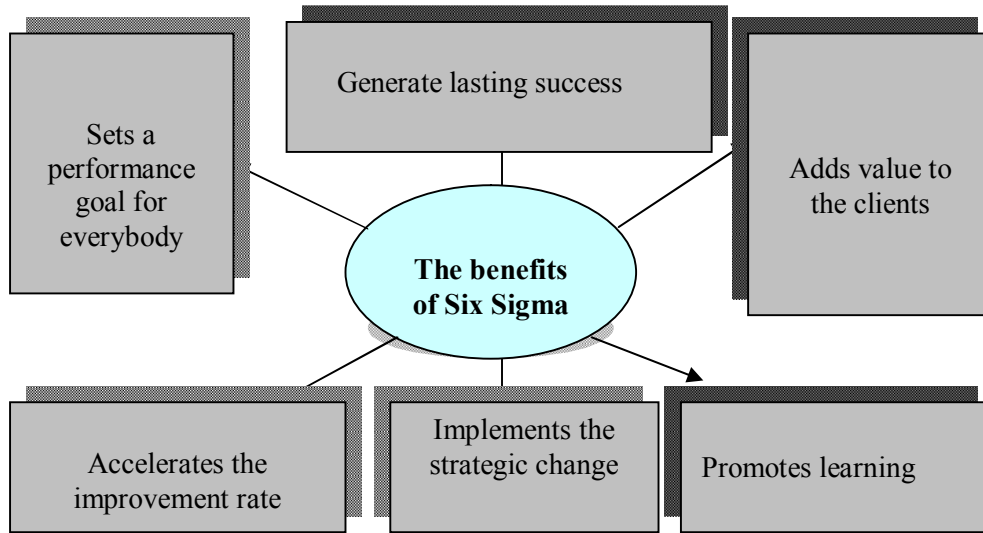


Figure 1. Benefits of Six Sigma

There are three main elements focused on the organization progresses shown in figure 2 and detailed in table 2.

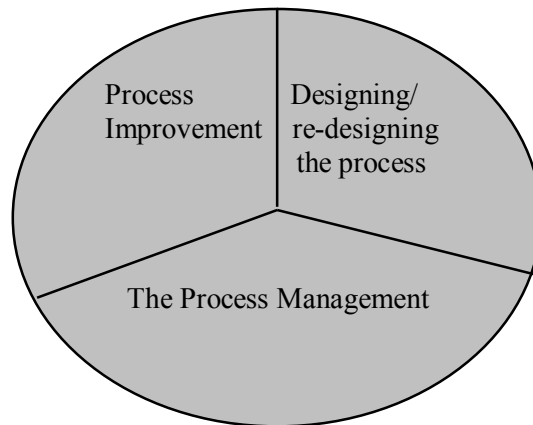


Figure 2. Six Sigma main elements

Six Sigma uses two main improvement methodologies: DMAIC* and DMADV** (figure 3).

* The acronym of *Define, Measure, Analyze, Improve, and Control*.

Table 2. Description of the Six Sigma main elements

Main elements	Their description
<i>Process Improvement</i>	Consists in finding directed solutions meant to induce the removal of the main causes of the problems that affect the company performance. The majority of the Six Sigma projects are efforts to improve the personnel structure
<i>Designing/re-designing the process</i>	The Six Sigma objective is not to fix the process but rather to replace the process with a new one (or to replace a part of the process). The business world is continuously changing nowadays and this thing makes impossible maintaining a company in a top position without re-designing the process.
<i>The Process Management</i>	In this case the Six Sigma themes and methods become an integrant part of the business management: <ul style="list-style-type: none"> -The processes are analyzed and managed and the responsibilities are assigned in order to ensure the crossed management of the main processes; -The client's requirements are clearly defined; -Profound evaluations of process results, activities and resources are carried out; -The leaders can evaluate performance in real time; -The process improvement, design and re-design in order to to increase the company levels of performance, competitiveness and profitability.

Source: adaptation based on Pande et al., 2009, pp.50-55

**Figure 3. DMAIC versus DMADV**

DMAIC is used for an existing process and uses the following steps: 1st step: Defining the process improvement objectives; 2nd step: Measuring the current performance level; 3rd step: The data analysis so as to notice the cause-effect relation within the process (the importance of this relation derives from the need for keeping the company strategy according to the client's needs); 4th steps: The process improvement based on data. It is important that the process be constantly improved or that the process be modified so as to correspond to the current situations; The 5th step: Control is vital since we need to check and correct any variation in order to prevent losing quality.

DMADV is used for creating a new product or process and involves 5 steps, too: 1st step: Defining the objectives; 2nd step: Measuring and identifying the

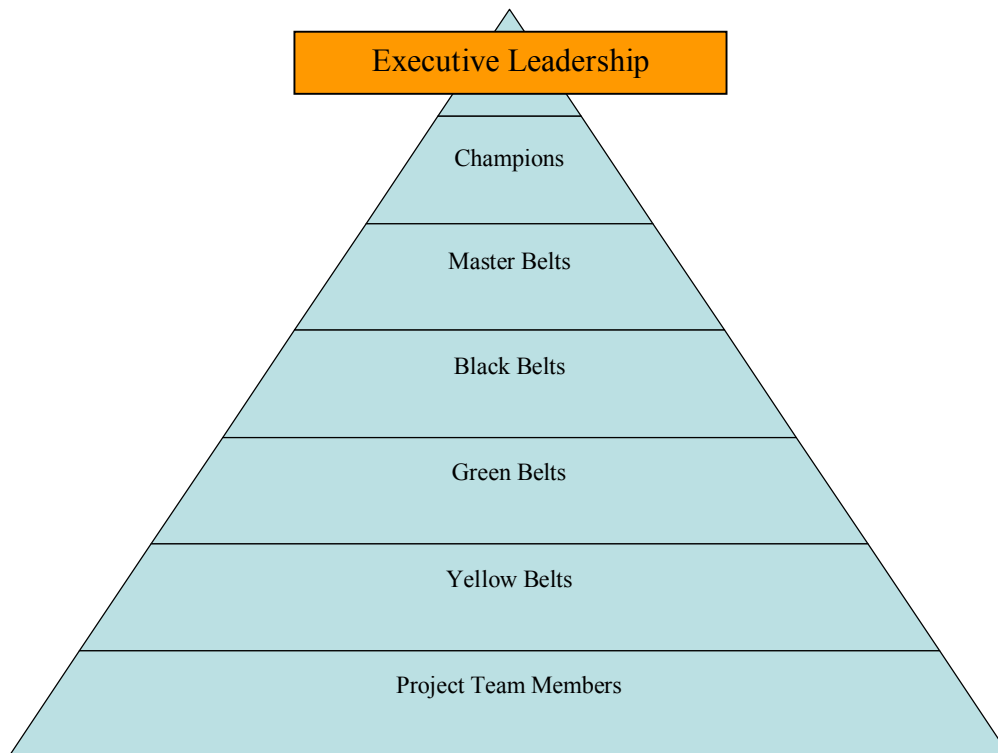
** The acronym of *Define, Measure, Analyze, Design, and Verify*.

characteristics for CTQ (Critical-To-Quality); 3rd step: Analysis and evaluation with the purpose of developing alternative models, choosing the best design for the general process; 4th step: Optimizing the design characteristics; 5th step: Checking the process

3. THE MANAGEMENT ROLES IN SIX SIGMA

Six Sigma uses a management hierarchy based on the classification levels of the martial arts. This classification excludes a series of unnecessary functions and develops a direct communication mean to the higher levels. Here it is (adapted after Stamatis, 2003):

- Executive Leadership includes the CEO of a company as well as other members of top management. This level is responsible for setting up the Six Sigma process within the company and for giving power and freedom to the other hierarchy roles to oversee Six Sigma implementation and to explore new ideas and designs;
- Champions are beneath the Executive Leadership and are responsible for implementing Six Sigma across the entire business or organization. Champion positions are filled from upper management levels and act as mentors to Black Belts;



Source: Gygi et al. 2005, p.52

Figure 4. Six Sigma hierarchic levels

- Master Black Belts are the coaches and motivators on Six Sigma. They are chosen by and assist Champions as well as guide Black Belts and Green Belts. Their duties involve making sure that Six Sigma is consistent throughout various functions and departments;
- Black Belts are directly under Master Black Belts. Their task is to apply Six Sigma methodology to specific projects within the business or organization. While Champions and Master Black Belts focus on identifying Six Sigma projects and general overseeing them, Black Belts focus on the actual execution of the projects;
- Green Belts are guided by Black Belts. These are employees of the company that are given specific tasks to do along with their regular job responsibilities;
- The team members are individuals who support certain projects in their fields;
- Other authors (Gygi et al. 2005, p.52) suggest a hierarchy made up of 7 hierarchic levels for Six Sigma, as we can notice in the figure 4.

The element of novelty consists in the “Yellow Belts” represented by “all the others” in the organization who apply elements in the Six Sigma methodology and through this they improve their work. They can be leaders, managers, project members or anyone else.

4. CONCLUSIONS

In a certain way, Six Sigma represents the evolution of the TQM projects (Total Quality Management) and it is influenced by important authors in the quality field as W. Edwards Deming and Joseph Juran. But Six Sigma is much more than this ... a real, practical mechanism for increasing the company competitiveness.

The great majority of organizations have reached the Sigma 6th level only in certain processes, but this thing is not supposed to scare them as it means a lot, however. This level provides a wide range of benefits, such as: generating a long-lasting success, setting a performance objective for everybody, an added value for the clients ... and the most important thing ... increases their competitiveness! ...

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ANALYSIS MODEL FOR INVENTORY MANAGEMENT

CAMELIA BURJA, VASILE BURJA *

ABSTRACT: *The inventory represents an essential component for the assets of the enterprise and the economic analysis gives them special importance because their accurate management determines the achievement of the activity object and the financial results. The efficient management of inventory requires ensuring an optimum level for them, which will guarantee the normal functioning of the activity with minimum inventory expenses and funds which are immobilised. The paper presents an analysis model for inventory management based on their rotation speed and the correlation with the sales volume illustrated in an adequate study. The highlighting of the influence factors on the efficient inventory management ensures the useful information needed to justify managerial decisions, which will lead to a balanced financial position and to increased company performance.*

KEY WORDS: *inventory; inventory turnover ratio; costs of inventory; economic efficiency*

JEL CLASSIFICATION: *D20, M11*

1. INTRODUCTION

Taking the form of tangible current assets, the inventory is found in all the production stages and is successively transformed from raw materials in elements of unfinished production (work-in-process), then in finished goods destined for sale. Inventory represents money expenditure until the moment when it leaves the enterprise as sold products, at which time their value is recuperated and it generates profit (Stancu, 2002).

The normal development of the manufacturing processes requires in an objective manner the building of inventory of raw materials. They must cover the production needs during the period between two supplies (cycle inventory) or can be constituted to prevent unexpected incidents (safety inventory) and to allow the running of conditioning operations for materials before they entry the actual production. For an

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accurate dimensioning of inventory it is necessary to have an adequate inventory policy, based on the particularities of the technological process and the achieved turnover (Yugang, 2009; Ballou, 2005).

Regardless of the destination of the inventory of the raw materials, they require a capital expenditure that increases the financing-need of the current activity. Inventory expenses include not only the necessary amounts to procure it, but also the amounts related to quality check depositing, selection, deterioration, damage and obsolescence (Müller, 2003). Their management on principles of rationality requires a continuous analysis process of their dimension and of the development of an optimum inventory. Moreover, the existence of work-in-process and of finished goods leads to additional expenditure of financial resources.

If inventory management is inaccurate then negative effects occur in the activity of companies because the existence of too large inventory leads to increased costs and reduced cash flow, and their sub dimensioning contributes to reduced sales. The mentioned aspects show the importance of accurate inventory management in ensuring the company's competitiveness (Felea, 2008).

In general, a good inventory management implies their formation at a level that will ensure both the requirements of the production process and the demand on the market, but will also allow the achievement of the company's performance indicators. The optic of a rational inventory management believes that its size is motivated by social need, and the decision to invest in these elements must be an option justified by the result of the analysis of other investment options of the companies' capital (Petcu, 2003).

2. THE ANALYSIS OF INVENTORY MANAGEMENT

The financial management of firms pursues broad coverage regarding inventory, but in terms of financial analysis, we consider relevant the inventory structure and its rotation.

The inventory structure allows the financial analyst to highlight the following aspects:

- the oversize or sub dimensioning of inventory elements;
- highlighting inactive inventory or slow-moving inventory, which generates expenditures;
- the evolution over time of inventory structure.

The relevant inventory for an enterprise is: raw materials, work-in-process and finished goods.

The increase of the share of raw materials within total inventory reflects the following aspects:

- the oversize of stock supply;
- the existence of inactive or slowly moving raw materials;
- reducing other categories of inventory due to the shortening of the production cycle and the speeding of distribution.

A significant deviation from the planned inventory of raw materials or from their share in enterprises with similar activity indicates deficiencies on the line of management for these inventory categories.

The increase of the share of the work-in-process takes place when the production cycle increases, which can have objective causes if the assortment structure of the production has changed, or subjective causes if there are difficulties in supplying, accidental interruptions or other causes.

Increasing the share of stocks of finished goods is recorded when the enterprise faces difficulties with the distribution of the production. In this case, the production on stock causes a financial blockage, the enterprise turns to additional credits and faces financial difficulties.

Conducting an analysis of inventory rotation provides information about the duration during which inventory moves successively through the economic cycle of supplying, production and distribution. Increasing the rotation speed of inventory means increasing the efficiency of its use and, implicitly, additional profit simultaneously with the release of financial resources. The specific analysis indicator is Inventory Turnover Ratio expressed by a Number of rotations (*NoAI*) or the Days' sales in inventory (*DdAI*) (Hada, 2009):

$$NoAI = \frac{TO}{AI} \qquad DdAI = \frac{AI}{TO} \cdot T$$

where:

TO is the turnover;

AI - average inventory, calculated as arithmetic mean between the value at the beginning and the value at the end of the management period;

T - analyzed period in days.

The number of rotation for inventory shows how many times the inventory of a company goes successively through the stages of supply, production and distribution during a management period and is recovered through sales. Another signification of this indicator suggests the ability of the company to transform current assets in money or trade receivables. A slow rotation speed may be a negative signal for managers, as well as for investors and shareholders regarding the real capacity of the company to sell its production.

The particularities of the production are an important factor is assessing the inventory size (Boute, et al., 2007). In the production stage, the inventory level must be adapted to the variations of quantity, quality, price and time so that it's necessary to have a control and adjusting system for inventory according to mathematic patterns in order to reduce as much as possible the risks induced by the unexpected changes of the market factors (Tomofumi, 2009). Companies coordinate the requirements of the processing, distribution, financing and management functions with the exigencies of the demand with the help of inventory management and control. Sale success depends on the ability to provide the products and services requested by the consumers in conditions of profitability. In the activity of organizations, the development of control practices for inventory is largely due to the direction of management systems towards implementing the concept of Total Quality Management (TQM) (Wild, 2002).

Conducting in dynamic an analysis of the inventory rotation highlights the influences of the determining elements that impact the change in the efficiency of inventory management according to the following relations:

- The influence exercised by the change of the turnover:

$$\Delta NoAI(TO) = \frac{TO_1}{AI_0} - NoAI_0$$

$$\Delta DdAI(TO) = \frac{AI_0}{TO_1} \cdot T - DdAI_0$$

- The influence of the inventory size:

$$\Delta NoAI(AI) = NoAI_1 - \frac{TO_1}{AI_0}$$

$$\Delta DdAI(AI) = DdAI_1 - \frac{AI_0}{TO_1} \cdot T$$

The increase of the number of rotations during a time period is equivalent with their participation on several times to creating the turnover, which is the main source of recovery of the costs and for obtaining a profit. At the same time, by reducing the period when the inventory is stationed in the economic cycle, the expenses with depositing the raw materials, work-in-process and finished goods are reduced so that the costs are lower, another favourable effect being the shortening of the capital expenditure period for inventory.

The evolution of sales clearly influences the inventory size and efficiency.

To study the correlation between inventory size and sales as expression of the demand on the market we can use an analysis model in which inventory is expressed depending on two influence factors, namely average daily sales (Ds) and rotation speed, expressed as stationing period in the economic cycle, according to the next relation:

$$AI = \frac{TO}{T} \cdot \frac{AI}{TO} \cdot T = Ds \cdot DdAI$$

The action of the influence factors on the change of inventory size is determined as follows:

- The influence of the inventory's stationing period within the economic cycle:

$$\Delta AI(DdAI) = Ds_0 \cdot DdAI_1 - Ds_0 \cdot DdAI_0 = Ds_0 \cdot DdAI_1 - AI_0$$

- The influence of the average daily sales (Ds):

$$\Delta AI(Ds) = Ds_1 \cdot DdAI_1 - Ds_0 \cdot DdAI_1 = AI_1 - Ds_0 DdAI_1$$

Material resources are immobilized or released by changing the inventory rotation speed. The relation that expresses the size of the released or immobilized inventory, needed to achieve daily sales in the current period, is the following:

$$A_{released} = (DdAI_1 - DdAI_0) \cdot \frac{TO_1}{T}$$

The expression actually signifies additional or less number of days for which the inventory size is changed depending on the average daily sales. If the calculated value of the expression is negative, the situation must be interpreted as being favourable to the company because material resources are released and the financing-need of the current activity is smaller. In case of a positive result, an increase of the expenditure capital for inventory is recorded and the increase of the financing-need requires finding additional financing resources for the activity. The situation must be analyzed in correlation with the changes of the production and of the sales, which, if exceed the inventory dynamic, justify their increasing and the increase of the necessary financial resources.

3. CASE STUDY

To operate the presented analysis model we extracted from the financial statements of one enterprise information regarding the evolution of the main inventory categories, which are presented in table 1.

Table 1. Inventory level and structure lei

Inventory elements	Year 2008		Year 2009		Deviations	
	Level	%	Level	%	+, -	%
Raw materials	4070	65,3	4333	75,6	263	6,5
Work-in-process	356	5,7	109	1,9	-247	-69,4
Finished goods	1809	29,0	1291	22,5	-518	-28,6
Total	6235	100,0	5733	100,0	-502	-8,0

Source: Financial statements

For the analyzed enterprise, the level and the structure of the inventory categories is presented in table 1. We can see from the data in the table that the share of raw materials increased in 2009 compared to 2008, simultaneously with the reduction of the share of finished goods and of work-in-process, the decrease being due to the change of the production structure in favour of a short production cycle and distribution improvement. The increase of the share of the raw materials inventory is justified by the increase of the physical production of the company.

The analysis of the inventory structure shows that the company will have to keep focusing its attention on reducing the stocks of finished products, by finding new distribution markets, but also by improving the supply, which will lead to reduced inventory of raw materials that block a significant part of the financial resources of the enterprise.

The inventory rotation speed is analyzed by starting from the data collected from the financial statements on which the efficiency indicators of the inventory management were calculated, according to table 2.

Table 2. Inventory management indicators, thousand lei

Indicators	Symbol	Period		Deviations	
		2008	2009	Absolute +, -	Relative %
Turnover	<i>TO</i>	27461	31198	3737	13,6
Average Inventory for the Period	<i>AI</i>	6235	5733	-502	8,0
Number of rotations for inventory, no.	<i>NoAI</i>	4,4	5,4	1,0	22,7
Days' sales in inventory, days	<i>DdAI</i>	83	67	-16	19,3
Average daily sales	<i>Ds</i>	75,2	85,5	10,3	13,7
Released/inactive inventory	<i>AIr/i</i>	-	-1367,6	-	-

Source: *Financial statements of Company and calculated data*

If we take into account that the minimum value that ensures acceptable efficiency of inventory management for a company with industrial profile is 8 rotations, which corresponds to 45 days for one rotation, we can notice from table 2 that the analyzed company has a relatively slow inventory rotation speed. In 2009, the rotation speed grew to 5.4 rotations and the Days' sales in inventory was reduced to 67 days, which shows a significant improvement of the inventory rotation and, implicitly, of their efficiency in use, approaching the normal value.

The effects of the main factors' influence on changing inventory rotation and speed are presented in table 3.

Table 3. The factors' influence on inventory rotation and size

Indicators	Symbol	Value
The turnover influence on the number of rotations, no.	$\Delta NoAI(TO)$	0,6
The turnover influence on the duration of a rotation, days	$\Delta DdAI(TO)$	-10
The influence of the average inventory on the number of rotations, no.	$\Delta NoAI(AI)$	0,4
The influence of the average inventory on the rotation duration, days	$\Delta DdAI(AI)$	-6
The influence of the rotation duration on inventory, thousand lei	$\Delta AI(DdAI)$	-1187
The influence of average daily sales on inventory, thousand lei	$\Delta AI(Ds)$	685

Source: *Calculated data*

For the studied company, the obtained results highlight an acceleration of the inventory rotation speed in 2009 compared to 2008 as a result of the influence of the two factors: turnover and average inventory. The increase of the rotation number from 4.4 to 5.4 meant a shortening of the stationing period of inventory in various stages of the manufacturing process by approximately 16 days. This acceleration was due to the favourable effect of increasing the turnover (the rotation number grew by 0.6 and the

duration of a rotation was reduced by 10 days) and reducing the inventory (the rotation number increased by 0.4 and the duration of a rotation was reduced by 6 day).

Reducing the stationing period of inventory within the economic cycle has led to reduced inventory by 1187 thousand lei, while the rise of average daily sales needed additional inventory in amount of 685 thousand lei. The size of released or immobilised inventory needed to achieve daily sales in the current period, as a result of speeding their rotation speed, is 1367.6 thousand lei.

4. CONCLUSIONS

The presented analysis model for inventory management provides a basis for decisions regarding the supply, production and distributions activities of companies with respect to the situation and dynamic of inventory. Its existence conditions the running of the production program and, implicitly, the compliance with the contracts signed with beneficiaries, but, at the same time, it constitutes capital expenditure, regardless of the stage at which the economic cycle is. The model provides information about the factors that influence the efficient inventory management, offering managers the possibility to make realistic decisions concerning the mobilization of internal funds and the exploitation of the opportunities to reduce inventory, with favourable consequences on improving financial stability and on increasing economic performance. The results of the analysis show that the efforts to increase efficiency of inventory used must be directed towards several directions: speeding inventory rotation because by shortening its stationing period within the economic cycle it transforms rapidly into money; increasing turnover to the level demanded by the market; improving the whole trading system for products; reducing specific consumptions, etc.

Using analysis equations for the correlation inventory–sales, we can assess the speed with which the companies capitalize on their production, thus achieving the closing of the economic cycle and the satisfaction of the interests of the participants to the economic activity. At the same time, investors may have more information about the risk level of the companies where they want to make investments to exploit the available capital. A drop over time in the sales rate in comparison to inventory means a weaker capacity of the company to run its activity efficiently, in conditions of financial stability, meaning to transform assets into money, which make it less attractive.

To emphasize the impact over the financial situation, the analysis must be developed on the direction of the specific profitability indicators. At the same time, for an accurate assessment of the efficiency of inventory management and of the fairness of allotted funds for production, it's necessary to compare the financial situation with the main competitors.

In this context, it may be that the analysis of inventory management is a way to get to know the behaviour of organizations, facilitating the better functioning of the “interpretation-thinking-transmission” cycle [Tomofumi, 2009], which means the information obtained from inventory analysis and from other sources are subjected to an interpretation process and become the basis for making decisions whose final purpose is to increase the economic performance of companies.

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THE IMPORTANCE OF HUMAN RESOURCES ON ROMANIA'S LABOR MARKET

IRINA-ELENA CHIRTOC *

ABSTRACT: *An increasingly important role in economic activity has the human resources. These are represented of population, also planning and management of such resources are extremely important, almost as important as raw materials and energy resources. Without people, any activity of exploitation of deposits is not possible, as otherwise there can be not possible any economic action or otherwise. The labor market in Romania has undergone significant changes in the process of economic transition, manifested by reducing the active and occupied people, by maintaining relatively steady unemployment rate and increasing youth unemployment and the long term unemployment, being affected mainly by the limited capacity of creation new jobs. In parallel with the reduction in employment people, it occurred significant changes in employment structure by sectors, industries, regions, types of ownership, age and occupational status.*

KEY WORDS: *labor market, employment, unemployment rate, work resources, employment rate*

JEL CLASIFICATION: *J21, J24*

1. CHARACTERISTICS OF LABOR MARKET

The working done by people means, in essence, a continuous process of combining three elementary production inputs: work, labor, and capital nature. Mixing process takes place at the enterprise level, under the coordination of economic key actor - the entrepreneur - whose role has been emphasized more than two centuries ago by French economist Jean Baptiste Say. To be combined, inputs must first be acquired.

Purchase of inputs is done by buying them from specialized markets: the labor market, capital market and market of natural factors. It is a relationship of dependency, both with other input markets and to the goods and services market. Transactions

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object being covered by the work factor, the labor market, by structuring and functioning, emerges from the other markets by specific features: -labor market is segmented to the whole national economy scale. Structuring on two or more parts, makes labor mobility is very high within each sector, but less between them, due to the lack of uniformity of conditions of employment and remuneration; labor market is regulated; today's game between labor supply and demand takes place in a well-defined legal and institutional framework, relationships between buyers and sellers are regulated by legislation and agreements between the exponents of the interests of employees, employers and sometimes the public power.

Like any other market, here are meeting a lot of buyers and sellers. Buyers are the employers, and vendors are employed. They always made transactions in work services decisions being influenced by other participants' decisions. Even if some participants are not active in every moment, that are not in seeking of new employment or new job, on the market are always thousands of businesses and workers which trade.

If the traded objects are the services of highly skilled labor that may be offered only to people with higher education, such as, for example, engineers, doctors, computer scientists, the search area and meeting the demand and supply can be extended to wide national economy scale. If the search is limited locally, we are dealing with a local labor market. Segmentation of labor market gives a certain duality. Thus, some labor markets, especially those in which the sellers work, that workers are represented by unions, operating under a formal set of rules governing partially transactions between buyers - sellers. But often work service transactions can be carried outside the written rules, in a labor market sector in which jobs can be stable and well paid and, conversely, unstable and poorly paid. Is considered the unstable jobs and low pay are the attributes of the secondary labor market. In contrast, labor markets characterized by relatively high levels of pay and job stability are the primary labor market. All labor market segments - electronics market, market builders, bricklayers market, fitters market, taxi drivers market, the truckers market, etc. - are interrelated: the participants, both workers and employers can always change their intention to make any other market transactions. Like any other market, on labor market the demand and supply of labor are meeting. Carriers of labor demand - employers - with carriers of employment offer- workers. Employment demand, being an application derived from demand for goods and services, is under the influence of many economic, social and cultural policies, which determine demand for goods and services, changing same time with the business level.

Evolution of economic activity level doesn't know usually great jumps in time. A massive restructuring of branches of national economy, a loss of an internal or external market segment but may cause significant decreases in labor demand in a given region, the more significant as the region has a more concentrated structure of the output map. Or, conversely, start a large investment in the area, the surge in activity levels due, for example, the discovery of a major deposit, can generate a significant increase in labor demand. Increased labor demand is not only an issue of concern for potential investors in the region can, contemplating competitiveness can be affected by an upward trend in wages. Decrease in labor demand generates many problems, primarily for the region's population (whose standard of living is affected as

employment rate falls, are increasing unemployment) and then for economic policy makers, both at regional and national scale, which must seek ways and means to compensate for this process.

When inside a region a certain range of unique-industry character is affected by a massive collapse of an activity type (for example, mining in the process of restructuring the energy balance and increase the efficiency of the sector), which results in a drastic reduction in demand employment in certain occupations or skills, labor availability and rising unemployment, we are dealing with an unfavorable area for which regional policy has the tools to intervene. A low demand for labor may result in labor's travel outside the region or on a narrower range, if there are any employment opportunities in neighboring regions in the form of temporary migration or commuting, or to more distant regions of the country or beyond the form of permanent migration, internal or external. The region work demand varies with business cycle phases in succession. Upward phases of the cycle, expansion or boom is accompanied usually by increases in jobs, ie job demand, while downward phases, depression or recession, register job loss, a decrease of labor demand level.

Not always a demand for labor reflects a reduction in unemployment. It is quite possible that a phase of increasing jobs, improving labor market situation, the number of people entering or re-enter the workforce (increasing rate of participation in the workforce) to be greater than the number of new jobs. Also, rising wages as a result of economic expansion in the region, may increase the attractiveness of the region for employment beyond so that immigration to absorb some of the regional labor demand, especially when no new jobs and would have a counterpart in the structure of employment available in the region from the viewpoint of required qualifications.

Offer of employment is provided by regional labor market for legal employment age population in the region participating in the workforce. Only a part of it meets the demand for labor but the rest remained unoccupied and increasing the unemployed number. The labor market is not perfectly competitive in all its defining characteristics. Labor is not homogeneous, but varies on a wider or narrower range of occupations, the level of training, etc.

There is no perfect transparency because labor force is not perfectly informed, the information about available jobs and about working conditions is not readily available nor free. Therefore, between participation rate and employment rate there is a not perfect similarity. To increase the participation rate could be achieved reducing the rate of employment gains due the expense of unemployment. It is possible that the expansion phase of business cycle or boom, the rising general prosperity, increase the attractiveness of exercise a paid activity, so that part of the legal working age but withdrawn for one reason or another labor market may want to revert to the category of active population, increasing the supply of labor at a rate higher than the increase in jobs. Equally possible is that new entrants or people returning to no longer find work appropriate to their preparation. Introduction of technical progress, new technologies record a very dynamic evolution. Here's how the quality of the human factor, the skill level and conditions in the formative educational system for multiple qualifications may be important factors to increase the adaptability of the workforce, the occupational mobility, restoration of regional labor market equilibrium.

2. EMPLOYMENT AND UNEMPLOYMENT IN ROMANIA

Evolution of human resources was the last decade under the influence of demographic and social phenomena, such as accelerated reduction in the birthrate and maintaining a high rate of mortality, increased emigration process, reducing the quality of healthcare and social services. These factors have contributed to an increasing share of the population segment 60 years and over, and to maintain a high level of demographic dependency ratio especially in rural areas. In determining the total resources available on the labor market are the following categories of human resources: the population of working age, the active population outside the work age and the population of working but unable to work. The main components of total labor resources are active working population and working reserves.

In 2008, employment reached a level down from 9.37 million people by 2000 when the actual number was 10.51 million people. If we look at employment rates of working age population is also observed a decrease of 4.6% from 63.6% in 2000 to 59%. This reduction is explained by lower total population of the country, due to low birth rate compared mortality with the higher number of emigrants to other countries compared to immigrants. Regarding the employment rate based on zones/areas recorded a higher proportion of employment in rural areas to urban areas. This difference is present throughout the period under review, as in 2000 the urban rate was 55.8% from 73.8% in rural areas. Although the gap declined by 3.7% at the end of period, from 18.0 points in 2000 and 2008 to store recorded a rate of 57.5% to 61.2% for city and country areas.

Unemployment rate is inverse to employment rate, as the highest unemployment rate recorded in urban areas to rural areas, but the gap between the two areas in 2008 decreased by 1.8 points from 2000 which was 8 points. This difference between the two environments analyzed in terms of two indicators is due to leave the rural youth population that showed a reduction of increasingly large and rural environments occupation by the population outside the working age engaged in subsistence agriculture. Employment and unemployment are important factors of labor mobility both to nationally and internationally scale. The employment is higher on all immigration is lower the emigration intention and vice versa. Whole country level can see that in most of regions recorded employment rate of 60% and an unemployment rate of 6%. The Bucharest - Ilfov region has the highest occupancy rate in the country reached in 2008: 63.3%. Lowest levels of employment rate in 2008 are recorded in the South East region (55.3%) and Northwest (56.4%). However you can see a small gap between regions in terms of both employment and unemployment rate. Slow growth registered by employment rate (during 2002-2008) for the population of 15-64 years was due to increase in equal ratio of male and female employment. Thus, during 2002-2007, the employment rate among the males increased by 0.7% (from 64.1% to 64.8%) and female employment rate of the population has grown 0.8% (from 52% to 52.8%).

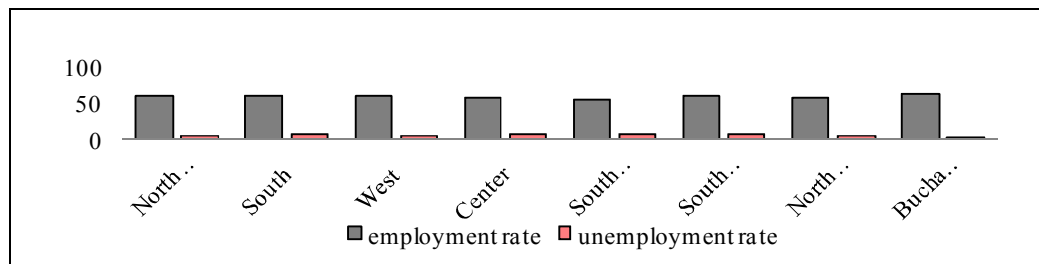
Employment rate of working age population in 2008 to 59%, situated Romania at a distance of 11% from the Lisbon target for 2010 - overall employment rate of 70% and the employment rate for women 52,5% to a range of 7.5% from the Lisbon target set at 60% for 2010. In 2008 the employment rate gap between men and women

registered is 13.2%. Year 2009 is characterized by a decrease in occupancy rate by 1.7 % for men and women amid the global economic crisis.



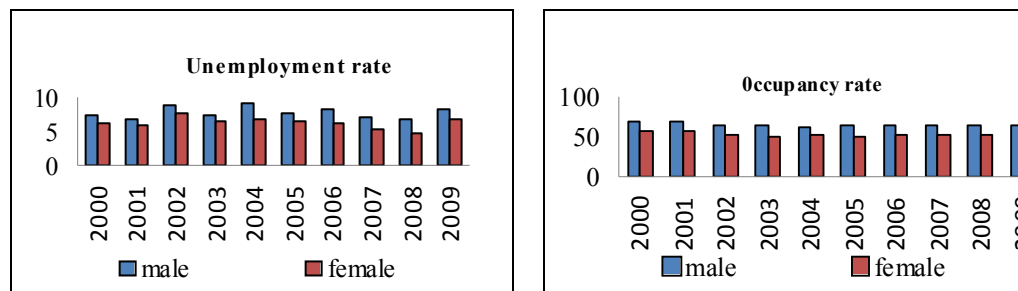
Source: INSSE

Figure 1. Evolution of employment rate and unemployment on areas



Source: INSSE

Figure 2. Evolution on regions of employment rate and unemployment rate in 2008

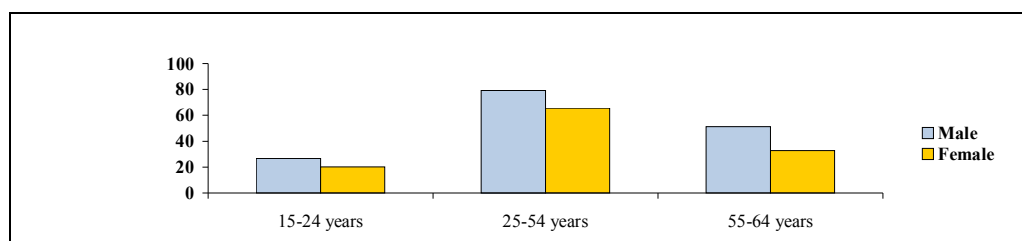


Source: INSSE

Figure 3. Evolution of occupancy rate and unemployment rate on sex

The evolution of unemployment rate during the analysis reached a maximum of 9% for men and women 6.9%. The period 2005-2008 is characterized by a reduction in unemployment, but this trend will not be maintained because of the economic crisis that has affected also Romania. It can be seen in figure no. that the unemployment rate is higher to men then to women. In 2009 the unemployment rate increased by 1.4 points for men and women with two points due to the economic phenomena of recent

times. The data presented in can be seen that the population aged 25-54 years represents the largest share of employment. In 2009 the share of employment is represented whereas a higher percentage of men compared with 6.4 points for women. The 55-64 years age group recorded an occupancy rate of 41.3%. The occupancy rate places Romania at a distance of 8.7% from the Lisbon target for 2010 - 50% occupancy rate for this category.



Source: INSSSE

Figure 4. Evolution of age occupancy for 2009

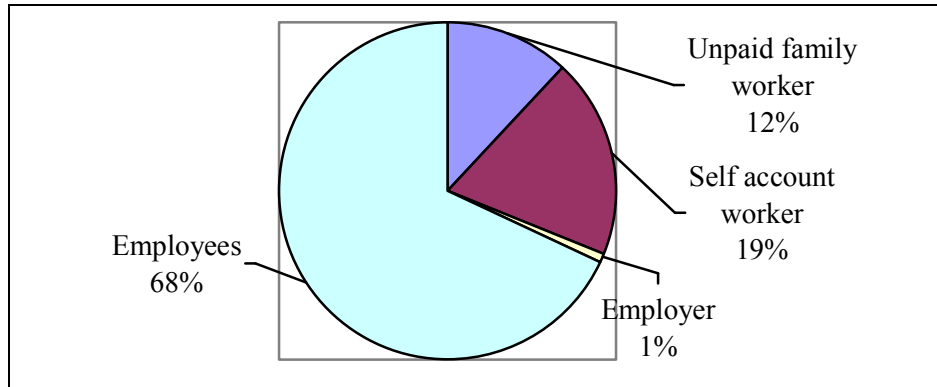
Table 1. Occupied population share on economy sector

	%								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total economy	100	100	100	100	100	100	100	100	100,0
Agriculture, hunting and forestry	45,9	45,4	40,6	40,0	35,7	35,8	33,6	32,2	28,7
Fishing and fish farming	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,0	0,0
Industry of which :	22,2	22,6	24,7	23,9	25,1	24,0	23,9	23,3	23,5
Mining industry	1,7	1,7	1,7	1,8	1,6	1,4	1,2	1,1	1,1
Manufacturing industry	18,7	19,1	21,4	20,5	21,8	21,3	21,2	20,7	20,6
Electricity, gas and water	1,8	1,7	1,7	1,6	1,6	1,6	1,6	1,5	1,7
Constructions	3,7	3,6	3,8	4,3	5,7	4,7	5,2	6,0	8,0
Trade	8,3	8,5	9,6	10,0	10,7	11,5	12,4	12,8	12,6
Hotels and restaurants	0,9	0,8	1,0	1,1	1,5	1,5	1,5	1,7	1,6
Transport, storage and communications	4,4	4,2	4,4	4,3	4,4	4,5	4,8	5,0	5,4
Financial intermediation	0,7	0,6	0,6	0,6	0,7	0,8	0,8	0,9	1,2
Real estate transactions and other services	2,4	2,5	2,9	3,2	3,6	3,5	3,9	4,1	3,2
Public administration and defense	1,5	1,5	1,6	1,7	1,8	1,9	2,0	2,2	5,1
Education	4,7	4,7	4,8	4,8	5,1	5,0	5,0	4,9	4,2
Health and social care	3,9	4,0	4,2	4,2	4,4	4,3	4,5	4,5	4,2
Other activities of national economy	1,5	1,6	1,7	1,9	2,4	2,4	2,3	2,4	2,3

Source: INSSSE

Share of employment in industrial sector has remained relatively constant over the period analyzed approximately 23%, while in construction it rose by 4.3% (from 3.7% in 2000 to 8% in 2009). Regarding the services sector share of employment increases by 6.4% (from 18.5% in 2000 to 24.9% in 2007). But the highest employment rate of the population aged 15-64 years is recorded in country areas. During 2000-2009 there was a decline of 16.4% respectively from 73.8% in 2000 to 57.4% in 2009. Decrease in employment in rural decline is exclusively due to the part of the population employed in agricultural industries which decreased from 45.9% in 2000 to 28.7% in 2008. Continued economic growth in recent years will lead to a significant reduction in rural employment in its current structure (in quasi- entirely

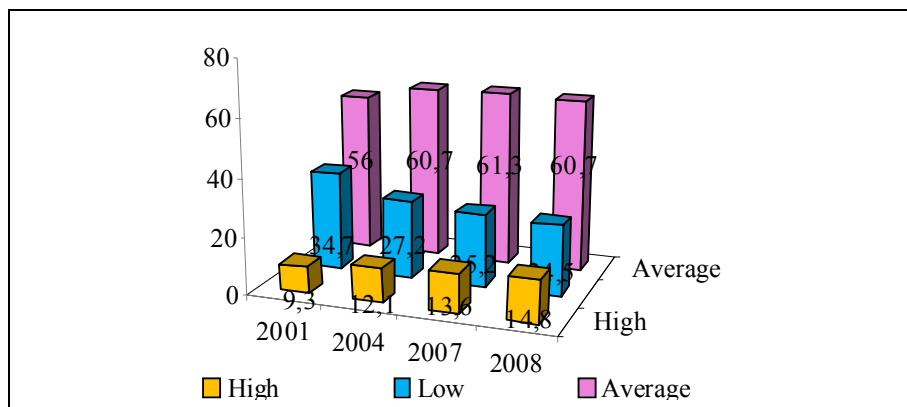
agriculture) by the emergence of a rural occupation, industry or service type, and its reduction in absolute terms by increasing urban employment.



Source: INSSE

Figure 5. Structure of employed population by employment status in 2008

Share of employees in total employed population increased from 57.8% in 1999 to 65% in 2007 and reached to 68% in 2008. In 2008, the share of male employees in total employed population was 54.9% and female employees was 45.1%. The current structure of employed population by level of education is both a reflection of the current structure of the economy and the scarcity of highly educated people, even after the start of transition to market economy. Share of employed persons with higher education was almost constant.

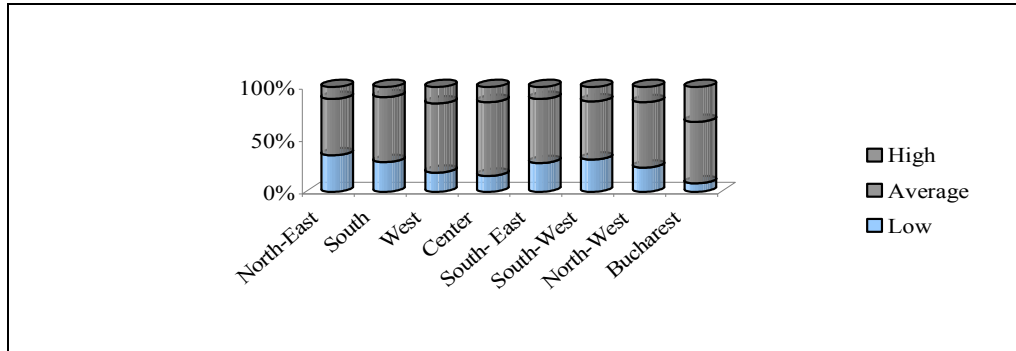


Source: INSSE

Figure 6. Structure of employed population by educational level 2008

Although humble, the period under review shows an increase in the number of students for average and higher graduation levels throughout the economy. In particular, higher education system began to develop, resulting in easier labor for those graduates. People who have only an average level of education is in 2008 more than half of employed persons (60.7%). However, few sectors with high added value in the Romanian economy are facing problems in meeting demand for skilled labor. People

who have a low educational level showed a slight reduction in total employment (from 34,7% in 2001 to 24,5% in 2008), older people who are, in general, this group of total employment, retreating gradually from the labor market.



Source: INSSE

Figure 7. Structure of employed population by level of education by region

In terms of educational level of employed population in territorial, Bucharest region approximately 33.1% of employed persons have higher educational level and only 8.1% had a poor education. In other regions the differences are not significant, extreme values recorded in the North East region (only 11.3% of employed persons have a higher education and 34.8% had low education). Region with the lowest education level are the South by 9.6% of total employment in the region, followed by North-East and South East region with 11.3%. Employment of available working population has an important role in the action which carries a human actor in the process of economic growth. While the increase in labor demand associated with growth among specialists there are plenty of opinions regarding the nature and meaning of this dependency. Although theoretically increase the employment rate by creating new jobs, boost economic growth, there are opinions that employment expansion is a consequence and not a premise, the growth process is due to training effect that increasing Gross National Product would have on investments.

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MINERS' OPINIONS REGARDING THE INFLUENCE OF THE UNIONS OVER THE SOCIO-ECONOMICAL CONDITIONS IN THE JIU VALLEY

VASILE CIOCODEICĂ, ROBERT PRODANCIUC *

ABSTRACT: *In this paper we tried to capture several realities that are present in the Jiu Valley and also tried to have a deeper comprehension of them by analyzing the present reality through the premises set by the past actions. The first step was to present the general situation of the Romanian union world. After that, we used a historical perspective over the present situation of the mining unions in the Jiu Valley and their becoming. We ended the paper with some conclusions drew from a research on a representative sample of miners from the Jiu Valley mines. We statistically analyzed their perceptions regarding the way they feel about the unions and came up with some pretty interesting conclusions.*

KEY WORDS: *union; R.A.H. (The Autonomous Mineral Coal Company); Miron Cozma; wage; working conditions; technology updating; job safety; social conditions*

JEL CLASSIFICATION: *J51*

1. UNIONS IN ROMANIA

There are several trade union federations and county unions affiliated with one of the great union confederations in Romania. The most famous union confederations, which are recognized at the tripartite negotiations between the government, the unions and the employers, by the C. E. S. body (Consiliul economic și social - The Economic and Social Council), are (www.util21.ro): C.N.S.L.R. - Confederația Națională a Sindicatelor Libere din România - Frăția (The Romanian Free Union National Confederation - The Brotherhood); B.N.S. Blocul Național Sindical (The Union National Group); C.N.S.C.A. - Confederația Națională Sindicală Cartel Alfa (The Union National Confederation Alfa Cartel); C.S.D.R. - Confederația Sindicatelor Democratice din România (The Romanian Democratic Union Confederation); C.S.N.

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Meridian - Confederația Sindicală Națională Meridian (The National Union Confederation Meridian). The Romanian Union world is changing (Sindicatetele „globalizează” piața muncii, Săptămâna financiară, nr.137, luni 19 noiembrie 2007, p.1). After the merger of the biggest union confederations from Europe, the most important Romanian unions are observing the same pattern. Four of the most powerful union confederations in our country - CNSLR - Frăția, BNS, CSDR and Meridian are to make up The General Work Confederation.

The interests of over a million and a half people will be represented by only one body that will be named The General Work Confederation. There has been talk of these changes in the Romanian union world for some time. A couple of years ago BNS and CNSLR - Frăția had some high level talks about a possible merger. At that time, though, nothing happened, the two union members gave up the idea because of the pride of some of their leaders. Mean while, there have been some important international changes, that have climaxed with the merger of two of the largest union confederations from Europe. The International Free Unions Confederation (CISL) and the International Work Confederation (CMT) made up a huge union, with over 200 million members. In this context, the representatives of the employees organizations from our country realized that faced with globalization, they cannot remain divided. The talks restarted and the general agreement was that the merger had to be done as soon as possible.

2. THE UNION STRUCTURE OF THE JIU VALLEY MINING

The trade union phenomenon from the Jiu Valley developed under the conditions of informational deficiencies, as well as incorrect social perceptions regarding the social problems of the genuine democratic countries, with a policy dominated by several parties, with a free market economy and a civil society based on humans' fundamental rights and on the background of political, social and economical events that marked the union actions and the relations of the union with the management of R.A.H. (Regia Autonomă a Huilei - The Autonomous Mineral Coal Company). The institutional and power void in 1990 made the mining unions get organized and form claim platforms that were met by the Government too easy. Starting with January 1990 the union organizations of the Jiu Valley, without a previous consultation and negotiation with the management of the Romanian National Mineral Coal Company, form a delegation of 50 leaders and other representatives and go to Bucharest to plead “The Note of the Jiu Valley Miners Claims” to President Ion Iliescu, Prime-minister Petre Roman and Mines Minister Nicolae Dicu. The note was made up of economical, social and legislative claims. It is the first funds request from the budget for the mines and preparations rebuilding and conservation and the first interference in the management of the Coal Company (Ciocodeică, 1998).

The delays of the decisional factors from Bucharest in handling these claims led to the first miners strike at Vulcan in March 1990. Under the pressure of the miners delegation led by Miron Cozma (employee of Lonea Mining Company back than) and also with elections purposes, the Government gave up too easy and institutionalized new rights for the miners through Decision No. 267 from the 14th of March 1990,

signed by the Prime-minister Petre Roman. As a result, the miners feeling that they were favored by the political power and not wanting to lose a government that supported them, in June 1990 went to Bucharest to stop the "University Square" phenomenon. The aggressiveness and the violent character of the events of the 13th - 15th of June 1990 were determined by the macro-social reshaping, by the political interests but also by the failure of the Government to find a different approach that of manipulation and generating wrong perceptions and deformed visions regarding the conflict situations that marked that period (Vlăsceanu, 1993, pag.183).

The period that followed up to September 1991 was marked by aspects that influenced and maintained a climate of social tension in the Jiu Valley. The "success" obtained in June 1990 generated an unnatural balance of force in the relations between the Jiu Valley Mining Union League (LSMVJ) and the management of the Mining Company. Looking back objectively, we must underline that the management of the Coal Company proved to be weak and incompetent giving up on countless occasions to the pressure of the union leaders, accepting the change of some top managers (the general manager of Lupeni Mine, the head engineer of Lonea Mine), although they were considered to be good professionals and strict in observing the financial discipline („Raport privind Cercetarea Evenimentelor violente desfășurate în zilele de 23-28 septembrie 1991", Parlamentul României, Comisia parlamentară de anchetă a evenimentelor din septembrie 1991, Bucuresti 1992) and even declining their competence totally or partially in favor of the unions in order to solve some problems of the Company like: technology updating, investments, supplying. There were also tacit agreements in between the Union and the Company to obtain funds from the budget in the interest of increasing the wages.

In regard to all these, the movement to Bucharest that took place in September 1991 cannot be blamed on the Company management which, in order to do away with the tense situation in the Jiu Valley, agreed to all the claims of the miners. The political factors marked a group of people that was easy to manipulate. After the strike of September 1991 the management of the company agreed to all the demands of the union at the negotiations of the first collective work contract for 1991-1992 having, verbal or writing approvals from the decision factors from Bucharest, with the granting of funds from the budget, thus up to 1993 the Company had no financial loss.

The first major disagreements in between the Union and the Company appear with the negotiations of the collective work contract for 1993-1994, when the talks are adventitiously and the Union knowingly ignoring the law is requesting financial compensations for the union members. At the negotiations, the management of the Company reasoning that the approved budget is not allowing any wage increases is pointing towards the Government for a solution. On the 2nd of August 1993 the miners had another strike. Once again, the Government proved political indecisiveness and found resources and solutions to most of the strikers' demands. It must be pointed out that this time the legal procedure of a general strike was observed in an attempt to prove that the union leaders matured and are willing to accept a face to face dialogue. This time also there were destructions, especially at the Company headquarters, where the personnel were deterred from doing their job. Giving up to the demands of the Union is continued on behalf of the Company as well as the Government with obvious

repercussions on the financial situation of the Company. The first negative financial results are registered at the end of 1993, although they are small about 5 milliard lei, they continue to build up over the first six months of 1994 - about 9 milliard lei. In regard to all these, the balance sheet of the Company was almost balanced and there were financial resources to recover. The collective work contract negotiated for 1994-1995, effective of the 1st of July 1994, which introduces the fidelity wage increase calculated by applying a percentage of 40% to the base pay, as a way to increase the wages and the agreement of the Company Administration Board, is leading towards the beginning of the end of a normal financial situation, thus at the end of 1994, the Company registered a loss of 179 milliard lei, loss that grew over the next years.

As observers to the events that took place back than we must point out the fact that the Administrative Council of the Company had verbal agreements from the Government to sign that ill-fated collective work contract, based on promises that a supplementary subvention from the budget will be received up to the end of 1994, subvention that would cover the financial demands of the unionists, but the supplementation was not approved accepting though that the Company would not pay off the debt to the state budget. Regardless of the constitution of the Company's Administrative Council, as long as it didn't have the support of the Government, the union pressure was unstoppable. Further more, by address no 180923/21.03.1995 sent to the Company by the Ministry of Industry points towards some dysfunctional relations between the unions and the administration and underlines that „the union problems must be understood and treated with all the required attention in order to prevent conflict situations from appearing”.

At the same time realizing that any financial request of the Company will not be met until the unions intervene on imperative tones, the leadership of the Union starts to pose as the leadership of the Company, intervenes to the decision factors from Bucharest and on most occasions gets what it wishes and also organizes work meetings with members of the Government in order to solve the financial problems of the Company. So on the 9th and 10th of March 1995, there was a work Meeting with representatives of the Government, the mining unions, county prefects, presidents of county councils, mayors of the Jiu Valley towns and general managers of the mining companies. The general character of the talks is given by the tone of the opening phrase belonging to Miron Cozma - the Union leader: “We promise a new beginning. We direct your attention towards the fact that if there will be any talk about closing down any Romanian mine, than this will really be a new beginning. The miners are making common cause and that is well known”.

None of the problems raised at the meeting in March 1995, in Petroșani was solved, so the Jiu Valley mining unions requested and organized a new meeting on the 9th of November 1995. This time the meeting is taking place at the Government headquarters. The tone of the discussions is set once again by Miron Cozma, but also the Finance Minister who is making declarations that are to create future conflicts. As a result of the promises made by the Government, any Union demand that isn't met by the Company is resulting in blame over the Company that is considered to be incapable of obtaining what the Government promised. In 1996, analyzing the financial situation of the Company, the Administrative Council is trying without any success to stop the

wage increases and while the general manager of the Company was on the waiting list at the Ministers, Miron Cozma was “solving” the economic problems of the Company closing deals that had no finality and being deceived by the leaders of the Government. All these things generated the miners strike on the 30th of July 1996 that ended by approving all the demands by the Finance Minister Florin Georgescu. Once again the Administrative Council of the Company was considered incompetent by the miners. At the end of 1996 the financial loss of the Company was 747 milliard lei reflected into debts at the state budget and without any chance of ever being paid off. In 1997, the Minister of Industry, continuing to consider that the blame for the disastrous situation of the Company is on the Administrative Council, is appointing a general manager from Bucharest, Gheorghe Rancea, which proves to be an even worst manager than his predecessors. After the miners strike of June 1997, he leaves for Bucharest. As always, at the negotiations between the unions and the Government the Administrative Council is ignored. The requests of the unions are quickly approved by the new Government. The results are losses of over 1000 milliard lei only for 1997. Also it is important to mention that the miners' leader, Miron Cozma, has been in prison since January 1997. For the union requests there are always new leaders ready to take his place but they aren't able to maintain there power.

After the personnel lay offs of September - October 1997, that lead to a decrease of the number of miners to almost half, it looked like the relations between the unions and the Company management would finally normalize. The ones that remained to work in this sector realized that the Government is not protecting them any more. The new Government elected in November 1996 didn't consider mining to be a priority and subventions from the budget are cut down wanting to eliminate them completely. Surprisingly the collective work contract for 1998-1999 is also extremely disadvantageous for the Company. Although the amount of the subventions was unknown, new wage standards were approved, starting with 1996 the rest and treatment tickets were discounted by the Company and also premiums for holidays are approved under the pressure of the Union and without any financial support. Under these conditions we can only assert that the managers of the Company wanted to maintain their jobs, social status and wages giving up too easy and without any grounding to the union demands. After the miners' strikes of January and February 1999, followed by the arrest of Miron Cozma and of other union leaders, the strength of the Union League collapsed. It all culminated with the rip of 2005 when three powerful unions detached from the Union League and set up The Mines and Energy Union Association which is affiliated to the confederation ran by Marin Condescu. From 2005 up to 2010 the activity of the mining unions in the Jiu Valley manifested itself without any noticeable convulsions.

3. THE RESEARCH METHODOLOGY

The analysis of any given situation is first of all based on the objective data of the reality hereof. For the social protection we took into account the real number of individuals that benefit from it, the available funds and the used funds, the type of expenditures that are made, their real structure, their legal basis etc. The sources of

such an analysis are the statistical data, balance sheets, legal rights, the collective work contract etc. But the objective reality is doubled by its subjective reflection into the peoples' consciousness. In other words, it is important to know not just that there are certain funds that are used in certain ways. It is more important to know what the people think about these actions, what their motivations are, what is their satisfaction - so we are interested in knowing what their attitude is toward the social protection that they are offered. The only way in which we can grasp the attitude is by surveying people opinions. There is a difference in between attitude and opinion: the attitude is more profound and fully engages the individual's personality while the opinion is more superficial and often fluctuates. The research methodology used had a complex character, combining the use of several techniques of data gathering: the document analysis of some statistical situations and of the data regarding the work force; observations regarding some realities from the mining companies and the union activity; sociological interview on a sample of employees.

The volume of the sample was made up of 2% of the total population (of over 10,000 employees of the National Mineral Coal Company). As sampling technique, we used non-random multistage sampling. The build up of the sample was done in two stages: a) Establishing the statistical weight that the employees of different mining companies are going to represent in the final sample. First of all the percentage of employees of each of the seven mining companies was calculated out of the total number of seven mining companies. The total number of employees from each mining company that make up the final sample is: E. M. Lonea 29, E. M. Petrița 32, E. M. Livezeni 32, E. M. Vulcan 19, E. M. Paroșeni 26, E. M. Lupeni 44, E. M. Uricani 20.

b) Establishing the other criteria for the sampling.

We considered two main criteria - age and qualification - so we ended up with four quotas. For the criterion age there were "up to 35" and "over 35" categories and for qualification criterion the categories used were "worker + foreman" and "engineer". The age criterion was used out of operability reasons, but also because it usually implies a certain length of service. The qualification had only two categories also out of operability reasons. In respect of any sociological research demands, the anonymity and confidentiality principles were observed. We will now present the investigated population having as criteria the factual variables just as it was identified after the sampling. We also specify that the percentages haven't been rounded in order to try to be as objective as possible. As it is easy noticeable, the lowest percentages are found for the young workers (under 35 years old) and also in the opposite category of over 45 years old. The middle section is represented by three quarters of the total investigated subjects. The age structure of the investigated population is representative for the age structure of the entire personnel of the National Mineral Coal Company. The same situation is to be found at all the mining units taken separately except at Livezeni, where the age group of up to 35 years old is less represented; there is a balance in the other situations. This situation is mostly due to the fact that at this mine has workers that that came from other units that were closed down.

The qualification structure is representative to the qualification structure of all the units of the National Mineral Coal Company. Most of the people working at these units have graduated a middle level school (vocational or secondary school) and they

are employed as skilled workers as well as a smaller part of the people that have higher education. The most important need of all the mining units is for people that would do heavy physical labor. There are also situations in which a certain subject has graduated some university and is not employed on a job that requires such a high level of education, but these isolated cases are exceptions.

Table 1. The Age Structure of the Population

Mine	Age							
	Under 35		36-45		Over 45		Total	
	abs	%	abs	%	abs	%	abs	%
Uricani	3	15	15	75	2	10	20	100
Lonea	8	27.78	15	51.72	6	20.68	29	100
Petrila	5	15.63	24	75	3	9.37	32	100
Livezeni	2	6.25	18	56.25	12	37.5	32	100
Vulcan	3	15.78	14	73.68	2	10.52	19	100
Paroşeni	6	23.07	17	65.38	3	11.53	26	100
Lupeni	7	15.90	33	75	4	9.09	44	100
Total	34	16.83	136	67.32	32	15.84	202	100

Table 2. The qualification structure of the population

Mine	Qualification									
	Unskilled Worker		Skilled Worker		Foreman		Engineer		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	-	-	12	60	5	25	3	15	20	100
Lonea	-	-	19	65.51	9	31.03	1	3.44	29	100
Petrila	-	-	22	68.75	8	25	2	6.25	32	100
Livezeni	-	-	9	28.12	21	65.62	2	6.25	32	100
Vulcan	-	-	5	26.31	13	68.42	1	5.26	19	100
Paroşeni	2	7.69	16	61.53	4	15.38	4	15.38	26	100
Lupeni	-	-	21	47.72	14	31.81	9	20.45	44	100
Total	2	1	104	51.48	74	36.63	22	10.89	202	100

Closely connected to the subjects' age is their length of service. Due to the socio-economical situation of the Jiu Valley, especially after the lay offs and of the unemployment rate in the area, in most of the cases the length of service that the subjects declare is totally in the mining sector and even in the same unit. The smallest percentages are registered at the 10 to 15 years. These people are young; their age is up to 35 years old. The last part of the interval is represented by people that have worked for over 15 years and is the best represented sector. The explanation for this situation can be found in the fact that the National Mineral Coal Company hasn't employed any personnel for a long time, the lay offs are constant and as a result the average age as well as the average length of service are higher. It can also be observed a certain "professional ageing" of the employees.

The good news is that there are a high percentage of personnel that has a longer length of service and that also means that there are more experienced professionals. Besides the positive aspect, we can also notice a certain amount of conservatism and reticence towards everything that is new and means change. The

marital status structure of the personnel is important especially when talking about the socio-human component of technology updating. Aspects like work security, the decrease of the number of work accidents or their severity have a greater impact on the family life compared to the people that are not married. And as it can be seen from Table 4 the proportion of married employees and even of the ones that have children too is the largest, exceeding the other percentages by far. The situation of some families in the Jiu Valley is more complex and complicated because in most of the cases when only one adult of the family is working, if that person were to lose his/her job, were to suffer a work accident or were to have his/her work ability impaired, than the situation of all the family becomes extremely precarious.

Table 3. The length of service structure of the population

Mine	Length of service									
	1-3		4-10		11-15		Over 15		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	-	-	-	-	2	10	18	90	20	100
Lonea	-	-	1	3.44	4	13.79	24	82.75	29	100
Petrila	-	-	1	3.12	4	12.5	27	84.37	32	100
Livezeni	-	-	-	-	6	18.75	26	81.25	32	100
Vulcan	1	5.26	1	5.26	2	10.52	15	78.94	19	100
Paroşeni	-	-	5	14.38	4	15.38	17	65.38	26	100
Lupeni	-	-	1	2.27	5	11.36	38	86.36	44	100
Total	1	0.5	9	4.45	27	13.36	165	81.68	202	100

Table 4. The marital status structure of the population

Mine	Marital Status									
	Not Married		Married		Married and having children		Other		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	2	10	7	35	9	45	2	10	20	100
Lonea	3	10.34	14	48.27	12	41.37	-	-	29	100
Petrila	1	3.12	10	31.25	21	65.62	-	-	32	100
Livezeni	4	12.5	12	37.5	16	50	-	-	32	100
Vulcan	2	10.52	5	26.31	12	63.15	-	-	19	100
Paroşeni	3	11.53	8	30.76	15	57.69	-	-	26	100
Lupeni	1	2.27	16	36.36	27	61.36	-	-	44	100
Total	16	7.92	72	35.64	112	55.44	2	1	202	100

4. THE UNION ACTIVITY ANF ITS EFFECTS

From the analysis of the answers received at the questionnaire comes out the fact that the most important problems for the Union are: technology updating, work conditions, wage, life conditions, and job safety. Almost half of the subjects agree that the social problems are the ones that the Union should mainly focus on solving. On the second place in the subjects' choices with a small difference (38.61%) from the first is another subject that should be of focus for the Union - professional problems. Third and last choice is the problems of the technology updating. Most of the subjects, regardless of the mining unit that they work at, assert that their interests are not being

promoted enough by the Union (64.35%). More than half of the subjects agree that the effects of the fact that there are five unions are negative.

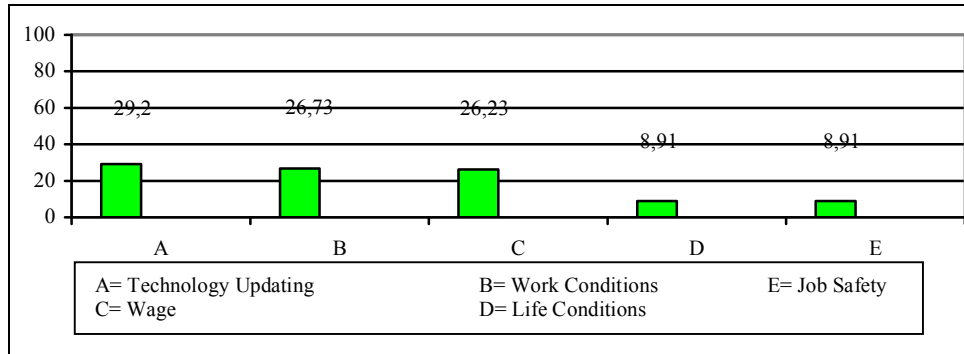


Figure 1. The Most Important Problems for the Union (%)

Taking into account that a unitary approach of any problem by five independent union bodies is impossible, the results of negotiations could differ more or less and under these conditions the consequences could be altercations and professional conflicts that are not beneficial for any professional activity in general. The next represented opinion with 33.66% is of the people that say that the effects of the existence of five unions could be beneficial. The smallest percentage of 13.86% represents the subjects that declare to be indifferent towards this problem.

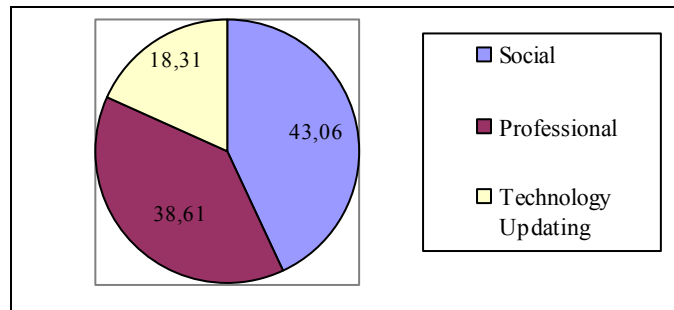


Figure 2. The Most Important Problems that the Union Should Take Care of (%)

The percentages that define the social services that they would give up in case the Company couldn't afford to provide any more are close but define different realities. Most of them are related to the wages. The first percentages are related to the cooked meal that they are not to happy about but still, they wouldn't give it up. They tend too agree that the holydays premiums are a little welcomed financial help that rounds their incomes and as a consequence they wish to keep them. Due to the fact that part of the subjects have their jobs in other locality than where they live, it is only normal that they do not wish to give up the free of charge transportation. Most of the subjects cannot imagine giving up the safety equipment that assures their work security and is a vital component of the technology updating process.

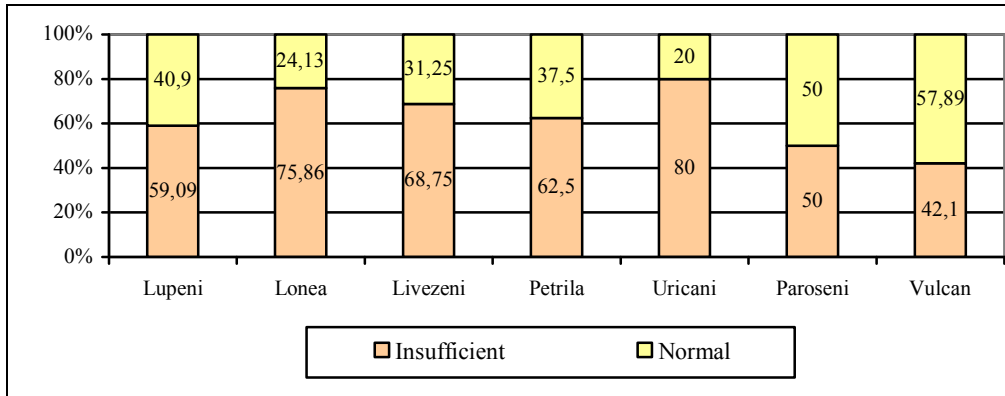


Figure 3. Interest promoting by the Union (%)

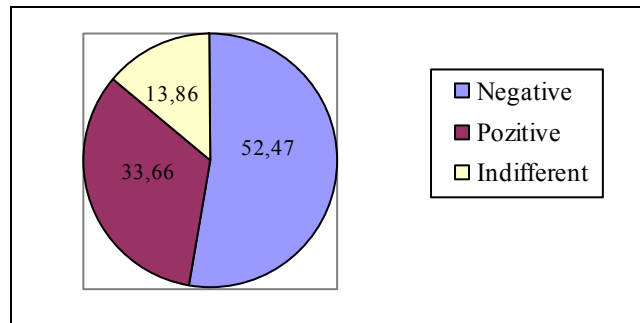


Figure 4. The Effects of the Existence of Five Unions (%)

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BOOK-KEEPING AND DIVIDENDS TAX FISCALITY

MARIN CIUMAG, ANCA CIUMAG *

ABSTRACT: *Dividends represent a distribution in cash or in kind, made by a legal person to a participating in legal person as a result of ownership equity in that person. The incidence of taxation on dividend policy involves targeting the optimal dividend policy, subject to ongoing changes and effect of customer ownership. Generally, into the current tax system, dividends are taxed more heavily than capital gains from the rising value of the shares. Dividends are distributed to shareholders in proportion to participation in paid up share capital, if the constitutive act don't provides otherwise. Distribution of dividends will not be able to made then from profits arising under the law.*

KEY WORDS: *taxation laws; dividends; shareholders; principles; interest; penalties*

JEL CLASSIFICATION: *H30*

Taxation laws, also called the fiscal law system by doctrine is designed and supported by the European public finances to be useful to distinguish and emphasize, in all regulations legal, financial, the legal rules on government revenue category that is made primarily with specific tax. According to the requirements for implementing the budget revenues, the legal regulation of taxes claimed two categories of legal rules (Ciumag & Ciumag, 2009):

1. Rules on the subject and issues of receivable taxes debt, taxes and other revenues;
2. Rules on tax procedure and collection of taxes and the settlement of disputes between taxpayers and state governments;

The first of these categories of legal rules generally tax has a substantive content, as appropriate to legally establish each of the taxes, etc stating the object and subject of the taxable or chargeable, the charge calculation, time and any other terms of payment thereof.

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The second of these categories include procedural tax rules, according to need fixing and collection of taxes and their abolition in cases challenging the way in which they were established.

Joined them, the tax law is filled with laws governing penalties taxpayers do not declare the correct taxes, or committing other violations of tax and other legislation on the enforcement of unpaid taxes in full and legal deadlines.

Establishing the tax on dividends is based on the following principles (Capron, 1994):

- neutral fiscal measures against different categories of investors and capital, the ownership, ensuring a level playing field to investors, Romanian and foreign capital;
- certainty imposed by the development of clear legal rules, which do not lead to arbitrary interpretations and terms, payment methods and amounts to be precisely determined for each payer, that they can follow and understand the burden that lies and to determine the sphere of influence their management decisions on their tax burden;
- tax equity in the individuals with different income taxation, depending on their size;
- efficiency of taxation by imposing long-term stability of the Fiscal Code, so that these provisions do not cause adverse retroactive effect to legal and natural persons in relation to taxation in force on their adoption of major investment decisions.

Dividends represent a distribution in cash or in kind made by a person participating in a legal person as a result of ownership of equity in that person (Măndoiu, 2007), excluding:

- a distribution of additional equity ownership does not change the percentage of holdings of any participant in the legal person;
- a distribution made in connection with the purchase / redemption of participation units own legal entity that does not change for participants in the legal person holding the percentage of units;
- a distribution in cash or in kind, made in connection with the liquidation of a legal person;
- a distribution in cash or in kind, made on reducing capital actually built by the participants;
- a distribution of share premium in proportion to its share of each participant.

Dividend is considered in terms of tax and is subject to the same tax regime as dividend income:

- the amount paid by a legal person for goods or services purchased from a participating to legal entity higher than the market price of such goods and / or services, if that amount has not been receiving tax imposed on income or profits;
- the amount paid by a legal person for goods or services for a participant in the legal person, if payment is made by the legal person for personal benefit.

The distribution of dividends collection appears as a (paying) entity denying some of its internal funding sources. Distribution of dividends are more or less

important, the policy of self financing, namely the investment policy and capital accumulation.

Dividend distribution also provides an income to members (shareholders) who have completed their financial investment (Măndoiu, 2007). It can be seen in this way the opposition is manifested first as a business entity and autonomous decision centre and the other associations whose interest can't be measured only in terms of financial investment. Sometimes, such opposition appears to be reduced to the extent that capital accumulation is the source of earnings-term capital gains. There may be temptation to question the choice between a range of income and capital gain. It should not be forgotten that, if the company is engaged in process of development, it will use widely in debt.

There is a not a form of financing available for such use, but must be recognized that the distribution of dividends lead to an increase in borrowing if we are eager to maintain the same level of development. It can be argued that the company borrows to pay dividends, but this attitude is not rational, whereas debt burden is increasing in terms of tax deductible- the interest.

The incidence of taxation on dividend policy involves targeting the optimal dividend policy, subject to ongoing changes and effect of customer ownership. Generally, into the current tax system, dividends are taxed more heavily than capital gains from the rising value of the shares.

In these circumstances, entities are tempted to practice zero dividends. Available cash surplus should be used rather than the redemption by his own actions, if necessary. The announcement of the entity to drive an increase in dividends conducts, if the dividend tax is raised, to lower rate securities corresponding present value over tax cost. Shareholders will prefer capital gains rather than dividend capital.

These correlations should be considered by business/plants managers when deciding on the distribution policy in order to identify the optimal policy. Each entity, through its distribution policy, will build the own shareholders. By establishing long term the use and distribution of net profits and therefore dividends the companies should avoid even the changes of ownership, which would be generating unnecessary costs of trading.

The current rules on dividends set the obligation of calculation, withholding and payment of dividend tax by legal entities with their payment to shareholders or partners. If such dividend is to evaluate the product selling price of products from own production unit or the purchase price for others, if services are using these services charges.

Dividends are distributed to shareholders in proportion to participation in paid up share capital if the constitutive act provides otherwise. They are paid within the deadline set by the General Assembly or, where appropriate, established by special laws, but not later than six months from date of approval of annual accounts for the financial year ended, otherwise company would pay damages for the period of delay, the legal interest, whether by association or by decision of general meeting of shareholders approved the accounts for the financial year ended not more interest has been established.

Distribution of dividends will not be able to made then from profits arising under the law. Dividends paid contrary to law shall be refunded if the company proves that the associations knew the irregular distribution or in the existing circumstances, they should know.

Tax payable on dividends owe by legal persons for dividend received is determined by applying a tax rate of 10% on gross dividends. According to the law on domestic companies, domestic companies and companies owned or majority by the state, are allocated at least 50% of net income intended as dividends.

Income as dividends, including amounts received as a result of equity ownership to trusts funds is required at a rate of 16% of their amount. The obligation of calculating and withholding income tax in the form of dividends is legal persons, with the payment of dividends to shareholders or partners. Deadline for payment of the tax is until 25th day of the month following the payment is made. If distributed, but have not been paid shareholders or by the end of the financial statements were approved annual tax on dividends paid until January 25 the following year.

On dividends due to shareholders or individuals apply from 1 January 2007, a rate of 16%, regardless of share held by each shareholder capital.

Amounts received each year, net profit as dividends, by the shareholders or associates, in accounting are designed with 457 account "Dividends payable" with liability accounting function.

This account recorded in credit the gross dividends payable to partners or shareholders of profits in previous years, through account debt 117 "Retained earnings". The rate reflects, on the one hand, dividend tax of 16%, in the credit of account 446 "Other taxes and similar" and on the other hand the dividends are paid net of the law in correspondence with the cash credit account, those who temporarily leave the entity, in the credit account 455 "Amounts owed to shareholders, and dividends due but prescribed by law, in the credit account 758" Other operating income.

Account balance is credit and are considered dividends owed to shareholders or members.

Examples (Ciomag & Ciomag, 2009):

- It records shareholders dividends payable in the amount of 5.000 lei, 800 lei for withholding tax (5%) and paying in cash the net amount of 4200 lei granted

117	=	457	5.000 lei
“Retained earnings”		“Dividends payable”	
457	=	%	5.000 lei
“Dividends payable”		446	800 lei
		“Other taxes and similar liabilities”	
		5311	4.200 lei
		“Petty cash in lei”	

- It records dividends temporarily left by members to the unit, the amount of 4000 lei

457	=	4511	4.000 lei
“Dividends payable”		“Shareholders / associates current accounts”	

- It record dividends received on equity by the entity, and their subsequent collection, amounting to 7.000 lei.

4511	=	761	7.000 lei
“Shareholders / associates current accounts”		“Financial incomes”	

and after

5121	=	4511	7.000 lei
“Cash banks in lei”		“Shareholders / associates current accounts”	

Compulsory of calculate, and payment of withholding tax on dividends is to legal persons, with the payment of dividends to shareholders or partners.

In the case of distributed dividends, but were not paid to shareholders or members, as appropriate, by the end of the balance sheet was approved, the deadline for payment of tax on dividends is 31 December of that year.

Payment tax on dividends is made in lei. Entities that pay dividends is made in foreign currency, tax, interest and fines covered, it turns lei currency coming from foreign exchange rate on the date of payment

For late payment of tax on dividends is due to the interest, amounting to 0,05%, calculated for each day of delay from the day immediately following the period of maturity and fighting until the amount due. Such interest is established and aims reparatory damage character caused by delaying the execution state duty payment.

Also, due to late payment, calculated as a percentage of principal amount of the tax liability extinguished, according to the period of delay, as follows:

- if the extinguish is done in the first 30 days of maturity, and not due to late payment penalties are calculated for major tax liabilities extinguished;
- if the extinguish is done in the next 60 days, the penalty for late payment is 5% of the principal tax liabilities extinguished;
- after the deadline set out above, the delay penalty is 15% of principal outstanding tax liabilities remained extinguished;

These late payment penalties have a character on penalties and are designed to discourage voluntary noncompliance by default, overpass the limits prescribed by law, of fees, taxes, contributions and other amounts owed to the general consolidated budget.

In conclusion, the main effect of the existence of tax on dividends, income tax separately, is a cumulative tax profits distributed to affect the principles of fairness, neutrality and effectiveness in tax matters. Thus, the enterprise income tax can be considered an advance paid by the shareholder in respect of personal tax on the income imputation deposit which will be made when calculating the tax payable on dividends distributed.

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PARTICULARITIES OF THE HUMAN RESOURCE MOTIVATION IN PUBLIC ADMINISTRATION

**IOAN CONSTANTIN DIMA, VERGIL CIUREA,
IOAN VOICU, MIHAELA SANDU ***

ABSTRACT: *The notion of public administration bears several acceptations, an activity one, of functional meaning and an organisational one. In both ways, public administration is indissolubly connected to the state. In default of the state, there is no public administration, as this is a state activity, performed by government bodies. This affirmation is confirmed by the stipulations of the Romanian Constitution, called public Authorities, chapter V, titled Public Administration. The first section intended for the specialised central public administration (ministry, other central bodies), and a second section is dedicated to the local public administration (county councils, local councils, mayors). There is no doubt that both sections refer to government bodies performing a state activity, so that the central specialised bodies of the public administration as well as the local bodies of the public administration are government bodies, and the activity they perform is a state one.*

KEY WORDS: *motivation; human resource; public administration*

JEL CLASSIFICATION: *M54, J53, J45*

1. INTRODUCTION

Analysed as an activity, public administration is a practical activity for executing the law. Due to this particularity, the public administration authorities are also known under the name of executive government bodies, by means of which the executive power is accomplished. Thusly, the government is featured as being the public authority of the executive power, a feature referring to all public administration bodies, according to which the government and the other public administration bodies

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are bound to show the Parliament the data and information it requests. From this statement, it results the government and the other public administration bodies are part of the same system of government bodies, of the system of public administration authorities. The executive power is achieved not only by the public administration authorities, but also by other government bodies, which are not part of the system of public administration bodies. The scope of the executive power authorities is larger than that of the public administration bodies, which form not only a component of the system of executive powers authorities.

Concurrently, public administration must not be mistaken for the executive activity either, although the bodies of public administration are named government executive bodies. Besides the public administration authorities, all other government bodies, as well as the nongovernmental bodies or natural persons perform activities of executing the law. Public administration is placed on the first place regarding the frequency of actions in the social life and contribution in the actual activity of satisfying the requirements occurring within a society. The public administration bodies are those actually solving daily issues of the social life, adopts operative measures for satisfying the needs of the society members, by contributing in a decisive manner to accomplishing the social progress.

By Constitution, a distinct category of government bodies has been created for each form of the governmental power, according to the principle of separating power in the state. It is obvious that one and same person cannot concomitantly exercise two public powers, forming one of the basic requirements of the principle of separating powers in the state. Public administration, as fundamental form of accomplishing the government power, is only performed by the authorities of the public administration, the other government bodies only performing activities of administrative feature and not at all public administration, in realising the specific activity which they have been specially created for. If by law, as act of the Parliament, prerogatives similar to the public administration authorities are conferred to certain social structures, then these can also realise public administration as form of accomplishing the government power, as it is the case of public notaries.

2. MOTIVATION- EXPRESSION OF THE RELATION INDIVIDUAL-AIM

Public administration has formed the object of multiple researches in the specialised literature where opinions are similar on some aspects, but are also differentiated from other points of view. In order to define the public administration, the following aspects can be retained: public administration is an activity for executing certain legal acts; public administration is the activity realised by the public administration bodies. In the acceptance of activity, public administration may be defined as being the state's basic form of activity, realised by the public administration bodies, which consist in executing the law, by setting forth certain mandatory conduits, as well as by providing some services.

By starting from this definition, the public administration bodies may grouped into two big categories: bodies executing the law by setting forth certain mandatory conduits, such as: The government, ministries, county councils, local councils; bodies

satisfying the social requirements, within the activity of executing the law, by performing some services in administrative or civil law regime, such as the educational institutions, sanitary institutions, autonomous directions with state-owned capital etc.

Public administration contains two categories of activities: activities for accomplishing the state power; activities which do not imply the accomplishment of the state power. It is worth noting the fact that the same body of the public administration may appear in the legal reports with a double quality, that of subject of administrative law, when accomplishing the state power and as subject of civil law when acting as any nongovernmental legal entity. Specific to the public administration bodies is the fact that they act mainly for realising the state power, as public authorities, which confers them a special situation in the legal reports. The authorities of the public administration can, by all individuals' opposition, execute their own decisions, having the privilege of *ex officio* execution, as it acts based on the government power.

A quasiunanimous definition for *motivation* is evasive enough, as long as the use of its term and meaning raise many ambiguities. However, a large acceptance returns to the opinion according to which *the human motivation in the organisation* refers to the *process by means of which people are given the possibility and are influenced to choose to behave in a certain manner*. Thusly, the motivation is often associated with searching the means by means of which the employees' activity and productivity can be improved or just maintained. Such a process offers the possibility of increasing the employees' desire of increasing their efforts in certain directions, for achieving the desired aims.

In order to understand the human motivation, the analysis of the factors determining employees to have a certain conduit is essential. Therefore, the researches in this domain aim some connected problems about human needs, reasons and goals and their influence, direction and maintaining an individuals' specifically intended conduit.

Human needs are stated by and individual's *feelings and physiological, psychological experiences and social privations, deficiencies and unbalances*. These feelings create energies and forces stimulating the individual for channelling the energies in conduit manners that can reduce the tensions these needs create to the individual. The behavioural manifestations specific to such energies are usually deemed to be guided by factors called *reasons*. By channelling the energies by action ways socially approved, the individuals aim the goals, the fulfilment of which may provide the possibility of satisfying and reducing these needs, and thusly the motivation is described as a force acting onto and inside the individual and which determines the individual behaviour in a certain manner for achieving the aim (figure 1).

The analysis of the interdependence necessities, reasons and goals forms the main theme for researching the motivation of the human resource in organisations. Thusly, it has been sustained that the issue of motivation is a central preoccupation of the scientific management, as long as, if it had been possible to explain and understand (and thusly foreseen) the ways in which people could be motivated, then it would have

been possible, as Handy asserts, to influence people's behaviour by manipulating the components of this motivational process.

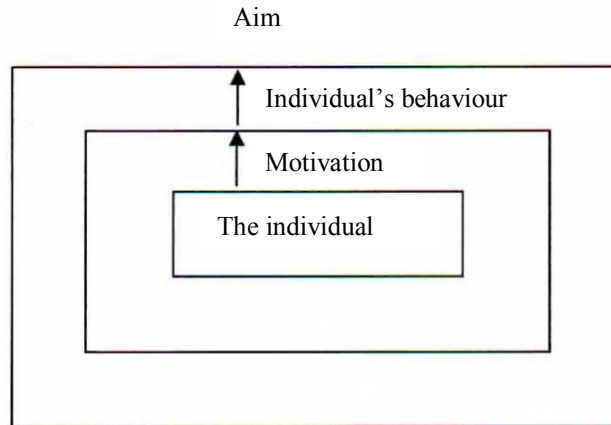


Figure 1. Motivation, expression of the relation individual-aim

There are two opinions in the domain: *one that has as aim the study of the human motivation in the organisation*, in order to be able to improve the management control function over the subordinates' behaviour; *the other tries to essentially transform the work, in order to satisfy the human needs* by humanising the work and evaluating the excesses of some managerial practices (the orientation to humanisation can only be "*dressed in liberal clothes*", meaning this implies making people feel happier and fulfilled, while others become rich).

If we take as starting point Platon's theory about qualified craftsmen, as it has been described in the *Republic*, as typical for the society's noblemen at the time, the Ancient Greeks had the tendency of setting forth a humble social statute to those who needed to work, having a continuous occupation. Thusly, work was seen as a necessity that could be best fulfilled by slaves, until it was possible to abolish the work itself.

Before the protestant reform, Christianity had more or less the same selfish vision of work, as long as labour was seen as a penitence, a direct result of the *original sin*. As Grint shows, the path to soul salvation was in contemplation and spirituality, not in labour.

Kumar brings proofs suggesting that in pre-industrial Europe, those who needed to work for satisfying the economical needs, had different attitudes on labour compared to those who often presumed to characterise the modern society. He asserted that: *the industrial population hides prejudices and illusions about the non-industrial population, one being capable, the other being obedient, due to an entire life of having to pay taxes (contributions)*. Romans have set festival days, which were estimated to be 175, half way through the 4th Century. For the medieval Europe, recent proofs show that agriculturists had a third of the year free, while Parisian craftsmen, for example, only worked 194 days a year, so, almost half of the year being free.

However, the propagation of the reformed protestants in the 11th century Europe and ulterior spread of industrialisation have developed a new conception about the ethical importance of labour, offering it the status of moral duty, disapproval being therefore associated to sin. This increase of the labour statute is associated to the Calvinist theological notion of the *predestined chosen one*. This doctrine claimed that individual's salvation or his/her curse were predetermined by God. This choice was proven by believers by obtaining a notable success (Weber, Anthony). Thusly, *labour, more than spirituality, could either save the soul or at least confirm that soul is already saved* (Grant). This ideology forms the starting point for propagating the scientific approach for motivating the human resource, which was based onto the active intervention in the world (experiences), as it was sustained afterwards by Francis Bacon. This new science has determined the moral imperative that man must recuperate his domination over nature, which was lost in *failures*. This implies the rejection of the previous point of view, based on Aristotle's theological perspectives, according to which science has a passive contemplation, lacking interest of an unchanging *natural order*.

Later, during the Victorian Era, the protestant ethics was stated by an ideology invoking the moral imperatives by *connecting the duty of working to the religious incantations*. As Mathias said, the result was that the *virtue of assiduous labour... the economy, husbandry, society have all become inoculate imperatives in the mind of the new working class, by all known means of communication. These have been implemented into the nonconformist doctrine and into the evangelic one*.

The degree of penetration of this ideology into the British working class's mind or in that of the aristocracy is certainly a subject to be debated (Hobsbaum, 1964). Furthermore, various rival ideologies developed at the same time, with alternative philosophical presumptions. Again, during the illuminist period, work started to be seen as a means of satisfying the economical needs and as a potential source of special satisfaction, if it is freely and creatively chosen - as long as this is seen as unresolved part of humanity and intelligence, compared to non-creative forced labour, the creative one was seen as an end by itself, natural for the human instincts, as long as it was the *man's creative interaction with the natural environment, the one differentiating men from animals*.

The extension of this perspective, often referred to as *homo faber*, was stated by K. Marx and, more recently, in Freud's and Jung's work. Indeed, Jung claimed that this type of labour creates a form of liberalisation, but only when it is *a free act and does not have any constraints in connection to it*. This vision over work may contrast the utilitarian one, which admits that the industrialised work becomes more and more monotonous, lacking skill and less compensatory.

3. MOTIVATING THE HUMAN RESOURCE IN ORGANISATIONS

Utilitarianism was clarified by authors like Adam Smith in *The Wealth of Nations*.. Smith saw labour as a necessity in which mean people are engaged into when they work, from the point of view of the advantage seen as a personal economical

interest, as a material stimulus or compensation. Thusly, work is not something that shall only be done for satisfying the economical or material needs.

If we take into account Schein's and Grint's opinions, it is possible to identify various ways of opposite approach of the human resource motivation in the organisation, along with the corollary suppositions about their subjects of interest, the employees. These are shown in figure 2.

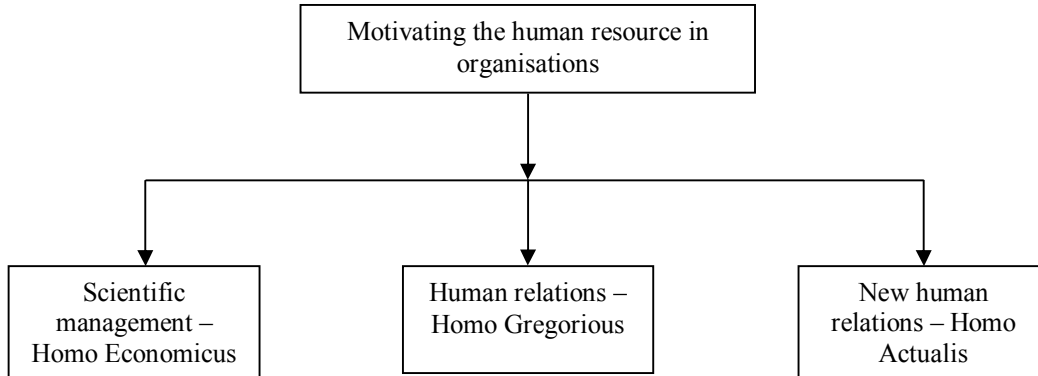


Figure 2. Ways of approaching motivation in the organisations

Based on Hoskin's and Macve's opinions, under the conditions of a new managerial frame, during their education, a new system of *disciplinary and human accountability* was *internalised*. They have *exported* this frame to the business world, by their ulterior careers in the domain of railways. This approach of the management has created a *new form of disciplinary accountability over people and objectives in the factory*. It is the moment of sporadic occurrence of some accounting procedures and an amalgam of disciplinary techniques, known as being scientific management.

Taylor starts his analysis by criticising the management practiced and its incompetence. He considers management as far from being scientific, as it is based on the schemas and practices of the *rule of reason*, which did not give results for the base employee's (workers) control and discipline. This, along with its resulted inefficiency, has occurred firstly because management did not possess the essential understanding of what employees' have done when undertaking their tasks. Based on Taylor's opinion, this lack of knowledge and information on what was actually going on at the base of the organisation has left management inapt to effectively control the employees' conduit.

As Braveman shows (1974), the scientific management may be initially seen as an attempt to secure the information on the labour process, for controlling it further. However, it is the effect of assumptions which people like Taylor follow the subject with, which leads to the different approach for solving the problems of motivation in the organisations. According to the conception of the *utilitarianism*, people are *rationally-economically* motivated beings, first of all by economical gratifications, meaning that people shall work more if they are convinced that their additional effort shall be remunerated in money.

The *hobbesian* conception implies that humans, their natural status, are lazy, aggressive, egoist, hedonic and greedy. Being led by these impulses, Hobbes considers their life was *solitary, miserable, difficult, primitive and short*, due to people's desire of dominating the others. Due to these inherent tendencies, if the society's control had not existed, upon Hobbes's opinion, life would have been a *war of all against all*. Therefore, when what is perceived as a behavioural problem appears in the society and its institutions, and these are observed by people like Taylor through the *lens* of the hobbesian presumptions, the analysis resulted shall have the tendency of emphasising that these issues are caused by the lack of control or inadequate control, which allow the manifestation of humans' natural instincts. This combination of the *utilitarian* and *hobbesian* approaches is obvious in Taylor's analyses and recommendations, in understanding workers.

Taylor believed that the inefficiencies caused by what he had seen as employees' tendencies towards systematic and natural *militarization* can be eradicated by the control of management over employees' economical reason. If these were convinced that only by working they obtained increased economical rewards, many of the problems observed by him at the level of the workshops could have been solved.

This leads to two basic recommendations for the management practice, and namely: *management must be able to measure the effort made at the working place by each employee*, so that he/she would be given such stimulus (money), scientifically established for encouragement, proportionally to the additional effort made; *management must shape and separately specify each employee's tasks*. By doing so, these shall be able to identify the most efficient ways of fulfilling their tasks. The inefficient practices can be thusly avoided, giving the management the possibility of better understanding the operations necessary to fulfil each task.

In order to measure the consumed effort, Taylor believed it was important to simplify the attributions (tasks). The complex operations realised by skilled workers, operations which at the time were rather a mystery for management (thusly making it impossible to measure the effort), needed to be divided into much simpler constitutive elements. This would have allowed the management to establish the necessary effort, from an *average number of workers*, for completing the attribution. A scientific stimulus - money - could be given directly for the consumed effort. Simplifying the attributions has given the possibility to analyse them, so that those procedures that could maximise a worker's productivity, with a minimum consumption of effort and resources, could be thusly identified. Taylor considered that, if workers were specialised only in performing some simplified operations, they could become more efficient and productive, due to the experience they gained by repetition. Taylor's recommendations for fragmentation and specialisation of the work division, are in response to the *account of manufacturing needles (?)* from Adam Smith's *Wealth of Nations*, published in 1776. Smith claimed that, if a worker is given to do all that is necessary for manufacturing a needle, even if one is very hard-working, one would barely make a needle a day. If a worker manufactured the wire, another straightened it, the third cut it, fourth made the tip, others made its pin-head, assembled and finished the resulted products, then 10 workers could manufacture at least 48,000 needles a day, meaning that a worker manufactured an average of 4,800 needles a day. Taylor

believed that such a micro-division of the labour had the advantage that the work was in fact unskilled, facilitating the hire of easily replaceable, cheap and unskilled personnel, for all stages of an operation.

An important element in Taylor's preoccupations was the elimination of workers' previous knowledge - *the conception* was taken out of *execution*. The control must be taken from workers and must become the prerogative and monopoly of management. By identifying the *best* way, management needed to translate this knowledge into *rules, laws and formula* and ensure that members complied with these protocols and procedures, as an addition to their tasks, which were deemed as being relatively fixed. It was the duty of the management to choose workers with physical and mental features demanded by the tasks which this has *shaped*. Thusly, planning, coordinating and reintegrating the production processes, based on the micro-division of labour, has become the responsibility of management. The scientific management has thusly attacked the workers' individual control over their work. The result was the bureaucratisation of the labour process, which has allowed the management to gain an increased degree of control over what was performed in the workshops. The division of labour in organisation was extended until fragmenting the obligations into smaller units. This division was afterwards reinforced by developing the piece payment system, which is the same thing as the financial compensations received for additional efforts. Thusly, the management as well as workers could be free to enjoy the results of the maximum efficiency of works.

Taylor hoped that the principles of the scientific management shall lead to the industrial harmony, as long as the *entire cake* could be bigger, each enjoying a bigger *slice*. He believed that the *scientific* way ended the disputes referring to how much people should work and what represented an equitable financial reward. Even if many of Taylor's successors considered that the unions had a role in the organisations, for Taylor there was no room for unions in *his great world*. The unions regularised the financial relations between employees and employers when there were no scientific means for regularising these market relations. This role was obviously needless under a regime of *scientific rules*, which he claimed to match his approaches.

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THE CONCEPT OF FRAMING IN CROSS-CULTURAL BUSINESS COMMUNICATION

GABRIELA DUMBRAVĂ *

ABSTRACT: *Starting from the concept of cultural frames and their role in signifying human experience, the paper aims at pointing out that business communication, like any social interaction, is underrun by a process of framing, according to which individuals perceive, comprehend and appropriate otherness. Expanded to cross - cultural business communication, framing provides a clearer perspective on cultural divergence and ensures the acquiring of cultural sensitivity, which, in a global business environment, is of crucial importance for effective interactions.*

KEY WORDS: *frames; framing; globalization; cultural divergence; business communication; cross - cultural communication; cultural sensitivity*

JEL CLASSIFICATION: *D83*

1. INTRODUCTION. FRAMES AND THEIR ROLE IN SIGNIFYING EXPERIENCE

The concept of 'frame' was introduced by sociologist Erving Goffman in his 1974 book *Frame Analysis. An Essay on the Organization of Experience*. The author's attempt to explain how conceptual frames structure the individual's perception of the society exploits the literal sense of the term, namely 'border [...] in which a picture [...] is enclosed' and gradually expands it towards the more abstract meaning of 'general order or system that forms the background to something' (*Oxford Advanced Learner's Dictionary*, 1989, p.489).

In other words, just like the picture frame defines an artistic representation of reality as a distinct, unique world, individuals rely on frames, which are culturally inherited forms of organization of experience, to structure the events and interactions they are involved in and invest them with significance.

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Under the circumstances, our perception of everyday reality is a matter of intersecting frames that enclose otherwise meaningless experiences and turn them into meaningful interactions. As experience - based, structuring perception, framing is a process that sets the individuals on a position of maximum awareness of their own behaviour and the others' reactions, confronting them with such concept as standards, rules, and etiquette, all of crucial importance for social integration and assertion. Therefore, communication relies on continuous negotiation between individuals who interact in different social contexts, constantly shaped by their cultural background.

2. FRAMING IN CROSS - CULTURAL COMMUNICATION

The field of business communication is a specific section of social intercourse, where the constant pressure of framing is further enhanced by such stakes as professional prestige, position in company hierarchy, and, last but not least, financial incentive. Here, the role acting is even stricter than in regular social interaction, since the rules are proportionately more rigid and the people involved more aware and hunting for weak spots to exploit to their (and their company's) benefit. Transferred to the level of multinational communication, this issue gains new dimensions not only in terms of extension, but also as a result of the wide range of systems of values involved.

In the age of globalization, where geographic borders have gradually lost their traditional separating rigidity, gaining an integrative rather than a separating meaning, cross - cultural communication abilities have become crucial for the survival and development of any company.

Therefore, communicating across cultures involves good command of a complex network of cultural frames that yields a heterogeneous business environment, where people bring along their individual culturally and ethnically determined values, beliefs, and perceptions. Under these circumstances, awareness of different framing systems endows the business person with flexibility of thinking and behaviour, as well as with the ability to adjust and react efficiently when in contact with other cultural backgrounds.

The concept of framing is implicit in Carol Kinsey Goman's studies of cultural differences and their impact on business communication, as the author constructs her research in the field around the idea that the awareness, comprehension, and appropriation of differences are essential for efficient human intercourse, whether in everyday life or in business. As a specialist in business communication, Kinsey Goman notices that cultural differences go as deep as to the medium of communication, whose variations delineate three basic oppositions:

- a. high - context/ low - context;
- b. sequential/synchronic;
- c. affective/neutral cultures. (Kinsey Goman, 1995, p.60)

2.1. High - context vs. Low - context Cultures

In *high-context cultures* (Mediterranean, Slavic, Central European, Latin American, African, Arab, Asian, American - Indian) communication relies more on the context, extracting meaning from such non - verbal cues as body language, silence, and pauses, rather than from the spoken or written message. In such cultures, personal relations and informal agreements are more binding than any formal contract.

By contrast, *low - context cultures* (most of the Germanic and English - speaking countries) value explicit and specific messages the precision of the spoken or written words underlying interpersonal relations being considered of utmost importance.

Starting from this premise, “the major business challenge for people in a low - context culture is to realize the importance of building and maintaining personal relationships when dealing with high - context cultures” (Kinsey Goman, 1995, p.63).

2.2. Sequential vs. Synchronic Cultures

These culture types display different ways of perceiving time and the associate concepts of timing, dealing with deadlines and scheduling. As their name shows, sequential cultures (North American, English, German, Swedish, and Dutch) appropriate temporality as a sequence, according to which time becomes a linear commodity to “spend” “save”, or “waste”, whereas synchronic cultures (South America, southern Europe and Asia) perceive temporality as a constant, circular flow that can be experienced only fragmentarily.

This divergent perception has a determining impact on building business relations, as it establishes the meaning of being “on time” and, implicitly, the approach to such concepts as deadlines, strategic thinking, investments, and long - term planning. These elements can cause misunderstandings between people from a sequential culture, who view being late as a sign of bad planning or disrespect, and people from a synchronic culture, who consider the insistence on timeliness as a sign of immature impatience. In sequential cultures, business people give full attention to one agenda item after another, whereas professionals in other parts of the world do several things at the same time on a regular basis.

The American so - called “commoditization” of time, which is the basis for the “time is money” mentality, cultivates an obsession of timelines that translates into a major disadvantage when doing business in other cultures. In order to make a point in this sense, Dr. Carol Kinsey Goman quotes a Japanese executive, who confessed his amazement and amusement at the Americans’ rush to return home after a business deal abroad. He explains that arriving in a foreign country with a return ticket booked and a very strictly delimited stay enables the hosts to put pressure on a deal by making a very late offer, totally to their advantage. This is a relevant example of how the obsession to stay on schedule blunts the negotiation instincts and works to the detriment of the business as a whole.

Another culturally determined aspect related to time perception is orientation to the past, present, and future. Thus, American culture promotes the belief that the individual can influence the future by personal effort, and favours the idea of short-term planning. By excluding time variables and hazard, this purely pragmatic view leads to a perceptible “dehumanization” of human relations, not only in business, but also in everyday interactions.

By contrast, from the perspective of synchronic cultures, the past becomes a context that ensures the understanding of the present and the future. The emphasizing of the past and of related concepts such as the individual’s roots, memories and bonds undermines the pragmatic perspective in favour of a more sentimental attitude, according to which favouring friends and relatives, whether in daily life or in business dealings, is a natural sign of loyalty.

2.3. Affective vs. Neutral Cultures

This distinction is established according to the proportion of reason and emotion involved in business interactions and delineates two categories of cultural framing: the *affective* type, in which people show their feelings plainly, and the *neutral* type, characterized by carefully controlled and subdued emotions.

Research conducted in different national business environments found that emotional reactions are least acceptable in Japan, Indonesia, the U.K., Norway and the Netherlands, and most accepted in Italy, France, the U.S. and Singapore (Kinsey Goman, 1995, pp.110-111).

Cultural framing is a matter of actively using our individual cultural background, determining our way of thinking and acting and, more importantly, providing us with the set of criteria by which we perceive and appreciate others. That is why experts in intercultural communication recommend that productive business relations should be built on the awareness that cultures are not *right* or *wrong*, *better* or *worse*; they are just different. Therefore, in the contemporary global business community, what is proper in one culture may be ineffective, or even offensive in another, and therefore, the key to cross-cultural success is the understanding of and respect for diversity, known as *cultural sensitivity*.

3. CULTURAL SENSITIVITY IN BUSINESS

Culture is a comprehensive concept that includes the history, politics, faith, mentality, behaviour and lifestyle of a community. Consequently, lack of cultural sensitivity, i.e. ignorance of cultural differences and poor understanding of foreign languages, leads to failure in international business. David A. Ricks, in his book *Blunders in International Business*, writes: “Cultural differences are the most significant and troublesome variables [...].The failure of managers to fully comprehend these disparities has led to most international business blunders.” (Ricks, 2006, p. 8)

In the global context, in which the recent development in transports and communications has brought together people from different nations, cultures, languages and backgrounds, communication is conditioned by the understanding of *the*

other. Paradoxically, this has not led to a levelling of cultural differences, but to an enhanced sense of nationality and diversity, as, in order to survive and develop, companies need to transcend national borders and connect with foreign partners, clients or customers.

Under the circumstances, doing business across national borders requires cultural sensitivity, which involves a sense of empathy, flexibility and creativity supported by the awareness of and reverence for cultural differences.

In a global environment, organizations have come to understand that cultural sensitivity has a decisive impact upon business performance, which justifies investments in providing their staff with training in this sense. Thus, even the major economies of the world, which still foster a sense of cultural superiority, have been forced to admit that survival on the international market entails good knowledge of foreign customs, etiquette, protocol, communication styles and negotiation approaches. In other words, recognizing cultural divergence can make the difference between success and failure in marketing and negotiation.

Therefore, in order to recognize differences and adapt to the acceptable behaviour framework specific to every cultural environment, we need to display flexibility in thinking and cautiousness in gestures and verbal manifestations. Since apparently harmless remarks can turn into heavy blunders by offending others, it is safer to listen to the interlocutors and pay attention to their behaviour than to launch such remarks as “those people” or “they are all alike except for you”, or to make any statements regarding “us and them” (Ricks, 2006, pp.40-41).

Experts in cross - cultural communication point out that, in order to bridge cultural differences, people need to know their own culture and keep an open mind, which entails sensitivity to both verbal communication, and such non - verbal as behaviour, manners and thinking in a particular culture.

Thus, experts in cross - cultural communication have detected the following basic distinctions in the use of verbal language in different cultures:

- the English use understatement and modesty; they are extremely polite and deliberately vague to avoid any confrontation;
- Spaniards and Italians like prefer flowery language, eloquence and expressiveness over exactness;
- Germans are very logical in manner and words;
- Asians consider harmony an important virtue and will avoid confrontation at all costs. For that reason, they will often say "yes" to many things with the understanding of “Yes, I hear you” or “Yes, I understand”, and not necessarily “Yes, I agree.” (Ricks, 2006, p. 102)

On the other hand, we should remember that, except a smile, there are no universal gestures and so, what might be considered a gentle gesture in one culture could be a gross offense in another. For example, in the West, to beckon someone to come over, we hold out our hand with the palm up and then move our fingers, gesturing the person to come. In Asian cultures this is considered vulgar and, therefore, replaced with a gesture made with the palm facing down and the fingers rolling.

This is just one of the numerous examples that reinforce the idea that communicating across cultures requires awareness of and sensitivity towards other cultures, which ensure an insightful approach to otherness and enhanced adaptability to communication environments.

As intercultural communication expert Neil Craig Storti shows, cultural and linguistic sensitivity plays a particularly significant role when negotiating across national borders, as ignorance of culturally and/or ethnically established standards, etiquette and taboos will become the source of blunders very likely to undermine business success.

4. CROSS CULTURAL NEGOTIATION

Cross cultural negotiation is “a specialized area within the field of cross - cultural communication that provides a theoretical framework for the training of negotiators and sales personnel, so that they should have solid knowledge of the culture, values, beliefs, etiquette and approaches to business, meetings and negotiations in the target countries in order to maximize the potential of a positive outcome” (Storti, 1998, p.94).

Training in cross - cultural negotiation involves a series of factors that can influence the proceedings of a business interaction, by covering the following verbal and non - verbal cues:

- **Eye contact.** In the US, UK, Europe and South America, strong, direct eye contact conveys confidence and sincerity and trustworthiness, whereas in Eastern cultures, prolonged eye contact is considered rude and is generally avoided;
- **Personal space and touch.** In Europe, North America, Japan and China, business people usually leave a certain amount of distance between themselves when interacting, as touching is permitted only between friends and family members. On the contrary, in South America or the Middle East, business people are tactile and, therefore, personal space shrinks significantly. These non - verbal cues require special attention, since “they are known to have a much greater impact and higher reliability than the spoken word, due to people’s capacity to interpret symbols and cues recognizable on the level of collective memory” (Dumbravă, 2009, p.254);
- **Time.** While Western societies are very clock conscious and punctuality is crucial, in countries such as Japan or China being late is taken as an insult, whereas in South America, southern Europe and the Middle East, being on time for a meeting does not carry the same sense of urgency;
- **Meeting and greeting.** Although most international business people meet with a handshake, in some countries, this is not appropriate between genders. At the same time, some cultures view a weak handshake as sign of weakness, whereas others

perceive a firm handshake as aggressive. Other useful details are related with addressing people by first name, surname or title, and the suitability of small talk;

- **Gift giving.** While in Japan and China gift - giving is an integral part of business protocol, in the US or UK it has negative connotations. The major details to be considered are related with where gifts should be exchanged, colours that should be avoided, and whether they should be lavish, wrapped or reciprocated (Storti, 1998, pp.101-102).

Cross - cultural negotiation training starts from the premise that cultural blunders can have disastrous consequences in business and relies on the understanding of etiquettes and approaches to business abroad before focusing on cross - cultural negotiation styles and techniques. Therefore, specialists in this field have detected three interconnected aspects that need to be considered before entering into cross cultural negotiation:

The basis of the relationship has to do with the affective - neutral divergence in terms of cultural framing. For instance, in Europe and North America, where personal relationships are seen as unhealthy and dangerous to objectivity, business is mostly contractual in nature. On the contrary, in South America and Asia, business is personal, and partnerships will be made only between people who know, trust and feel comfortable with one another. Therefore, in this type of cultures, it is necessary to invest in relationship building before conducting business.

Information. Western business cultures emphasize clearly presented and rationally argued business proposals using statistics and facts, while others, such as the South Americans, are more visual and oral, preferring information presented through speech or using maps, graphs and charts.

Negotiation styles also differ significantly across cultures. For example, in the Middle East, topics are approached simultaneously rather than sequentially, the Japanese will negotiate and make decisions as a team, whereas in Asia decisions are usually made by the senior figure; in Germany, decisions can take a long time due to the need for detailed analysis; in the UK, deals are closed under the pressure of deadlines, which is inconceivable in Greece, for instance. (Storti, 2006, p. 79)

These are the main factors that need to be considered when approaching cross cultural negotiation, in order to be able to prepare effective presentations and adjust our behaviour in accordance with a particular foreign business environment.

To sum up, successful cross - cultural communication is based on the following:

- The awareness that patterns of perception and behaviour are culturally based, and they cannot be judged in terms of correctness;
- Sensitivity to verbal and nonverbal behaviour;
- An open mind to other views and customs;
- Avoidance of judgmental attitude and labelling according to our own cultural standards;
- Acceptance of the fact that there are no universally valid gestures.

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KNOWLEDGE AND INFORMATION - FACTORS OF ECONOMICAL AND SOCIAL DEVELOPMENT

ANDRA GANCIOV (MICULESCU), LOREDANA IOANA PRIBAC *

ABSTRACT: *This work develops a view over the more and more important role that knowledge and information begin to play in all the aspects of life. Also, the work analyses the concepts of economy based on knowledge and informational society, with the implications and links between them, regarded from several economic perspectives. The conclusion reached is that nowadays' society is in a continuous transformation and that without information and knowledge one cannot cope with the progress of humankind, and the society of knowledge and the informational society are factors of globalization, which will give a new configuration to economy.*

KEY WORDS: *knowledge society; informational society; the new economy; information; knowledge*

JEL CLASSIFICATION: *A10, F01, O30*

1. INTRODUCTION

The new society which we are in represents a stage of human civilization, a lifestyle, which uses information in all aspects of human activity and existence. People invest more and more in equipment for spreading and processing information, in software, and society creates new tools which apply to information, accompanying the technological, economical, cultural, scientific, social process. 15-20 years ago, between

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users and computers there was the analyst, the computer programmer, the data operator, the data controller, the administrator of the information archive.

The characteristic organisational entity was the computing centre, with tens or hundreds of people, most of them operators. At present, the contact between users and the TIC system is direct, the users manipulating friendly static devices (for example PC) or mobile devices (for example PDA), probably being identified by the use of microprocessor cards.

Of course, the economical and social process from the past was also based on progress in knowledge, but, in contemporary economy the speed, by which knowledge is renewed, changes. When this becomes higher, the volume of knowledge that we have at our disposal increases, and knowledge becomes an elementary organisational principle of our existence.

Knowledge may have different forms, as it results from an OECD report which introduces the following four knowledge forms:

- **Know-What** - refers to factual knowledge, the closest to information, which is necessary in many domains, as baggage of elementary knowledge for solving certain problems
- **Know-Why** - represents the scientific knowledge of the natural, social, political etc. principles and laws. The production and distribution of these pieces of knowledge usually take place in academic environment and within the public or private scientific centres.
- **Know-How** - refers to the skills and pieces of knowledge necessary for solving certain problems. The documentation which refers to the way in which a mechanism works and the selection and training of the personnel are just a few examples.
- **Know-Who** - is a set of knowledge having a greater and greater significance. It involves having information about who knows how to do certain things. It also involves special social relations, developed over time, by activation within a certain domain.

The same study considers that the first two types of knowledge may be codified and can almost become market goods, being accessed in preset legal conditions, whereas the last two types of knowledge, unspoken, are intangible and thus hard to convey and to have their value enhanced.

Knowledge is no longer limited to objective knowledge which characterizes scientific rationalism, but becomes socially disseminated knowledge, interdisciplinary knowledge. Knowledge itself becomes the most efficient economical resource in the production of goods and services, but also a type of merchandise which can be marketed as the results of research-development, of market information, assistance, and professional formation (Sabău, 2001, pp.52-53).

Thus, the evolution of mankind to informational society, through computing, represents the major trend of contemporary world. Informational society is the type of society whose material and spiritual civilization dedicates the decisive role of information and knowledge as sources of economical performance, of rationality, coherence and synergy of the social action.

2. INFORMATIONAL SOCIETY – SOCIETY OF KNOWLEDGE

2.1. Informational society

The concept of informational society was first used in 1980 by the Japanese researcher Yomeji Masuda in order to express the essence of the post-industrial society, as opposed to the previous industrial society. After becoming in the 90s a tangible reality of the economically advanced countries of the world, informational society represents a strategic stake for all the civilized countries, as informational society has as defining features: the dominant weight and critical importance of informational resources and knowledge in the system of available resources; the main role in scientific research activities and in technological innovation; the emphasis of the informational dimension and of labour concept, the high evolution of the economic sector of informational goods production and distribution.

It is not the information that represents the defining element of informational society. It is the knowledge. Even though every day mankind produces huge amounts of information, as data collections from all activity domains, not all of them are knowledge. *"A piece of information from a book or available on the internet becomes knowledge only after it has been read and understood."* Consequently, what distinguishes knowledge from information is the human factor and its ability to assimilate and manipulate abstract concepts, for practical or merely theoretical purposes (Ailioaie, 2002).

Information is a restructuring factor both for the social development and for the economical thinking. According to the academy member Mihai Drăgănescu, science and technology, as information, are incorporated in the labour force, as knowledge. But in production information is a resource similar to raw materials, being thus a means of production. Moreover, information is the expression of knowledge which has become a production factor, and on the other hand, "intelligent" information is becoming the most important resource for the increase of the labour productivity. Intelligent information may lead the production activities, without the direct involvement of man, having a mediation role between labour force and the other means of production. Intelligent information begins to be an active agent of the present social reproduction.

The defining elements of the strategies, policies and actions for the informational society have as a result the development of the communication infrastructures, the creation of adequate software tools, the development of hardware, the development of digital content and more notably, the creation of individual skills in using information and enhancing its value. These elements are in fact elements of transition from the *informational* society to the *knowledge* society, *the society in which man knows how to enhance the value of information and to turn it into knowledge*. In this way, knowledge is founded on the enhancement of the value of information. In the knowledge society, the value of information is variable, according to the context, according to the circulation speed and the way in which it is received and used by the individual informational culture.

In Robert Reich's conception, as opposed to what the prophets of the "information era" have predicted, many well paid services continue to exist even for the ones having an elementary education, and many routine-like activities, activities of processing data still hold a great importance. "The ones who really support the informational economy - says R. Reich - are the armies of informaticians staying in the back offices at the computer terminals connected to the information banks of the whole world".

Thus, informational revolution enabled an increase in productivity, but it "has also produced huge piles of raw information which need to be processed in about the same monotonous way in which the workers from textile industry processed other piles of raw materials" (Reich, 1996, p.152). Other writers say because computers were brought in the working places, the demand for labour force, especially for the qualified one, has increased during 1970-1995, in comparison to the period between 1940-1970, but it is also to note the impact of informational technologies over the health of the workers, for instance burnout and stress (Katz & Krueger, 1997).

One of the most interesting attempts to aggregate information ("computing industry", respectively "information industry") in the whole contemporary economy belongs to the American economist Marc Porat. From the very beginning of the 70s, he considered that American economy was made out of four sectors: agriculture, industry, services and information. Information took over a part of services as well as a part of industry. Based on certain ingenious calculations and approximations, Porat reaches the conclusion that in the USA, between 1850-1980, the number of the population in the services sector has risen, reaching 45% as opposed to 6% in the middle of the 19th century.

In what concerns the decrease of the number of population in agriculture as opposed to the increase of the number of population in industry, this change has been the subject of some wide analyses, accompanied by corresponding conclusions. In the specialty literature it has been reflected the considerable - absolute and relative - increase of the population from the services sector, this surpassing the one in industry. Less highlighted has been the evolution of the informational sector (the branch of information), which according to Marc Porat, contributed in 1980 by 50% to the creation (production) of the national revenue (Gross National Income). Beyond these figures' approximations, of a very high importance is the concept of the American author regarding what the information sector is.

Marc Porat reckons that information sector is divided in two subsectors: primary and secondary.

The primary subsector of information comprises: the industries producing and selling informational machines (not only electronic equipment, but also typewriters, pens, paper etc.): industries selling informational (informatics and non-informatics) services.

The secondary subsector of information comprises all those activities which sell informational services, these being divided into: public or state bureaucracy; internal "bureaucracy" of private companies.

During the last decades of the former century, the two sectors (primary and secondary ones) were in parity. That means that the market information and the

internal information contributed almost to the same degree to achieving the part of the national revenue due to informational industry.

The conception of Marc Porat is an important starting point in going deeply into the analysis of the informational sector and in the information society.

It may be considered that information production has entered a new stage, because of the electronic processors and informatics software, industrialisation stage of information which "compels to a redefinition of industry and to the acknowledgement of information as an important economic sector". This acknowledgement is founded on the idea that human society does not directly derive just from the nature laws, but also depends on the information created, got and produced in people's lives. In his view, the involvement of man in the production of information has three stages: creating, acquiring and producing information.

Creating information is an ability that only humans have, by their new ideas, in any sector of activity.

Acquiring information may take place through scientific research on nature, by discovering regularities and features of nature, of economical and social life. This ability belongs both to humans, and to artificial intelligence more and more. By using, for instance, expert-systems for different domains of science, one can get new information, one can infer new regularities or one can even interpret new facts in correlation to the old ones.

Finally, *producing information* takes place in the current production activity in any domain. This involves collecting information regarding the current activities, as well as processing information, without inferring new principles and regularities. Information, like any other goods, is produced through work. But, unlike other goods, it has certain features which make it revolutionize economy and society.

Information is not consumed and it doesn't get used in the same way as other goods do. It doesn't get lost unless its physical support is destroyed. But because usually information can be stored in several copies, it does not involve an irreversible loss. On the other hand, although it can be affected by moral wearing, information does not get worn completely, in the way that operational information becomes statistical-historical information which can still be useful.

Information is collected and enriches over time, becoming more and more efficient, having an increasing value of use. Unlike other goods, this one can be used in every production cycle, without it being necessary to be produced again. Due to the use of computing technologies and based on the flexible automation of production, man will get a greater quantity of free time for creative activities. In this way, man will have more time to create and to get new informational goods. And so, a new development of the informational possession will take place.

Information becomes an endless resource, after it is absorbed economically speaking. The increase of informational possession will be done practically without limits, information being stored in smaller and smaller quantities of substance, with less and less energy consumption.

The informational goods have a semantic content, a feature that the other goods don't have. Information on paper does not have a semantic content, until it is read and it enters the human mind, but when information on microelectronic support

acts upon reality and "understands" a domain of reality (artificial intelligence), then it has an incorporated semantics, a structural semantics. But this semantics cannot be assessed from a quantitative point of view. In other words, the meaning of information cannot be assessed in quantity (perhaps just through the number of key-notions and links between these notions). The semantic content of information cannot be measured, but we can measure the volume of information and informational possession may be, from this point of view, partially assessed in quantity by this information volume, measured in units such as: bytes, kilooctets etc.

On the other hand, one cannot give economical value to the semantic content of information, exactly because it cannot be measured. For example, the value of a printed book does not depend on its specific semantic content, but more on the expenses for printing and for the copyrights. Any information involves costs for its creation and production through work. It absorbs these costs in a certain amount of time. We can reach the conclusion that any information tends to the economic value equivalent to zero, as a reflection that information semantics doesn't have economic value. Only the support, the copy and the distribution of information will keep their economic value, but to a smaller extent. That is the reason why informational possession will consist of a piece of information assimilated, which no longer has economic value and a piece of information produced more recently, which still keeps its economical value for a certain amount of time.

Informational possession becomes an important economic resource, while the whole mankind can benefit from it. The relations between the developed and less developed countries in information domain should take into account the economic features specific to information. Once economically absorbed, a piece of information should become available anywhere in the world, especially for the productive process, not just for the scientific one; otherwise, there emerges the danger of a form of economic exploitation marked by the rules of an economy unadjusted to the new informational reality. The ability to generate information, as an expression of the creative potential of the nations, is more and more important, and developing a own scientific apparatus, adequate to the requirements and possibilities of national economy, becomes the key-factor for supporting economic growth on long term and for transition to the new economy.

2.2. Society of knowledge

In the specialty literature, Laurence Prusak emphasizes the role of knowledge as production factor. To him, knowledge represents an intellectual capital: "the only thing that gives an organisation a competitive edge - the only thing that is sustainable - is what it knows, how it can use what it knows and how fast it can know something new".

Roger Bohn shows that it is important to understand the technological knowledge that is the knowledge about the way to produce goods and services. Bohn makes a distinction between data and information, between information and knowledge. Data come directly from measuring one or several variables; information is data which have been organised or structured in a certain way, placed in a context and having a meaning. Information shows the condition of the production system and of a

part of it. Knowledge is more, it tries to understand the process, to produce causal associations, to make predictions and to make prescriptive decisions (Drăgănescu, 2001, pp.36-39).

Mihai Drăgănescu affirms that the society of knowledge is superior to informational society, by the fact that knowledge is based on the enhancement of information value. The society of knowledge comprises the informational and the computing society. The moment we speak about internet, with the great advantages it brings in what concerns the access to information, electronic transactions in short time, e-commerce, e-mail etc. by attracting in the electronic information field as many citizens as possible, we speak about informational society. Knowledge is information with meaning and information which acts.

That's why knowledge society is only possible grafted on the informational society and cannot be separated from it. At the same time, it is more than the informational society by the major role which information has - that of knowledge within society. In his view, knowledge society involves: extension and deep study of scientific knowledge and of truth about existence; use and management of existing knowledge as technological and organisational knowledge; producing new technological knowledge through innovation and encouraging the creation and development of innovative companies, having their own knowledge structure.

Such enterprises can be born by the cooperation between companies, universities and governmental or public institutions. The knowledge society represents a new economy in which the innovation process (the ability to assimilate and convert new knowledge in order to create new services and products) becomes decisive. Innovation, within the knowledge society, seeks to improve productivity, not just classical productivity in connection with work and capital, but also new productivities in connection with energetic resources, with environment protection:

- disseminating knowledge to all citizens by new means, using mainly internet, electronic card, e-learning;
- scientific and technological knowledge, knowledge society being fundamentally necessary to ensure a sustainable society ecologically speaking. Sustainability has become a key-criterion for the ones preoccupied by the quality of the environment. In Brundtland report "Our common future" this involves: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Aceleanu, 2006, pp.72);
- a global character of knowledge and information; thus, knowledge society has a global character and is a factor in globalisation. By both components, the informational component and sustainability, the knowledge society gets a global character;
- a new stage in culture, because on the very first place there will be the knowledge culture, which involves all forms of knowledge, including artistic, literary, etc. knowledge.

One will prepare the environment for what the author called the society of conscience, of truth, of ethics and of spirit, as a next stage of society progress. If to

informational society one applies the vectors of knowledge society, right in the middle of the development of informational society, it is possible to gain time and that's why the actions for the transition to knowledge society must be made simultaneously with the ones regarding the transition from a state of informational underdevelopment to informational development. The pursuit of both objectives must be mixed from the very beginning in order to get to a developed informational and knowledge society.

In his work, "The Third Way", Anthony Giddens analyzes the more and more important role of knowledge as production factor, emphasizing that the most remarkable feature of globalized economy can be synthesized like this: "Science and technology, as well as emblematic talents of humans play a more and more significant role in productivity, and, consequently, in economic growth." The ones who highlight the triumphant side of the global process are given this answer: "Global accessibility of information rather amplifies than reduces uncertainties. But at the same time with uncertainties, the chances of innovation and profit also grow." By this statement, A. Giddens ideologically classifies himself among the supporters of the market economy and the direct purpose of this market is profit achieved through innovations and investments, acquired by those enterprising people who successfully take responsibility for business risk and uncertainties.

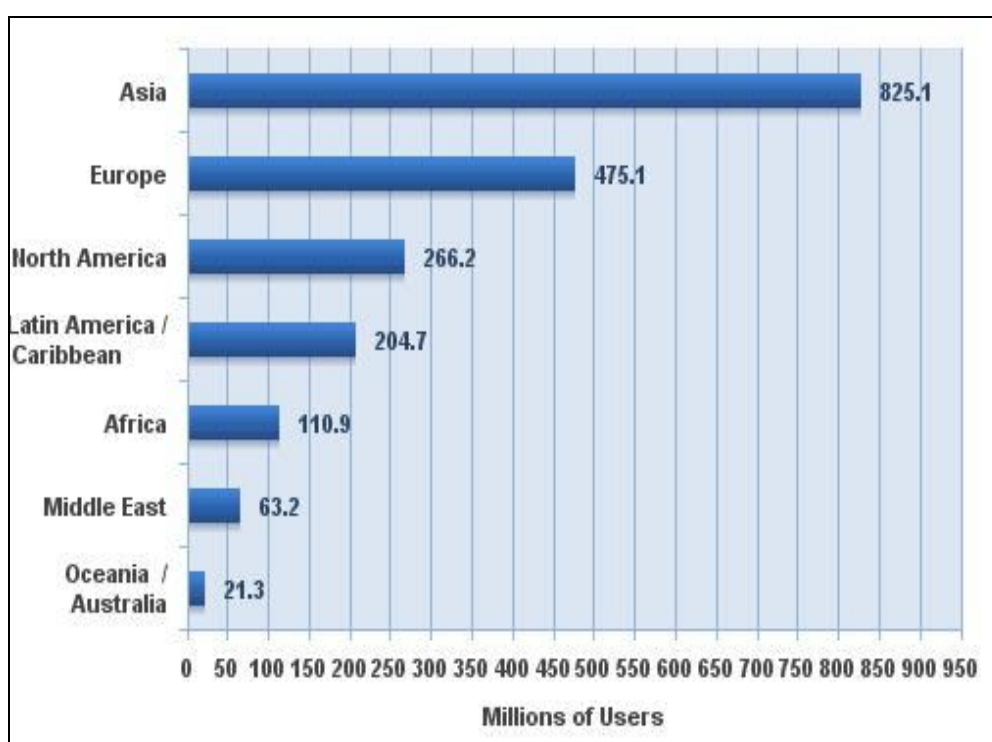
Combined with the more general aspects of globalisation, *information economy sets a major transition* in the nature of economic activity. *"Information technology and communication technology are the means which render the new economy possible... But its agents (the ones of the new economy) are the workers with a high level of knowledge - the connected workers and other workers who do not directly work in material goods production. The know-how of such workers is the most precious form of property that companies have"* (Giddens, 2001, p.68).

The relation between the means of economic activity and their users, who A. Giddens mentions in order to characterize the information and communication economy, has been widely debated by all economic currents, older or more recent. This, in what concerns the link between the labour factor and capital (physical) factor in the organisation and development of capitalist production, but also in what concerns the human capital and the financial one in contemporary world.

With the entire pleading, offensive adherence, in favour of the new processes in contemporary society, economists still debate the problem of existence or non-existence of a real new economy. They wonder if this is indeed an exceptional process in the history of human civilisation. Some authors state that, after all, many previous changes also had major effects upon world-wide economy. In this way, they use as reference the railway of 19th century, the cars with everything that involved car civilisation in 20th century. "Maybe the revolution in the domain of information technology will be more penetrating than the previous technological revolutions - this is what economists Stiglitz and Walsh are hoping for. Only time will give us an answer to this issue" (Stiglitz & Walsh, 2005, pp.74-75).

2.3. Internet and digital users

The major changes of the last years - exponential growth of mobile communications and internet users, the development of information technology and communication technology, the development of e-commerce - they all support the transition from industrial economy to the post-industrial one, to informational society. Digital information can be transformed in new economic and social values, creating opportunities to develop new products and services, this becoming the key-resource in digital economy. In the figure below you can see the number of internet users in the world by geographic region in 2010.

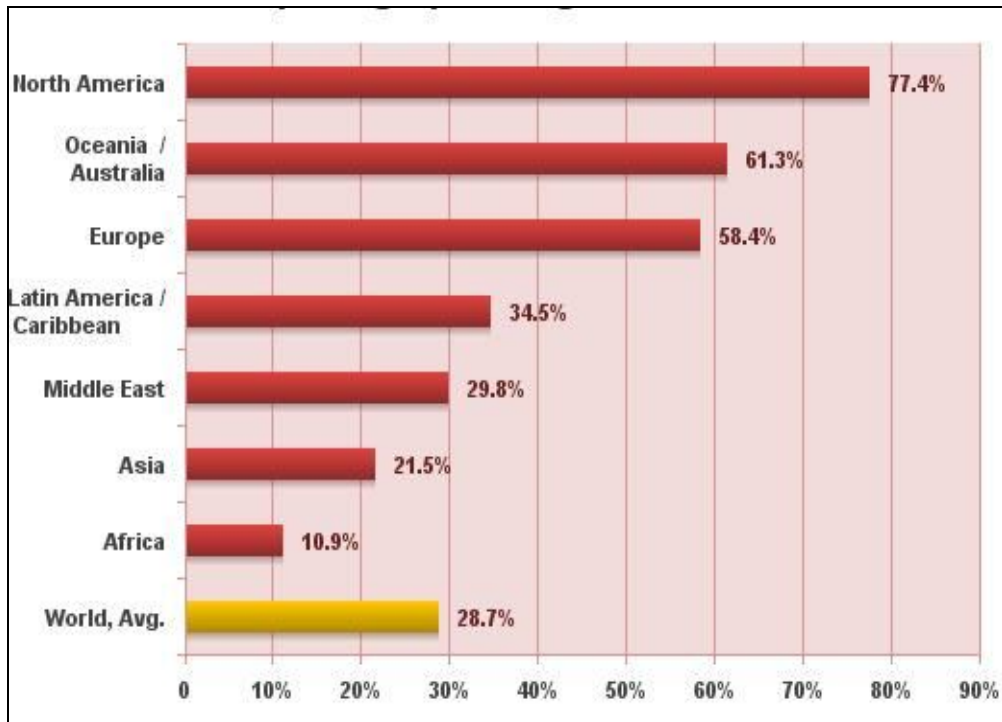


Source: Internet World Stats, which is available at: www.internetworldstats.com

Figure 1. Internet Users in the World by Geographic Regions - 2010

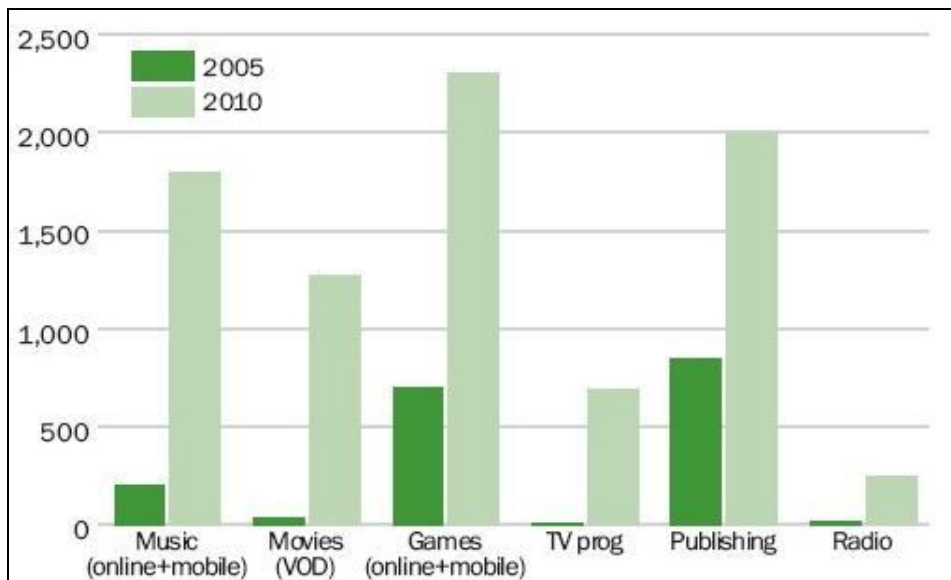
If at the number of internet users first are Asia and Europe, at world internet penetration rate first are North America and Oceania-Australia.

The study, prepared by the EU commission with a consortium made of three consultancies specialized in media ([Screen Digest](#), Goldmedia and Rightscom) was an important input for the Commission's proposals on 'Content Online in Europe's Single Market'. Figure 3 is part of this study.



Source: Internet World Stats, which is available at: www.internetworldstats.com

Figure 2. World Internet Penetration Rate by Geographic Regions - 2010



Source: Business & Market Intelligence which is available at: <http://www.metrics2.com>

Figure 3. Digital Content Market in the UE, Market size (2005-2010) (euro mil.)

3. CONCLUSIONS

Mankind represents today the result of evolution, but this evolution is unconceivable without the fast and profound progress of knowledge and of its promotion in society, but especially in economy. The fact that contemporary organisations are founded on knowledge is inevitable. The fact that they are founded on knowledge means to organisations reaching the stage of full maturity, in accordance with the essence of the informational society that they belong to.

But the development of informational society as knowledge society is conditioned by the presence of some intelligent organisations, with advanced abilities of managing their collective abilities as sources of performance.

Taking into account the fact that a decisive factor of economic growth and life standard is represented by knowledge, turned into innovative products and services, it is necessary that each country assigns the proper degree of importance to research, development and innovation and make the required investments so as not to stagnate.

Informational society is seen as a "society of learning", in which the emphasis is not only on ensuring physical access to communication networks and new communication services, but more notably on the ability to transform information into pieces of knowledge and on education and instruction process in schools, at the work place and at home along the whole life. Informational society offers individuals the information that is so necessary on the environment they live in.

The knowledge society is the purpose and the context of contemporary development, because knowledge is the only resource which grows at the same time with usage. Competitiveness depends on the quantity and quality of knowledge used, and the profitability of any company may grow especially if it makes investments in knowledge production (intellectual capital), rather than if it acquires as many physical assets as possible. The world can't make it anymore without professionalism. Knowledge society imposes professionalism in economy and it imposes technocracy as leaven of the new economy and learning becomes the general process characterizing the new economy.

The new economy of Informational Society - the Knowledge Society must be based on its own means - younger or older, but to another stage of knowledge. The means - new techniques and technologies - are directly related to computing and knowledge and will give, without any doubt, a new configuration to economy as well.

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THE ROLE OF THE CODE OF ETHICS IN THE CONTEMPORARY FIRMS ACTIVITY

ANDREEA GANGONE, CAMELIA CHIRILA *

ABSTRACT: *Nothing is eternal, except changes. This statement characterizes the contemporary world, as succinctly and correctly as possible. The field of economic affairs, strongly marked by the effects of the economic globalization process development, by the manifestation of the knowledge-based economy and by the moral, ecological and social consciousness of contemporary economic organizations, within the framework of the aggravation of some social and ecological problems, faces today the need for various fundamental changes, starting from the reconsideration of the validity of those principles that have governed it for the last decades. Respecting the ethical norms or principles in developing economic affairs does not represent a recent approach, but, as a result of the changes that marked the contemporary economy, tends to become an organic component of the process of adopting organizational decisions and an indissolubly respected principle in the process of planning the future of the organization. Moreover, the international organizations' experience proclaimed the importance of respecting a unitary set of business ethics principles, disregarding the market or the geographical area where they develop their activity, leading thus to the enrichment of science and management functions with an ethical part.*

KEY WORDS: *business ethics; economic globalization; global ethical management; ethical code*

JEL CLASSIFICATION: *F01, M16*

1. GENERAL CONSIDERATIONS REGARDING BUSINESS ETHICS

In contemporary society, we can observe a close interdependence among its facets 0 political, economic, social and moral. Within this framework, it is absolutely necessary to promote healthy moral values in all human life fields, including the

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economic field, by any available means. Generally speaking, *ethics* represents the mental process systematically developed in order to identify and evaluate the differences between how it is and how it could be the result of various human activities or actions in order to improve human behaviour in society.

Ethics has been studied since ancient times and it represented the foundation of different religions and life styles. In what its evolution is regarded, there are two basic approaches to ethics, presented below:

- **The religious orientation**, according to which moral norms must be respected in all aspects of an individual's life, including his professional life, in conformity with the requirements of religious ethics;
- **The pragmatic orientation**, according to which every individual must ethically behave in all his actions and must not cause a series of risks and tensions (Puiu, 2004, p.140).

In essence, both approaches are finalized with the evaluation of human actions. But the theological system achieves this by analyzing the relation between actions and their consequences, while the deontological system implies the analysis of the relations between actions and the motivations on which they are based (Baron, 1996, p. 549). Ethics played an important part in the economic and cultural environment of the XXth century; within this period, there were serious preoccupations of the different social groups regarding, on one hand, the security against various manipulations from the political environment, and, on the other hand, the consumer consciousness to the organizations' need of responsibility assumption regarding the correct solution given to ethical problems.

At the same time, the 90's were characterized by a continuous accentuation of management preoccupations to identify, prepare and rapidly operate all the information coming from the internal and the external company environment.

Organizations responded to the public's new expectations by integrating some ethical responsibilities in their organizational culture, trying this way to harmonize their own values with those of the community where they act.

In this sense, in the last years, one can observe an increase of the importance given to the ethical norms by top managers demonstrated by the fact that: more than three quarters of American companies have an ethical code; most important international corporations set up an organ regarding social and ethical responsibility or public politics; annual reports of multinational or global companies refer today to the importance of ethics much more than they used to do in the past (Ionescu, 1997, p. 195). In other words, contemporary managers must be conscious that it is absolutely necessary for their organization to have a moral business attitude, to look beyond what is legal and apply standards based on personal identity, on the moral conscience of the organization and the consumers' long term welfare.

From this point of view, the essence of managerial ethics consists of the permanent conflict that aims, on one hand, at the organization's economic performance (quantified by costs, incomes, profit etc.) and, on the other hand, the organization's social performance, more difficult to quantify and often expressed through the way of respecting the obligations to the employees, customers, suppliers, creditors etc. (Gavrila & Lefter, 2002, p.274).

In this order of ideas, the answer to the ethical dilemmas that contemporary managers must face represents finding the balance between economic and social performance. Such an accomplishment implies a multidimensional analysis of all economic, legal and moral implications of each managerial decision apart. All these relations can be modified only with the help of ethics and economic, social and ecological responsibility of organizations, especially, of commercial companies.

2. OUTLINE OF GLOBAL ETHICS MANAGEMENT

The globalization of economic life, seen as a transformation in the spatial organization of relations and social transactions - analyzed under the terms of extension, intensity, velocity and their impact - generating fluctuations and transcontinental or interregional activity networks, interaction and power exertation (Held, et al., 2004, p.40), complicates even more the contemporary organizations' activity as it imposes the transformation of the production and social fields, as well as of those institutions involved in this process. Furthermore, the conception according to which no economic organization cannot exist, on a long term, without consent upon what is wrong and what is good, was adopted by a larger and larger number of specialists and practitioners in international economic affairs.

In contrast with the multiple differences among countries, but in full agreement with the almost universal character of unethical behaviours, ethical systems are desired and must be universal.

Based on the process of economic globalization development, this change of perspective determined the concept of **global ethics**, understood as the *assembly of fundamental values and universal ethical principles* (Sikula, 1996, p.126) and completed global management with an ethical part.

Global ethical management completes the concept of global ethics meaning that, while global ethics is a system of ideas, concepts and suppositions, global management comprises concrete methods, practices and techniques used to implement global ethics in the organizations' activity (Sikula, 1996, p.126). Global ethical management led to the development of the international or global organizations' preoccupation to identify and implement some generally applicable ethical principles that govern their activity on the market. Thus, at international level, a series of initiatives were taking shape in order to elaborate a unitary set of fundamental ethical values that could reflect the universal expectations about ethics. Some of the most relevant initiatives are presented in the table 1.

Although there are differences between the visions presented above, it is obvious that global ethical values are common, which sustains the existence and the utility of a global ethical system and of a global ethical management. According to the new orientation, the adoption of some ethical standards that could govern business decisions leads to obtaining some positive results at the business level, results that are mainly materialized in: *protecting the public* against non-corresponding or dangerous products; *protecting and stimulating the employees* by providing corresponding working conditions and ethical management of human resources; *protecting the business and making it efficient* in the conditions of respecting superior cultural values.

Table 1. Global ethical management

<i>1993 Parliament of world religions - „Declaration of Global Ethics”</i>	<i>„Manual of... Education Civics and Morals...” of the State of California</i>	<i>Michael Josephson - „The character matters, Ethics: easy to say, hard to do”</i>
<ul style="list-style-type: none"> - Nonviolence - Respect for life - Dedication - Solidarity - Sincerity - Tolerance - Equality of rights - Sexual morality 	<ul style="list-style-type: none"> - Morality - Truth - Justice - Patriotism - Self-respect - Integrity - Empathy - Exemplary behaviour - Seriousness - Respect for family, property, law 	<ul style="list-style-type: none"> - Trust - Honesty - Integrity - Respecting the given word - Loyalty - Respect for the others - Responsibility - Correctitude - Preoccupation - Civic spirit
<i>William J. Bennett - „Book of virtues”</i>	<i>Thomas Donaldson - „International Fundamental Rights”</i>	<i>Rushworth W. Kidder - „Common values in a disorganized world”</i>
<ul style="list-style-type: none"> - Self-discipline - Compassion - Responsibility - Friendship - Work - Courage - Perseverance - Honesty - Loyalty - Faith 	<ul style="list-style-type: none"> - Liberty of movement - Right to property - Interdiction of torture - Right to a fair trial - Indiscrimination - Right to security - Right to expression and association - Right to minimum education - Right to political participation - Right to survival 	<ul style="list-style-type: none"> - Love - Sincerity - Correctitude - Liberty - Unity - Tolerance - Responsibility - Respect for life

Source: Sikula A. Sr. - „Applied management ethics”, Richard D. Irwin, A Times Mirror Hughes Education Group Inc. Company, United States of America, 1996, p. 127

3. BENEFITS AND LIMITS IN USING THE CODE OF ETHICS IN THE ACTIVITY OF CONTEMPORARY ORGANIZATIONS

Organizations consider that ethics is an integrating part of their conduct and it clarifies and communicates its position by elaborating and perfecting some ethical codes and norms and regulations that regulate their members' behaviour, from the perspective of their ethical principles. From this reason, elaborating some conduct standards under the shape of some codes became a frequently used method needed to clarify the minimal expectations of an acceptable behaviour (Lewis & Gilman, 2005, p.185). Such regulations are meant to increase the organization's success on a long term and provide some decisions that must protect the economic and social environment of the company. Thus, these organizations dispose of a standard that allows them to monitor, measure and continuously improve their ethical conduct.

An **ethical code** is essentially a written document that underlines the conduct principles that must be respected in the decision-making process of the organization (Byars, 1991, p.19). Other specialists consider that an **ethical code** is a declaration of an organization's norms and faiths. These norms and faiths are generally proposed,

discussed and defined by executive managers that are old in the organization, and then, they are published and distributed to all its members (Hosmer, 1987, p.153).

In our conception, the ethical code represents a standard of conduct constructed on the basis of the organizational experiences, of the prevailing values of the society, of the personal moral norms governing managers' behaviour and of explicit or implicit expectations of the investors that started the respective business.

The ethical code sustains the organization's mission, vocation and objectives by the functions it fulfils: it defines fundamental values; it filters the notions taken from the accumulated experience; it spreads values at the employees' level, encouraging the respect of high conduct standards; it favours the effective usage of conduct norms taken by the organization members (Puiu, 2004. p.149); it supports the decision-making process; it sustains the organization's professional identity; it limits the superiors' pressures upon the employees so that they acknowledge what they can do and what they cannot do (Lewis & Gilman, 2005, p.191).

In our opinion, one of the most important functions of an ethical code is that of increasing the trust of the public and of the society within the organization, by the fact that it represents and explicit commitment that leads to the respect of some moral standards in developing its activity.

From another perspective, the British specialist *Arthur Clarke* considers that ***any organization should have two ethical codes***: one for the top management and one for the entire organization.

This opinion derives from the fact that managers have higher responsibilities than the other members of the organization regarding the trust and the honesty due to those who appointed them. A code for the top management should comprise provisions such as:

- managers should exercise their function with honesty and dedication, trying to reach the organizational objectives;
- managers must be loyal to the organization under any circumstance and consider the organization as a priority;
- managers should act in a manner that does not affect the organization or get into conflict with its interests;
- managers should not make use of confidential information in order to obtain personal gains;
- managers should respect high standards of personal behaviour (Clarke, 2004, p.96).

The codes of ethics meant for all the employees inside the organization should comprise clearly stipulated directions regarding the ethical procedures and principles accepted by the organization, the non-acceptance of gifts, no matter what they are, from real or potential clients, and to the promotion of a fair and cautious behaviour towards the society, in general.

It is important to understand that, regardless of the promoted values, ***an ethical code does not carry with itself the capacity to persuade all members of the organization to respect the standards and the ethical principles selected by management*** (Hosmer, 1987, p.154), because:

○ ***It is not possible to comprise, in a differentiated way, in an ethical code all norms and faiths specific to the groups interested in the organization's activity without hurting the interests of any part.*** This formulation of ethical codes in general terms leads to an incomplete and incorrect understanding of the provisions by the employees and generates, in the perception of the large public, the opinion that they are simple beautiful declarations meant to improve the image of the respective companies.

○ ***Ethical training is not enough if the employee does not have solid ethical behaviour obtained as a combination between familial, religious influences and personal need and standards.*** A person that acts according to a set of solid ethical standards (personal rules of behaviour and rules regarding the adoption of some ethical decisions in professional life) will be more continuous and trusting in the decisions made. In other words, managers must accomplish their tasks not necessarily as a result of the external constraint generated by the existence of an ethical code, but as a consequence of self-persuasion resulting from personal moral standards. From this reason, top management must respect moral norms in all situations, so that, by the power of personal example, it could induce the security that, acting the same way, there will be no negative consequences regarding them. But this desire implies a management capable to courageously assume the responsibility for the adopted ethical decisions, mainly when they have negative consequences from the point of view of the narrow economic interest. Thus, the managers' personal ethics can and must be one of the essential sustaining pillars of the ethical organizational behaviour.

○ ***The ethical code does not establish priorities, respectively, the order in which norms and faiths must be respected. Practically, the priorities are the real organizational values and the ethical code simply does not include them.*** Moreover, ethical codes are often perceived as being documents that establish only minimal rules regarding an acceptable role of the social group when, actually, they must establish real behaviour standards that could encourage the formation of an ethical life style.

○ ***Ethical standards are hard to set up, the communication of these standards is not always clearly made and the activity monitorization of a complex organization is, apparently, an impossible task.*** Ethical codes too rigidly implemented reduce management flexibility and restrain practical options. On the other hand, unimplemented ethical codes, only used as beautiful declarations within the policy of public relations within the organization, represent a weak organizational message and they are simple papers covered by platitudes (Lewis & Gilman, 2005, p. 185).

○ ***The ethical code cannot cover all situations and does not guarantee the respect of all ethical norms. From this reason, the creation, the popularization and the continuous improvement of the company's ethical code should constitute some of the regular actions that managers take in order to provide an ethical job.*** In our opinion, the role of an ethical code is to form thinking models and attitudes which, once they have been understood, assumed and respected, will lead to the formation of a general behaviour expected by the managers that formed it. In other words, as plastically as an author put it, ethical codes do less than everything and more than nothing. From this reason, the simple elaboration of an ethical code does not automatically lead to the solution of ethical dilemmas. If the organizational ethical codes and regulations do not remain at a formal level and are connected to the current

operating and rewarding system, they lead, most of the times, to the consolidation of an ethical climate for the respective business (Johns, 1998, p. 140).

○ *Ethical codes are precious only if all organization members respect them. If the manager does not give importance to the ethical code or infringes its stipulations thinking that, as a manager, he must not respect it, the employees will do the same.* Besides, one must take into account that the effective transfer of the ethical codes principles of the organizational life requires their assimilation within the cultural environment, within cultural behaviours, through a series of actions initiated, most of the times, by managers (Burdus & Caprarescu, 1999, p.207):

- *A clearer formulation of the business behaviour and its usage in concrete situations in order to encourage the employees' moral behaviour;*
- *Initiating some training programs in the spirit of the ethical norms promoted in businesses by the company;*
- *The clear definition of individual objectives so that they do not lead to ambiguities or ask the employees to accomplish impossible tasks, situations that could make them have unethical behaviours;*
- *Keeping high ethics in the managers' behaviour that must be taken as examples by the company's employees;*
- *Promoting ethics in the personnel's performance evaluation processes;*
- *Developing some motivational and communicational mechanisms that could encourage the employees to promote a fair business attitude.*

Paradoxically, sometimes, the existence of an ethical code may generate more bad things than good ones as it can create a false feeling of security behind which, actually, one could encourage the disrespect of his promises.

From this reason, it is necessary **to implement the ethical codes** in such a manner that could solve these problems and respect the following steps (Dessler, 2004, p.35): *Distributing the ethical code* to the employees, the member units and the organization partners; *Assisting the employees* in their effort to interpret and understand the stipulations of the ethical code and its role; *Underlining the role of management* in the process of implementing the ethical code; *Informing the employees* about their responsibility to understand the ethical code; *Establishing the correcting procedures*; *Making a final declaration* that could offer a conclusion regarding the importance and the utility of the ethical code. Thus, ethics will be one of the organizational culture components, to the extent the latter is assimilated and accepted by the employees, will enforce and in order to have influence in making decisions and in any behaviour, formal or informal. Besides, an organizational culture that promotes business ethics and agrees to the employees' expectations will confer the meaning of a veritable mission of the respective affair.

4. CONCLUSIONS

The globalization of the economic life leads to the transformation of those reports belonging to production, the social reports and the institutions involved in this sense. In spite of all this, this global transformation will neither have a durable effectiveness nor a possible one unless it changes, at the same time, the relations with

people, nature, things. Therefore, in the context of an economic globalization, the ethical issues have become main preoccupations for the organizations engaged in international economic affairs as they have to obey the rules of ethics as compared to the host country, the country of origin as well as the other interested parties: governmental organizations, non-governmental organizations, public administration, natural environment, society etc.

Nowadays, profit and ethics are two essential sides in the evaluation of organization's results since the profit reflects the organizational results from a quantitative point of view and ethics shows the quality of these results. From this perspective, the code of ethics can be considered both a premise and a result of the organizational efforts of assuming some ethical responsibilities and, to the extent in which its principles are known, understood, accepted and assimilated, it can turn into the most effective instrument of ethical responsibility in the business.

In the end, disregarding the investors' and managers' opinion about it, it is obvious that the preoccupation for the assimilation of some ethical responsibilities in the field of business cannot be ignored anymore and that only ethical and responsible organizations can successfully plan their future on a long term. We expect that this opening towards values, beyond the economic and financial field, will be maintained and developed under the impact of people's and society's pressure and will be materialized into new decisional factors at organizational level.

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BANKRUPTCY - A POSSIBLE NEW START FOR THE SMALL BUSINESS?

LAURA GIURCA VASILESCU, ANA POPA *

ABSTRACT: *Many factors (internal and external) can make a business vulnerable. In the context of the international financial crisis, the firms, and especially the small and medium enterprises (SMEs) have to face new challenges. Smaller businesses are particularly prone to financial difficulties as they often lack resources to adapt to the changing market conditions. Very often the business distress or even business failure is not yet sufficiently understood as a normal economic development and an opportunity for a new start. In order to take the full potential of business in Europe, should be created the background that genuinely talented entrepreneurs have every opportunity to get another second chance. The European Commission lays out proposals to actively help businesses at financial risk and prevent bankruptcy. In the same time, the national insolvency systems should provide more options for restructuring and rescue. Thus, EU supports simpler and faster procedures for bankruptcy and encourages giving a second chance to honest entrepreneurs who have failed.*

KEY WORDS: *bankruptcy; financing; SMEs; warning signals; failure; financial crisis*

JEL CLASSIFICATION: *G01, G33, M21*

1. INTRODUCTION

Small enterprises are the backbone of the European economy, they represent 99% of all enterprises in the EU, being a key source of jobs (around 65 million jobs) and a breeding ground for business ideas, entrepreneurship and innovation.

The small enterprises are the most sensitive to changes in the business environment. In that sense, they are the first affected by the crisis but in the same time, they are the first to flourish from initiatives to cut red tape and reward success. By its nature, entrepreneurship involves a considerable risk and requires much self-confidence. The readiness to take risks are closely related to business creation, business

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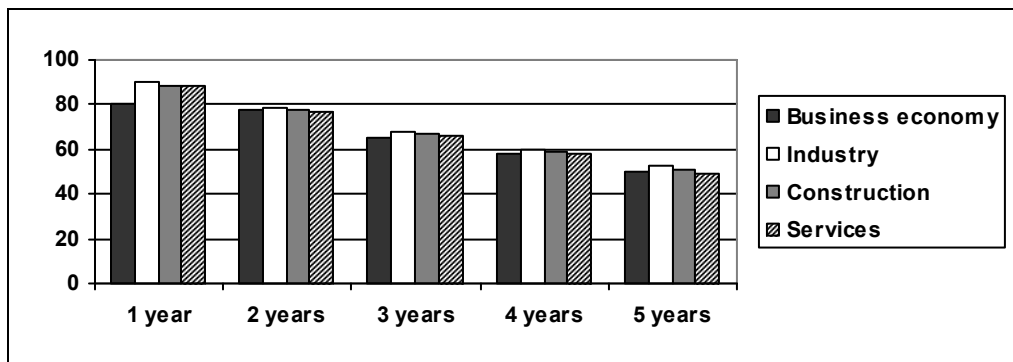
success and business failure and they are inherent to the reality of the market economy. "Anyone who has never made a mistake has never tried anything new" said Albert Einstein. Over the centuries, the society has not come up with the inventions by avoiding mistakes - but rather by learning from them.

However, many times the business distress or even business failure is not yet sufficiently understood as a normal economic development and an opportunity for a new start. Business failure has to be taken seriously, but in order to take the full potential of business in Europe, should be created the background that genuinely talented entrepreneurs have every opportunity to get another second chance.

The Lisbon Strategy on Growth and Jobs, relaunched in 2005, focused on sustainable growth as well as on more and better jobs in the EU. Some factors contributing to sustainable growth are higher birth than death rates of enterprises, survival of newly born enterprises and increase of employment in them. More people should be encouraged to start their own business, to foster a positive attitude to risk-taking and failure, as well as providing appropriate support.

2. SMEs DEMOGRAPHY - SOME FACTS

An important deterrent to entrepreneurship is the stigma attached to business failure in Europe. In general, Europeans are relatively risk-averse, and this can restrain many people with otherwise great business ideas from starting their own company. The most common concerns are the risks of going bankrupt and losing personal property, in particular the negative impact on the family. The statistics indicate that 50% of enterprises do not survive the first five years of their life (based on the available data from the Czech Republic, Estonia, Spain, Finland, Hungary, Lithuania, Luxembourg, Latvia, the Netherlands, Portugal, Romania, Sweden, Slovenia, Slovakia, UK) (figure 1).



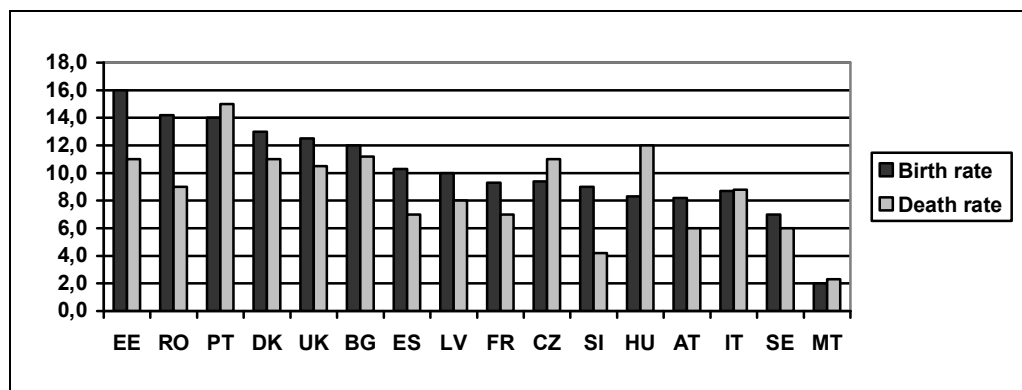
Source: Eurostat, *Business Demography: growth in the population of enterprises* Statistics in focus no 70/2009

Figure 1. Year to year survival rates of enterprises born in 2001, by activity (%)

For the total business economy, half of the enterprises born in 2001 survived to 2006. Moreover, the year-to-year survival rates decreased in the first three years for

enterprises born in 2001. Subsequently the rates increased but even in the fifth year of the enterprises' life the rate was still slightly lower than the first year's. The corresponding percentages for the separate aggregates were 53.2% for industry, 51.1% for construction and 49.4% for services (Eurostat, 2009).

The first five years in an enterprise's life are more or less equally difficult in the sense that survival does not seem to improve markedly its prospects of surviving one more year. The yearly average death rate of companies in the EU-25 was 8.5% while the overall birth rate was 9.8% in 2006. National death rates vary between 2.5% and 14.8%. (figure 2).



Source: Eurostat, *Business Demography: growth in the population of enterprises*, Statistics in focus no 70/2009

Figure 2. Enterprise birth and death rates for EU countries

The highest birth rates were registered by the service sector activities which report also the highest death rates. The pattern is roughly the same for the three activity aggregates. By employee size class, the large majority of enterprises that die are small, with up to 4 employees (90% in all countries with available data) (Haiden and Seidl, 2006). Enterprises with 10 or more employees also took away a considerable proportion of the jobs lost due to enterprise deaths (figure 3).

Bankruptcies account for 15% of all company closures. About 700,000 SMEs are affected on average every year, and about 2.8 million jobs are involved throughout Europe on an annual basis (EC, 2007). In the last years, the bankruptcy risk increased dramatically as effect of the international financial crisis. Thus, the number of enterprise bankruptcies in Europe amounted to approx. 150,000 in 2008, which shows an increase by 11% compared to 2007. The largest share of enterprise bankruptcies was observed in the service sector.

However, the number of insolvent gives only a vague indication of the number of business failures because many enterprises are abandoned without formally declaring themselves insolvent.

In the EU, the stigma of failure is still present and society underestimates the business potential of re-starters. Today, 47% of Europeans would be reluctant to order from a previously failed business. At the same time, making a new start is complicated

by lengthy bankruptcy proceedings. The average time to complete a bankruptcy in the EU varies between 4 months and 9 years (EC, 2008).

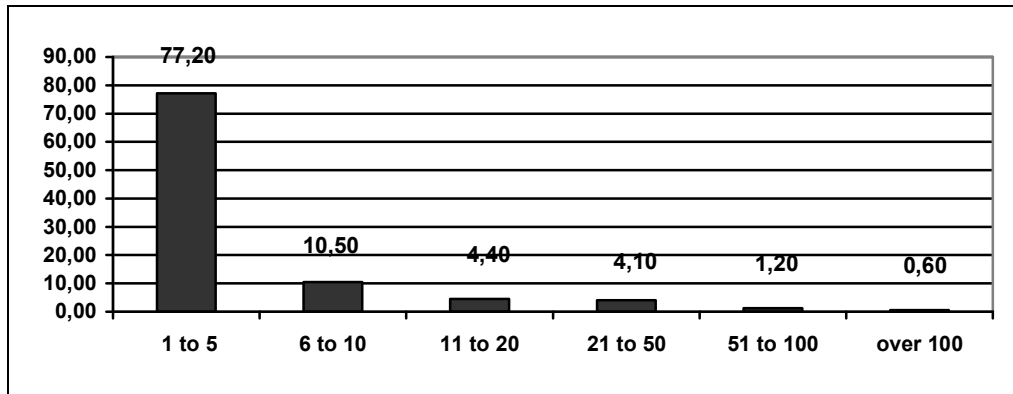


Figure 3. Insolvent enterprises by number of employees

3. HOW TO GET A SECOND CHANCE?

3.1. Early warning signals

Small businesses are especially prone to running into financial difficulties as they often lack the resources to adapt to rapidly-changing market conditions. It is essential they keep a close eye on their finances, especially as potentially serious problems are not always immediately apparent.

The fact is that if such businesses can be saved, their assets could be more valuable if they were retained in the business rather than being sold off to pay creditors. This approach would be more likely to preserve jobs, give creditors a larger return on their investment and allow the company to continue making a contribution to the economy. So should be enhanced the survival rate of viable businesses and encourage entrepreneurs in distress to take action early on.

In practice, the key to overcoming the financial problems is to anticipate them and act quickly. The early warning signs can be internal or external.

The internal early warning signals are:

- Management: unclear responsibilities, decisions repeatedly postponed, uncoordinated management, burn-out with nothing to show for it,
- Staff : unable to fill key positions, staff not working to full capacity, employees discuss internal problems with customers/business partners, increased turnover of staff, rising absenteeism,
- Monitoring performance: lack of up-to-date figures on company development or available figures are unstructured and uninformative,
- Finances: dwindling liquidity reserves, maximum available credit used more frequently, unable to benefit from early-payment discounts, getting harder to pay invoices on time.

The external warning signals are:

- Customers: loss of regular customers, large unpaid invoices, bad debt losses, customer complaints piling up,
- Market, competition: more intense competition, new competitors, falling market share, declining sales, increasing price pressure,
- Suppliers: declining delivery reliability, suppliers offer poor conditions, insistence on payment in advance,
- Lenders: worse terms offered, more frequent business development reports required, more collateral demanded, credit curtailed,
- Others: critical media reports about company, complaints from neighbouring land owners/residents, or from interest groups, about environmental protection, consumer rights etc.

SMEs often rely too little on external advice, which leads to late recognition of difficulties and thus excessive delays in taking action. Support measures should focus on early warning, timely intervention, expert advice, and obtaining fresh money. Efforts are needed to make enterprises aware of the opportunities of rescue procedures as a means of avoiding bankruptcy.

3.2. Business failure – new approaches

The business closure should not be seen as the end of the business, it should be considered as an element compatible with economic development in a global economy. In fact Charter for small enterprises considers that some failure is concomitant with responsible initiative and risk-taking and must be mainly envisaged as a learning opportunity.

However, the role of business failure in economic life is not well understood in the society. For instance, public opinion perceives a strong link between business failure and personal incapacity or fraud.

A low survival rate is thus not necessarily a cause for concern – entry by new firms is part of the process whereby entrepreneurs react to market reality. Increasing global competition force the entrepreneurs to react more rapidly and more flexibly, even by closing their business and opening another one. In this context, the death of companies can be compatible with economic dynamism.

Available analysis also shows that only a small fraction of failed entrepreneurs make another attempt to start up (Metzger, 2006), despite the fact that the majority of ex-entrepreneurs still have entrepreneurial preferences (Stam et al, 2006). This is because insolvency has a particularly great impact on entrepreneurs themselves.

Being part of economic life, insolvency has a negative impact on jobs, consumers and public and private creditors. In 2006, about 135,000 company insolvencies in the EU-15 threatened the jobs of 1.4 million employees (1.5 million in 2005) and the number of personal insolvencies amounted to more than 237,000 in Germany and the UK alone (Economic Research Unit, 2006).

Bankruptcy law is a complex set of rules which is influenced by and has influences on many disciplines and policies, such as company law, taxation, employment, access to finance and administrative procedures. Excessively severe legal

consequences of bankruptcy can obstruct entrepreneurship in two ways – on the one hand, they can deter entrepreneurs from starting afresh and contribute to the negative image of bankruptcy; on the other hand, they can become a deterrent to market exit.

When only 4 to 6% of bankruptcies are fraudulent, it is important for the economy to offer a second chance to honest entrepreneurs who have failed.

Evidence has shown that entrepreneurs who fail are generally more successful the second time. Restarters usually do experience faster growth than newly established companies and after five years their start-ups have good survival rates. The fact is that entrepreneurs learn from their mistakes and become better at assessing risks and opportunities.

The notion of re-starters does not necessarily mean that such entrepreneurs have been unsuccessful in their business dealings. As a matter of fact, their businesses could have been sold successfully and they are re-starters since they may wish to start-up another profitable enterprise, re-starters are to mean those who have been bankrupt.

3.3. EU initiatives regarding the second chance for SMEs

The European Commissions had many initiatives in order to identify issues regarding bankruptcy, business restructuring and a fresh start in the European Union.

The Commission has started addressing the need for a new policy to tackle the issue of business at risk and the negative effects of business failure since 2001 and, subsequently, as part of the Entrepreneurship Action Plan (EC, 2004). It renewed its commitment to such a policy in the Modern SME policy, launched in 2005.

In particular, the European Commission has underlined the need to improve bankruptcy procedures. Given its limited competencies in the area the Commission has limited itself to collecting data on the legal and social consequences of business failure, facilitating the identification and dissemination of good practices and recently to working on early warning tools as a means of reducing the stigma of failure.

An important initiative was taken in June 2008 when the European Commission adopted the "Small Business Act" for Europe (SBA), an initiative to further strengthen SMEs' sustainable growth and competitiveness.

The Small Business Act aims to improve the overall policy approach to entrepreneurship, to irreversibly anchor the "Think Small First" principle in policy-making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development.

One of the ten principles of the Small Business Act is about bankruptcy and giving a second chance to honest entrepreneurs who have failed. Therefore, EU countries are encouraged to:

- promote a positive attitude in society towards giving entrepreneurs a fresh start, for example through public information campaigns;
- aim to complete all legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a year;
- ensure equal treatment between re-starters and start-ups, e.g. in support schemes.

Also, in order to translate this principle into practice the European Commission will continue to promote a second chance policy by facilitating exchanges of best practice between Member States.

In many EU countries there is a policy commitment at the level of national and regional authorities to address the issue of business failure and promote fresh starts. In the context of the renewed Lisbon Strategy, around one third of the Member States have put forward plans to reform the national insolvency legislation in their National Reform Programmes. As a result, progress has been made in improving insolvency law: half of the Member States have taken measures to reduce the discharge periods, remove restrictions or streamline bankruptcy proceedings. However, almost half of the EU countries still need to take the first steps in this direction (EC, 2007)

Also, no Member State has yet set up a comprehensive strategy for a second chance policy, to go further to foster a more positive attitude towards entrepreneurship, to encourage more people to start up and to reduce risks and the stigma of failure.

Another initiative of European Commission lays out proposals to actively help businesses at risk of financial meltdown - mainly providing affordable expert advice to enable early action and prevent bankruptcy. National insolvency systems should provide more options for restructuring and rescue.

The EU puts forward solutions to help entrepreneurs tackle practical and psychological difficulties when setting up a second business:

- sufficient financial means should be devoted to fresh starts;
- banks and financial institutions should reconsider their cautious attitude towards re-starters;
- names of those involved in non-fraudulent bankrupts should not appear on lists restricting access to bank loans;
- former non-fraudulent bankrupt entrepreneurs should not be at a disadvantage when applying for public contracts;
- re-starters should enjoy adequate psychological and technical support;
- getting support from customers, business partners and investors should be fuelled by links between them and potential re-starters.

Member States and the business community are therefore invited to further work on a supportive environment for entrepreneurs at risk and those who have experienced a business failure with a view to turning the EU into a more dynamic place for entrepreneurship and second chance.

4. CONCLUSIONS

Some companies would not exist if their founders had given up after their first failure. Therefore, the entrepreneurs who have tried but failed need an opportunity for a fresh start. In general, they learn from their mistakes, and this leads to economic growth, employment and productivity.

Of course, prevention is more efficient than cure. Support measures should focus on early warning, timely intervention, expert advice and obtaining fresh money. A rescue is in many cases preferable to liquidation because it preserves jobs and gives

entrepreneurs the opportunity to generate new profits, all of which are beneficial to society as a whole.

In the case of bankrupts, the entrepreneurs should be encouraged to restart. In legal terms, a rapid discharge is crucial and no unnecessary restrictions should be imposed. Also, the availability of finance and support tailored to the specific needs of restarters should be improved.

Good national framework conditions for entrepreneurship are crucial to the full exploitation of the EU's entrepreneurial potential and to the creation of dynamic companies. Consequently, the Commission encourages the EU countries to engage more vigorously in reducing the stigma of business failure as part of their commitment to promote entrepreneurship, to ensure the visibility of national good practices, to speed up the pace of reforms, to provide communication material in order to promote a better image of business failure.

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**ENTREPRENEURIAL OPPORTUNITIES IN FOOD
PROCESSING UNITS
(WITH SPECIAL REFERENCES TO BYADGI RED CHILLI
COLD STORAGE UNITS IN THE KARNATAKA STATE)**

P. ISHWARA *

ABSTRACT: *After the green revolution, we are now ushering in the evergreen revolution in the country; food processing is an evergreen activity. It is the key to the agricultural sector. In this paper an attempt has been made to study the workings of food processing units with special references to Red Chilli Cold Storage units in the Byadgi district of Karnataka State. Byadgi has been famous for Red Chilli since the days it's of antiquity. The vast and extensive market yard in Byadgi taluk is famous as the second largest Red Chilli dealing market in the country. However, the most common and recurring problem faced by the farmer is inability to store enough red chilli from one harvest to another. Red chilli that was locally abundant for only a short period of time had to be stored against times of scarcity. In recent years, due to Oleoresin, demand for Red Chilli has grow from other countries like Sri Lanka, Bangladesh, America, Europe, Nepal, Indonesia, Mexico etc. The study reveals that all the cold storage units of the study area have been using vapour compression refrigeration system or method. All entrepreneurs have satisfied with their turnover and profit and they are in a good economic position. Even though the average turnover and profits are increased, few units have shown negligible amount of decrease in turnover and profit. This is due to the competition from increasing number of cold storages and early established units. The cold storages of the study area have been storing Red chilli, Chilli seeds, Chilli powder, Tamarind, Jeera, Dania, Turmeric, Sunflower, Zinger, Channa, Flower seeds etc.. But the 80 per cent of the each cold storage is filled by the red chilli this is due to the existence of vast and extensive red chilli market yard in the Byadgi. There is no business without problems. In the same way the entrepreneurs who are chosen for the study are facing a few problems in their business like skilled labour, technical and management expertise, power and finance. To conclude, at present many oleoresin extracting units are located at Kerala, Tamil Nadu, West Bengal and in other Countries. Byadgi has got good infrastructure facility which is essential to oleoresin extraction units. Hence, recently an oleoresin extraction unit is established in Byadgi. And also it is necessary to open more oleoresin extraction units. This will increase the demand for the Cold Storages in the study area.*

KEY WORDS: *entrepreneurs; turnover; profitability; food processing units*

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JEL CLASSIFICATIONS: L26, L66

1. INTRODUCTION

The Indian Government has unveiled ambitious plans to help set up as many as 350 food processing units over the next 100 days as part of what it calls the country's evergreen revolution. The government declared it wanted to put promotion of the food processing industry at the art of its plans to revitalize India's agriculture sector and drive the economy. The ministry believes such growth will transform India by making agriculture viable, ensuring inclusive growth and reducing mass poverty. After the green revolution, we are now ushering in the evergreen revolution in the country; food processing is an evergreen activity. It is the key to the agricultural sector. In this background an attempt has been made to study the present position, problems and entrepreneurial opportunities of Red chilli cold storage units in the Karnataka State.

Entrepreneurship is one of the most important inputs in the economic development of a country or regions within the country. Entrepreneurial competence makes all the difference in the rate of economic growth. Entrepreneur is a catalytic agent of change and works for the good of people. He puts up new green-field projects that create wealth, open up many employment opportunities and leads to the growth of other sectors. In India, state and private entrepreneurship co-exist. The small scale industrial sector and business are left completely private entrepreneurs. Small industry is a source of new employment, is of great importance to areas having labour surplus and a scarcity of capital. Hence employment maximization in these areas is possible through small-scale industrial development. It is in this context that an increasingly important role has been assigned to the identification and promotion of entrepreneurs. Hence, this study has been undertaken with special references to Byadgi Red Chilli Cold Storage Units in Karnataka State.

2. STATEMENT OF THE PROBLEM

Byadgi is newly designated as a taluk under the administration of Haveri District in the Karnataka state. The taluk has abundant resources, natural and human, favourable for entrepreneurial development. It has got a geographical area of 43,656 hectares. Being located at the centre in the state, Haveri district has five taluk headquarters namely Haveri, Ranebennur, Hirekerur, Hanagal and Byadagi. The Byadgi taluk comprises of 66 villages. Most of the population of the taluk is concentrated in villages. As per 2001 census, villages cover 79.94% of the taluk population. The total population of the taluk was 1, 27,944 as per 2001 censuses. It has got a long history and rich cultural tradition. Most importantly Byadgi has been famous for Red Chilli since the days it's of antiquity. The vast and extensive market yard in Byadagi taluk is famous as the second largest Red Chilli dealing market in the country. The surrounding area of the town has got fertile soil in which Chilli, Maize, Jowar, Ragi, Sugarcane, Cotton, etc., are grown. Even though Byadgi taluk is primarily dependent on the agriculture, it has got some industries, which depend on agricultural

and forest products. The one such industry is ***Cold storage of Red Chilli***. There is a huge demand for Red Chilli not only from within the state but also from other states and countries like Tamilnadu, Keral, Maharastra etc. In recent years, due to Oleoresin, demand for Red Chilli has grow from other countries like Sri Lanka, Bangladesh, America, Europe, Nepal, Indonesia, Mexico etc. Therefore the price of the Red Chilli has been increasing. Hence, the more number of farmers are growing huge quantity of Red Chilli. The businessmen of Byadgi Red Chilli have been giving fair price to the farmers for their produce (Red chilli) in order to encourage them to grow chilli in huge quantity and also are attracting importers by providing good quality of Red Chilli in right time. However, the most common and recurring problem faced by the farmer is inability to store enough red chilli from one harvest to another. Red chilli that was locally abundant for only a short period of time had to be stored against times of scarcity. Primitive storage techniques were well developed in prehistoric times. Early storage methods included the selection and growth of naturally dormant crops, and the drying, parching, smoking, and salting of meats, fruits, and vegetables. The storage of food became more sophisticated as the population increased and more concentrated as demand for fresh fruits and vegetables increased. Storage was also used to provide planting materials or prop gules for the next season. A cold storage is an enclosed area where agro products are stored for a long time in order to get the benefits of future hike in the market price of products.

3. OBJECTIVES OF THE STUDY

The following objectives have been identified for the purpose of carrying out the present study: To know the socio-economic background of the entrepreneurs in the study area; To study the financial performance of the sample units; To identify the major problems faced by the entrepreneurs in their business; To offer suggestions for improving their performance and overcoming the problems.

4. PRESENT CAPACITY OF THE COLD STORAGE UNITS

In order to study entrepreneurship in Red chilli cold storage units of Byadagi taluk in Haveri district, all existing units have been taken into consideration. In the study area there are only nine units operating as of now. *Table 1* shows the storage capacity as in terms of metric tons as well as in terms of Red-Chilli bags.

5. SOCIO-ECONOMIC BACKGROUND OF THE RESPONDENTS

A business enterprise is a socio-economic subsystem of a larger environmental system. Entrepreneurial behaviour is a function of an individual's personality and environmental factors. The environmental factors could be either nurturing or impediments to entrepreneurial development. The entrepreneurial activity at any time and place is governed by varying combination of socio-economic, psychological, cultural and other factors. The various environmental factors exercise a strong influence on the personality or personal-background of the entrepreneurs. Therefore

any attempt to understand the entrepreneurial spirit among people should include an examination of the socio-economic origins of the entrepreneurs. So, here an attempt made to understand the some of the important socio-economic background of the entrepreneurs who are chosen for this study.

Table 1. Cold storage and their capacity during 2008-2009

Sl. No	Name of the Cold Storages	Year of Establishment	Installed Storage capacity		
			In Metric Tones	In terms of Red-Chilli bags	Percentage
1.	Sri. Vakratund Agritech Pvt Ltd	1999	3,000	1,00,000	11.76
2.	Someswara Cold Storage Pvt Ltd	2000	5,000	1,50,000	17.6
3.	Sri. Siddalingeshwar Cold Storage Pvt Ltd	2000	2,400	80,000	9.41
4.	Essvy Cold Storage Pvt Ltd	2000	2,400	80,000	9.41
5.	SPK Cold Storage Pvt Ltd	2004	2,400	80,000	9.41
6.	Prayag Cold Storage Pvt Ltd	2005	2,400	80,000	9.41
7.	Kedarnath Cold Storage Pvt Ltd	2006	2,400	80,000	9.41
8.	Sri. Marulasiddeshwar Cold Storage Pvt Ltd	2006	2,400	80,000	9.41
9.	Vigneshwar Cold Storage Pvt Ltd	2007	4,000	1,20,000	14.1
Total			24,400	8,50,000	100

Source: Data Compiled from Annual Reports

5.1. Occupational Background

Table 2 reveals that 78% of the total sample entrepreneurs have come from business background with minimum educational qualification, 11% (one out of nine) from Agricultural background and similar Percentage from educated employee background and unemployed background. In nutshell, majority of the entrepreneurs have started their career with business knowledge and background.

Table 2. Occupational Background of Entrepreneurs

Sl No	Occupational	No of entrepreneurs	Percentage
1	Agriculture	01	11
2	Business	07	78
3	Employed	01	11
4	Educated Unemployed	00	00
Total		09	100

Source: Field Survey

5.2. Home Town of the Entrepreneurs

The empirical study on entrepreneurship shows that home town of entrepreneurs' influences the performance of enterprises. Hence it is necessary to know the home town of entrepreneurs. Table 3 shows that, four out of nine sample entrepreneurs are hailed from Byadagi taluk. Remaining are out sides, which comprises 01 from Hubli (Karnataka state), 02 from Guntur (Andra Pradesh) and another 02 from

Hydrabad of Andra Pradesh. At present, outside entrepreneurs have resided in Byadgi to look after enterprises successfully. It is clear that both native and non-native entrepreneurs are taking much care on their business in order to run successfully.

Table 3. Home Town of entrepreneurs

Sl. No	Home Town	No of entrepreneurs	Percentage
1	Local	04	44.44
2	Out side		
	Hubli - 01	05	55.56
	Guntur - 02		
	Hydrabad - 02		
	Total	09	100

Source: Field Survey

5.3. Motivators to Start Enterprise

Always there is motivation behind each and every action. The lay- man thinks that people go in to business and become entrepreneurs solely to make money. The desire to earn money is no doubt an important motivating force. But entrepreneurs are motivated not by profits alone. Apart from, profit ambition and the compelling circumstances, the encouragement of family members, friends and relatives , previous experience gained in business or employment, professional or technical education acquired, financial and infrastructural support from institutional and Govt. agencies, good market, availability of technology/raw-material etc., are also the factors influencing entrepreneurship. Some of sample entrepreneurs have motivated by family members, some by friends, some by family friends, and some by business friends which is shown in the *table 4*. 45 per cent of the sample entrepreneurs have motivated from family members, 11 per cent from friends, 22 per cent from family friends and another 22 per cent from business friends. Here more number (04) sample entrepreneurs are motivated by family members.

Table 4. Motivation to entrepreneurs

SL No	Members from whom motivated	Number of entrepreneurs	Percentage
1	Family members	04	45
2	Friends	01	11
3	Family friends	02	22
4	business friends	02	22
	Total	09	100

Source: Field survey

6. MAJOR FINANCIAL PERFORMANCE OF THE SAMPLE UNITS

6.1. Annual Arrival of red Chilli in to the Byadgi APMC

It has been a matter of pride that during the year 1999-2000 the total arrivals of chilli to the Byadgi market was 39600 mt., where as in the year 2005-06 it is 73700mt.

Red chilli that is arriving to the Byadgi market is purchasing by purchaser and storing the same in Cold Storage till they get order from the exporters. So Cold Storage business is mainly influenced by the red chilly arrival to the Byadgi market that is shown by the table. The arrival of red chilly in to the Byadgi market has been increased continuously. Thus, we can say that in future also Cold Storages will have good business.

Table 5. Annual Arrival of red Chilli in to the Byadgi APMC

Year	Arrivals (in Metric Tonne)
1999-2000	39,600
2000-2001	38,900
2001-2002	31,200
2002-2003	45,400
2003-2004	36,200
2004-2005	69,500
2005-2006	73,700

Source: Byadgi APMC

6.2. Turnover and Profitability

To know the financial position of the sample units, it is essential to study the initial and present turnover and profitability. The initial (the year in which units established) turnover, present turnover, percentage of increase/decrease in turnover by the sample units is given below.

Table 6. Turnover of the Sample Units

Sl No.	Name of Cold Storages	Storag Capacity (in MT)	Year of Establi shment	Turnover		Percen- tage
				Initial (In Rs.)	Present (2008-09) (In Rs.)	
1.	Sri. Vakratund Agritech Pvt Ltd	3000	1999	30,00,000	60,00,000	100
2.	Someswara Cold Storage Pvt Ltd	5000	2000	25,00,000	90,00,000	260
3.	Sri. Siddalingeshwar Cold Storage Pvt Ltd	2400	2000	70,00,000	70,00,000	0
4.	Essvy Cold Storage Pvt Ltd	2400	2000	70,00,000	62,00,000	-11
5.	SPK Cold Storage Pvt Ltd	2400	2004	80,00,000	76,00,000	-5
6.	Prayag Cold Storage Pvt Ltd	2400	2005	70,00,000	70,00,000	0
7.	Kedarnath Cold Storage Pvt Ltd	2400	2006	40,00,000	60,00,000	50
8.	Sri. Marulasiddeshwar Cold Storage Pvt Ltd	2400	2006	70,00,000	70,00,000	0
9.	Vigneshwar Cold Storage Pvt Ltd	4000	2007	NA	NA	-
	Total	26,400		4,55,00,000	5,58,00,000	

Source: Field Survey

Average initial turnover is of Rs. 56, 87,500; Average present turnover is of Rs. 69, 75,000.

From table 6, it is observed that out of 8 (Excluding Vigneshwar Cold Storage Pvt. Ltd. Which is established recently) units, 5 units have initial turnover more than

Rs 60 lakh and remaining had less than Rs 60 lakh. Sri. Vakratunda Agritech Pvt. Ltd. and Someswar Cold Storage Pvt. Ltd. was reported minimum initial turnover because, these units were established in the year 1999 and 2000, but these units have made remarkable achievement in terms sales in the recent years.

All the sample units have present turnover (i.e., 2008-2009) more than Rs. 60,00,000. Someswar Cold Storage Pvt. Ltd. has the maximum present turnover of Rs. 90,00,000 where as its initial turnover was only Rs. 25,00,000. The total turnover of all the units put together it comes around Rs. 45500000. In the initial year and it has been increased to Rs. 55800,000. This indicates 23percentageof increase. But Essvy Cold Storage Pvt. Ltd., and SPK Cold Storage Pvt. Ltd.'s turnover is decreased, that is due to increase in the number of Cold Storage in the study area. From this, it is clear that the sample units have good turnover.

The data related to the profitability of the sample units are presented in the table 7. Out of 8 units, present profit of the 4 units is more than initial profit. But the remaining units' present profit is less than the initial profit. If we observe the percentage of increase, profit of the Sri Vakratunda Agritech Pvt. Ltd., and the Someswara Cold Storage Pvt. Ltd., is increased by 233 and 300 percentages respectively.

Table 7. Profitability of the Sample Units

Sl No.	Name of Cold Storages	Storage Capacity (in MT)	Year of Establishment	Profit		Percentage
				Initial (In Rs.)	Present (2008-09) (In Rs.)	
1.	Sri. Vakratund Agritech Pvt Ltd	3000	1999	6,00,000	20,00,000	233
2.	Someswara Cold Storage Pvt Ltd	5000	2000	11,25,000	45,00,000	300
3.	Sri. Siddalingshwar Cold Storage Pvt Ltd	2400	2000	21,00,000	22,40,000	7
4.	Essvy Cold Storage Pvt Ltd	2400	2000	21,00,000	17,36,000	-17
5.	SPK Cold Storage Pvt Ltd	2400	2004	28,00,000	22,80,000	-19
6.	Prayag Cold Storage Pvt Ltd	2400	2005	24,50,000	21,00,000	-14
7.	Kedarnath Cold Storage Pvt Ltd	2400	2006	14,00,000	18,00,000	29
8.	Sri. Marulasiddeshwar Cold Storage Pvt Ltd	2400	2006	25,00,000	21,70,000	-13
9.	Vigneshwar Cold Storage Pvt Ltd	4000	2007	NA	NA	NA
	Total	26,400		1,50,75,000	1,88,26,000	

Source: Field Survey

Average initial profit is of Rs. 18, 84,375; Average present profit is of Rs. 23, 53,250.

The reason for reporting higher profit is that, these 2 Cold Storages have high storage capacity and incurring the same amount of fixed cost that is being incurred by the other units (which have a minimum 2400 MT storage capacity). Another 2 units have also shown the positive increase. Though the profit of 4 units decreased, the amount of decrease is negligible which does not affect the units so adversely. By this, it is clear that profitability of the units is good. From the analysis of the turnover and the profitability it is concluded that, the performance of the units is satisfactory. In the following section highlighted the problems major threats for units.

7. PROBLEMS OF THE RED CHILLY BUSINESS

In this section an attempt has been made to understand various problems faced by the entrepreneurs: Marketing; Labour; Technical and management assistance; Power; Finance.

- **Marketing:** Marketing problems that are facing by the sample entrepreneurs are: Competition; Price control; Decreasing profit margin.
- **Competition:** The small sample units (which have the storage capacity of 2400 MT) are facing the price competition by the large sample units (which have storage capacity of 3000, 4000 and 5000 MT).
- **Price control:** The early established and large scale units are offering low prices to the customers, which adversely affects the small sample units.
- **Labour.** Labour Problems are: Non-Trained labour; Turnover; Absenteeism. *Non-Trained labour:* Availability of the trained labour that abstracts the performance of the unit. The sample units facing scarcity of plant engineer. *Turnover:* Some of the sample units have the labour turnover problem. *Absenteeism:* Most of the sample entrepreneurs opined that, they are facing labour absenteeism problem. i.e. workers / employees will not come to the work without taking prior permission.
- **Technical and Mgt Assistance:** Technical and management assistance Problem includes: Non-availability of skilled workers; Non-availability of proficient workers; Procurement of plant and machinery. Out of the above 3, procurement of plant and machinery is the major problem. Sometimes entrepreneurs will purchase plant and machinery without having complete knowledge about it. And in future it may not work properly. Some of the sample units have not got skilled workers and proficient workers. By which accurate maintenance of plant and machinery will not possible.
- **Power:** The study area has the uncertainty of power. And some of the sample entrepreneurs opined that the cost is being charged by the electricity board is also high.
- **Finance:** According the field survey no sample entrepreneurs are have the scarcity of finance. Recently established units opined that the rate of interest is being charged by the banks is high.

8. MAJOR FINDINGS/OBSERVATION, SUGGESTIONS AND CONCLUSION

8.1. Findings

Following are some of the major findings/observations of the study:

- 1) All the cold storage units of the study area have been using vapour compression refrigeration system or method.
- 2) Most of the sample entrepreneur has business (Red chilli & cold storage business) background that helps them to start cold storage business.
- 3) The average initial turnover of the sample units increased from Rs. 5,68,7500 to Rs. 6,975,000. And the average initial profit increased from Rs. 18, 84,375 to Rs.

2353250, this reflects the good improvement. All entrepreneurs have satisfaction with their turnover and profit. Thus, they are in a good economic position.

- 4) Even though the average turnover and profits are increased, few units have shown negligible amount of decrease in turnover and profit. This is due to the competition from increasing number of cold storages and early established units.
- 5) The cold storages of the study area have been storing Red chilli, Chilli seeds, Chilli powder, Tamarind, Jeera, Dania, Turmeric, Sunflower, Zinger, Channa, Flower seeds etc,. But the 80 per cent of the each cold storage is filled by the red chilli this is due to the existence of vast and extensive red chilli market yard in the Byadgi. It is famous as the second largest chilli dealing market in the country. So the red chilli businessmen and farmers growing red chilli are the major customers to the cold storage units.
- 6) Out of the 9 sample units only Essvy Cold Storage Pvt. Ltd., has established another Cold Storage unit, which has a storage capacity of 4000MT and few entrepreneur have future plan to establish new units.
- 7) There is no business without problems. In the same way the entrepreneur who are chosen for the study are facing a few problems in their business.

8.2. Suggestions

In order to overcome the problems facing by entrepreneurs, a few suggestions have been given as follows:

- 1) Entrepreneur should build better understanding and cooperation among themselves to overcome the problem of competition. For this, they should make a self motivated organization or association to sell the service at a fixed rate by all the entrepreneurs who are situated in the study area. Through this price competition can be avoided. This can only be possible through mutual understanding among the entrepreneurs.
- 2) The sample entrepreneurs, who have future plan to establish another new Cold Storage unit, must think about the fixed cost that they are going to incur. Because in Cold Storage unit fixed cost is the major cost. Instead of building new Cold Storage unit, if they expand the existing unit's storage capacity, they can save the fixed cost to a maximum extent. By this performance of the existing unit will also improve by the absorption of the fixed cost from more number of bags stored in Cold Storage.
- 3) While predicting the future demand, entrepreneurs must consider the sale of Red Chilli seed, prediction of the red chilli arrival to the Byadgi market and increasing number of competitors.
- 4) The entrepreneurs have non-trained labour, labour turnover and absenteeism problems. To avoid this entrepreneurs should provide training, proper guidance and some more facilities to the labours to reduce attrition.
- 5) They should have very good knowledge about the market and customer needs to face the problem of increasing competition.
- 6) They should attend training programmes conducted by DICs, banks etc, which would improve the managerial skills, technical skills and professional skills.

8.3. Conclusion

The entrepreneurship development is a process, which requires extensive support from government and family members. Entrepreneur's participation in the economic development calls for arrangement that should enlighten them more about economic and socially productive work. The present study is an attempt to know about the profile of the study area and Cold Storages, socio-economic background of the entrepreneurs, financial matters of the entrepreneurs, and performance of entrepreneurs' business have been also ascertained and incorporated in the study by holding personal interviews and through questionnaire with the sample entrepreneurs.

Though the number of Cold Storages has been increasing in the study area, the existed units (sample units) are performing well. The arrival of red chilli to the Byadgi market has been increasing continuously. Today oleoresin is playing a major role in increasing the demand for Byadgi red chilli because of its rich oleoresin content of good quality. This inspired farmers to grow Baydgi variety Red Chilli in an extensive area. Today many oleoresin extracting units are located at Kerala, Tamil Nadu, West Bengal and in other Countries. Byadgi has got good infrastructure facility which is essential to oleoresin extraction units. Hence, recently an oleoresin extraction unit is established in Byadgi. And also it is necessary to open more oleoresin extraction units. This will increase the demand for the Cold Storages in the study area. Hence I conclude that, Cold Storage units will have bright future.

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INTERNAL AUDIT COMPARATIVE ANALYSIS - MANAGEMENT CONTROL CONCEPTS

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ABSTRACT: *Given Romania's integration into the European Union we consider it appropriate to clarify some terms used in auditing activities of both public funds and European funds. International practice requires a clear separation of internal audit activities from other management control concepts and recommend to establish an internal controlling system as well as an internal audit structure under the coordination of the manager as being the only ways cap able to respond to current risks faced by public entities. Internal Audit, along its evolution - characterized by complex dynamics and adaptability - created confusion regarding the concept of control. The research presented in this paper is based on works published to date regarding the conceptual boundaries of this notion.*

KEY WORDS: *Internal audit; internal control; external auditing; management control; accounting; inspection*

JEL CLASSIFICATIONS: *M41, M42*

1. INTRODUCTION

Law no.672/2002 on public internal audit, defines this term as being "a functionally independent and objective activity, which offers security and management advice for the proper management of public revenue and expenditure, perfecting the activities of the public entity; it helps the public entity to meet their targets by a systematic and methodical approach, which assesses and improves the efficiency and effectiveness of management based on risk management, control and management processes.

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Under current Romanian legislation, *internal audit* represents the objective examination of all business activities of the entity in order to provide an independent assessment of risk management, control and management of its processes.

Internal audit helps to increase performance in economic entities, limiting waste of resources and opportunities for fraud and corruption, timely detection of anomalies and deficiencies. Internal audit activities shall be exercised by individuals within the entity inside or outside it. Internal audit practices differ according to size, structure and activities of the entity.

In this paper, we shall focus on factors determining similarities and differences between the concept of internal audit and concepts such as internal control, external auditing, accounting, external consultancy, inspection and not least management control.

2. THE CONCEPT OF *AUDIT* IN SPECIALIZED LITERATURE

The term *audit* comes from the Latin word *audit-auditare*, which means "*to listen*", but the world started to use this notion ever since the epoch of Assyrians, Egyptians, or during the reign of Charles the Great or Edward I of England. Even in Romania, audits were conducted over time, but bore other names (Ivan, 2009).

Internal audit is an independent and objective functional activity, which gives security and management advice for the proper management of public revenue and expenditure, perfecting the activities of the public entity, it helps the public entity to meet their targets by a systematic and methodical approach, which assesses and improves the efficiency and effectiveness of management based on risk management, control and management processes.

In literature, the internal audit is described as being designed to identify and analyze a problem, to formulate sound and effective advice to improve the situation (*Standard, 2410 - The content of communication 'Which recommends: 'Objectives and communication should include scope of the mission as well as the Conclusions, recommendations and action plan'*) (Calotă, 2009).

Analyzing the evolution of the internal audit function, so far, we are able to highlight the following elements as being directly involved in the audited entity's life, ie: advice given to managers, aid offered to workers, and also the total independence and objectivity of auditors (Ivan, 2009).

There are authors who consider that the use of the word "*activity*" to define the internal audit, instead of "*function*" situates the person responsible in a subordinate position, considering that an activity is more basic than a function (Ghiță, 2008).

The definition of "internal auditor" proposed by the Institute of Internal Audit is as follows: "the internal auditor executes, within an organization, an evaluation function in order to examine and assess the functioning, the coherence and efficiency of his internal control.

At EU level, internal audit has been approached within four European Community Directives: Forth Directive 78/660 of 07.25.1983 (as amended by Directive 90/64 and 90/605 of 8th November 1990); Seventh Directive 83/349 of 06.13.1983 (amended by Directive 90/64 and 90/605 of 8th November 1990); Directive

86 / 635 of 12.08.1986 concerning the annual accounts and consolidated accounts of banks and other financial institutions; the Eighth Directive 84/253 of 10th April 1984 (amended in 2005) (Calotă & Iana, 2009).

In defining a specific activity an important role is given to the objectives, so we believe it appropriate to present the main objectives of public internal audit:

- to provide objective and counselling activities in order to improve the systems and the activities of public entities;
- to support the accomplishment of the objectives of the public entity through a systematic and methodical approach, which assesses and improves the effectiveness of management based on risk management, on control and on governance processes.

The elements defining the concept of internal audit are: the independence and objectivity of work, the evaluation function, the role of improving the entity's activity, effective risk management and improving controls and management activities.

If we made an analysis of the definitions of internal audit, we may highlight the need for improved construction of this concept giving greater scope and wider availability for creative intervention and ingenious solution to problems relating to development and efficiency of internal audit. We can also say that internal audit has evolved continuously since its appearance, and this is due to the fact that the scientific research of the specific financial and accounting documents was its starting point. Today, internal audits involve carrying out a critical analysis of structures of economic entities and the way in which the entities' management follow the principles of economy, efficiency and effectiveness in the use and administration of financial resources.

3. COMPARATIVE ANALYSIS BETWEEN INTERNAL AUDITUL AND OTHER MANAGEMENT CONTROL CONCEPTS

Based on the above definitions and knowledge achieved in practice concerning confusions between the concept of internal auditing and other management control concepts, we consider our approach as necessary for a better understanding of the concept mentioned above. In this regard we shall present similarities and differences between internal audit and internal control, external auditing, accounting, external consultancy, inspection and, not least, management control.

Internal Audit - Internal Control. For the International Standards on Auditing, control represents any activity of the management, council or other parties, to improve risk management and increase the probability rate that the targets and the objectives previously established are met. Internal audit should not be confused with internal control because the latter is a continuous or periodic review of an activity or a situation done in order to watch its progress and to undertake improvement measures.

National laws stipulate that internal control represents all forms of control at the level of the public entity, including internal audit, established by management in accordance with its objectives and regulations, to ensure that funds are administered economically, efficiently and effectively.

To highlight similarities and differences between the two concepts, we refer to the following (Renard, 2003):

Table 1. Internal audit - Internal control

Criteria	Internal audit	Internal control
Status	Integrated in the economic entity or be an external specialist firm.	Integrated economic entity.
Position function	Organized at the highest level.	Organized at every level of management.
Objective	Management oversight and verification of company financial statements are lawful if made Evaluate and make suitable recommendations for improving governance.	Develop policies, rules and procedures for the proper functioning of the entities and eliminate the risks.
Beneficiaries	Shareholders, the Board, employees, directors.	Management entity at all levels.
Who to report to	General Assembly or Board.	Report of the Head and not hierarchical at the highest level of management.
Measures undertaken	Check referrals made to shareholders, issue recommendations, draw up the internal audit reports on management company	Make findings, determine liability and seeks recovery findings
Methodology used	Has a well established methodology, specific targeting risk assessment and adding value.	There is a specific methodology, but based on legal provisions or own.

A parallel between the two concepts appreciates the vital role of internal audit and management aid, "to take up the reins of internal control", so Morris considers the internal control as an instrument of internal audit and consolidates thus the role of internal audit: to ensure/to guarantee the quality of internal controls and the way it is implemented, the accuracy and effectiveness of the strategy implemented, offering him courage and confidence (Ghiță, 2008).

According to other authors (Bostan & Grosu, 2010), we notice differences in what the role of internal control over external and internal audit is concerned, so that internal control is a means for external audit, while for internal audit, it appears as an objective.

Internal audit - external audit. The external audit is an independent function of the economic entity whose main function is to opine about the accuracy of the accounts information and financial statements of the results, while being the source of the concept of internal audit. External audit, also known under the name of financial audit, is generally applied only to the accounting function based on the financial statements; sometimes the internal auditor has to check the control system through tests in order to increase confidence in audited financial statements.

Regarding the similarities between internal and external audits, we can mention the existence of legal regulations regarding the exertion of internal or external auditor function, the importance of findings in the entity's management, the wording of the results of this work, namely writing an audit report.

The main differences between internal and external audit are outlined in the following table (Renard, 2003):

Table 2. Internal audit - External audit

Criteria	Internal audit	External audit
Status	Integrated company, or be an external specialist firm.	External specialist company; Provides services and is legally independent.
Who designates	The driver of the head entity of public internal audit department of the superior body, as General meeting of shareholders or the Board.	General meeting of shareholders or the Board and also any financier (investor);
Audit's objectives	Management oversight and verification that the company financial statements are legally established; Evaluate and make appropriate recommendations for improving governance.	Expression of views on information from the accounts and financial statements. External audit and evaluate internal control him, but only for factors such accounts.
Audit's beneficiaries	Shareholders, the Board, employees, directors.	All those who want an outside opinion on the financial situation: stakeholders, authorities, customers, suppliers.
Audit's domain of application	Field is broad as it includes all business functions (accounts, resources human, logistics, IT, environment, asset management).	Field is narrower, focusing on checking those issues that determine the financial position and business performance.

The field of interest of internal audit is represented by the regularity and performance of the financial-accounting function exertion, while external audit opines about the regularity, sincerity and faithful image of accounts and financial statements.

Internal audit is complementary to external audit, because it provides external audit with necessary information, but, at the same time, external audit is complementary to internal audit, particularly if interventions auditor to express an opinion on the financial statements.

The common features of both concepts are banning the interference in the entity's management and using the same tools and techniques, even if the methodology can sometimes be different.

It is known that internal audit is seen particularly in public entities, but it must extend to the private sector, where an external audit (financial) has been preferred so far, it has a significant role for the payment of the eligible under in a project grant.

Internal Audit - Accounting. Even if in Romania the concept of audit has recently manifested an ascending evolution as regards knowledge and applicability, there are still managers who do not know the difference between the two concepts. This confusion was fuelled by the situation in post-December Romania because the majority of audit missions focused on the financial and accounting activities of the entity, but also because people who made this work were trained as accountants.

In order to understand the difference between these two concepts, we should stress upon the fact that the chartered accountant interferes within the following areas: organizing the accounting and business management, tax obligations, the enterprise computerization and only lastly in the enterprise audit. Instead, the internal auditor will conduct a check that will measure and evaluate the effectiveness of existing controls within the entity. So, accounting means respecting the laws, while internal audit means efficiency.

In the literature there is the opinion that internal audit is a subdivision of accounting, because internal audit is studied within accounting and it is often carried out by specialists in accounting.

Internal audit - external consultancy. Law no.672/2002 on public internal audit refers to external consultancy, as being recommended to solve outstanding issues encountered within the entity. To highlight similarities and differences between the two concepts we will achieve the following table:

Table 3. Internal audit - External consultancy

Criteria	Internal audit	External consultancy
Systems used	Use reference systems of the entity.	Use different reference systems.
Who makes	The auditor is an expert in internal control and risk management.	External consultant is an expert in various fields.
Domain of application	Entity acts on all functions.	Contribute to solving specific problems.
Beneficiaries	General Manager.	The general manager or an official who requested the report
Duration	Continuous function of the entity.	Occasional activities with clear objectives and a fixed-term advance.

Internal Audit - Inspection. In our case, based on a review of the literature, we believe that common definitions have no other role than to reinforce the confusion of the two concepts; the vocabulary used in practice has also a significant role in deepening the confusion.

Regarding the differences between internal audit and inspection, we can mention the following aspects:

- Inspection is not intended to interpret or call into question the rules and directives, and if it does, we have to deal with an inspection which exercises, at least partly, an internal audit function.
- Inspection is meant to carry out exhaustive controls rather than simple random tests;
- The inspection may occur spontaneously on its own initiative, while internal audit is involved not without a mandate;
- Inspection can be demanded following the discoveries made by internal audit in order to inspect the operational staff involved or suspected of being involved.

Given the objectives of the two activities, they are not mutually exclusive, since the analysis made by the inspectors can often represent a source of information for internal auditors.

Internal Audit - Management Control. Management control has been created to verify that entities follow the trend strategy required by managers.

In the literature, management control is defined as a process by which managers ensure that resources are optimal and efficiently used, but effectively too, so as to achieve the objectives. A careful analysis of concepts of public internal audit and management control indicates the conceptual limits of public internal audit in relation to financial control management.

Management control covers the following objectives:

- Availability, integrity, preservation and security measures of any kind and amounts held in any way;
- Use of materials, decommissioning and disposal of assets;
- Made in cash or through account of receipts and payments in lei or foreign currency, of any kind, including wages and deductions from these and other obligations to employees;
- Preparation and circulation of primary documents and technical-operational and accounting records.

4. CONCLUSIONS

In this paper we presented the vision of specialists in finance, accounting and auditing, and we also made references to national and European legal requirements relating to internal audit. Personal contribution to this work involves carrying out a survey of bibliographic landmarks identified in the literature on management control concepts.

The conclusions of this study can be summarized as follows: internal audit should be an independent and objective functional structure to advise the management entity in order to achieve the entity's strategic objectives; we can also focus on the need of adapting the national legal framework with the European one, as well as strengthening internal audit function within the private sector entities. As far as we are concerned, we consider it necessary to achieve a clear delineation of instruments used within an entity together with internal audit.

Finally we shall present the conclusion that other authors who realized the same scientific approach reached, and that we share, too, i.e. “beyond the conceptual interferences and limits, public internal audit exists and will continue to exist for entities because without effective management risk and permanent and pertinent evaluation of the system by which the entity seeks to control all its activities, the only base and hope for success remains the hazard” (Morariu et al., 2008).

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E-LEARNING PLATFORMS IN ROMANIAN HIGHER EDUCATION

**LUCIAN LUPU DIMA, EDUARD EDELHAUSER,
ANDREEA IONICĂ ***

ABSTRACT: *Master's Degree Programs generally use specific e-learning methods as a complementary training. The University of Petroșani has a partnership with Siveco Romania in the IT field focusing on ERP systems and on e-learning platforms through AeL product. We selected two Master's Degree programmes due to the qualifications it provided on the labour market, for implementing an online master. The design of master's degree academic curricula in e-learning system will involve the curricular development, the designing of the learning resources with the help of the e-learning technology as well as the development and simulation of the instructive-educational web-based process; all these aspects using AeL which is a universal and integrated e-learning solution, offering facilities for the management and presentation of various types of educational content, such as multimedia interactive materials, simulations, and tests, covering a wide range of subjects.*

KEY WORDS: *e-Learning platform; project management; master's degree; virtual learning environment; learning management system*

JEL CLASSIFICATION: *I20, I23, I29*

1. INTRODUCTION

E-learning is naturally suited to distance learning and flexible learning, but can also be used in conjunction with face-to-face teaching, in which case the term Blended learning is commonly used. E-Learning pioneer Bernard Luskin argues that the "E" must be understood to have broad meaning if e-Learning is to be effective.

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must be understood to have broad meaning if e-Learning is to be effective (Anderson, 2000).

In higher education especially, the increasing tendency is to create a Virtual Learning Environment (VLE) (which is sometimes combined with a Management Information System (MIS) to create a Managed Learning Environment) in which all aspects of a course are handled through a consistent user interface standard throughout the institution. A growing number of physical universities, as well as newer online-only colleges, have begun to offer a select set of academic degree and certificate programs via the Internet at a wide range of levels and in a wide range of disciplines.

Another used concept is Learning Management System (LMS), which is a software application that uses a computer to organize courseware and track student records and progress. The Web-based training (WBT – a training delivered over the Internet) presented in figure 1, is often combined with LMS. Also CMI (Computer Managed Instruction) is another name for LMS.

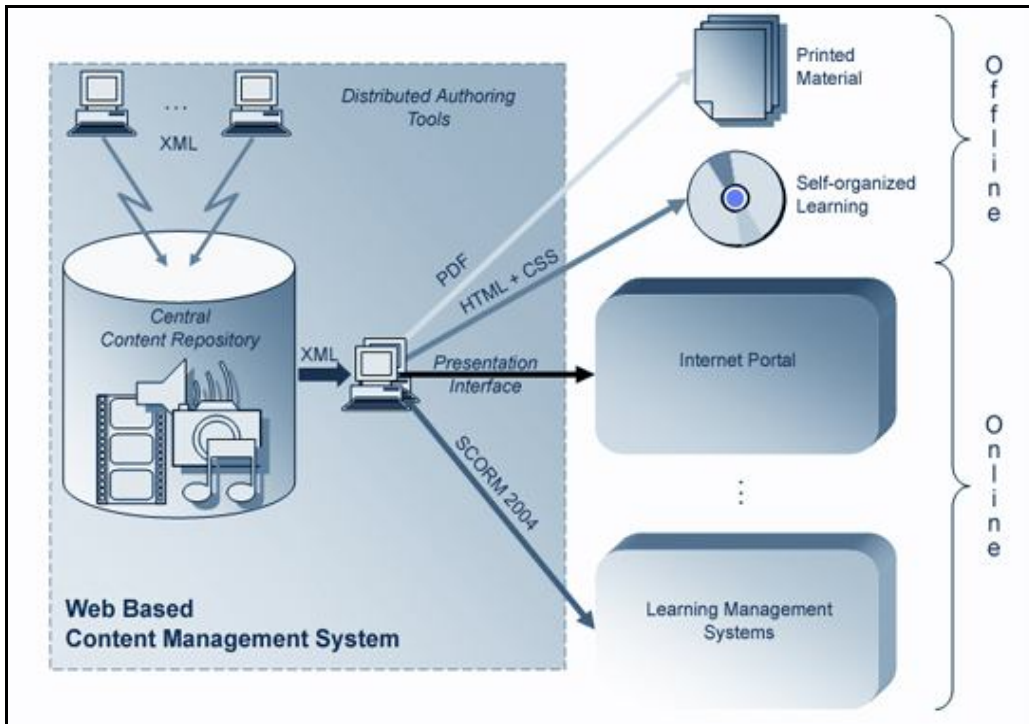


Figure 1. E-learning Environment

2. E-LEARNING SOLUTIONS IN HIGHER EDUCATION

On a worldwide level there are many professional e-learning platforms of which we can mention Blackboard, Web CT, Ariadne, Pearson Learning Studio, IBM Lotus Learning Space, Top Class, IntraLearn and eCollege.

WebCT (Course Tools) or Blackboard Learning System, now owned by Blackboard, is an online proprietary virtual learning environment system that is sold to colleges and other institutions and used in many campuses for e-learning. To their WebCT courses, instructors can add such tools as discussion boards, mail systems and live chat, along with content including documents and web pages. The latest versions of this software are now called Webcourses. WebCT is significant in that it was the world's first widely successful course management system for higher education. At its height, it was in use by over 10 million students in 80 countries.

Like WebCT, Blackboard is a web-based, interactive tool that University of Houston and University of Maryland instructors often use to deliver course information and material online. Your instructor may rely on Blackboard to communicate with you, deliver course materials, administer exams, or hold group sessions online. Blackboard is accessed through your web browser. It is easy to learn, and for students familiar with WebCT, it is very similar (www.umuc.edu).

Pearson Learning Studio combines the power of two existing platforms serving over nine million students worldwide, Pearson eCollege and Fronter, allowing institutions to create a flexible learning environment that best aligns with their academic mission and goals. Pearson LearningStudio offers three licensing levels (Campus, Blended, and Online) to create a customizable learning solution that grows with institutions as their needs evolve.

Hybrid courses are on-campus classes with a significant portion of the material offered electronically. Hybrid courses meet approximately half of the time in a traditional face-to-face classroom environment with the remainder of the course presentation, interaction, activities and exercises delivered through various electronic means, usually via Blackboard.

3. CURRENT STAGE OF USING THE E-LEARNING PLATFORMS IN ROMANIA

Taking into account the level of the implementation of the on-line education from 2000 in USA (92% of the large American organization have implemented E-learning platforms), the EU has tried to reduce the current disparity by adopting the Lisbon declaration. EU has developed an e-learning priority program, which became a key element for edifying the eEurope (European Knowledge Society).

In Romania the e-learning in higher education is regulated by provisions created in 2005 by CNEEA, and the Romanian education system complies with the European one. The e-learning system has been implemented in many Romanian universities, as for example the Bucharest Academy of Economic Studies (AES), the Gh. Asachi Technical University of Iasi, the University of Bucharest, (www.credis.ro/index1.asp), The University Babes Bolyai from Cluj-Napoca, The Technical University of Cluj-Napoca (The Virtual University of Cluj-Napoca, www.coned.utcluj.ro), as well as the West University of Timisoara and the Transylvania University of Brasov. The e-learning pioneering in introducing in 2004 the first on-line Master's Degrees with a state diploma belongs to the National School of Political and Administrative Studies. The number of people who decided to use an

e-learning system has increased four times up to 2008, and this is shown by the number of on-line Master's Degree students from AES, that was 1100 students in 2007.

The Romanian software and the companies which offer support in designing and developing e-Learning platforms are AeL - Advanced e-learning (Siveco Romania S.A.), ASK e-learning (InsideMedia), eLearn (Timsoft Timisoara), Softwin and Expert Learning System.

4. AEL - AN INNOVATIVE, MODERN AND COMPLEMENTARY TOOL FOR EDUCATION

AeL is a universal and integrated e-learning solution, offering facilities for the management and presentation of various types of educational content, such as multimedia interactive materials, interactive guides, exercises, simulations, and tests (www.siveco.ro).

Over 15.000 schools from Europe, Middle East, Africa and CIS have already experienced the AeL e-learning solution. The extensive AeL eContent Library includes over 3.700 interactive lessons on 21 subjects, and over 16.000 reusable learning objects.

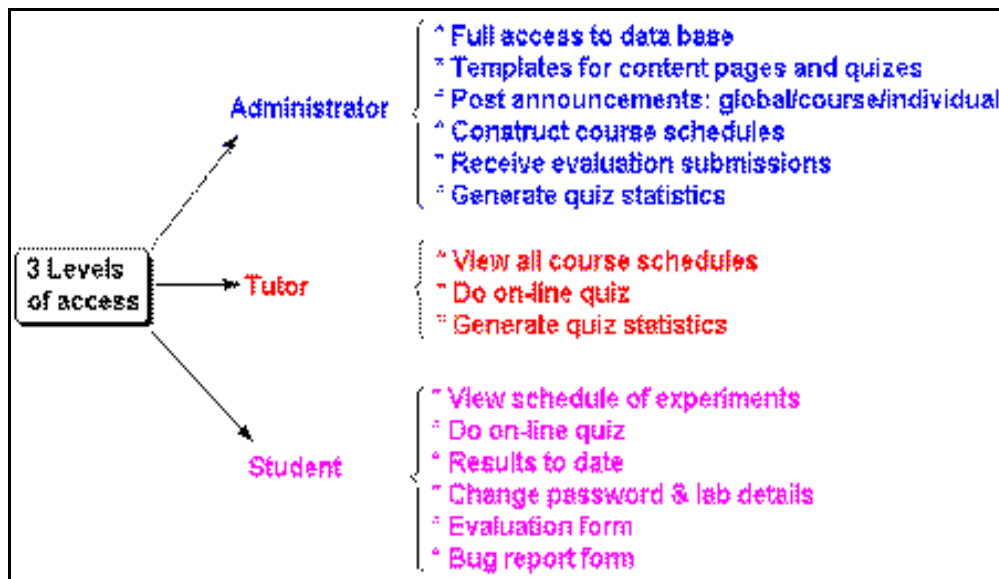


Figure 2. Participants in the educational process

AeL was developed as a support for the learning process in the classroom but also as a product for the future, portable on mobile devices, that offers students the opportunity to learn anywhere, anytime, with a 3 levels of access (see figure 2).

AeL e-learning solution is based on international principles and standards that support modern education, being designed as complementary tool to classical teaching/learning methods. AeL offers support for all participants in the educational process (students, teachers, administrative personnel, parents, civil society). AeL can be used successfully in the teaching and learning process, testing and evaluation,

educational content administration, monitoring the results of training and evaluation, education forecasting, trends and prognosis (Noveanu, 2009).

AeL is MathML (an application of XML), SVG and SCORM (a collection of standards and specifications for web-based e-learning) compatible, is perfectly adapted to the Romanian educational legislation, modularized, powerful and extremely flexible, thus can be customised and easily translated in any other language.

AeL is optimized for:

- Synchronous learning - the teacher controls the whole educational process, creating, adapting and monitoring the training;
- Asynchronous learning - students study at their own pace, enables collaborative projects;
- Testing and evaluation - meant to meet the needs of educational institutions and to measure the impact and effectiveness over the educational process.

SCORM 2004 introduces a complex idea called sequencing, which is a set of rules that specifies the order in which a learner may experience content objects. In simple terms, they constrain a learner to a fixed set of paths through the training material, permit the learner to "bookmark" their progress when taking breaks, and assure the acceptability of test scores achieved by the learner. The standard uses XML, and it is based on the results of work done by AICC, IMS Global, IEEE, and Ariadne.

Mathematical Markup Language (MathML) is an application of XML for describing mathematical notations and capturing both its structure and content. It aims at integrating mathematical formulae into World Wide Web documents.

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AeL eContent is an interactive multimedia e-content with the following characteristics:

Provides a greater control on the resources, both for students and teachers.

The students are more implicated in the lesson development. They understand the possibilities given by the new technologies after having obtained control over them. They develop their capacities to plan, select, explore, to solve “real” problems in a virtual medium, they can monitor and evaluate their progress guided by teachers, fulfilling the goal of the modern pedagogy: student - centre of the education and, in the end, they develop new abilities and skills needed in their future adult life. The teachers are faced with a new challenge: they can/must control huge quantities of information and knowledge but they must learn to manage them, managing the outside resources is becoming more important than one’s own personal memorized/created knowledge. The success comes at the very moment when one’s personal specific didactic strategies are used to manage the resources.

The learning situations become more realistic and more authentic. The access to all kinds of resources needed in a specific learning situation and the accentuated implication of the students during the lesson through the interactive mode of the eContent lead to more authentic learning situations, the student must actively take part to the learning process, he/she is stimulated to constructively think, decide, create. At the same time the students can get information from data banks from different countries; images, descriptions and relevant statistics for the investigated problems, and the Internet communication assure some data or the collaboration to diverse projects. The students are taught “to deal” with real conjunctures rather than “learning about” them.

The instruction can be extended to the learning communities on-line, contributing to “fair chances” for everybody. The school units bound in the network assure new interaction models, extending the learning beyond the teacher and the manual. The possibilities of the results presentation and manipulation facilitate the collaboration with other users-students or local community members. The possibility of some collaboration projects with school or experts in the local community appears involving the children/young in the society real problems. And, most important, the flexible structure of the eContent, the global themes, the extreme ease in manipulation transform it in the ideal instrument for teaching in all special kind of situation: student in distant or disadvantaged regions, students with disabilities all are equal by the quality of teaching. Nor less important is the eContent potential to sustain the curriculum at school decision.

The teachers regard the eContent as the motive force for an educational reform. The usage of eContent determines a holistic approach to education, beginning even with questions about how finalities are elaborated, how the curriculum is conceived, the way in which the student interacts with the curriculum, and the mode in which the evaluation of educational process is done. This holistic impact on the learning systems could occur only in the conditions where ICT is used in an educational action based on the fundamental thesis “the student actively builds his/her knowledge”, the eContent and the way it can be managed open a substantial path in solving this problem (Noveanu, 2009).

The eContent offers unlimited knowledge construction possibilities. Introducing computers into the educational practice occurred almost in parallel with three decades of research in the cognitive sciences field; in this period we extended our understanding about the way learning as a process takes place. Investigations in this domain put in evidence the fact that knowledge isn’t passively received but it is actively built by the student, based on previous knowledge, attitudes, and values. Relying on a single information source, i.e. the textbook, limits the knowledge construction possibilities. eContent came as an answer offering a medium for study instead of a frame (Noveanu, 2009).

The educational eContent amplifies the student’s interest and motivation by the diversity of the learning goals, projects, means and results. This fact is easily observed in school with regular children, all over the country; it is even more obvious in special learning units, where ICT includes special supports for students with disabilities. Not less important is the support for students with over the average

intelligence. Using and managing eContent has become a vital act of preparation for the "knowledge society".

5. SELECTING THE MASTER'S DEGREES TO BE IMPLEMENTED ON A E-LEARNING PLATFORM

The two Master's Degree Programs proposed to be implemented on a e-learning platform (Project Management and Information Technology Systems), currently draw through the relevant qualifications which they provide on the labour market, 20% of the total of Master Students who are learning in the Faculty of Mining and other 20% from the Faculty of Electrical and Mechanical Engineering. The two Master's Degrees have already been available for 6 respectively 4 years in these faculties.

These two Master's degree programmes could use the information and communication technologies in order to sustain the innovating initiatives in the higher education from Romania and this would definitely offer a growth of the quality of the educational act. In this way we could use principles which comply with the main European policies regarding the creation of the European Higher Education Area, for the e-learning and lifelong learning.

Like the online master's degrees in business, online master's degrees in Project Management are applicable to a variety of industries including large and small business, information technology, human resources, manufacturing, and more. An online master's degree in project management will focus on leadership and project planning.

Our example for the implementation of the on line Master's Degree in the field of Project Management was taken from the University of Maryland University College (UMUC). UMUC's online MBA program won the Instructional Technology Council's 2010 award for outstanding e-learning program and was recognized as the 2009 Distance Program of the Year by the IMS Global Learning Consortium.

The master's programme Information Technology Systems draws each year a high number of graduates from diploma programmes from different fields. The typical pattern of this master program is perfectly compatible with the e-learning platform.

Taking into account both the desire of spatial expansion by enlarging the geographical area of the future master students, and the need of using the ICT in the educational master programmes, we considered highly important to implement an e-learning platform in the University of Petroşani.

6. CREATING LEARNING OBJECTS (LO)

Advancing technology is expanding the boundaries of what is possible in education. The increased use of personal computers and Internet connectivity has prompted increasing research and production of computer based learning systems. One of the most important of these trends is the development of relatively small, self-contained, reusable learning objects.

Traditional instructional content is created with a specific audience and educational circumstance in mind. Reusable learning objects, on the other hand, are instructional software modules created to be used in a variety of educational settings.

Learning objects have a number of key advantages over standard courseware. First, creating small, targeted, modules allows flexibility in constructing courses from a number of smaller objects. Secondly, because each object is smaller, it can be used in a number of different circumstances, and therefore by a greater number of users. Because of this increased audience, designers should be able to invest greater resources in maximizing the effectiveness of each learning object. An example of learning objects is presented in figure 3.

The Design of LO. Successful design begins with a needs assessment to determine what knowledge or skills are required by the learner. This may include a task analysis to distinguish critical information and learning prerequisites. The designer can then use this information to create individual learner objectives. Often, the designer will design a separate learning object for each discrete objective. Individual objectives should be classified by learning types such as concept, fact, principle, or procedure. This taxonomy, as defined by Ruth Clark, allows targeting of optimal design strategies to different types of instruction. Individual learning objects can then be grouped together to address specific real life tasks, and a design specification can be created to guide development (Holotescu, 2004).

The Development of LO. We can use almost any development tools that create digital media, including PowerPoint, Photoshop, Dreamweaver, or custom creation tools. Learning objects should normally include content, practice, and assessment sections. In this stage text, graphics, video and other content are built and combined to create the individual learning objects. Alpha and beta tests should also be conducted to ensure that the content created meets the initial needs assessments (Holotescu, 2004).

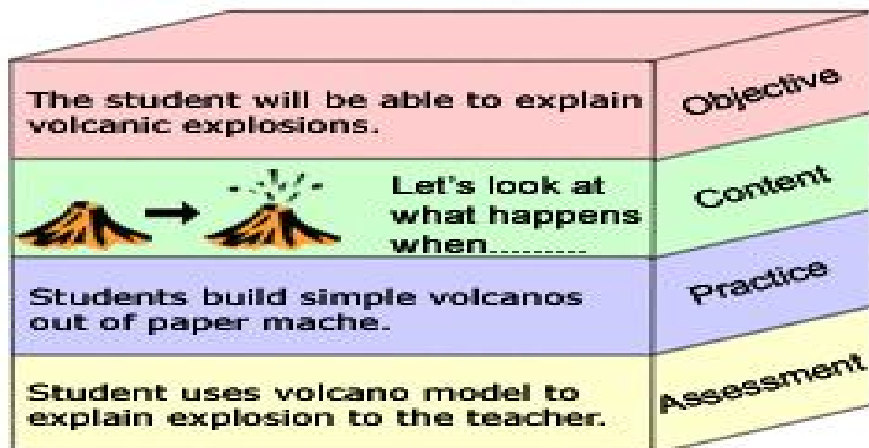


Figure 3. Example of learning object developed to teach elementary students about volcanos

7. DESIGNING AND IMPLEMENTING AN E-LEARNING PLATFORM FOR E-MASTER IN THE UNIVERSITY OF PETROȘANI IN THE FIELD OF PROJECT MANAGEMENT (PM) AND INFORMATION TECHNOLOGY SYSTEMS (ITS)

The e-learning platform for e-master is in line with the reform initiative in the Romanian educational system and intends to make the best use of the opportunities offered by the information and communication technology in the educational area. The educational system may fully benefit from the advantages of the e-learning system through:

- asynchrony learning, leaving the students the freedom to decide the learning rhythm;
- student-oriented learning, allowing a better control of the latter upon the learning curricula;
- multimedia integration, using the opportunities offered by the information technology;
- on-line exams, thus maximizing the learning efficiency and resource usage;
- on-line libraries, concentrating the knowledge in a relevant way by connecting the locale and global resources (Internet).

The e-learning platform which will provide the functionality of the training process of the master students is structurally built of a series of modules:

- Digital library which reunites the framework of the courses for each discipline included in the curricula of the master program.
- Self-assessment test modules which are structured on disciplines and offer the student the possibility of a self and objective evaluation. Such tests can be found at the end of each lesson or after each chapter, being differentiated according to the degree of difficulty, answer times, etc. The advantage of using these self-assessment techniques is firstly related to the psychological and motivational factors, the student taking advantage of a "cozy" environment (the student and the computer) in order to test the level of the knowledge.
- Evaluation tests, also grouped according to each discipline, allow through a flexible process which eliminates certain classical restrictions of the examination activities.

The activities which make up an implementation project of a e-learning platform for the Master's Degree are (eMaster, 2008):

1. *Project management*
2. *Curriculum designing*

2.1 Researches and studies on the definition and elaboration of the conceptual model "Complementary Master's Degree for the labour market";

2.2 Documenting and collecting information regarding the characteristics of "the universities on the labour market" especially for the second cycle in the Bologna System (complimentary Master's Degree) in a e-learning system which can provide the growth of the qualitative level;

- 2.3 The analysis of the methodological, pedagogical and procedural aspects of delivering the on-line training services in a double European coordination;
- 2.4 Designing the web page of the project;
- 2.5 Creating a curriculum for the master program on the basis of the procedures characteristic for the online master's degrees;
- 2.7 Developing the scientific content, according to a defined curriculum for the courses of the master's degree program;
- 2.8 Dissemination activities: experience exchange on the theme of theories and methodologies of defining and developing a curriculum and of using ICT in education;
3. *Creating e-learning technology learning resources;*
- 3.1 Providing a minimal infrastructure (hardware, software, connectivity, maintenance) for the implementation of a e-learning platform for the master's program;
- 3.2 Providing the necessary software infrastructure for the teaching/learning activities by installing and configuration an integrated training and management platform of the digital educational content;
- 3.4 Lifelong training of the teaching staff in order to use the ICT in the educational management and to acquire the teaching methodology using the e-learning technology ("eLearning pedagogical" elements);
4. *Developing, testing and simulating the web-based training educational process;*
- 4.1 Creating the digital content of the courses from the master curriculum;
- 4.2 Selecting the scientific content and setting the elements which are going to be digitalized;
- 4.3 Setting the degree of interaction for the selected contents elements, in order to reproduce as close and as suggestive as possible the concepts, the processes and the phenomena which represent the object of study of the courses;
- 4.4 Pedagogical design of the scripts;
- 4.5 Creating eContent based on the scripts;
- 4.6 Training the technical staff (system administrators) to create the capacity of administrating and using the e-learning platform and training the teaching staff on the management of the digital course objects;
5. *Pilot project - Master's Degree Program*
- 5.1 Pilot courses in digital format, for a semester, for the first year of study, using the e-learning technology;
- 5.2 Monitoring the results and the analysis of the impact of using the e-learning technology in the teaching/learning activities;
- 5.3 Optimizing the instructive-educational process based on interactive teaching methods and digital learning content, by collecting feedback and implementing improvement measures on a curriculum level, course contents, teaching methodology, in order to improve the future results;
- 5.4 The second online master program under double coordination;
- The teaching process and the teacher-student interaction are carried out through an e-learning platform which will offer the following facilities:
- Online examination system;
 - Forum on discussion themes and frequently asked questions;
 - Online system of solving the projects and applications;

- Online system for the assessment of the projects, applications, exercises, tests;
- Electronic information processing system related to: the attendance of the students to the online courses and seminars, the progress registered by each student; the situation of the papers and of the applications.

The online master's degree programmes are accessible for all those people who have access to a computer connected to the Internet, and the attendance of the courses and of the seminars does not involve the interruption of the professional activity or the movement of the student from one place to another (eMaster, 2008).

Training the master students in an e-learning system does not exclude the "face to face" meetings between the student and the tutor. The master program includes for each discipline from the university curricula tutorial activities with the purpose of discussing issues on the materials which have been read by the students and also workshops with a strong practical character where real cases from the speciality field can be discussed.

The assessment of the results of implementing the project has two components:

- Quantitative: a) regarding the growth of the number of master students (engineers, economists engineers or other categories of people from related fields) b) regarding the number of the graduates absorbed on the labour market in fields and areas corresponding to the master program;
- Qualitative regarding the level of improving the labour force in the field of electrical, informational engineering, business and management field for the growth of the employment level on the labour market.

The academic curricula will include a package of disciplines dedicated to the entrepreneurial development of the master students. Modern methods will be promoted: learning based on problems and projects, collaboration, creativity, adaptability, inter-cultural communication. The program will be flexible and will be able to adapt to the labour market.

So we can assess that the entrepreneurial education in the higher education is a less systemic process than in the case of the pre-university education.

8. CONCLUDING REMARKS

The curricula designed for the online Master corresponds to the main training and improvement objective of the highly qualified human resources, in correlation with the CSNR objectives 2007-2013 regarding the efficient development and use of the human capital in Romania (eMaster, 2008).

We can mention some of the advantages of the online master: same academic curricula as for the full time education; development of the personal abilities; new perspectives of promoting; easily accessible courses, published on the Internet; interactive communication in the online campus.

The implementation of the online Master Program will create a flexible and highly qualified labour force which could be adapted to the constant changes on the labour market.

The advantages of using an e-learning platform in the master education are transposed in:

- The growth of the quality of the teaching process for the integration of the student on the labour market;
- The growth of the educational act;
- The growth of the learning motivation of the master students by leaving out the time and space barriers and increasing the access to the learning content;
- Increasing the internal efficiency of the university reflected in improved results, higher graduation rates.
- Efficient monitoring of the teaching process by exploiting the tracking and control facilities made available by the implemented electronic solution.

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WHAT IS FOUND BEYOND THE DIFFIDENT IMPACT OF SEVERAL WESTERN SUCCESSFUL INTERVENTION MODELS? : THE GENUINE ROMANIAN TERRITORIAL REALITY

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ABSTRACT: *The current study represents only a part of an intercession carried out in order to advert to the wide specter of factors taken into consideration when the implementation, with sustainable results of a local development or social policies involved in the socio-spatial problematic of certain groups, are to be considered. Otherwise without the adaptation of the intervention models to the specific problematic of the given territorial area, the failing or the elusive results obtained following the sustained efforts of modifying on a social level are explicable. Among the considered elements: the analysis of the material support of the relations between the different social groups from the rural areas, the differentiated quality of the inhabited support. As long as the causes of a given type of relation between certain social groups have a material nature, the physical support cannot be modified or the problems can not be eradicated only by means of measures and social and psychological actions.*

KEY WORDS: *physical - geographic support; inter-grouping social relations; social geography; communities; social policies*

JEL CLASSIFICATION: *R52*

1. THE COMPULSORY DEVELOPMENT OF THEORETICAL AND METHODOLOGICAL AUTOCHTHONOUS MODELS AT THE BASIS OF SOCIAL AND TERRITORIAL POLICY MEASURES

One of the requirements of the current times (Pain et al., 2001; Pain, 2006, Staeheli & Mitchell, 2005 according to Whitters, 2005), regarding the international researches carried out in the field of social geography is represented by the increase of its practical importance, with an urgent requirement for the social geography studies to

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adjudge the role and particular contribution in the way of social policies and to contribute to the solution of the territorial problematic.

In this situation and especially in Romania where the social geography studies are still unassertive, a much increased necessity for the development in this field is to be considered, due to the fact that a series of applied measures at different levels not only in the field of social policies but as well in the field of territorial planning assume the theoretical and methodological support developed for the western European countries without taking into account the different reality of the central and eastern-central territories to which is applied to.

The current study - a part of a much more ample intercession (Mălăescu, 2009) - is trying at least to broaden the perspective of the problematics which is to be considered when an implementation of a local development policy or social policies with implications in the social and spatial problematics of certain groups is to be taken into account.

The aspects on which one has to draw attention and to which the researches in the field of social geography can essentially contribute, are represented by the analysis of the material support of the relations between different social groups from the rural areas, the demographic stress on the construction and agricultural lands, the differentiated quality of the habitation support, the urban administrative management, the concentration in social dwellings located at the urban administrative periphery of the dislocated population as a result of the urban renewal processes or as a result of the retrocession of the nationalized houses, the nature of the inter-relations between the groups as a result of the land crisis from the urban areas.

The measures and policies of a territorial unit such as the ones located between the Olt and Jiu Rivers haven't been that numerous, the geographical component of the previous studies presenting only a descriptive and formal standard - as a result not of the field research, but of the bibliographical one - which comprised the localization of the components, the description of the relief forms and major natural resources, the social existing projects possessing a such division - many times the natural frame of the analyzed social situation being absent.

2. THE IMPORTANCE OF EXTENDING THE ANALYSIS OVER THE INVOLVED FACTORS

Studies regarding the relevance and success of several policies and social measures such as the *Roma Inclusion Barometer* (2007) revealed the in success or the slow progresses in revealing certain results despite the efforts carried out for almost a decade thus highlighting the reduced involvement even of the minorities in the strategies which sight them out as direct beneficiaries. In tracking down the causes of these reduced implementations or impositions of several successful intervention models developed in the Western-European regions, one has to draw attention to the extent of the spectre of factors which has to be taken into consideration when the solution, with sustainable results of a given situation is to be considered, as well as to the spatial importance at which the implementation and adaptation of the results to the problematics characteristic for the analyzed area is made.

Otherwise, the in success or the poor results obtained as a result of the sustained efforts of implementing different social modifications (and which are to be expected from other European states) are explainable.

For example, in the case of the social relations established between different *roma* groups and the *native Romanians (români-pământeni)* and the *Transylvanians (ungureni)*¹, analyzed within the sub-Carpathian region between the Olt and Jiu Rivers (Mălăescu, 2009) apart from the type of inherited land and of the way in which this fact marks not only the social status but also the nature of the existing relations between the groups is interesting to be analyzed by means of the modalities in which the nature of these existing relations are established in regards to the area in which they have occurred.

The Transylvanian population established in the sub-Carpathian region along the Luncavăț valley towards the north (Vaideeni) and Șirineasa in the south or towards the east along the Bistrița valley (Băbeni²), respectively in the north-eastern part (Măgura) has founded more or less similar communities. As a result, the demographic component and the way of life, respectively the subsistence activity have remained the same for a long period of time.

Furthermore, in all of the three cases (Vaideeni, Șirineasa, Băbeni) the presence of the *Transylvanians* and the potentiality of establishing new economical relations, complementary to those of subsistence, allured the establishment of the roma communities composed by different subgroups (roma craftsman with traditional occupations: bin craftsman (*rudari-albieri*) wheelers (*rudari-rotari*), twine craftsman (*rudari-corfari*), craftsman of different types of spoons (*rudari-lingurari*) and literal roma groups - sometimes descendent from roma blacksmiths).

3. SOCIAL RELATIONS GEOGRAPHICALLY SUBSTANTIATED

In most of the cases in which adjacently to the exiting villages in Northern Oltenia, new establishments of Transylvanians have aroused - the most adequate lands for the establishment of the dwellings and for agricultural activities (quite reduced in this area) were already harnessed by the settlements and lands of the native Romanians. Analyzing the current settlements and their spatial evolution one can acknowledge that the spaces most adequate for the establishment of the settlements, located in the proximity of the fertile grounds as well as in the proximity of the meadows alongside the water courses but secured from flooding and with an accessible and drinkable water source were already occupied by different older settlements.

The fertile soils from this sub-Carpathian region besides being spread on rather limited surfaces (almost exclusively conditioned by the presence of the valleys with meadows) are also quite narrow compared with those from the intra-hilly areas. The

¹ Well individualized social group resulted from the descendents of the population which migrated from Transylvania in the 12th and 13th centuries, respectively the 18th and 19th centuries and established in the northern part of the Oltenia, fact which lead to the designation of the local inhabitants as *native Romanians (români-pământeni)*.

² Due to the historical rural characteristics of the Băbeni locality, with peculiar relations, during two centuries and several years of urban history to which a few decades of the industrialization influences are added, the future references to the "Transylvanians" will be made without taken into account the current status of town, but referring to the historical rural area.

rest of the arable surfaces, more or less fertile have been obtained by the gradual deforestation of the broadleaf forests.

The restrictive factors in regards to the existence of the population and to its religion which represented the basis for the dislodgement of the population induced into a second plan the fact that to the migrated population only a reduced surface of lands have remained, land located on the slopes or on various surfaces affected by erozionale processes, with reduced economical quality, but which are located in the proximity or are connected with the grass lands or with the peak paths located at higher altitudes (an important aspect for their basis occupation).

The given adjacency, extension or spatial proximity along with the subsistence economical activity subsequently turned into a future economical complementarity and of the life forms which resulted from the two types of communities: one cantered on field cropping, fruit growing and rearing and another one almost exclusively oriented towards shepherding. The same complementarity (but in this case sustained by a geographical support) characteristic for the social relations previous for the modern times, established in the rural communities explains the presence in most of the *doublet settlements* of the distinct subgroup of roma communities known as *rudars* (“*rudari*”).

As such, among the three groups (*native Romanians, Transylvanians* and *rudars*) and probably directly proportional with the economic status, social relations and *initially* established authority (which during the transition period were found in an alteration process) the most inadequate categories of support-terrains and periphery positions belongs to the third category.

4. “OPEN” AND “ENCLOSED” GEOGRAPHICAL RURAL SPACES -THE EXPERIENCE OF THE DISSIMILARITY FROM THE MIGRATION DURING THE INDUSTRIALISATION

The type of the physical-geographical elements in which these groups have settled (in the north - at the contact with the mountain or with the intra-hilly areas, and in the south - at the contact with the piedmontan area), and especially the relief shaped, by means of the types of agricultural activities on one hand, and on the other by means of the “budget” of available surfaces for each category of land exploitation (settlements, grasslands, hayfields, arable land and orchards or vineyards) in the previous centuries and without heading towards an extreme of the geographical determinism³, not only the relations between the social groups (considered nowadays as a demographical stress over the agricultural and residential land resources) but also the gradual transformation of these groups, a transformation often resulting in a assimilation of the groups (Preajba, Bengești etc):

- The pronounced perennial character in less diluted forms of the Transylvanian communities, more pronounced in the sub-mountainous area compared with those located southwards, is explained by the initial demographical size of the

³ A situation more difficult to accept if the technological progress is taken into consideration, but which 7-8 centuries ago, after the two first mass migrations of the Transylvanian population was perfectly plausible.

group⁴ and especially by the initial geographical location as well as by the subsistence activities such as the production ratios permitted by a such location. Since the dominant possible subsistence activities were other than the sheep breeding⁵, and due to the reduced possibility of maintaining the life style and practicing the sheep breeding which somehow defined the group's way of life, the result was the gradual assimilation of the group.

- Another geographically correlated variable based on the natural resources and which could influence the differentiation of the social relations is represented by the functional shift: the non-functional transformation of the sub-mountainous settlements - specialized on rearing activities and maintenance of the "enclosed" character of the migration of the population, the transformation of the lands from the intra-hilly and contact areas along with the prominence of the hydrocarbons, in settlements with agro-industrial functions and afterwards only industrial have determined the inveigling of the population from all over the country, a fact which may have determined due to the formation of this demographic mix based on the phenomenon of urbanization, of another type of reference to the allochthonous or to the dissimilarities, either represented by "Moldavians" or by "hunedoreni" (a group of population originated from Hunedoara county) either by the "rudari" or "roma" population.
- The *geographical isolation* encouraged the preservation of the role of the rural community as enclosed for the allochthonous component during the last half of the century, the spatial condition of "dead-end" (characteristic for Vaideeni locality), and the both characteristics *currently* existent in regards to the *present longitudinal sub-Carpathian communication axis* and the *polarizing centres - but peripheral in regards to the analyzed region* - which contribute to the decrease of the attractiveness and not with the previous period of intense trans-Carpathian circulation due to sheparding and commerce with secondary products (a period when the analyzed region represented an important node possessing a privileged position), a situation which is due to certain historical repulsive train of events within Transylvania, thus representing one of the most attractive regions. To its position in the geographical configuration of the circulation during the given centuries and by comparison with the present times, the "position (related to the potential and resources of the region considered as elements of attraction)" held in the "economical system" described for the referred centuries is added as also an important premise. As such not only the characteristics of the rural areas but also the internal attributes of the Transylvanians remain unaltered with their enclosed characteristics and reduced propension towards mixed marriages. This lack of experience in dissimilarity for the sub-Carpathian localities is more obvious when the reverse of the isolation and co-habitation among individuals from different social groups and from different

⁴ A fact which explains the exception of geographical position of the Băbeni locality, situated at the contact area of two important transhumance axes, nevertheless considerably assimilated in comparison with the Vaideeni locality.

⁵ And according to their own allegations in regards to the agricultural activities (n.n their crops), the Transylvanians "they hardly know anything".

geographical areas is to be considered (the case of Băbeni locality): “*we are accustomed with all sort of people, you won't find many much alike, we are a mixture, from all over the place*”, (W. 64 years old, university education, Băbeni). The experience of dissimilarity imprinted the tolerance and opening towards cooperation, if the frequency of the positive interactions is high⁶ as well as visible, not only in regards to the inter-ethnic relations, but also in regards to the production - commercial relations, constant employments “by day” - an experience which other rural sub-Carpathian regions with Transylvanian population do not possess.

- The geographical isolation, the pronounced fragmentation of the relief, the reduced agrarian efficiency of the lands from several sub-Carpathian spaces and hilly areas represent the elements⁷ which contributed to the exclusion of these areas from the socio-economic socialist system by means of non-cooperative measures, thus determining the *implicative* conservation in *non-obvious (dissimulate)* forms especially in the *psychology of the collectivity* of several *rudimentary social classes*. On the other hand, we need to mention that most obvious forms would have almost immediately been overhauled by the authorities.⁸

Due to the fact that currently the population of these areas is relatively aged, the idea of implicit conservatism of certain patterns of production and social behaviour (social and spatial insertions) is plausible, including some social-spatial structure models of affiliation and social definiteness of certain central spaces faithful to the previous eras: within the settlements, the central place was occupied by certain social groups, usually by the Transylvanians (Vaideeni) or by the native Romanians much more socially (as well as spatially) ordered and structured than the valorous rout or the economic and social disorientation characteristic for the transitional adjustment to newer types of configuration and refinement as will result in the followings. These premises along with an adequate re-framing and changes of the groups' image are not necessarily favourable for the integration of these minority groups.

5. THE NATIVE ROMANIANS, THE TRANSYLVANIANS AND THE ROMA POPULATION: SPATIAL AND SYMBOLIC SOCIAL RELATIONS. A CASE STUDY: BĂBENI AND VAIDEENI

We regard this dimension as almost the only one to be solved by means of re-framing and image campaigns - a method which is unilaterally used, at least at a territorial level. In the case of the other remaining dimensions, the social and

⁶ Although the interaction and cooperation represent one of the most known modalities of modifying the references between the groups (by means of modification of the prejudice and retrenchment of the discrimination), in the case of the communities (such as the studied ones) where among the antecedent pre-judgments - materialized by means of social distance - *perceived threats* towards the in-group are acknowledged, threats such as competition for the resources or the symbolic differences. In the given situation the social distance cannot be modified.

⁷ Arguments invoked by the authorities in that given period of time.

⁸ Based on the respect for those who work and are much homemaker, as well as for those who at the beginning had very little but who truly work.

administrative policies have to anticipate and undertake practical measures for the transformation and re-arrangement of the available spaces, in order to eliminate the possible occurring conflicts caused by these spaces and agricultural lands.

As mentioned in a previous study (Mălăescu, 2009) the evaluation of the dimension *perceived differences in status* regarding the social-economic power and status, the recorded values of the differences in status of the Transylvanians in the assessment of the Romanian group with a Transylvanian target recorded an average score of 3.32 out of 7 (by comparison with 5.22 obtained in the case of roma group) - the superiority in status of the Transylvanians being thus accepted also by the Romanians even though, and at least for Băbeni locality, the economic and especially the social status deteriorated during the transition period.

In the Transylvanian's vision the differences in status of the roma group were significant - an average of 5.3 on a scale of 7, respectively 3.2 towards the Romanian group. Also, the roma group in self-defining their status acknowledged that they are inferior in comparison with the other two groups. Along with the evaluation of the differences on a status scale, the field interviews revealed that, among the three analyzed groups, the Transylvanians remained not only the group with the most elevated economic status (acknowledging that from this group almost always one can find the most elevated economic statuses) but also the most correlated with the idea of local authority. They are correlated with the highest social and political capital: in both of the analyzed localities, the position of mayor was almost exclusively held by members of the Transylvanians; to this situation the positions held in the local council are added as well.

The status of the Transylvanian group is well reflected by the endowments and unwieldiness of the settlements, a situation which can be extrapolated to the case of the *native Romanians*.

Hoggart (1997 according to Pain et al., 2001) assessed the way in which the British rural areas are defined by the demographic and with an average socio-economical income component as a result of the existence of the mental dimension, idyllic for the given rural universe - is possible in this case as well - and hypothetically confirmed by the recorded values on the scale of the *perceived symbolic threats*⁹ and of the differences in the perceived status - to exist an attachment towards previous social structures and spatial relations (where everyone has its own respected status, including the minority groups).

Therefore, to none of the existing elements is permitted to overlap its social condition thus having an accurate concept of "what is inherited and what is not" in regards to its demeanour as a member of a given social group, congruent with a certain status - including the settlement or the purchase of a household.

In reference to the terms used for the definition of the marginalization, according to Philo (2000 according to Crețan, 2007, p. 64; Philo, 2000, according to May, 2005, p. 411), the tendency of considering the off cast individuals as "unaccepted visitors in the spaces

⁹ In the case of the Transylvanians with target group of native Romanians - an average of 3.4 of maximum 7 was recorded, respectively 4.8 with target roma group. In the case of the native Romanians with target group of Transylvanians - an average of 4.2 was recorded, respectively 4.5 with the roma group as target group. In the case of the roma group an average of 4.2 was recorded with target group of native Romanians, respectively 3.8 in the case of Transylvanians as target group.

(...) where the middle class inhabits” is acknowledged. In this regard, the term “visitor” (defined as a day labourer) is generally accepted, while the term “permanent resident with an establishment” is not.

This “opaque” feature of the ethnical immixture is strongly correlated with a certain conservatism and respect towards the previous relations and social structures, apparently found in a reverse relation of variability with the dissimilarity tolerance and especially with the inter-ethnic one. This fact led to the idea, on a larger and micro-scale as well (at the level of commune) within the analyzed area, that these could be directly proportional with the degree of geographical isolation (the distance towards the administrative centres and main communication axis, as well as towards the surrounding urban centres) and inversely proportional with the experience of dissimilarity. In this regard, only a detailed study regarding the verification of the co-variability could provide an illuminating answer.

Another spatially differentiated aspect, found in the continuation of the previous one, is represented by the *experience of joint co-habitation at reduced distances*, with elements of dissimilarity and social distance spatially manifested, in both situations.

In the case of Băbeni locality on an urbanization process by means of less individualist co-habitation, “more restraint” (characteristic for the apartment block-type settlements thus presuming a much reduced personal space to which the egalitarian pronounced relations characteristic for the communist regime is added) - determined another type of reference to the allogene groups or to the dissimilarity, and decrease of the social distances, as well as of the circumstances in which they are willing to tolerate individuals of other groups. In the rural areas, with much more generous available personal spaces, the spatial distance as a territorial expression of the social distance, seems to be more extent, directly proportional with the degree of isolation of the communities, including the traditionalism and social-economic status.

We need to underline the fact that the social relations of the Transylvanians with the other groups especially with the roma groups presented several differentiations between the two analyzed localities, Vaideeni and Băbeni. The recorded differentiations can be the result, on one hand of the changing condition disentangled by means of internal attributes of the group. These differentiations are represented by a much reduced social status of the groups from Băbeni locality, to the pronounced migration of the qualified younger population towards urban areas and to the internal, more turbulent dynamic of the population: more pronounced disorganization of the social life and cohesion, pronounced and early decline of the pastoral activities (based on the constant modernization, strongly connected with the refuse of the younger population to practice this kind of activity), a greater non-functionality within the group, the non-delineation of another coherent subsistence economical activity - thus consuming the previous gathered resources in a manner that the group seems to be affected by an internal entropic dynamic rather than by any other external perceived threats (in the statement of a one of the group’s member):

“Name just one person in this village who has started a business or has made something else; they all are insolvent, have consumed their parents money, the parents sold their sheep [a change of tone: deprecatory], not to talk about their parents ... (:) they said “father, sell the sheep, pay my dues, my schools”. This is how they made money (...) they came with cheese and I don’t know what else, there was a line of cars... (:) You couldn’t

find any (:) it was that period when you couldn't find... (n.n. it is about the communist period when dairy products were not to be found and the inhabitants from the urban areas or from the neighboring localities came with the cars to buy and to purvey directly from the sheep owners).

They made money, were very pleased, very arrogant because they had money, but the money weren't made by them, but by their parents (:) the parents got old (...) and what did they say? *Let's make our children boyars (:)* the children didn't study, they were not able to do so (:) and when they couldn't any more (:) they opened a store ... they didn't do anything. *Nowadays, the situation is different, they consumed the money obtained from the selling of the sheep, they consumed their parent's money, and now their parents do not posses any pensions, and they don't have anything (:::).*

They relied on their cows; they can produce only a small amount of cheese but which they cannot sell anymore (:::). They couldn't keep their sheep; they tried with the cattle, to make some cheese; they tried to maintain, to survive. You can see that they don't have pensions, they don't have anything. Their children consumed their money and didn't do anything (...) the native Romanians had a pension (...); were employed, they kept their job, while the Transylvanians do not have any pensions, (...), some of them beneficiate from a handicap pension. I do not know what their children will do. The elders were Sheppard and now they don't have any pensions (...) they were, but I do not know what their will do (...). They still live from their cattle, but these animals do not sell anymore (...)" (a Transylvanian elder lady, 69 years old, Băbeni).

During the last decades in both localities mentioned above there appeared mixed marriages between native Roumanians and Transylvanian group due to pastoral's disappearance as a basis economic activity and lifestyle (knowledge about raising animals were not anymore a compulsory condition for choosing a life partner), the differences of economic status between the two Romanian antagonistic groups was attenuated due to the demographic decline and to the aging of the population in both groups (children, especially those who graduated university studies, migrate to urban zones).

The economic status of the Roma group, was more appreciated, in the last cases, even the social one, especially in the groups hetero-identified as Roma (non-*rudars*, even in both localities, in the north close to the Transylvanian group), letting place for the mixed marriages between Roma and natives but also, more recently, the marriages between the Roma group and the Transylvanian group and the incipient inversion of the traditional relations of status and power: people belonging to Roma ethnic employ people belonging to the two groups especially for keeping the households (although the Transylvanian group is more reserved). The last two aspects appear especially at the social groups in Babeni, less conservatory than those in Vaideeni, but this fact is not unnoticeable by the members of the group in an environment that maintained itself rural despite the new status: these being able at any moment to relate the exact number and the situations when there were interethnic marriages.

Due to the deprecation of ungureni group status, the social distance to the Roma group (more to the Rudar subgroup) registered in Babeni was reduced, and the inter-cooperation and the integration increased, and the distance to the ungureni has slightly increased due to this appreciation and to the increased criminality in this group.

Both tendencies, the positive (appreciation of interethnic relationships -especially the production rapports-commercial, permanent employments or a day) and the negative one (the increased criminality) can be correlated probably with the presence of industrial activities in the communist period which on the one hand attracted population from each part of the country, the experience of alterity leaving its mark on cooperation, and on the other hand due to the lack of living alternatives that followed the restructuring of industrial activities which led to disorganization of social life and increased criminality has probably influenced, by contamination, the young segment of Transylvanian group.

The Transylvanian hearth body, in Babeni, is distinguished by its traditional storey home model, huge, in the modern version only with terrace at the storey, tower turret decorated with round orifice, square or narrow terrace, many rooms, high fencing with or without high gates, over the average height of a man. Although some aspects cannot be generalized, the differences among the groups belonging to various Roma subgroups come not only from the main characteristic of the traditional basic occupations, but also from the place where the community has settled, different in the quality of the habitat, the type of home, the building materials and the number of rooms, respectively the housing density.

As to the groups hetero- identified as Roma, the differences compared to the two social groups that belong to the ethnic majority, the housing quality, the architectural differences of the house are minimum, as well as the distance these being adjacent to the Transylvanian hearths. In Babeni case, that hearth body, known as "*The Little Paris*" is symbolically delimited by the hearth of the Transylvanians by the railway, in Vaideni case, the hearth is between two small rivers, and the delimitation from the hearth belongs to the Roma community being considered The River Bradițele).

These communities, in Vaideni case, of blacksmiths, old, and which is tightly connected to the majority's ones (due to the tools¹⁰ and to the repairing needed), living in own houses of a comfort similar to that which characterizes the other groups, beginning with the 1938s, having their own houses (when in the urban environment of the municipalities there were still tents or makeshift shelters), among the local people being estate entrepreneurs who build houses for sale in more central place - determine in these cases, the differences between communities to fade gradually but that is rather an assimilation process or acculturation rather than integration.

As to the *rudars* (in Babeni, cantered on Valea Mare, in Vaideni, in Atârnați hamlet) - at a short distance following the hearth that belonged to the former blacksmiths, from the central zones (south in both cases) to the north (north and north-west - in Valea Mare case) the housing quality decreases gradually, the houses made of brick or BCA being replaced, with little exceptions, with adobe, covered with hydro-insulating material (mill board), - whose density increases, leading, as in Agățați case, to semi-buried huts, representing 20-30% of total housing.

In Vaideeni the community counts up to 450 people, and to little extent the houses are on the ground which after 1990 were given back to the former individual owners, the number of misunderstandings concerning the land being remade gradually (but they were not

¹⁰ „The gypsies were blacksmiths, they made horseshoes, hinged gates, chains, nails (:) they had bellows for processing: They hardly managed to do the orders for their village and for the neighboring villages. And they got cheese or corn instead. They gave up this job”. (*W.*, 63years old, unguorean, Vaideeni).

fully eradicated) - the majority of the ones which are not owned occupy places which are administered by the Town Hall.

These situations, with *real* support, with no *real* social protection measures for those who do not own a house or a minimum own land, can't be solved by themselves or by campaigns meant to work at *conceptual* or *perceptive level*, the evolution or the self, "natural" solving living most of times grudges of both sides which can cancel any success premises of reframing campaigns.

6. CONCLUSIONS

There are, indeed, premises for the success of some interventions on social reports which can be changed by psychological-social measures. The need for adequate reframing and for some image changes of the group in case of some premises not really favourable to the integration of the minority groups, such as conservation of social-spatial structuring models - of belonging or social defining of some places, especially central, loyal to some former eras: the central areas of the hearths belonging to some social groups-as a rule to the Transylvanian or to native Romanians (thus, imposing a certain pattern of social and spatial interactions) can be an example.

Such dimensions that can be solved by reframing and image campaigns are few, at least on the analyzed territory level. For all the other dimensions, the social and administrative policies must anticipate and take real measures for changing and rearranging the space, for eliminating the conflicts referred to spaces and farm lands - without these the image campaigns and even the increase of the interaction and cooperation will have a reduced impact for the studied localities.

We hope that through this study we succeeded in doing what we intended, at least to draw attention on how wide should be the spectrum of the factors (and which are these ones) that must be taken into account when required to solve a problem and adaptation of the models to the specific problems of that area, otherwise the failure or the weak results obtained after sustained efforts to bring some changes at social level (and which are even expected from other European states) are explainable.

On the one hand, *as long as the causes of a certain type of relations among certain social groups are materialistic and have a physical support* - taking into account the quality of the support frame, the demographic pressure on the grounds destined to building and farming, the differentiated quality of the housing support, these can not be changed *through psychological and social measures only* (these are needful but not enough - the reframing of another social group than the belonging one was many times proved not enough to eradicate the prejudice or the discrimination - in some situations in the study already mentioned, not even the contact and the participation together to some activities).

On the other hand, *as long as these reports have a material and spatial substrate, geography will have its role and its contribution, indispensable, together with the other social sciences, to study and eradicate these problems.*

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FINANCIAL RISKS ASSOCIATED WITH THE GOVERNMENTAL PUBLIC DEBT'S PORTFOLIO

MARIANA MAN, ROXANA MARIA MARIN *

ABSTRACT: *The management of public debt is a process strictly connected with and dependent on fiscal and budget policy as well as on monetary policy. Under such circumstances the analysis of governmental public debt's portfolio is carried out by taking into consideration both the internal macroeconomic evolutions and estimations (economic growth, inflation, budget incomes and the level of budget deficit, monetary conditions and structural reforms – pensions' reform), the efficiency of capital internal market, and the evolution of world-wide economy influencing Romania's loan terms on international financial markets. An important component of the management of governmental public debt is the management of the risks connected to debt's portfolio that involves activities of identification, evaluation, and insurance against various categories of risk.*

KEY WORDS: *governmental public debt; re-financing risk; market risk; risk analysis*

JEL CLASSIFICATION: *E60, G32*

1. INTRODUCTION

The main categories of risk approached by this analysis are **financial risks**, classified as follows:

1. *Re-financing risk* (lack of capacity to refinance the debt or debt's refinancing at a quite high cost) – depends on the level of development of the internal capital market and on the evolutions of international financial markets. This risk can be diminished by avoiding certain payment peaks of the debt's service determined by crowding the payment terms of certain big loans or of a high amount of governmental debt on a short term or expressed by variable debt within total debt. Accordingly, one should notice a uniform distribution of the service of governmental debt as well as an adequate duration of governmental debt's portfolio by using specific financial

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operations, including advance buy backs or the anticipated transforming of titles into other titles having a longer payment term (bond exchanges) as well as an active management of liabilities and liquid assets, including derived financial instruments (debt's installment swaps, forward rate agreement or futures contracts).

2. *Market risks* which include two components:

a. *Currency risk* (appreciation of currency debt as a result of the national currency's depreciation as compared with euro and U.S.D. when the State's incomes are collected in national currency) – influenced both by the volatility of currency courses as a result of the evolutions on international markets and by aspects connected with internal market, such as monetary terms. Taking into account that the assets (incomes collection) are denominated in national currency, in order to avoid currency risk the most recommended strategy would be the one according to which the share of governmental debt in lei within total debt increases. The exception is given by the estimations regarding Romania's adoption of euro currency (2012-2014) that would determine, during the post-adhering to euro currency, the euro denomination of the States assets (budget incomes); such a fact would increase the opportunity of contracting long term loans, denominated in euro during the analyzed time interval (2008 - 2010). Such a strategy can be implemented through contracting new loans, mainly in lei, and through the gradual increase of the share of lei debt within total debt; an active management of the already existent portfolio according to the opportunities on the financial markets while employing derived financial instruments (currency swap, currency forward contracts) will also prove to be efficient. At the same time, as regards external financing, contracting long and very long term euro loans while employing certain bullet type devices (emissions of euro-obligations) is also efficient in case one considers the existing market environment.

b. *Risk of interest rate* (increases of interest rates on the internal or external capital market) – is influenced by the volatility of interest rate, monetary terms, and budget policy, the evolutions of international financial markets; it can be compensated by using financial derivatives: swap on the interest rate, swaptions (a combination between the interest rate and options), future contracts.

Other risk categories connected to debt's portfolio are the following ones: *credit risk* (bankruptcy of counterparts), *payment risk* (errors in the payments system), *operational risk* (errors of the system of administrating the debt or human errors, lack of work procedures, lack of employees), as well as *legislative risk* (due to the interpretation of the legislation).

2. ANALYSIS OF FINANCIAL RISKS ASSOCIATED WITH THE PORTFOLIO OF GOVERNMENTAL PUBLIC DEBT

The indices we refer to with a view of *analyzing the financial risks associated with the portfolio of governmental public debt* are the following ones:

1. In case of the refinancing risk determined by the refunding scheme, absolute value, and the period of refunding/ redeeming the debt, the analysis index employed is the *percent of the due governmental public debt* during a certain time interval (1 year or 5 years refinancing degree);

2. In case of the currency risk determined by the absolute value and by the share of currency debt, the analysis indices are: *the share of euro debt within total currency governmental debt* and *the share of national currency debt within total governmental debt*;

3. In case of the interest rate risk and liquidity risk, the indices employed are the following ones:

- *The share of variable interest rate debt* within total governmental debt versus the share of fixed interest rate debt;
- *The re-fixing percent*, namely the governmental debt percent for which interest rate changes during a certain time interval (1 year or 5 years re-fixing index);
- *Average maturity* until the next change of the variable interest rate (average time to next re-fixing).

The risk analysis of the portfolio of governmental public debt has been done by the Romanian Ministry of Finances that has elaborated a projection of the *service of governmental public debt* contracted on December 31st, 2007 and used a "Risk cost" (CaR)/"Risk budget" (BaR) analysis – the impact of financial variables' fluctuation upon debt's cost (interest payments upon governmental public debt)¹.

In order to avoid the risk they needed data regarding the estimates of budget deficit and primary surplus/deficit, projections of the service of governmental public debt (detailed according to capital rates and interest payments as well as to the type of interest rate – fixed or variable), scenarios regarding deficit's financing and re-financing the debt for the time interval chosen by the analysis (three years – as in the case of elaborating the State's budget), as well as data regarding the rates of reference interests afferent to lei, euro, USD, and CAD loans, and those regarding the rates of currency exchange in order to calculate their volatilities with a view to extrapolating these variables for the analyzed period of time.

The hypotheses and constraints of the model are displayed by table 1:

Table 1. Hypotheses and constraints regarding the evaluation of the risks associated with public debt according to the model conceived by the expert Bruno Debergh

Hypotheses:	Constraints:
- Debt fluxes have been taken over from the informatics program called DMFAS (Debt Management and Financial Analysis System) and from the internally developed systems due to the fact that the data basis of the FTI system (Foundation Telecommunications, Inc.) has reached the final stage of checking-up and updating;	- At the moment FTI informatics system is going to be used, the projection of interest payments will be done according to the efficiency curves drawn out for all existing currencies of the portfolio of governmental public debt; to them one should also add the margin specific to each loan according to the loan agreement/contract.

¹ When defining the strategy for evaluating the main risks they used the model provided by M. Bruno Debergh, an expert employed by the Phare program EUROPEAID/119860/C/SV/multi, lot 11, request no Rosu 62, "Government debt management system". The model used in order to evaluate the risk associated with Belgium's public debt has been adapted so that it met the requirements of the portfolio of Romania's governmental debt which contains several currencies denominated debt and mainly includes loans; the model also analyzed the structure of financing the lei and other currencies budget deficit.

<p>- As the model allows only four currencies, debt fluxes have been grouped in RON, EUR, USD, and CAD (the last currency includes fluxes for CAD, GBP, JPY, WON, CHF) and efficiency curves have been determined only for these four currencies;</p>	
<p>- In case of the availabilities of the State's treasury general current account (about 29.4 billion lei on 31.12.2007) they considered that such a debt will be re-financed by titles emitting representing about 3 billion lei per year during a 10 years period, beginning with 2009; interest payments for temporary re-financing have been calculated at a rate of interest of 1%;</p>	<p>Such a re-financing will only be possible in case market's conditions are advantageous enough to diminish budget deficits definitely not financed.</p>
<p>- As most of the portfolio of the governmental public debt is made of loans, when calculating the future debt fluxes (capital rates, interest payments) they have had in view the drawings estimated to occur until the final drawing date of the loan sums according to the loan agreements/ financing contracts;</p>	<p>- A certain amount of such loans drawings may not occur or may occur after a delay as compared with the schedule stipulated by the contracts due to the blockings appeared in implementing the projects or due to other causes that determine delays of the drawings program agreed with the financiers;</p>
<p>- The projections of currency courses for the next period are those transmitted by the National Board of Prognosis (CNP)</p>	<p>- Spot currency courses in use are those valid on 31.12.2007;</p>
<p>- Currencies efficiency curves are derived from the interest rates published by Reuters, except for the RON curve that used the efficiency curves of the emissions launched by the Ministry of Public Finances on the primary market;</p>	<p>- The procedures of interpolation and extrapolation in case of the terms for which Reuters does not publish interest rates; in case of the RON curve, the secondary market of the State titles is but poorly liquid and the efficiencies considered are only approximate; - As in case of the fluxes of interest payments with variable rate the model employs, beginning with 2009, the currencies efficiency curve conceived according to the interest rates published by Reuters, for the margin that adds in case of the loans having a variable interest rate an average margin has been calculated for each currency; the applied value has been added to the debt fluxes with a fixed interest rate, namely in the case of EUR - 96 bp, USD - 130bp, JPY - 144bp, CAD - 87 bp, CHF - 72 bp, GBP - 111 bp. For the basic year (2008) the payments of floating rate interests are those calculated according to interest rates on 31.12.2007;</p>
<p>- Volatility in case of currency courses and interest rates is calculated by the model for the last 85 months;</p>	<p>- Volatility required the introduction into the model of the currency courses and interest rates valid during the last day of the month;</p>
<p>- Scenarios have had in view the financing of the lei or of lei and Euro budget deficit. The budget deficit in view is the consolidated</p>	<p>- When comparing the financing of the consolidated general budget deficit with the refundable financings that represent</p>

<p>general budget deficit as the governmental public debt also includes loans whose refunding source are local budgets.</p>	<p>governmental public debt, one notices that the first one is also done owing to loans directly contracted by the authorities of the local public administration, besides other internal sources (privatizing incomes, sums retrieved by AVAS out of inefficient bank assets, and other availabilities of the general account of the State's treasury).</p>
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Source: The Ministry of Public Finances

In order to carry out the *analysis of the financial risks associated with the portfolio of governmental public debt* **four scenarios** have been employed. According to all scenarios, the refinancing of the governmental public debt in lei is done through contracting denominated debt in lei, and term debt in various currencies; in order to simplify the model it is refinanced by euro denominated debt.

The four scenarios differ from the point of view of the **manner of financing the budget deficit**. Accordingly:

- the 1st scenario: financing is done only through contracting debt in lei;
- the 2nd scenario: financing is done as follows: 50 % in lei and 50 % in euro;
- the 3rd scenario: financing is done as follows: 75 % in lei and 25 % in euro;
- the 4th scenario: financing is done as follows: 85 % in lei and 15 % in euro.

In all four cases, the financing of the budget deficit and the refinancing of governmental public debt is done owing to the emitting of the following *instruments*:

- In case of the debt in lei: 30% - 1 year term treasury certificates, 20% - 3 years term obligations, 25 % - 5 years term, 20 % - 10 years term, 5% - 15 years term;
- In case of the debt in euro: 80% - 10 years term fixed interest debt and 20% - 15 years term floating debt.

The hypotheses regarding the financing, during the analyzed period, according to types of debt instruments and types of currencies have had in view an intuitive strategy that follows the last two years implicit strategy; the analysis of the portfolio of governmental debt at the end of 2007 also proved that such a strategy is necessary; nevertheless one should mention that the instruments employed by the analysis are market instruments taking into account the goal of developing the State titles market.

The analysis of the risk indices for the scenarios employed and the quantification of the importance of such risk factors have resulted in **two optimal scenarios**: the one where the financing of the budget deficit is totally covered by internal sources and the one where the financing of the budget deficit is done as follows: 85% - internal sources and the difference covered out of external sources. Taking into account the deterioration of the crediting terms on the internal market during the first part of 2008 as well as the Romania's cost advantages given by the access to the international markets, one considers as optimum the scenario where the financing of the budget deficit is done as follows: 85 % out of internal sources and 15 % out of external sources.

In order to monitor the financial risks associated with the portfolio of governmental public debt the indices displayed by table 2 are proposed as margins against which the efficiency of the real portfolio is going to be periodically evaluated:

Table 2. Indices employed in order to evaluate the efficiency of the portfolio of governmental public debt and their margins

Indices	Minimal margins	Maximal margins
Share of governmental debt in lei within total governmental public debt	55%	
Share of governmental debt in Euro within total governmental public debt		40%
1 year refinancing degree*)		15%
5 years refinancing degree*)		55%
1 year re-fixing percent*)		35%
5 ears re-fixing percent*)		65%

*) To the extent to which the conditions of the internal market would allow the giving up of temporary financing out of the availabilities of the State's treasury general current account, the refinancing of the debt during the period 2009 – 2019 through titles emissions will be carried out.

Source: The Ministry of Public Finances

With a view of limiting the risks associated with the portfolio of governmental public debt, the Ministry of Public Finances targets the improvement of the structure of the portfolio diminishing financial risks owing to:

a. Increasing the share of lei denominated governmental public debt within the total governmental debt; It targets the limiting of currency risk and the development of the internal market of State titles. Considering that the collection of budget incomes is done in lei through contracting governmental public debt in the same currency they would eliminate currency risk. Accordingly, they propose the maintaining of a share of governmental public debt in lei within total governmental debt of, at least, 55%, at the end of 2008 while maintaining an increasing trend of this share until 2010.

b. Increasing the share of Euro denominated governmental public debt within total governmental public debt in foreign currency; The increase of the Euro financing share has in view, on the one hand, costs minimizing under the circumstances of still maintaining a significant interests differential between sovereign loans in lei and those in Euro without significant exposal to currency risk and taking into account the structure of currency reserve administered by the National Bank of Romania as well as the currencies structure of exports and imports, and especially taking into account the prospect of adhering to the unique European currency in 2014. Under the circumstances of the target margin, namely, at least, 55% share of governmental public debt in lei within total governmental public debt at the end of 2008, during the period 2008 – 2010 they propose a maximum limit of 40% for the share of governmental public debt in Euro within total governmental public debt, and a minimum limit of 65% within total governmental public debt in foreign currency.

c. Decreasing refinancing degree for governmental public debt in lei and for the Euro denominated one; They have in view the limiting of refinancing risk and of liquidity risk through mainly contracting average and long term loans, taking into account the efficiency limit cost/risk as well as the market conditions of such instruments as compared with the short term emitted instruments. The evolutions of internal and international financial markets during the first months of 2008 determined

the contracting of certain short and average term loans on the internal market while having in view de-inflationist expectations and the diminishing of interests' rates during the last part of the year as well as during the years to come.

d. Increasing the share of fixed interest debt within total governmental public debt; The increase of the share of fixed interest debt has in view, on the one hand, the limiting of the risk afferent to the increase of reference interests rates, especially in case of currency governmental public debt; on the other hand, it targets the decrease of the incertitude regarding the yearly budget effort necessary to operate interest payments.

d. Increasing negotiable debt within total governmental public debt; contracting foreign currency denominated debt, especially through launching emissions of obligations on international capital markets and simultaneously diminishing the loans contracted from international financial institutions; Taking into account the objective of developing the State titles market, of increasing the liquidity of State titles, and of developing their secondary market, as well as of growing the flexibility of the active management of governmental public debt, we consider that governmental public debt should mainly be contracted through emitting State titles in lei and foreign currency on internal and international markets.

e. Uniform distribution of the service of governmental public debt; It targets the settling of the term dates of the new loans so that they avoid payment peaks on short periods of time in order not to increase liquidity and re-financing risks.

3. CONCLUSIONS

The field of public debt is an interesting subject both for the countries that administrate an important portfolio of public titles and for those that currently or during crisis circumstances take part in its management. Although there are recommendations made by the international institutions that settle the coordinates of public debt's administration, we consider that the *problems connected with the policy of contracting and administrating public debt should remain an internal policy matter*, according to the degree of economic development and to the maturity of the financial markets.

The process of administrating governmental public debt should have in view the *maintaining of the indices of governmental public debt within sustainable limits*. Public debt's solvability is provided when the exceeding resulting from the future economic activity places itself at a level that can cover contracted public debt with all its afferent costs.

As regards the destination of the loans contracted by the State, let's emphasize the *need to mainly contract loans for productive investments*. When lacking investments programs capable of determining economic progress, productivity and jobs increase, contracted public debt deepens commercial lacks of balance; debiting countries while accumulating such loans become more and more dependent on the crediting institutions.

Accordingly, as regards the origin of the loaned funds, we consider that each country should permanently focus upon the *decrease of financial dependence on foreign entities*.

The management of governmental public debt is a process strictly connected with and dependent on the fiscal and budget policy as well as on the monetary policy of a state. With a view to limit the risks associated with the portfolio of governmental public debt, *the entity that administrates public debt should have in view the improvement of the structure of this portfolio through diminishing financial risks*.

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THE EFFICIENCY OF PROMOTIONAL INSTRUMENTS RELATED TO THE PRODUCT LIFE CYCLE STAGES

MIHAELA MARCU, CRISTINA GHERMAN *

ABSTRACT: *Regarded as a planning tool, PLC (product life cycle) strongly contributes to the identification of the main marketing challenges that may arise throughout the life of a product/service. Thus, the marketing management has the opportunity to develop and implement those solutions designed to optimize each of the 4P of marketing mix: product (quality), price, distribution (placement) and promotion. The communication program has an essential role, because the company presents through it its "product" to actual or potential customers in order to convince them of the benefits of purchasing/using it. The efficiency of the promotional instruments involves an appropriate allocation of funds needed to promote the product/service in relation to the stage of its life cycle.*

KEY WORDS: *PLC; product; promotion; market share*

JEL CLASSIFICATION: *M30*

1. INTRODUCTION

The product life cycle is the period between the time of the product appearance on the market and the time of disappearance from its circulation area. The product life cycle (PLC) reflects the evolution of the sales and profits of a product over its lifetime.

The concept of product life cycle involves four aspects (Lefter, et al., 2006, p.405): products have a limited life; the product sales go through distinct phases, each leading to changes, opportunities and different problems for the seller; profits rise or fall in different phases of the life cycle; products require in each phase different strategies in terms of marketing, finance, production, supply and human resources.

The product/service life cycle reflects its nature and its potential on the market they are traded on.

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2. PROMOTIONAL INSTRUMENTATION IN RELATION TO THE STAGE OF PRODUCT LIFE CYCLE

The marketing decisions used in the product development policy should always refer to its life cycle. The research of product life cycle can generate ideas for: timely recovery of a new type of product, the product reorientation to other segments of consumer or the withdrawal of stale product from manufacturing and commercialization (Marin, 2006, p.63).

Whereas PLC shows the evolution of a product/service and less of the market, companies should consider an analysis of the latter. Thus, if in the introduction stage competitors are few, and among the clients are mainly the "innovators" (they are the first who adopt the new product; are usually young people who like to "try" and react quickly to new and have a high education level), in the growth stage the competition is much stronger and the consumers are the "early adopters" (people who choose the new products very carefully in order to avoid any risk; are reliable persons; their point of view is essential in decision making on purchasing a new product/service).

At maturity, the product has a stable competition, that tends to decrease, and customers are part of the "middle majority" (provident people regarding the choice of the products, even sceptic ones; they buy the product after it has been already accepted by a big number of consumers).

In the decline stage, the number of competitors is decreasing, and those who accept the product are the "late adopters" (conservative people who accept the product after it has become a traditional one).

Taking into account the issues mentioned above and the fact that it takes time for releasing a new product and obtaining profits from its sale, the costs for promoting the product/service are essential and vary in relation to stage of its cycle life (Kotler, 2002, p.836):

1. In the **introduction stage**, the commercial and noncommercial advertising are the most cost-effective ones, followed by personal selling, in order to gain market coverage, and by sales promotion, aiming to stimulate trial purchases.
2. In the **growth stage** the use of all promotional tools can be reduced, because the order impel itself through the publicity made by satisfied customers.
3. In the **maturity stage**, sales promotion, advertising and personal selling – in this order – again play an important role.
4. In the **decline stage**, the sales promotion continues to be intense, the commercial and noncommercial advertising are reduced and the sales representatives give only minimal attention to the product.

Currently, there is a tendency of reducing the products/services life cycle the move from one stage to another taking place rapidly.

3. STUDY CASE: THE LIFE CYCLE OF ZU RADIO

The presentation of the life cycle of ZU Radio is based on the reporting of the volume of attracted advertising station at the time, and reporting the number of

listeners at the time. The reporting is made at the volume of advertising because the information about turnover, sales, profits are not available.

The product life cycle has five distinct stages:

1. The product development begins with the idea of a product and the market on which the product will be introduced is researched and analyzed. In this period, the investments will increase, the necessary production equipment will be purchased, the product will be designed etc.

For ZU Radio station the product development was short, in the year 2008, because ZU Radio is part of Intact Press Concern which has experience in this field. Also, ZU Radio broadcasts on the News FM frequency, in Bucharest, and nationally, on more than 20 radio frequencies of the FM Romance station.

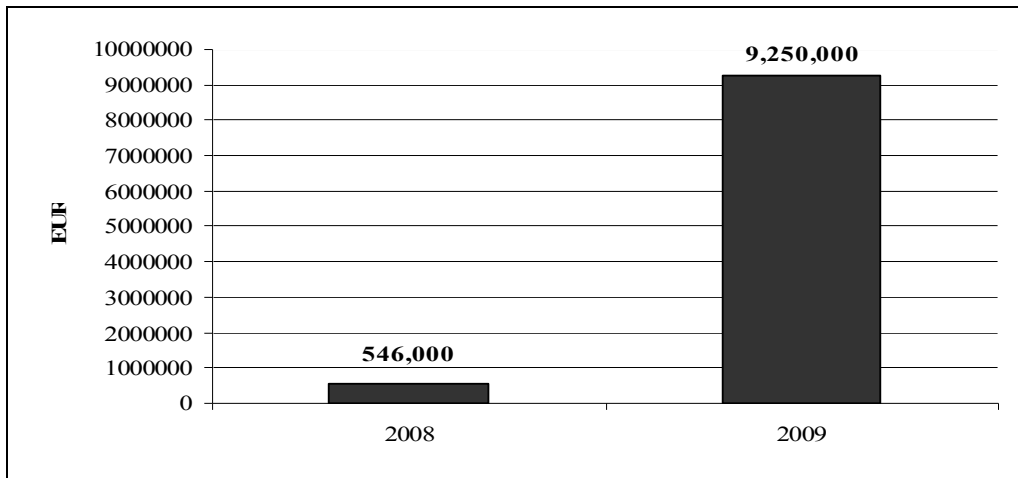
In the process of development of ZU Radio were established the following aspects (Intact Media Group, 2010): project leaders: Bogdan Stratulat – CEO, Tony Tesiu – Programs Manager, Camelia Levintza Steller – Marketing & PR Manager; format: contemporary hits; coverage: Romania, through a network of 20 stations in Bucharest and in the most important cities of the country; target audience: urban population aged 15 to 30 years; key elements: the matutinal program presented by Mihai Morar and Daniel Buzdugan taken from 21 Radio, the broadcast in dialogue with listeners of Mircea Badea. The investment in equipment were EUR 500.000 because they also used the equipment purchased for News FM and FM Romance (Neacșu, 2008).

2. The introduction is the period of slow growth; there are no profits in this period because the introduction costs are high. The product introduction on the market is one of the most expensive stages because of the high costs of promotion compared with other stages of product life cycle.

ZU Radio station was officially launched with the autumn grid of Antena 1 TV station, and the first transmission was made on September 29, 2008. The launching campaign was conducted by the Marketing Department of ZU Radio and the Friends Advertising agency. Starting with September 1, 2008 a teasing campaign ("Who is ZU?") took place on various channels of communication. In this teasing campaign the <http://whoiszu.blogspot.com> blog was created and 133 comments were posted about this question. In Bucharest were placed banners and meshes, and nationally, the TV spots of the campaign were broadcasted ("Who is ZU?", "Bungee Jumping", "The Spinner", "Squash", "On windshield"); the advertising models appeared in the major newspapers (Tomescu, 2008).

Because ZU Radio is part of Intact Press Concern, this is promoted by the means of this media group. Thus, the TV spots of the ZU Radio are broadcasted on the Antena 1, Antena 2 and Antena 3 TV channels, the advertising models are published in the National Journal and in the Sports Gazette, the online banners of ZU Radio are posted on the jurnalul.ro, antena1.ro, so.sfin.ro sites etc.

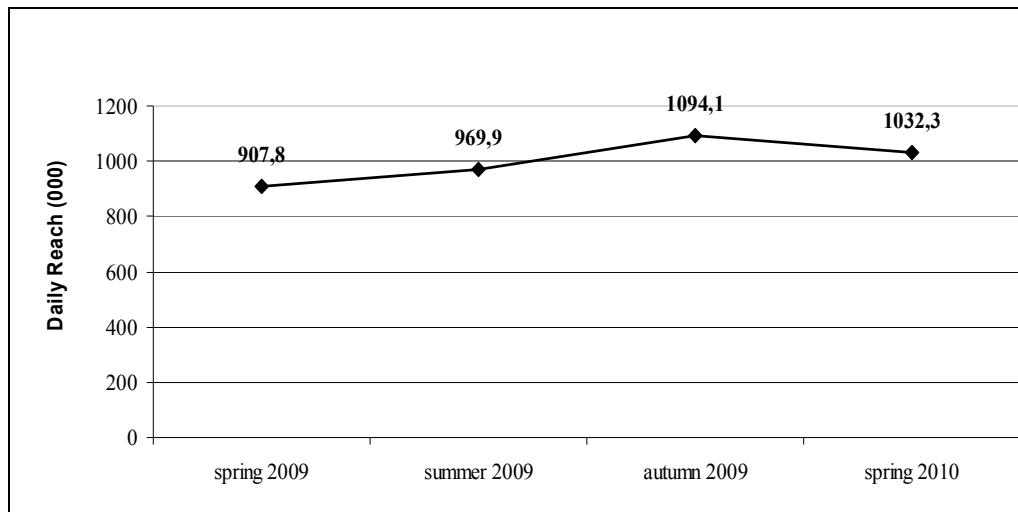
3. The growth stage is a period when the sales register important increases, with an ascending trend; the company pays more attention to product quality and creating a favorable image among consumers. Starting with the second quarter of 2008 the sales of ZU Radio began to increase gradually, reaching in 2009 a value of cashed advertising of EUR 9.5 million (Figure 1).



Source: Initiative Media, 2009, pp. 25; Initiative Media, 2010, pp. 40

Figure 1. The value of cashed advertising (ZU Radio, 2008 – 2009)

This increase can also be observed from the analysis of the number of radio listeners, that, a year after launch, in autumn 2009, reached a total of 1,094,100 listeners per day in urban areas, registering an increase of 124,000 listeners per day related to summer 2009 (Figure 2), according to Radio Audience Survey (R.A.S.).

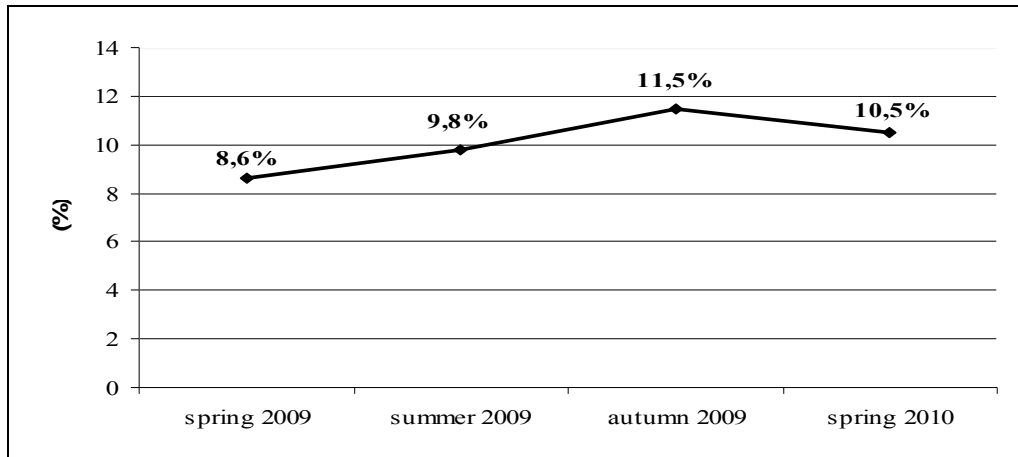


Source: IMAS & Mercury Research (2009-2010) Study of Radio Audience, [Online], Available at: <http://www.audienta-radio.ro/default.aspx?id=7>, [Accessed 21 June 2010]

Figure 2. The number of listeners of the ZU radio, in urban areas

Regarding the market share, in the urban area, ZU Radio registered a 11.5% share in the autumn of 2009, being 2.9% higher than the market share registered in spring 2009 (Figure 3). According to the latest results of S.A.R. for the spring of 2010,

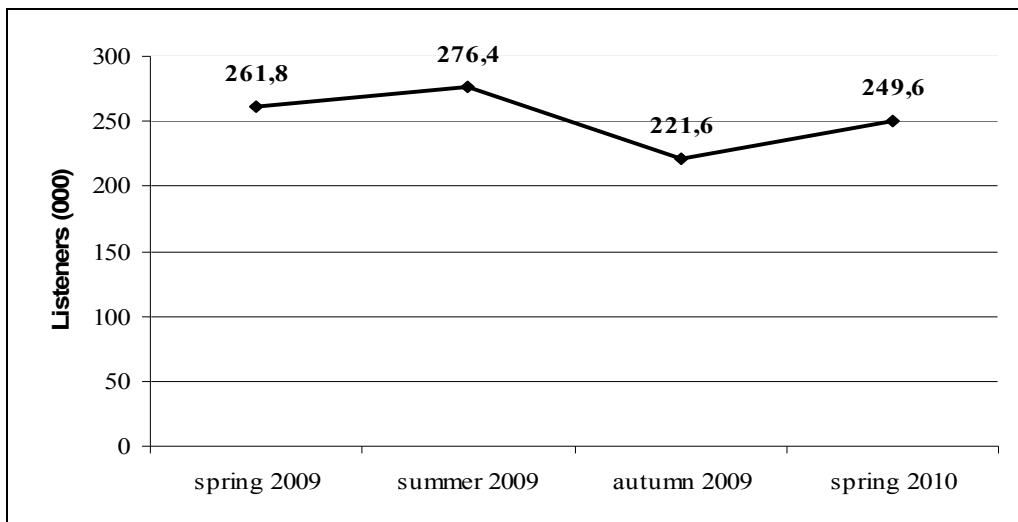
the urban market leader is Romania News Radio with a market share of 15.3%, followed by KISS FM - 15.2% and Europa FM – 12.6%. Nearly two years after its launch, ZU Radio is on the fourth place, with a market share of 10.5% (Figure 3).



Source: IMAS & Mercury Research (2009-2010) Study of Radio Audience, [Online], Available at: <http://www.audienta-radio.ro/default.aspx?id=7>, [Accessed 21 June 2010]

Figure 3. The market share of ZU Radio, in the urban area

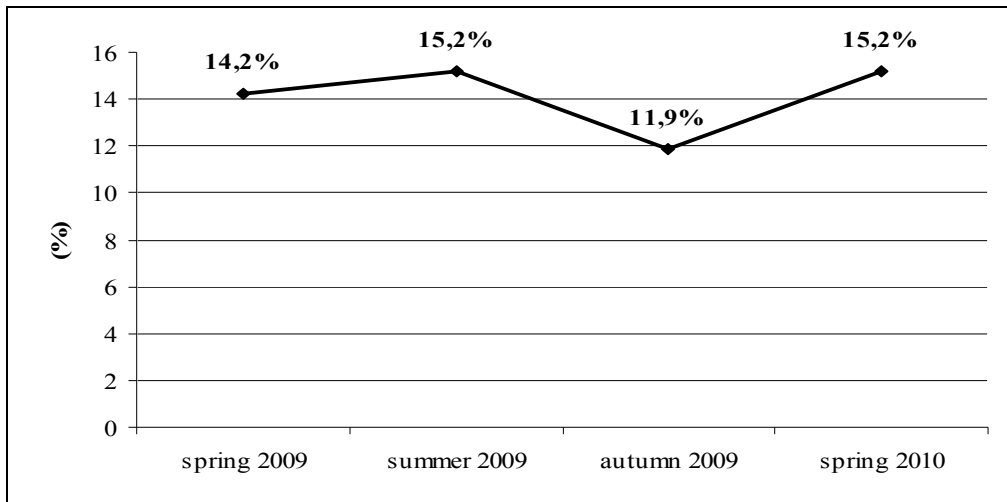
According to S.A.R., in Bucharest, ZU Radio reached a number of 249,600 listeners per day in the spring of 2010, registering an increase of 28,000 listeners per day related to autumn 2009 (Figure 4.).



Source: IMAS & Mercury Research (2009-2010) Study of Radio Audience, [Online], Available at: <http://www.audienta-radio.ro/default.aspx?id=7>, [Accessed 21 June 2010]

Figure 4. The number of the listeners of ZU Radio in Bucharest

Regarding the market share, in Bucharest, the ZU Radio station has registered a 15.2% share in the spring of 2010, this being 3.3% higher than the market share recorded in autumn 2009 (Figure 5). According to the latest results of S.A.R. for the spring of 2010, the market leader in Bucharest is Romania News Radio with a market share of 20.1%, followed by ZU Radio with a 15.2% share and KISS FM with a 11.4% share. 21 Radio station is on the fourth place with a 10.5% market share.



Sursa: IMAS & Mercury Research (2009-2010) Study of Radio Audience, [Online], Available at: <http://www.audienta-radio.ro/default.aspx?id=7>, [Accessed 21 June 2010]

Figure 5. The market share of ZU Radio, in Bucharest

The good results of ZU Radio, obtained in a relatively short period of time, are based on the marketing campaigns of the station. They permanently organize various competitions for listeners, through which ZU Radio offers money prizes and ensures the maintenance of the audience. "Zuperfans take zupermoney" and "Zubingo" are the most recent contests in which listeners have won prizes of 100 euros, and that of 130,000 lei.

An important element in the marketing campaigns is the online promotion through their website, www.radiozu.ro, which recorded 367,332 unique customers per month in May 2010, according to the Study of Audience and Internet Traffic.

Another means of online promotion used by this radio station are: the Facebook communication platform, in which the station has recorded over 38,000 fans, and the blog, launched at the same time with the teasing campaign.

4. The maturity is the period when the sales continue to grow, but with a gradually descending percentage, the level of the profit remains constant or decreases due to higher marketing expenses. In this stage, the company's success is linked of the differentiation capacity of the product and the ability to create a consumer brand fidelity. Although, in the maturity stage, many products appear to remain unchanged over a long period of time, the most successful ones are renewed in order to meet the changing consumer needs. To keep the product in the maturity stage, Product

Managers should not rely on the simple management of products, but they should modify the product or other elements of the marketing mix. ZU Radio did not reach the stage of maturity, but through the undertaken marketing activities they aim to become the urban market leader.

5. The decline is the period in which sales fall, the development of the order become negative, most of the consumers abandon the product. In this stage, some products can recommence the life cycle as a result of favorable circumstances in the market. ZU Radio did not enter yet in the stage of decline because it is still in the growth stage and it doesn't intend to come too soon in this last stage of PLC.

4. CONCLUSIONS

The product life cycle shows on one hand, the product sales and profits, and on the other hand, the consumers, the competition and the marketing specific actions taken from its appearance and until its definitive withdrawal from the market. Basically, the stages of a life cycle are: launch, growth, maturity and decline, but some authors consider the process of creating the product as a separate stage of life cycle, placing it before the product launch. In *the launch stage* of the product, the company's main objective is *to inform consumers* about the appearance of a new product; the level of the costs borne by the organization is very high; the sales volume – quite small, and the profit - negligible, even inexistence.

The growth stage is characterized by an increase of sales and the obtaining of rising profits; the company intends to maximize its market share by practicing a *persuasive promotion in order to create a strong brand preferences*. The number of consumers increase significantly, but there are many competitors and imitators. Thus, the management of the company has to take in consideration the diversification of the products range and the distribution expansion.

In *the maturity stage* the sales volume is stabilized. The organization aims to maintain the competitive advantage through improving the product characteristics, to extend the guarantee and the after – sales services. Even if we talk about a mass consumption, the competition is a fierce one, and as a result, the company practice *a competitive and intensive promotion in order to maintain the brand loyalty*.

In *the decline stage* the sales considerably decrease, because of the appearance of the substitutes on that market and the disappearance of the consumer interest for the company's product. The Management Board should analyze the opportunities of further making profit and establish the optimal time to abandon the product. The product range is limited to the most wanted models, the distribution becomes selective, and *the promotion consists in actions of reminding of the product, only to preserve its image*.

The duration of stages varies depending on the particularities of each product or brand and on some factors, such as: the appearance, the development or the disappearance of some markets or market segments; the competitors price policy; the technological improvements (which influence the duration of the product life cycle stages in the sense of extending or shortening it); the changes related to the purchasing power of consumers, or to their income; the changing attitudes, preferences and

purchasing behavior of consumers; the influence of changes in manufacturing or distribution costs on product prices.

In order to eliminate the drawbacks of each stage of the PLC, the companies aims the making of a balanced offer, with products at different stages of their life cycle. Radio ZU managed to become one of the most listened radio stations in Romania through effective use of promotional instruments in relation to product life cycle. This result is based on commercial and noncommercial advertising and also on the use of sales promotion. The most important components of the promoting policy of Radio ZU are the unprecedented contests for listeners with prize in money and the online promotion.

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A NEW STRATEGY FOR RELAUNCHING TOURISM IN EUROPE

MIRELA MAZILU *

ABSTRACT: *Globalisation, the demographic changes and the evolution of transportation are decisive factors for the rapid evolution of the tourism industry in Europe. Approximately 2 million travel agencies have almost 4% of the European workforce total employed, this representing 8 million work places. Although Europe is the most visited region in the world, the number of tourists records a lower rate than the world average. Due to the appearance of the new tourist destination, of the global competition, the Commission has planned a proposal that should improve, together with all the interested factors, the competitiveness of the tourism industry. Due to the fact that more and more tourists see Europe as the only destination, the Commission has launched a new web portal as well, "Visit Europe", in order to promote the destinations of the European Union.*

KEY WORDS: *crises; strategy; relaunching; sustainable tourism; globalisation; policy*

JEL CLASSIFICATION: *L8, L83, L12, Q01*

1. INTRODUCTION

On the occasion of the Conference of the Ministries of Tourism from the level of the European Union "Tourism - the key to economic growth and increase of the work places number", organised in Wien, the Vice-president of the European Commission, the Chairman Gunter Verheugen has declared: "Europe is the world leaser of the tourist destinations. *But we must do more than that in order to preserve our competitiveness. Our proposals add value to the efforts made by the Member States.* These proposals shall help us promote, more efficiently and coordinated, the European Union as a unique tourist destination."

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2. NEW POLICIES IN EUROPEAN TOURISM

The main elements of the new policy are:

1. The better coordination of the policy. In order to ensure that the initiatives which affect tourism do not impede the competitiveness in this sector. The Member States and the persons interested in tourism shall be regularly consulted; for instance, on the near Green Card on the maritime affairs that cover the maritime tourism and the coastal tourism.

2. The improvement of the use of European viable financial instruments. Tourism shall continue to benefit from the financial support offered by the European financial instruments in force.

3. "A European agenda for tourism". In order to promote its sustainability: The Commission shall present a proposal for Agenda 21 on the tourism field until the end of 2010 based on the findings received from the Group for sustainable development in tourism, made up of representatives of all the ones involved in tourism.

4. A better regulation of the legislation items on tourism.

5. The intensification of the understanding of the importance of tourism by supplying the quality data by the ones who take the decisions.

6. A better promotion of the European destinations. Globalisation has opened new opportunities to attract tourists on new markets like China, Russia, India, which are capable of offering high quality holidays. In order to contribute to the promotion of Europe, the European Commission has financed the creation of a portal which includes practical information about Europe, like trip planning (transport, weather, calendar), recommendations "where one can go" and "what one can do", as well as the links to other national sites. This portal is in the care of the Commission of European travels. The SMEs from tourism shall be involved in the hosting of cultural and sports events in Europe.

7. The improvement of the tourism visibility. The European Commission shall continue to work in close connection with everyone involved for promoting the visibility of this important industry through the events organised by the President of EU at the Annual Forums for Tourism. For the practice of this policy, the Commission shall develop a partnership with the Member States authorities and with the ones involved in tourism. The partnerships must be a central component of the actions on all levels (European, national and local - public or private). As a general rule, the policy of tourism must be complementary to the policies unfolded in the Member States.

Tourism represents a connecting sector with an impact on many other sectors, like transportation, constructions, trading and other sectors which produce holiday souvenirs or offer services related to the free time or the business travels. Although many large international companies contribute to this sector, it is dominated mainly by the small and medium sized companies. According to a very strict definition, the tourist industry creates more than 4% of the GDP of the European Union. When we take into account the connections with other sectors, the contribution of tourism to the GDP is estimated at 11% and offers work places for more than 24 million people (12% of the workforce total).

8. Transport and tourism. Transport and tourism are closely related, and infrastructure is especially essential for the success of any tourist destination, the European policy in the field of transportation occupying a special place.

9. The measures of liberalisation within the air transport. The air transport sector have lead to more connections with destinations considered inaccessible, becoming more expensive because of their inaccessibility. Another beneficial element in the unfolding of the tourist phenomenon is the elimination of the restrictions referring to the acquisitions of charter flights - understanding that a loyal competition in this field shall bring lower prices and better products for all the tourists who prefer and buy such flights (the cost of the transport being a determining part of the global cost of the tourist product). Judged by some terms of quality, safety and profitability, the means of transport may condition the type of the holiday and the chosen destination for the holiday.

10. The promotion. Being no exception to the saying “the ad is the soul of commerce”; the tourist product sells and buys easier if it benefits of a proper publicity. This task belongs to the professionals in the field, to the researchers and to the professional stakeholders.

These are the persons who have a complex set of actions to perform among which we state:

- the request that the role of tourism should be acknowledged in politics;
- the reintroduction of the word tourism in the new article 15.2 from the new Constitution of Europe;
- the creation and the fortification of mechanisms against the eventual threats for tourism from the side of the Community’s politics and from the measures adopted in other sectors and fields;
- the improvement of the safety measures and the security measures for the tourist destinations and in the transportation sector;
- the enhancing of the role of the Consultative Committee in Tourism and the continuous organization of the European Tourism Forum in order to promote a better interface in the tourist industry and among the groups of stakeholders;
- to offer special attention to the implementation of the Satellite Account in Tourism in order to provide a correct evaluation of the importance of tourism in the general economy and to request assistance for the new countries in which the CST is not introduced;
- to intensify the accessibility in order to make the tourism available for everyone (different social groups, unemployed, old people, disabled people etc.);
- to create a common set of tourism indicators durable within the Agenda 21 for the European Tourism which includes the economic indicators, of the environment, social and institutions indicators, so that they can evaluate and monitor the development process with the purpose of encouraging the durability and the competition of European tourism;
- to create an open network of research, of dissemination of information and the transfer of the most adequate knowledge, as well as of the best technologies used in the sustainable tourism;

- to ease the usage of information technology as an important means of developing the tourism sector regarding the management systems of quality, the applications from marketing and distribution, the facilities and the intensification of tourism.

With the 500 million inhabitants, EU has become one of the largest markets in the world (including the tourist market). EU offers the member states the possibility to express and develop the democracy, the sovereignty, the justice, the independence, as well as the possibility to protect these values.

Due to the fact that the tourist potential is a part of the resources category whose consumption can be achieved only "in situ", its integration in the social and economic circuit of values constitutes a process of superior revaluation of the existing potential, as well as an important factor in the economic development and the organisation of the respective space. In time the close correlation between the localisation of the tourist resources and the tourism development, between the diversity of these resources and the forms of tourism practised, between the dimension of the tourist phenomenon and the shaping of the tourist areas, respectively the prosperity of the local population is achieved.

At present, the following are more than necessary:

- the fitting of the existing tourist spaces by modernising and expanding the accommodation basis, its diversification;
- the introduction in the tourist circuit of new areas with valuable potential;
- the development of the rural tourism and of the agrotourism, as a new form of tourism, connected to the traditional activities of the population.

It is obvious that besides the investments and the modernisations, the tourist sector has to adapt quickly the level of the human resources, in order to cope with the European market competition: "a new managerial class is necessary, in order to understand that not only the clients' loyalty, individually or that of the corporations, is important, but also the loyalty of the personnel, the only one capable to recognise the faithful clients" (*Gandul* newspaper, Jan 24, 2009). The Romanian tourism shall benefit of structural funding in the value of approx. 710 million EUR, in the period 2007-2013, money that shall be allocated for 2 Operational Programs of the Romanian Government (see Annex 4 - Priority Axis 5 from P.O.S 2007-2013).

The recognition and the introduction on the European and international tourist market of the new member states shall push forward the development of tourism in these countries, in parallel with the increase of the attractiveness of the destinations of these countries (the effect of the "new members of the European family").

The only risks of the perspective evolution that can be recorded by these new destinations shall manifest in:

- the negative impact on the environment;
- the degradation (by exploitation) of the tourist resources;
- the loss of identity and of the local specific;
- the changes in the life style of the local communities from the respective geographical space.

3. CONCLUSIONS

The trips with luxurious or ecological tendencies or having the simplicity that make us think of grandmother's house shall increase in 2010. A top of the tendencies, drawn up by the chief - editor of *Mr. and Mrs. Smith* Magazine, Juliet Kinsman, suggests that the offers from tourism in 2010 shall still be affected by the economic crisis, but the consumers shall prefer the customised offer when they plan their holiday.

Considering itself as a unique market, the European Union has the most developed economy from the sector of Travels and Tourism, now representing a share of approximately 40% of the world market. Obviously, its share has grown significantly during the last few years, according to the EU extension beyond its initial borders to the current 27 member states.

The EU dimension and its importance in the economy of Travels and Tourism explains why the World Travels and Tourism Committee (WTTC) has remained very active in the region, intensifying as well its activities in the whole Central and Eastern Europe in the last 12 months, in close collaboration with industry and individual government in order to try and increase the operational environment for Travels and Tourism. The activities include the promotion of members and the consolidation of the unfolding relations with industry and governmental leaders.

The demand for Travels and Tourism in Europe in general is expected to grow with a relatively modest share of 2.3% in 2010, although this region masks the average growth which varies from country to country. Montenegro anticipates a powerful grow, of 14.2%, followed by Romania with 8.9%.

The sector of Travels and Tourism is an inseparable part of the world we live in, having an essential contribution to the world economy, as well as to the quality of life of its citizens. This divides the achievement of the universal aspirations, of unifying friends and families, the stimulation of the trading beyond frontiers, the creation of sustainable work places and the minimisation of the climate changes.

Or, the sustainable and responsible economic growth may be achieved only by overcoming all the inequalities regarding the welfare and opportunity, the increase of the international understanding, as well as the balance of the use of resources with their availability.

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THE ROLE OF EUROPEAN FUNDS FOR RESEARCH AS ENGINE OF ECONOMIC GROWTH

OVIDIU MEGAN, ALEXANDRU O. CRĂȘNEAC *

ABSTRACT: *The economic theory has long since recognized the importance of innovation as one of the engines of economic growth and development. On the other hand, at the microeconomic level, research, development and innovation are some of the key factors for the organization's growth. Traditionally, the process of research and development is financed either by the state or by the large corporations, while the small and medium-sized enterprises have limited access to such activities. The entities from the EU member states and the EU member candidates have now a wide choice of EU programs for financing their research and development activities. In this paper we provide an analysis of the possibilities of financing these activities using EU funds, and we compare the effectiveness of the EU member states in accessing these funds.*

KEY WORDS: *research; innovation; EU funds*

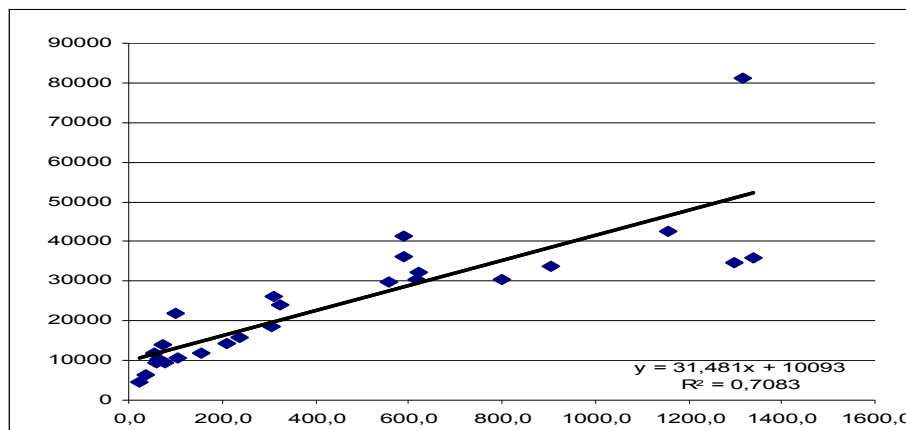
JEL CLASSIFICATION: *O3, O52*

1. INTRODUCTION

The innovation process is not only one of the key factors of the economic growth, but is, furthermore, one of the pillars of the economic development. The idea that technology plays an important role in development has been studied for the first time by Joseph Schumpeter (1939). After the Second World War this idea was developed furthermore by the neoclassical economics, which gradually came to dominate the economic theory (Solow 1956, 1970). According to this way of thinking, technology should be seen as a freely available public good, facilitating development everywhere as long as markets are allowed to work properly. The focus on technology as the driving force of growth and development has been taken up by advocates of the

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so-called “new growth theory” like Lucas (1988) and Romer (1990). As we have shown in Figure 1, there is a strong and positive correlation between the total expenditures on research and development per capita and the GDP per capita in EU Member States. The wealthier States with a GDP per capita of 30.000 euro or more have higher levels of R&D expenditures of 600 euro or more. The New Member States, with a GDP per capita less than 20.000 euro record much lower levels of R&D expenditures, typically below 200 euro per inhabitant.



Source: own calculations based on Eurostat data)

Figure 1. The total R&D Expenditures per capita and the GDP per capita in EU Member States (2008)

At the microeconomic level, research, development and innovation are some of the key factors for the organization’s growth. Traditionally, the process of research and development is financed either by the state or by the large corporations, while the small and medium-sized enterprises have limited access to such activities. Nowadays, innovation is not limited to ‘formal’ R&D by large companies: often innovation takes place through the establishment of new firms, like during the boom in information technology of the 1990s. European governments have recognized the role of SMEs and entrepreneurship as has been reflected by a wide range of policies adopted in recent years.

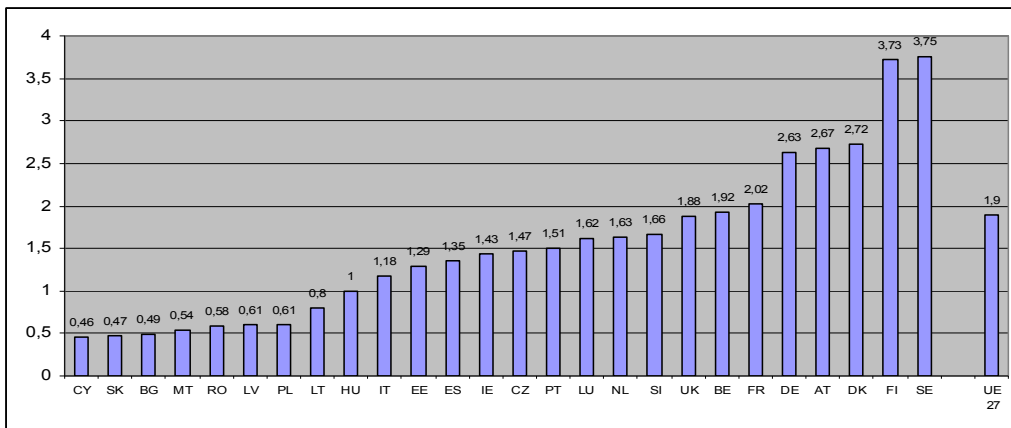
2. THE NEED FOR AN EU RESEARCH POLICY

External effects are important by-products of research. Knowledge, the product of research, is non-rival and often also non-excludable. In this line of thinking there is obviously a case for state intervention in order to take part in financing the research activities. For the same reasons as the non-rivalry and non-excludability of knowledge leads to market failure, it may result in government failure if knowledge diffuses freely across borders. In this situation, a part of a nation’s expenditure ‘leaks away’ to other countries and gives national governments an incentive to ‘free-ride’ on the research funded abroad. Keller (2004) provides ample evidence of positive external effects of

R&D to other countries often channelled by trade and foreign direct investment. It has also been empirically established that the importance of these R&D spillovers decreases significantly if distance increases (Keller, 2002). However, distances are relatively small within Europe compared to the distances within the US or Japan; and the R&D spillovers are, therefore, significant. European centralization of public expenditure on research can reduce this coordination problem. Van der Horst et al. (2006) show that the openness of a country tends to be negatively related to government expenditure on public and private research. This suggests that the free-rider problem caused by knowledge diffusion is a real-world problem.

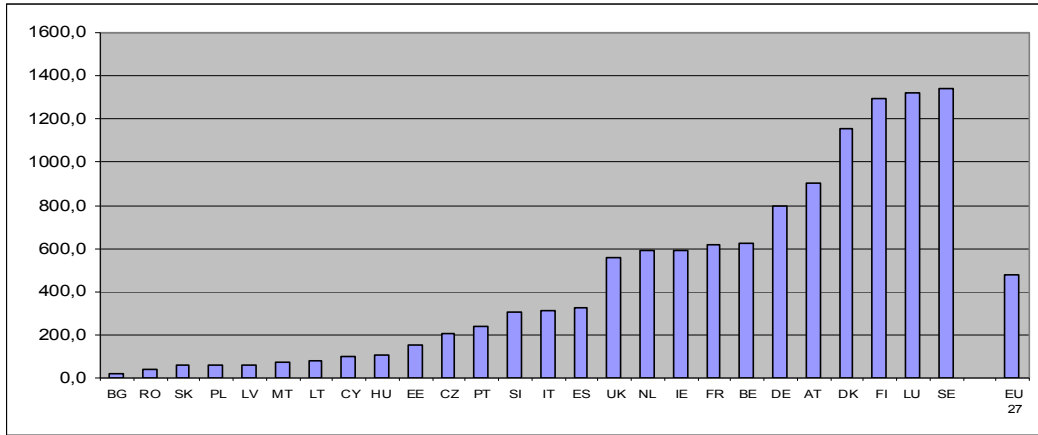
Despite the likely presence of scale economies and externalities, European centralization of public expenditure on research may also have drawbacks. The data on the objectives of publicly-funded research, as well as the literature on national systems of innovation suggest that heterogeneity among the members of the EU is large. In particular, there is substantial heterogeneity in the amounts that Member States allocate to research and in their socio-economic objectives. Moreover, this heterogeneity has increased with the entry of ten new Member States in 2004, and two more in 2007. Figure 1. provides an indication on the relative importance of R & D spending, both private and public, in the Member States of the EU. It should be noted, however, that differences in the amounts allocated to research may not necessarily imply differences in preferences; it may also indicate a certain amount of under-spending by Member States, resulting from the presence of spillovers.

The New Member States tend to have lower levels of expenditures for research activities, usually below 1% GDP and below 100 euro per inhabitant. The higher levels of expenditures on R&D activities, in 2008, were in Austria, Denmark, Finland and Sweden recording 2,67%, 2,72%, 3,73% and 3,75% of GDP, much higher than the EU 27 average 1,9% of GDP. As we have shown in Figure 3. the lower levels of R&D expenditures per inhabitant were in Romania and Bulgaria (37,6 and 21,8 euro). On the other hand, in Denmark, Finland, Luxemburg and Sweden these expenditures were well above 1000 euro per capita.



Source: own calculations based on Eurostat data

Figure 2. The Total R&D Expenditure in Member States - share of GDP (2008)

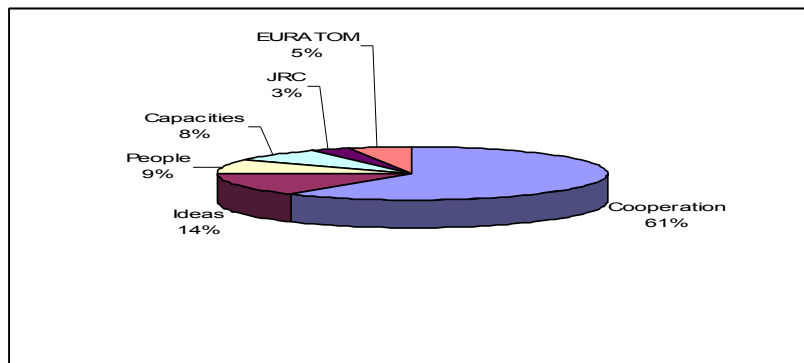


Source: own calculations based on Eurostat data

Figure 3. Total R&D Expenditure - euro per inhabitant (2008)

3. THE SEVENTH FRAMEWORK PROGRAMME (FP7)

The European Union expenditure on research is concentrated in the Seventh Framework Programme (FP7). FP7 is an initiative under which various subsidies are granted for both public and private research. The budget of FP7 currently is € 53.3 billion for the period 2007-2013. This represents an average yearly budget of € 7.6 billion, which is substantial when compared to € 65 billion spent on public research by the Member States of the EU15 in 2003. FP7 consists of four programmes: Cooperation (€ 32.4 billion), Ideas (€ 7.5 billion), People (€ 4.7 billion) and Capacities (€ 4.2 billion). In addition, FP7 also has a budget for the Joint Research Centre (JRC) amounting to € 1.8 billion and a budget for research on nuclear energy (EURATOM) of € 2.8 billion.



Source: European Commission, *A Study on EU Spending*, Amsterdam, 2008

Figure 4. The Budget Structure of the FP7 Programmes (2007-2013)

Participation in FP7 is open to a wide range of organizations and individuals: research groups at universities or research institutes; companies intending to innovate;

small or medium-sized enterprises (SMEs); SME associations or groupings; public or governmental administration (local, regional or national); early-stage researchers (postgraduate students); experienced researchers; institutions running research infrastructures of transnational interest; organizations and researchers from third countries; international organizations; civil society organizations.

The budget of FP7 is allocated in a variety of ways, and has a multitude of goals. Arguably, the most prominent goal of FP7 is the stimulation of public and private research. With respect to this goal, there are theoretical and empirical arguments in favour of European policy. To start with, some research projects are simply too large and risky to be funded by a single country. Multilateral cooperation then makes research projects possible that would not otherwise have been undertaken. A concrete example of a large international research project is the ITER-project on nuclear fusion. In addition, European centralization of research can foster competition between researchers, induce specialization among them and reduce the risk of overlapping research activities. Van der Horst et al. (2006) present empirical indications that larger countries tend to spend relatively more on public R&D and on subsidies for private R&D which could be caused by economies of scale in larger countries.

3.1. EURATOM and Joint Research Centre

EURATOM is financed through a specific research framework programme and the Joint Research Centre (JRC) has a special status within FP7. As such EURATOM and JRC are not considered to be ‘programmes’ within FP7. EURATOM is the EU’s oldest form of cooperation on research. The European Atomic Energy Community was founded in 1957, at the same time as the founding of the European Economic Community (EEC). EURATOM is the textbook example of a research project with increasing returns to scale. Given the prevalence of secrecy in atomic research, externalities due to knowledge diffusion are not likely to be a reason for European centralization. EURATOM has managed to survive despite the declining popularity of nuclear energy in some Member States. The Joint Research Centre (JRC) is the European Commission’s own research branch. The benefits of the JRC are not so much to be found in the normative part of the subsidiarity test - although some economies of scale might be present. Instead, the JRC assists in the development, implementation and monitoring of EU policies, while being independent from individual Member States.

Cooperation. The programme *Cooperation* receives the bulk of the FP7 budget. The objective of this programme is to support the whole range of research actions carried out in transnational cooperation. The programme covers collaborative research in ten thematic areas: Health; Food, agriculture and fisheries, and biotechnology; Nanosciences, nanotechnologies, materials and new production technologies; Energy; Environment (including climate change); Socioeconomic sciences and the humanities; Transport (including aeronautics); Space; Security; Information and communication technologies.

All kinds of transnational consortia - public, private and public-private - can apply for subsidies for research activities. Support for transnational cooperation will be implemented through Collaborative Research, Joint Technology Initiatives, and coordination of non-community (national and inter-governmental) research programmes and international cooperation. Collaborative Research provides funding for transnational collaboration and receives the bulk of the programme's budget. Proposals for projects under the sub-programme Collaborative Research must be made by at least three legal entities, no two of which are established in the same Member State. In this way, an incentive is offered for transnational cooperation. The European Technology Platforms (ETPs) should give the private sector more influence over the priorities of FP7. These ETPs consist of business leaders who formulate Strategic Research Agendas that should give a direction to the allocation of funds. If an ETP is deemed to be of strategic importance for the EU, it can be turned into a Joint Technology Initiative. Joint Technology Initiatives provide funding for long-term public-private research projects based on the Strategic Research Agendas. Coordination of National Research Programmes offers possibilities for multilateral cooperation, joint implementation of public policies, and could prevent a costly duplication of research efforts by the Member States. However, the primary objective of this programme is to promote scientific and economic integration of the Member States, leading to increased competition between research institutes and between companies, and to a better diffusion of knowledge across-borders. This objective clearly refers to an externality: the reduction of barriers between Member States.

As there are a great number of areas covered by these programmes, heterogeneity of Member States is not a likely issue, here. Given the size of the programme and the diversity of research fields and actors, it might be problematic to guarantee the quality of the review process. Moreover, the large budgets possibly generate a common-pool problem, although the multilateral nature of proposals provides a slight counterforce to this risk.

Ideas. The programme *Ideas* establishes a European Research Council (ERC). The ERC should fund projects proposed by researchers, similar to the National Science Foundation in the United States. Formally, the objective of this programme is to support 'investigatordriven' research carried out across all fields by individual national or transnational teams in competition at the European level. Only one legal entity is required for funding. The scope for economies of scale is large in this programme. By deciding centrally which proposals receive funding, the risk of duplication of research is limited; and it is less costly to employ the experts needed for high-quality assessment of project proposals. Centralization also avoids the negative effects of cross-border externalities and limited systems competition: the nationality and country of residence of the researchers submitting a proposal becomes less relevant for the chances of obtaining a grant. In addition, the risk of 'personalism' can be reduced if the experts evaluating a proposal come from another country than the persons submitting it. The 'second-best' argument, that centralization promotes competition and diffusion of knowledge, also applies to this programme.

People. The programme *People* is meant to financially support individual researchers in the EU. The Marie Curie Fellowships are an example of what is covered

by the programme. The objectives are to improve both the quantity and quality of researchers, and to make researchers more mobile in the EU. The principal difference with the programme “Ideas” is that less expertise is required in order to evaluate whether a person is entitled to a grant or not. Hence, economies of scale are less likely to occur. The risk of a common-pool problem is limited as long as the programme stimulates the mobility of researchers. Furthermore, centralization prevents a home-bias that would likely result from financing by Member States.

Capacities. This programme strengthens the research capacities that Europe needs if it is to become a thriving knowledge-based economy. The programme *Capacities* comprises a list of areas that are to be supported: Research infrastructures; Research to the benefit of SMEs; Regions of knowledge; Research potential; Science in Society; International cooperation. In terms of expenditure, the emphasis lies on support for research infrastructures and SMEs. In general, support for research infrastructures can be expected to have economies of scale, just like EURATOM. It is, however, important to consider whether an ‘infrastructure’ has EU-wide relevance. For example, a large telescope, like the proposed Extremely Large Telescope (ELT), is a project that will benefit research worldwide and is too costly to be funded by a single Member State. In this case, the benefits of centralization (though not necessarily at EU level) are clear. For other initiatives labelled ‘infrastructure’, the case for centralization might be less clear. For example, it is difficult to see why the Commission should spend money on ICT infrastructure for researchers as in the “e-Infrastructure” initiative. The provision of ICT infrastructure to researchers is the primary responsibility of research institutes and the private companies employing them. The only likely exceptions are supercomputers and highly-specialised software. When public research institutes do not receive sufficient funding from their governments, funding by the EU might be a second-best solution. However, knowing the EU will bail them out encourages under spending by Member States.

With regard to the funding of innovative activities by SMEs, Van der Horst et al., (2006) provide empirical evidence that there are no scale economies or policy externalities discouraging expenditures on SMEs. Larger countries do not spend more on SMEs than small countries; while open economies tend to spend *even more* on SMEs than closed economies. In addition, the heterogeneity among Member States regarding policies aimed at SMEs is probably substantial. While the normative part of the subsidiarity test aims to keep SME policy decentralized, it can be argued that national governments are in a subsidy-race in order to protect domestic SMEs from foreign competition. If this indeed is the case, centralization of expenditure at the European level could help to promote a level playing field for SMEs. However, this seems a rather strong measure. The first best solution would be to apply strict rules on state aid. The remaining four themes of the programme “Capacities” (*Regions*, *Research potential* and *Science in society*) do not appear to qualify for centralization according to normative subsidiarity principles. This is simply because there are no substantial external effects, nor are there economies of scale. Moreover, there is heterogeneity between Member States/regions. EU financing is likely to be characterized by a common pool problem that would result in over-spending.

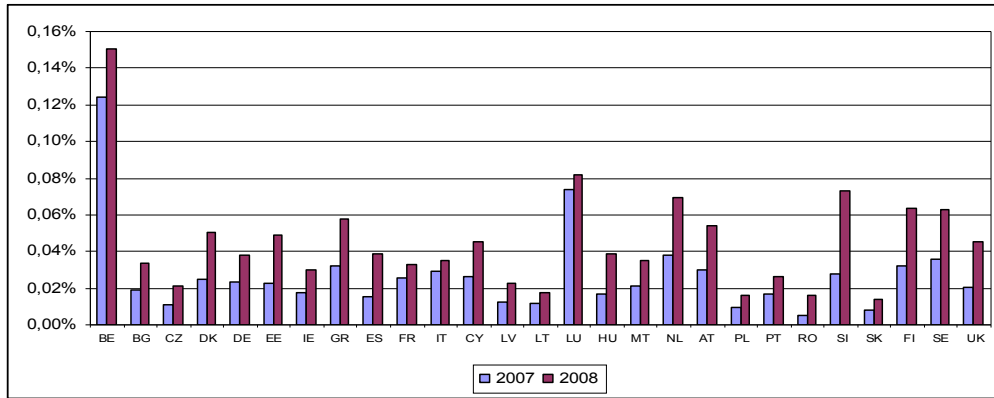
4. COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAMME (CIP)

The Competitiveness and Innovation framework Programme (CIP) is an initiative of DG Enterprise and Industry. The proposed budget is 3.6 billion euros for the period 2007-2013 (or 0.5 billion euros annually), which is less than 10% of the budget for FP7. The CIP consists of three specific programs: The Entrepreneurship and Innovation Programme (3/5 of the budget); The Information Communication Technologies Policy Support Programme (1/5 of the budget); The Intelligent Energy - Europe Programme (1/5 of the budget). The Entrepreneurship and Innovation Programme will bring together activities on entrepreneurship, small and medium-sized enterprises, industrial competitiveness and innovation. It encompasses the promotion of public-private innovation partnerships for SMEs, the provision of community financial instruments to overcome the poor access to equity, venture capital and loans for SMEs and the exchange of good practice between national and regional authorities.

The Information Communication Technologies Policy Support Programme (ICT) policy support programme will stimulate the wider uptake of ICT by citizens, businesses and governments and aim at intensifying the public investment in ICT. The role of the EC is to enable the development of common approaches and coordinated actions, the sharing of good practices and the deployment of interoperable solutions across the Union - all in support of the private sector and the Member States, which are the key actors in the deployment and best use of ICT. The objective of the Intelligent Energy - Europe Programme is to support sustainable development as it relates to energy and to contribute to the achievement of the general goals of environmental protection, security of supply and competitiveness. It is a non-technological programme in the field of energy focusing on the removal of non-technical barriers, the creation of market opportunities and raising awareness.

5. THE MEMBER STATES EFFECTIVENESS IN ATTRACTING EU FUNDS FOR RESEARCH

For the year 2007, the EU budget reserved about € 3.9 billion for R&D, which is less than the average yearly budget for FP7. This could probably be explained by the start-up phase of the new Framework Programme. In 2007, R&D expenditures cover 3 to 4% of the EU budget. This budget share will increase during the time period covered by the FP7 (2007-2013). As we represented in Table 1, from the total € 3.9 billion reserved for R&D on the FP7 in 2007, the Member States collected only 3,28 billion. The largest amounts were attracted in Germany and France and the smallest in Malta and Lithuania. In 2008 the FP7 funds received by the Member States increased to 5.41 billion and under the CIP Framework Programme increased from 92.65 million to 164.76 million euro. As we have shown in Figure 5, Belgium is by far the most efficient country in attracting financing under the PF7, representing as high as 0.12% and 0.15% in GDP. Other good performances were recorded by Luxembourg, Netherlands and Slovenia.



Source: own calculations based on European Commission. (2009). EU budget 2008 Financial Report. Luxembourg: Publications Office of the European Union

Figure 5. The FP7 funds contracted by the Member States (share of GDP)

Table 1. The EU funds for research under FP7 and CIP attracted by the Member States in 2007 and 2008

Member States	FP7		CIP	
	2007	2008	2007	2008
BE	416,44	519,89	15,79	25,55
BG	5,51	11,37	0,41	1,15
CZ	13,81	31,07	0,90	1,33
DK	56,24	116,79	2,20	3,30
DE	561,43	953,92	13,32	28,49
EE	3,57	7,89	0,11	0,21
IE	33,15	54,29	1,49	1,99
GR	72,84	137,39	4,44	5,82
ES	159,12	422,77	7,30	11,46
FR	481,15	645,31	7,47	16,50
IT	452,90	546,91	11,53	15,93
CY	4,24	7,75	0,14	0,31
LV	2,59	5,30	0,27	0,55
LT	3,32	5,56	0,24	0,47
LU	27,76	32,30	0,70	0,59
HU	16,66	40,69	2,54	2,47
MT	1,17	2,00	0,05	0,24
NL	216,78	411,86	5,39	13,22
AT	80,67	152,79	4,37	6,06
PL	29,21	58,63	0,59	4,30
PT	27,24	44,34	1,30	3,97
RO	6,48	22,94	0,36	1,45
SI	9,60	27,09	0,28	1,34
SK	4,39	8,84	0,18	0,40
FI	57,78	117,29	1,22	2,44
SE	118,35	206,36	2,30	1,89
UK	422,38	826,11	7,77	13,32
EU 27 Total	3284,76	5417,46	92,65	164,74

Source: own calculations based on European Commission. (2009). EU budget 2008 Financial Report. Luxembourg: Publications Office of the European Union

6. CONCLUSIONS

We can draw the conclusion that the role of the EU in providing funding for R&D is suitable. In many cases, there are economies of scale in centralizing R&D funding, such as EURATOM, JRC, Cooperation, Ideas and Capacities regarding infrastructure. In addition, the programmes Cooperation, Ideas, and People have the ability of internalizing the spillovers. Under the Competitiveness and Innovation Framework Programme where the R&D funding is directed to SMEs, the role of the EU is less obvious. Even though R&D has one of the largest shares in EU Budget, the Member States themselves have substantial R&D budgets. At the moment, the EU funds contracted through FP7 and CIP are still insignificant when compared to the total R&D expenditures financed by the Member States budgets, but their importance is likely to grow in the near future.

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A STRATEGIC APPROACH OF THE CONSTRUCTION SECTOR IN ROMANIA

TUDOR NISTORESCU, CRISTINA PLOSCARU *

ABSTRACT: *Construction, one of the major economic sector of activity in Europe, was severely affected by the actual global recession, although the impact of the crisis and the moment when it occurred varied widely between the EU Member States. In Romania, the first effects of the economic crisis in the construction sector occurred since early 2009, being visible both in physical volume of construction works and in the volume and value of investments in this sector. The crisis in the construction works had a strong impact on the entire Romanian economy. With the present research paper „A strategic approach of the construction sector in Romania” we aim to highlight the competitive advantage the companies in the field have on the national market. To this end we will use the SWOT model of strategic analysis and M. Porter’s five competitive forces model, in order to highlight the main problems faced by these companies.*

KEY WORDS: *crisis; construction; strategic analysis; competitive advantage*

JEL CLASSIFICATION: *M10, M19*

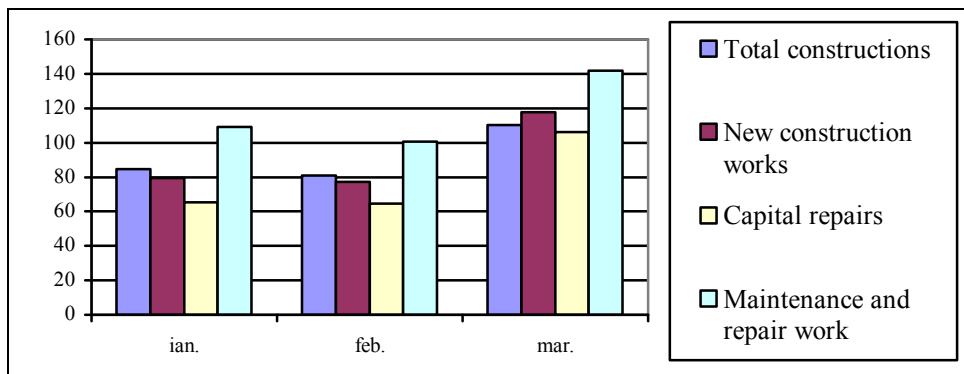
1. INTRODUCTION

Construction activity can be regarded as an open system, being a component of the “society” super-system, with multiple links and permanent interaction with the environment from where it receives information, energy, materials, funds and to whom it returns the works done. Whereas the operating environment for construction is evolving, the system can exist only if it is dynamic, i.e. it has the ability to modify in time its connections with the environment, due to the changes in it and to influences transmitted to the system. However, construction activity as an open system is, at the same time, a social-economic system, given that it is not only a set of equipment and manpower, but it also reunites labour means and objectives with the labour force through which it accomplishes its functionality, according to the objectives set.

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(Budica, 2005, pp 9-10). At this time Romanian economy needs an engine to restart it. Over the years, this role was played by exports (encouraged by the tax profit of 6%), construction sector, the 16% flat tax on revenues and profits, capital investments, real estate market.

During 2005-2008, the economy happened to go with four engines at once: the flat tax, all kinds of investments, residential construction and real estate market. The results were obvious: Romania recorded the highest rate of growth in the European Union. Today, all engines are stopped. Only the flat rate remained, but its power is too low to accelerate the pace of the national economy. All hopes move towards the construction sector. It said that when a constructor ascends a scaffold, other 20 workers from different sectors have work to do. On the construction sector depend a lot of jobs from the construction material industry and trade, from the pits of sand, limestone, stone, steel industry, glassware, petrochemicals, road, rail and marine transports, education and scientific research. In 2009, construction companies recorded a decrease of 20% to 60% of their turnover. Few were those who could boast of a volume of activity higher than in 2008. Many companies - usually the small ones - had to put up the shutters. Latest data from the National Institute of Statistics, but also the Bulletin prepared by the specialist of the National Bank of Romania, reveal that the construction industry faces further with decreases in all sectors of activity. In January 2010, construction works volume (unadjusted series) decreased with 64.5% compared to December 2009, the impairment being evident in all structural aspects, as follows: capital repair works (-71.6%), new constructions (-64.3%) and maintenance and repair works (-61.7%). (Figure 1).



Source: National Institute of Statistics

Figure 1. Indices of construction works on structure elements, in the first quarter of 2010

This regression is actually a result of the sharp decline in investments made in 2009 in this field in Romania. The amount of funds directed to construction last year was of 33.37 billion lei, decreasing by 86.2% compared to 2008. According to opinions expressed by the operators in the field in a survey of NIS, the activity is expected to remain low until April 2010. This idea is also supported by the Central Bank officials, who forecast that construction activity will restrict further, but the improvement of the

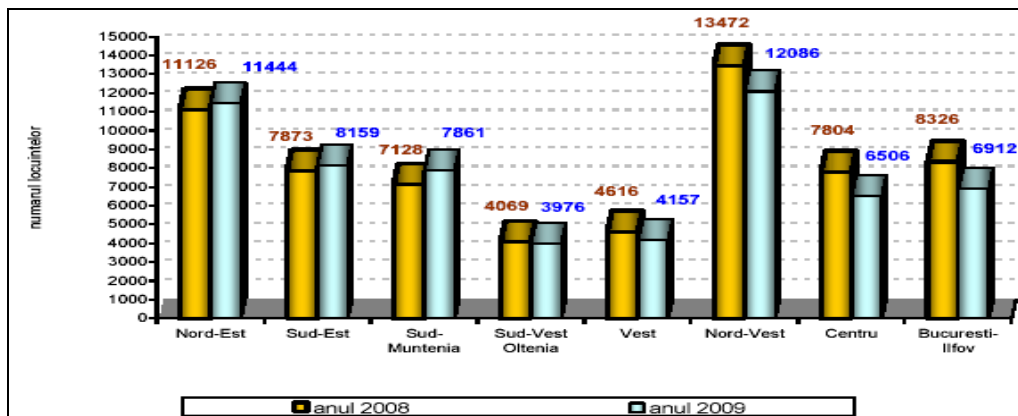
negative balance points reveal the probability of a moderation of pace. Also, according to NRB, the outlook for construction area will remain for a longer period.

One can hardly deny that the coming period won't be extremely difficult for the entire construction sector, but one should not overlook another important issue: the economic crisis has taken down many prices. Construction materials are cheaper today than in 2008. Land prices have fallen substantially, and manufacturers have reduced costs and share profits. In a word, in terms of material and labour costs, it is the ideal time for investments. According to construction experts forecast, in late 2010, the construction industry will be brought to life.

2. PORTER MODEL ANALYSIS OF THE CONSTRUCTION SECTOR

The diagnosis of the external environment was done with Porter's five competitive forces model, namely: threat of entry, supplier power, threat of substitutes, buyer power and rivalry among existing firms.

Threat of entry. Residential constructors intensified their activity since 2005 with the opening of people's access to mortgage. Romanian adhesion to the UE led, in recent years, to a real estate investment growth and implicitly a growth of residential developed by foreign investors. This situation is reflected in the numbers of newly built houses, which has doubled in the past three years. According to NIS, at the end of 2008 over 143.000 were being built. Most of newly built houses have at least 3 bedrooms and are built by private investors or individuals. 2009 registered a decrease in the number of homes compared to 2008. The distribution of finished houses finance funds reveals that, compared to 2008, in 2009, the number of dwellings built from private funds decreased with 4545, and the number of dwellings built from public funds increased by 1232 dwellings.



Source: National Institute of Statistics

Figure 2. Finished dwellings on development regions

The analysis of new dwellings construction highlights an increase in their share in rural areas both in 2009 and in 2008, with the mention that in 2009, compared to 2008, it was recorded a decrease of 2.0 percentage points.

Table 1. Finished dwellings on residential areas and funding sources

	Finished dwellings (Number)			Structure (%)	
	Year 2008	Year 2009	Year 2009 compared to year 2008 (+/-)	Year 2008	Year 2009
TOTAL	64414	61101	-3313	100,0	100,0
Urban area	30665	30308	-357	47,6	49,6
Rural area	33749	30793	-2956	52,4	50,4
from total:					
Private funds	59955	55410	-4545	93,1	90,7
Public funds	4459	5691	+1232	6,9	9,3

Source: National Institute of Statistics

Developer's business model is based on the real estate structure replacement of cost principle. When the market value of buildings in a given area exceeds the cost of their building from scratch, real estate developers will invest in that area. The major risk of this activity is that the production is stock-oriented, and the gradual selling of dwellings before completion is difficult during the periods of price decreases. To mitigate this risk, most developers divide large projects on construction phases in which houses are gradually given into use. Time between the date of investment commencement and project completion is generally high enough to constitute an element of uncertainty. Trying to eliminate some of the risks posed by large gaps in the construction industry and in order to secure some capital necessary for performing the investment, real estate developers sell out apartments when they are in an early phase of project. This generates on the market transactions with apartments that did not exist yet. Their lower prices incorporate, however, risks that the developer does not wish to assume.

Residential construction market entry barriers can be divided into two categories: *natural*: about the level of capitalization and necessary know-how; *administrative*: related to permits and licenses necessary for carrying on the activity. Natural barriers level is relatively modest on national scale, at least relative to other economic sectors. The capitalization rate necessary for becoming real estate developer is low enough to allow a large number of participants, and know-how is not a problem. Administrative barriers, in contrast, are relatively high, as shown by the analysis of the World Bank. The main problem is related to the high length of time needed to obtain the permits required to operate a building. (Table 2).

Table 2. Obtaining construction permits

	Romania	OECD Member States
Procedures number	17	15,4
Duration in days	243	157
Cost as percentage of average annual income per capita	87,9	56,1
Place in world rankings	91	

Source: World Bank - Doing Business 2010 - Romania

In addition, high levels of bureaucracy (especially duration) constitutes a source of economic inefficiency, by enhancing existing gaps in the response that the offer can provide to new dwellings demand.

Supplier negotiation power. Building materials market was estimated at 3 billion Euro in 2008, depending directly on developments in the construction sector. With the funds still being blocked, in 2009 the construction market declined by up to 15%, estimates the National Union of Romanian Employers. (NURE). Experts consider that the most affected segments of the construction materials industry were cement, masonry bodies, thermal insulation, and to a lesser extent finishes and coverings. Construction material market in 2009 accounted for half of the construction industry, registering a value of approximately six billion Euro for the domestic production and 2.2 billion for imports.

Real estate market collapse, low construction boom, largely “guilty” for the economic growth in recent years, but also the moderation of investments led to reactions on the construction materials market which registered decreases up to 40-50% compared to previous years. But the decrease was expected because last year manufacturers steadily increased their prices, without objective justification, but only because the market could bear higher prices without the number of customers being affected. If the price of construction materials increased to alarming proportions in previous years, now there is a reverse trend. Thus, although manufacturers say that from the factory gate materials leave at the same price as in previous years, distributors and retailers have dropped their fabulous additions and prefer to sell at an acceptable price, not risking remaining with merchandise in stock. They say that the prices of cement, rebar iron and brick have reached levels close to production costs, below which it is impossible to drop. So iron’s price dropped from 4.5 lei to 2.1-2.6lei/kilo from last summer until now, and cement dropped from over 40lei per bag to about 25.

Alarmed due to sales declines recorder lately, construction materials dealers compete in alluring offers. But even if the offers are tempting, buyers are sceptical when it comes to investments, be it as small as possible, and they calculate carefully their every penny, especially since many were left without jobs, which is “due” to the more and more present financial crisis that has upset their plans. Pro BCA representatives, an association that brings together the biggest BCA manufacturers in Romania, want to meet in an employers association the largest construction companies. Pro BCA owns 70% of the specific market (worth about 200 million Euros) and brings together the following companies: Macon, Celco, Soceram, Ecoblock, Somaco Grup Prefabricate, Xella Pro and Alba Aluminiu. According to manufacturers, the economic crisis will reach its peak between October 2009 and April 2010, and a real recovery will only take place in 2011. According to companies’ representatives, the legislation gives big headaches for those who have money to be recovered: the law of insolvency, for example, allows firms to continue their activity, without paying some taxes.

Threat of substitutes. People always wanted to save money, and wanted to invest in things they can use immediately. Performing construction with heavy materials, with high humidity and executed on long term, must belong to the past, because it brings dissatisfaction both to the constructor and to the beneficiary. At this time in Romania constructions are mostly made of brick and concrete, which involves

some disadvantages: long execution time; large amounts of materials put in work and to transport; wet technological processes; large number of workers.

According to studies made by construction authorities, in our country, buildings made of concrete and bricks started to decay, their rehabilitation needing a higher grade of execution, which is being added to the high necessity of investments in construction. Polish Ministry of Planning and Construction reveals in “*Construction Market*” that in concrete and brick construction sector, the volume of works has dropped from 66% in 1989 to 38% in 1994. At the same time it is being optimistic concerning prefabricated parts with steel structure.

A technology able to reduce these disadvantages would be both in the favour of the constructor and of the beneficiary. If a smaller price is added, we can speak of great advantages. The new technology consists of structures made of: light zinc profiles as structural frame; interior and exterior walls placated with OSB (resembling to 6-16 mm PAL) and gypsum wall-boards and thermal insulation made of mineral wool or polyurethane; roofs with framework and slate hydro-insulating boards.

The advantages of this technology, which brings three great qualities: fast execution, small price on square meter built and high seismic resistance, are also extending over the social field as follows:

- *Fast capital flow* given by the state for the construction of dwellings. If the work is executed in 3 months instead of 24 months, like in classic constructions, it means that, at the same credit value, we can build eight times more constructions;
- *Credit encouragement* - the work is accomplished in 3 months, which means in the bank's grace period for paying back the loan. After three month, the work being done, the beneficiary starts his works, therefore he can afford to pay the loan, having revenues from the completed investment;
- There can be performed works of over ascension on the roof of old apartment buildings. There's no need for foundations, construction site and exterior fittings. Removing the old hydro insulation, which is 90 tons, living spaces with 60 tons are being executed;
- *Works performance does not imply wet processes*, therefore investments can be made on a period of 10-11 a year, compared to 8 months in the classic solution, but keeping in mind the cold season;
- *Very small execution price*, accessible to a wide range of beneficiaries (price/m² - 250\$, compared to 350-400\$ in the classic solution: concrete, bricks or wood) and with the same resistance conditions and thermal comfort.

With the new technology we can build a house in two-three months and at a price that is almost half of the one resulted by using the old technology.

Buyer power. The Government approved the “FIRST HOUSE” program whose declarative purpose was to offer support to those who needed to buy a house, but don't have enough funds or are not eligible. In the past 6 months of 2009, and especially amid the launch of this program, over 65% of developers and agents have lowered the acquisition prices of the buildings between 5 to 20%, says a study on the real estate market. According to the study “The real estate market - signals from the players” - made by the real estate website TopEstate.ro, the downward trend of prices, in this period, was also felt in the segment of real estate properties in a project stage.

Thus, 61.4% of sellers have dropped their prices between 5 to 20% or even more. On the other hand, a fairly significant percentage of 33.33%, have not changed their selling prices. In addition, over 12% of the sellers have allowed the increase of prices by up to 20%. The launching of the "First House" program determined a series of changes on the offer level. Therefore, 33.07% of the sellers have thought of some special promotional packages, while 21.26% have dropped their prices so that clients could benefit from the "First House" program. But there are also developers - 37% - for whom the "First House" program did not bring any change in the initial offers, be it for administrative reasons, or just because their target clients are not among those who access a credit through the "First House" program.

If "First House" has determined massive changes among offerers, we cannot say the same thing about the level of demand. Approximately 64.71% demanders still prefer two-room dwellings, with prices that don't overpass the threshold warranted by the state - 60,000 Euro. On the second place in the buyers' preferences are the one-room dwellings - 19.12%, followed by three-room dwellings - 9.56%. Only 0.74% of clients opt for a four-room apartment. It is noteworthy that a percentage of 5.88% of real estate clients from the first 6 months of the year turned to the purchase of houses. (www.programul-primacasa.ro). The executive has decided that after February 15, 2010 „First House” program should have a new formula by which to begin building new dwellings, without abandoning the support for the purchase of completed dwellings, so that, a revival of the construction market, severely affected by the economic crisis, could be possible.

The Government approved at the Government Meeting of February 17, 2010, a guaranteed limit of 700 million Euro for the "First House" program in 2010 and the increase of the guarantee for new houses up to 70.000 Euro. For those who associate in order to build dwellings, the guarantee was set to 75.000 Euro. This way, even if the guarantee for those who want to buy already built houses or partly finished houses might rise to 80.000 Euro, this thing hasn't happened yet, the maximum amount guaranteed by the State remaining at 60.000 Euro. To see what effect the Government's decision had on the market, the specialists from www.MagazinulDeCase.ro compared the number of houses with prices ranging from 60.000 Euro to 80.000 Euro, for sale from January 7 to February 15, 2010 with those for offered from October 7 to November 15, 2009.

Data obtained from the analysis made by the real estate portal have shown that between January 7 - February 15, 2010, in Bucharest, 886 buildings were put on sale with more than 11% than during October 7 - November 17, 2009, when 798 dwellings were put on sale. Between February 15 and February 17, 2010, at which time no one knew how the government program will be changed, 107 dwellings were put on sale with prices within the limits showed above. For Ilfov County, in the same period, the growth was of 21%, reaching from 76 to 92 dwellings offered. Also an increase in the number of dwellings was recorded for some of the most important counties. Between January 7 and February 15, 2010, in Timis, the rise of dwellings' number with prices ranging from 60.000 to 80.000 Euro, was of 69%, in Sibiu of 100%, in Brasov of 49%, while in Dolj was of 275%. (www.9am.ro).

Rivalry among existing companies. Romanian companies should understand that, from January 1, 2007, began the greatest test of the Romanian economy, which is to be able to face competition, straight, with well defined rules, but where no one forgive anyone. For all players of the construction market, 2009 was the year of the battle for customers. In the absence of large infrastructure projects, without real support from the authorities who didn't allocate the promised funds to stimulate and recover activities in this sector, and also due to the freezing of real estate projects, construction companies faced with, perhaps, the toughest competition in recent decades. "2009 was the year of the battle for customers in the construction materials sector. With so few large projects, we led a price war, and competition was very fierce", explained Rohan, at the conference "Romania under construction", organized by The Money Channel. According to data provided by chief of Carpatcement, prices were directly affected by this situation: those of producers have fallen by about 5-10%, concrete prices have fallen by about 60-70%, the same percentage of reduction being valid for the prices on the sacks market.

Regarding 2010, it could become the price dumping year for public auctions, after 2009 brought many companies in the industry on the verge of despair. Representatives of the Ministry of Regional Development and Tourism (MRDT) claim that soon, cost standards will be set for every kind of public work, in order to avoid additional costs of projects. MRDT has decided that any contract won from public auctions can not be increased by additional acts, with more than 10% - and this only on the advice of technical and economic council of the ministry. MDTR also intends for the construction companies abusing the appeals to be disqualified at future auctions of the institution.

Another problem reported by the Construction Employers is that local companies are discriminated in terms of winning the auction of large projects financed by the state. This is because the tender book requires experience in similar works in the last five years, criterion that local companies cannot meet. For 2010, most construction market players have outlined the objective of maintaining or slightly adjusting the business level of last year. Depending on the operating segment, companies have prepared for this year several measures aimed mainly to focus on certain products or types of customers in order to boost the activity.

Holcim Romania recorded in 2009, a turnover of 250 million Euro (with 33% less than in 2008) and for 2010 it is expected to decrease by another 5% compared to 2009. The company reported last year, decreases in all segments of activity, as follows: concrete sales dropped with 50%, deliveries of aggregates - with 28%, and cement - with 19%. Henkel Romania recorded in 2009 a turnover of about 571 million lei (approximately 135 million Euro). The company invested further in marketing, promoting key brands and attractive promotional packages offered to customers. Best product categories within Adhesives Division in 2009, were those related to thermal (Ceresit Ceretherm) - plaster, adhesives, primers- and also Ceresit polishing plaster coat. In early 2010, the company acquired the land for the third adhesives production unit in Romania, in Roznov, Neamt County. Currently, Henkel owns in our country two production units for construction adhesives, one in Pantelimon, and the second in Campia Turzii, Cluj County. Henkel's total investments value in Romania, in

production capacity, exceeds 30 million Euros. With the construction sector recovery, the company will confirm the investment plans for the third production unit in Romania.

The company Baxi Romania recorded in 2009 a turnover of 14 million lei, decreasing by 33% compared to 2008, while the economic crisis deepened, and implicitly, the growing pace of the residential construction market. The company started, in the second semester of the last year, its own “Heating system wreck” program, where those who want to replace individual installations receive a scrapping bonus of up to 750 lei. This way, during September - December 2009, the company sold 600 heating systems through this program, representing 15% of the last year's turnover. For this year, the company representatives expect to achieve a turnover of 4.5 million Euro and a 30% increase in sales from Wreck program, 10.300 units estimated to be delivered in 2010. Since March 2010, the company extended the program towards the industrial commercial segment, and the first scrapping bonuses offered are between 3.000 lei and 7,000 lei. The program will run until the end of 2010, and the company estimates that more than 3.000 heating systems will be nationally replaced.

The Romanian subsidiary of Ridge Tool Company - part of the tools division of the North American Emerson Corporation - made in 2009, a turnover of about 1 million dollars, a level similar to that achieved in 2008. Thus, if before the financial crisis most revenues (over 70%) came from orders for applications in civil engineering (for plumbing installations), now their share has decreased significantly, being matched by that of products for urban areas.

3. SWOT ANALYSIS OF THE CONSTRUCTION SECTOR

SWOT analysis is one of the most used managerial tools for determining the “health” and position occupied by an enterprise. Therefore, it is an important step in the process of substantiation and development of strategies. When reference is made to this tool, it highlights the fact that such a study is made both in the internal and external environment, which involves the fact that the company is a closed system.

In the SWOT analysis the focus drops on the most comprehensive and realistic identifications of strengths, weaknesses, opportunities and threats specific to the organization or to the domain being investigated. On the other hand, modern organizational approaches assume that the organization is an open system, so marking an internal-external border may be counterproductive for the analytical purposes of the tool discussed. (Bacanu, 2006, p.134)

STRENGTHS	WEAKNESSES
1. High degree of privatization of the construction sector: 99.51% of the construction companies with private capital in 2003 and 99.87% in 2007. M 2. Increasing the attractiveness of the construction sector by increasing “profit margins” and the gross average wage in the	1. The construction market is still immature (low concentration level) with a constant motion of quantitative and qualitative construction companies (many bankruptcies or closures). M 2. “Politics” interference in economic is felt also on the construction market, especially in contracts with public funds (including EU). M

<p>sector, coupled with increased labour productivity, which easily outpaced wage increases. M</p> <p>3. The existence of some examples of “best practices” of social partnership in the construction sector (Construction Sector Committee, Constructors' Social House, Craft House of Constructors, etc.) M</p> <p>4. The existence of a core companies, with human resources department (or similar), which supports continuous training (CT) and performs internal/external training programs. M</p> <p>5. Dynamic growth in average wages in construction coupled with inflation drop. L</p>	<p>3. The construction market is a closed one, not transparent in terms of the construction companies listed on the stock market. L</p> <p>4. Lack of qualified workforce in the construction sector, due to more attractive wages on the Community market. H</p> <p>5. In the construction sector appear the most cases of “unofficial” payments for the work performed by employees (“grey” work or work “under the table”) M</p> <p>6. Poor development of Work Safety and Security Systems. M</p> <p>7. Insufficient infrastructure works provided that the majority of works performed by the Romanian construction companies have the status of multinational subcontractor. H</p> <p>8. Frequent delays in payments of construction works with funds from the state and local budgets. M</p> <p>9. Construction VAT is still high, putting a barrier on sector's development, paying the VAT when issuing the invoice (not when collecting) it is a big financial barrier. M</p> <p>10. Still high financial costs due to interests of some banks, because of the lack of liquidity in the banking system. M</p> <p>11. Labour productivity is still low compared to the average EU value. H</p> <p>12. Low expenses, small investments and lack of interest in rising the qualification, for CT. M</p>
<p>OPPORTUNITIES</p> <p>1. The high potential of construction market development including aligning to the European Union requirements (thermal rehabilitation, environment protection, etc.) H</p> <p>2. Economic development requires attention to the construction sector, with priority on infrastructure development. M</p> <p>3. Development of construction projects (particularly infrastructure) with technical and financial assistance from Community funds. H</p> <p>4. Flexibility and fragmentation of the construction market allows the free entry of new players. L</p> <p>5. The return of the indigenous labour force, with experience gained on the community market with a new labor “culture”. M</p> <p>6. Credit cost reduction amid the BNR standard interest reduction and compulsory minimum reserves for banks at the National Bank. M</p>	<p>THREATS</p> <p>1. Slowdown in the development of the construction sector over recent years, coupled with lower economic growth in general. H</p> <p>2. Economic uncertainty reflected also in the construction sector, caused by frequent changes in legislation (e.g. Law no. 50.1991 authorizing construction, public procurement, etc.) M</p> <p>3. Reduced access to financing as a result of the economic and financial crisis can lead to a slower growth of the construction sector in coming years. M</p> <p>4. Lack of investment in continuous training amid continuing refurbishment of the sector. M</p> <p>5. Lack of regulations to help local companies compete with multinational ones. M</p>

7. Listing of construction companies on the stock market for a better capitalization. M	
8. Increased skilled workforce through: the opportunity of recognition and validation of competences acquired in non-formal/informal context (on site, etc.) and the possibility of apprenticeship and mentoring programs organization (the latter with co-financing from the EU funds). M	

Legend: Impact on the construction sector - *H* = High, *M* = medium, *L* = low.

4. CONCLUSIONS

Construction, one of the most important economic sectors of activity in Europe, was affected by the current global recession, although the crisis impact and the moment when it occurred varied widely between the European Union Member States. In many countries, there were clear indications of a decline in production and employment in the second half of 2008. Some parts of the construction sector, like residential real estate constructions, have been affected more severely than others. Moreover, due to the domino effect, construction materials manufacturers reported a decrease in production. Because of the gap between production decline and jobs reduction, the effects of the decline were not yet fully felt.

In Romania, the first effects of the economic crisis in the construction industry occurred since early 2009, being visible both in the physical volume of construction works and in the value of investments in the sector. The crisis in the construction sector had a strong impact on the entire Romanian economy. Unfortunately, 2009 didn't provide encouraging signals. Construction companies recorded a drop of 20% to 60% of their turnover. Few were those who managed a volume of activity higher than in 2008. Many companies - usually between the small ones - were forced to close their business. The trend for 2010 is rather neutral, yet there were no signs and arguments for an immediate improvement of the construction market. Determinant factors of such a state are actually hard to identify, the more difficult being separating the influence of each. Sure, the economic circumstances can't be ignored, but obviously it is not the only factor responsible for the crisis in the construction sector.

If we focus on Romania, a special attention should be paid to legal-political and social factors. The government had failed to fulfil a series of promises including the provision of 10 billion Euro for investments, non-taxation for reinvested profit, VAT payment on receipt if invoices, etc. Also, the measures taken by the Government, including programs like "First House", with intense media coverage but with late effects on the construction sector, did not met the expectations of most constructors.

Turning to social factors, although most employers seek skilled workers, and the wages offered tend to increase, we cannot say that there is a massive demand for qualified personnel as shown by the low concerns of construction companies regarding continuous training. Reducing labour costs through wage freeze and allowance suspension could be offset by investments in continuous training, providing the qualified human support for the reconstruction of the construction sector after the

economic crisis. Judging from another perspective, the current decline in construction is also an opportunity for developers, entrepreneurs, investors, banks and consultants to rethink their strategies and to determine where and when the mistake was made and how to improve their performance, effectiveness and productivity in construction design. A significant number of projects suffer from lack of quality, delays and cost overruns, lack of strategic approach, applying the best practices in the industry and international standards in order to effectively manage the construction process from early stage, to completion.

Consultants in the field highlight that, often, one of the main reasons for cost overruns during the construction process, is the lack of prudence and risk assessment at the beginning of the project, when development budgets were underestimated, with limited or no provisions for contingencies and reserves for works not thoroughly detailed. These shortcomings, combined with the lack of interface management between architects, engineers, mechanics and electricians, eventually led to changes of the contract's object and costs and caused significant delays on site.

Passing from the macroeconomic to the microeconomic approach, we can say that especially due to those problems of strategic management approach, Romanian companies from the construction sector remain among the most vulnerable to the crisis, as evidenced in the SWOT analysis, which I have inserted in the paper - weaknesses and threats, both in terms of legislation and economic and social measures for reviving the economy and therefore the construction sector, that the Government delays to implement.

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THE IMPACT OF GLOBALISATION ON BANKING SERVICE QUALITY IN ZIMBABWE (2003-2008)

KOSMAS NJANIKE *

ABSTRACT: *The study sought to investigate the impact of globalization on the quality of products in a developing economy banking sector. The objectives of the research were to ascertain whether globalisation helps restore or maintain confidence in the banking sector; ensure a sound financial sector; helps reduce fraudulent activities and whether the implementation of global measures improves the quality of products in the banking sector. Zimbabwe banking sector was used as a case study. Questionnaires and interviews were used to collect the data in addition to documentary review. It was found that globalization ensures efficient service delivery as human bank tellers; long queues and underutilisation of internet were still in existence in the banking system. Globalisation of the banking sector is essential in that it brings new technology which help improve banking services and infrastructure hence reduce fraudulent activities, new risk management techniques and increased confidence in the banking sector.*

KEY WORDS: *Zimbabwe; globalisation; banking service quality; efficiency*

JEL CLASSIFICATION: *F30, G01, G21*

1. INTRODUCTION

Globalisation refers to the process of the intensification of economic, political, social and cultural relations across boundaries, and it is principally aimed at the homogenization of political and socio-economy across boundaries. A sound banking system depends partly on the control exercised by the central bank and, the trust that customers have that their money will be safe, and that when one wants to withdraw money their funds will be available. According to Rose (1999), a financial institution is one that facilitates allocation of financial resources from its source to potential users. The Reserve Bank of Zimbabwe (2003) asserts that the role of the banking sector is to act as an intermediary for investors and savers in an economy.

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In Zimbabwe at the end of 2003, there emerged a financial crisis in the banking sector, which saw the closure of most banks. The banks among others are Time Bank of Zimbabwe, Royal Bank of Zimbabwe, Trust bank, CFX Bank and Barbican Bank Limited. These banks were faced with problems of tight liquidity conditions, failure to meet obligations when they fall due, this saw them having to use depositor's funds to support their financial crisis which should not be the case. The role of intermediation was greatly thwarted resulting in the public losing confidence in the banking sector.

The loss of public confidence in the banking sector pursued until 2008, which saw banks having to engage in non core activities to strengthen their financial base. In 2007 there was an increased use of the Real Time Gross Settlement (RTGS) system to facilitate money transfer in a bid to increase the use of plastic money. This had drastic effects on the economy which saw retailers charging different prices of their goods if one was using plastic money and cash money. The RTGS system was grossly misused to a point where it was said to be fueling inflation in Zimbabwe. The abuse of RTGS system also caused serious cash shortage. The public reached a point where they practically refrained from putting money in the bank and relied on keeping it as foreign currency in order to keep abreast with inflation levels.

Globally banks have registered an increase in their product portfolio due to increased Information Communication Technology (ICT) and as a result the banking sector's product portfolio was greatly influenced. This has resulted in improved efficiency in the global financial system. However in most developing economies ICT lacks the necessary infrastructure to support it. This keeps the service quality low and depresses the rate of return on investments in the banking sector. Therefore this paper seeks to establish whether the transformation of the banking sector from a national level to a global influence has had any effects on the banking sector. It seeks to ascertain the influence of globalization on the growth, stability and soundness of the banking sector in the economy from 2003 to 2008.

2. RESEARCH QUESTIONS

The research seeks to provide answers to the following questions:

- ❑ Did global technological advancements change the nature of the quality of products in the banking sector?
- ❑ What influence did globalization have on the activities, growth and soundness of the Zimbabwean banking sector?

3. METHODOLOGY

Questionnaires and interviews were used to collect data on the current state of the banking sector in terms of globalization and quality of services provided. A total of 16 questionnaires were used to get the general view of the respondents. Personal interviews then followed to get greater understanding and analysis of the perceptions on the effect of global information technology (IT) innovations or electronic delivery channels on the banking services in Zimbabwe.

Target population included banking IT and marketing executives to ascertain the form of global innovations introduced by different banks. A sample of 16 different financial institutions was used and they were selected on the basis that they had at least one form of global IT innovation service delivery channel.

4. LITERATURE REVIEW

When globalization is used in an economic context it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour. Globalisation has had an effect on how banking business activities are conducted worldwide and Zimbabwe was not spared. Since the advent of EFTPOS (Electronic Funds Transfer at Point Of Sale), direct debit, direct credit and internet banking, the cheque has lost its primacy in most banking systems as a payment instrument (MacEwan, 1990). This has led legal theorists to suggest that the cheque based definition should be broadened to include financial institutions that conduct current accounts for customers and enable customers to pay and be paid by third parties, even if they do not pay and collect (Vijayaragavan, 2007).

Bank branch networks have been influenced greatly by Automated Teller Machines (ATMs), computerized telecommunications device that provides a financial institution's customers a method of financial transactions in a public space without the need for a human clerk or bank teller (Smith, 1999). Most banks now have more ATMs than branches, and ATMs are providing a wider range of services to a wider range of users. For example in Hong Kong, most ATMs enable anyone to deposit cash to any customer of the bank's account by feeding in the notes and entering the account number to be credited. Bonin and Iftekhar (2005) asserted that most ATMs enable card holders from other banks to get their account balance and withdraw cash, even if the card is issued by a different bank.

Telephone, mobile, video and online banking have replaced face to face interaction with the banker in many economies (Rose, 1999). Rose described telephone banking as a service provided by a financial institution which allows its customers to perform transactions over the telephone. Online banking is a term used for performing transactions, payments and so on over the Internet through a bank, credit union or building society's secure website.

According to Koch (2008) mobile banking is a method of using one's mobile phone to conduct simple banking transactions by remotely linking into a banking network. Koch described video banking as that used for performing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be performed via purpose built banking transaction machines (similar to an Automated Teller Machine), or via videoconference enabled bank branch.

Globalisation can be seen as an evolution which is systematically restructuring interactive means among nations through breaking down barriers in the areas of commerce, communication and other areas of endeavor (Oluwalana, 1999). This is as a result of existence of free-market forces and good corporate governance among other values. According to the International Monetary Fund (IMF) globalization has

increased international division of labor and the accompanying integration of national economies through trade in goods and services, cross border corporate investments, and financial flows. The effect of globalisation on the banking or financial system is not something imposed but the result of forces for change that are deeply rooted in human nature: the drive for freedom and better service, for new discoveries, and for a broader horizon (MacEwan, 1990). In the banking sector globalisation has removed national or entity barriers to the free movement of international capital and this process is accelerated and facilitated by the supersonic transformation in information technology (Ohiorhenuan, 1998).

Globalisation has been used as a synonym or attributed to as a major influence of liberalization and greater openness. The implication of this is that both domestic and foreign liberalization are said to imply globalization, since the former brings domestic markets more in conformity with forces operating in markets abroad, and the removal of administrative barriers to international movement of goods, services, labour and capital increases economic interaction among nations (Tandon, 1998). It is within this view that we can argue that globalization is mainly a phenomenon of capital mobility. A healthy economy has been characterized by an increase in transnational firms, international financial institutions operating independently of national boundaries and domestic economic considerations. The implication of deterritorialisation for African countries is that world goods, factors of production and financial assets would be almost perfect substitutes everywhere in the world.

The increase in the volume of goods among nations, international trade continues to grow resulting in greater international banking business being combined by insurance services under one roof (Bhagwati, 2004). According to Toyo (2000) the new development which seems to connect these different strands is that an increased pace of capital mobility has begun to shift the prospects for economic development and growth to the global level - an indication of the expropriation of surplus and capital flight from the African economies. Due to the globalization effect it is now easier for foreign banks to enter the host country's financial market (Toyo, 2000 and Bhagwati, 2004).

While foreign entry may come after financial crisis in developing countries it is mainly due to low level competition in host country, deregulation and access to new customer base that lead to foreign entry in developing countries. Foreign entry of banks has brought new technology and risk management techniques, funds for the banks in need, and regulations that can reduce the amount of financial capital that may flee the country in times of crises. Moreover globalization brings with it measures to improve the quality of corporate governance increasing the efficiency of banks and therefore stabilizing the economy (Jeon *et al*, 2006).

Globalisation has possible risks of negative shocks which may cause instability in the domestic market, increased competition which can result in weakening of the local banking sector, possibility of the foreign banks fleeing in times of trouble and also can result in inability of regulations to control the foreign banks in the host country (Gupta, 2002). Gupta asserted that there is also a problem of inability of regulations of the host country to control bank behaviour and increased foreign deficits emanating from profit transfers.

Developing countries with high debts may perceive globalisation as a solution (Leow, 1999). The host country expects increasing international trade, improving technology in order to modernize the banking sector, increasing the product and service variety, encouraging savings among other things. Bonin *et al* (2005) and Hunter and Stephen (1991) postulate that globalization of the banking sector brings more benefits than harm to the domestic market. They go on to say that globalization helps improve the quality of corporate governance, which increases the efficiency of banks. Its effects also come in new financial products and services that are introduced which as a result increase competition in the domestic sector.

Kraft (2002) asserts that globalization acts as an instrument of reform when the governments permit the foreign banks to change the structure of the banking system. Foreign bank entry in developing countries results in efficiency in terms of profits and costs more than the host countries' sectors (Jeon *et al*, 2006).

However, it is argued that in the short run, efficiency increase is not guaranteed and that globalization improves efficiency only if it exceeds a certain level that can offset the negative incentive effects. Globalisation may have a destabilizing effect because when the conditions that attracted foreign banks disappear they tend to sell their subsidiaries to local banks and investors that may lead to a banking crisis (Hunter and Stephen, 1991). The chances that the least efficient domestic banks will improve after foreign entry are lower compared to those of banks already operating closer to international standards.

According to Leow (1999) as the number of foreign banks increase, excess profits are eliminated, resulting in socially optimal results. A stable and properly functioning banking system is essential for economic growth. Hence this makes the relationship between bank performance and development crucial according to Barth and Caprio (2005). The World Bank (2005) research shows that restrictions on foreign entry constrain productivity growth and financial development, hence making the financial sector more prone to risks. International capital flows are essential for long term development. For this to be a reality long term reforms should to reform the financial sector should be put in place. For this to come into effect it usually takes that entry requirements are relaxed, bank regulations should be strengthened, technology and human skill need to be supported.

In contrast, Vijayaragavan (2005) argue that the impact of foreign entry varies with the level of economic development of a country. They further argued that a relationship exists between the type of the regulatory system in a country and the development of the financial markets. Weaker bureaucracies, imply stronger regulations thus strengthening the banking sector from crisis.

5. FOREIGN BANK OPERATIONS

Foreign banks have moved to developing countries mainly due to push factors like low profits and regulatory restrictions in the home country. Grubel's theory of internationalization suggests that the main advantage of foreign bank entry is the information and personal contacts between banks at low cost. Buch (2000) also

suggests that foreign banks go after their customers that have been much easier thanks to globalization and the removal of trade barriers.

On the other hand Du (2003) found that when it comes to lending, foreign banks give priority to other customers other than the ones from the home country. Thus Grubel's explanation becomes less relevant for foreign entry to emerging economies' retail banking sectors in Africa where some European banks like Barclays have other customers. Multinational banks worked for home country customers and provided local firms with access to international financial markets.

According to Smith (1999), the main purpose of multinational banks is diversification and integration to domestic markets. Foreign banks also move due to differences between domestic and foreign interest rates. In this respect other studies have also shown that there is a positive relationship between bank presence and other variables such as foreign investment, foreign trade and the size of the parent country's banking sector.

6. RESULTS

A total of 16 financial institutions including 11 commercial banks, 1 savings bank and 4 building societies were used to obtain data. The institutions were sampled on the basis that they have at least one form of global IT innovation delivery channel. Nine interviews and sixteen questionnaires were used as research instruments.

An analysis of the types of electronic delivery channels utilized by banks in Zimbabwe is presented in Table 1 above. The information was basically from personal interviews with bank executives and IT executives in the respective banks. ATMs and Branch networks are the most popular delivery channels in Zimbabwe. These were followed by PC banking, EFTPoS and Telephone banking.

About 57% of the respondents agreed that ATM is the most popular electronic delivery tool. It was found that customers frequently used the ATMs for bank transactions such as cash transfers, checking account balance and printing mini statements. Fifty one percent of respondents who use ATMs indicated that, they visit ATM points about four or more times in a month. However, 13%, 14.2% and 21.4% of respondents pointed out that, they visit ATM points once, twice and thrice respectively every month. This indicates the importance of globalization of the banking sector.

Nearly 57% of customers who responded visit their banks more than five times a month. The results indicate that customers of banking services in Zimbabwe still find it useful to visit their bank branches regularly every month to transact some banking business such as detailed bank statement requests, loan application, foreign funds transfer, deposits and so on for which the ATMs can not be used. Majority (75%) of the respondents agreed that IT innovation makes enquiry about the state of their accounts faster while 6.25% disagreed.

The research found that technological innovation reduces the time involved in bank transactions with the majority of respondents agreeing that the time involved in transacting business with their banks can be reduced significantly with improvement in that area. The majority also confirms the perception that IT reduces the time spent at the bank in order to transact business.

Table 1. Electronic Delivery Channels Utilized by banks in Zimbabwe

Institution	ATM	Telephone Banking	PC-Banking	Internet Banking	Branch Network	EFTPoS
Tn Bank	a	a	a	a	R	r
Barclays Bank	a	a	a	a	A	r
Standard Chartered Bank	a	a	a	a	A	r
Mbca Bank	a	a	a	a	A	a
CBZ	a	a	a	a	A	a
Kingdom Bank	a	a	a	a	A	a
Post Office Savings Bank	a	a	a	r	A	a
CBZ Building Society	a	a	a	a	A	a
CABS	a	a	a	a	A	a
Stanbic Bank	a	a	a	a	A	r
Metropolitan Bank	a	a	a	a	R	r
ZB Bank	a	a	a	a	A	
ZB Building Society	a	a	a	a	A	r
Agribank	a	a	a	a	A	r
FBC Bank	a	a	a	a	A	r
FBC Building Society	a	a	a	a	A	r

Source: Primary Data

Key: a - do provide, r - do not provide service

About 69% of the bank executives agreed that IT innovations ensure efficient service delivery. It was found that IT innovation enables banks to deliver efficient services to their customers. IT innovation was said to have improved the quality of products and services of banks. In terms of transaction costs the majority agreed that IT innovation has resulted in increased bank charges. On productivity 13 out of 16 respondents agreed that IT innovation increases bank productivity, and productivity increases with the introduction of new global innovation in the banking sector. The majority of the respondents agreed that IT innovation has made positive impact on the growth of their banks.

All bank executives believe that IT innovation attracts customers to their banks. Most respondent customers appear to be content with the services and products offered by their respective banks and so will continue to deal with their respective banks. IT innovation has been characterized by a number of fraudulent activities in the banking sector with half of the respondents agreeing that IT innovation has led to an increase in bank fraud cases.

The other half argued that it is actually a deterrent measure and helps institutions manage fraud risk. Half of the respondents disagreed with the assertion that human tellers are no longer important. The results confirm the fact that human tellers are still considered important in banking, even in the face of increased investment in IT innovation and electronic delivery systems. This was an indication that bank executives in Zimbabwe still highly value the importance of the personal touch in banking services.

7. DISCUSSION

Innovations in information processing, telecommunications and related technologies known collectively as information technology (IT) brought about by globalization are often credited with helping fuel strong growth in many economies. It seems apparent then that, technological innovation affects not just banking and financial services, but also has an impact on the direction of an economy and its capacity for continued growth. These developments in technology have resulted in new delivery channels for banking products and services as mentioned above. The progress made in IT in banking in Zimbabwe has contributed to easing enquiry, saving time, and improving service delivery throughout the entire banking system.

In recent years investment in IT by commercial banks has served to streamline operations, improve competitiveness and increase the variety and quality of services provided. This finding confirms that of Yasuharu (2003) that implementation of information technology due to globalization and communication networking has brought about a tremendous change in the functioning of the banks and other financial institutions.

In Sub-Saharan Africa, developments in globalization are radically changing the way business is done. Electronic commerce is now thought to hold the promise of a new commercial revolution by offering an inexpensive and direct way to exchange information and to sell or buy products and services. This revolution in the market place has set in motion a revolution in the banking sector for the provision of a payment system that is in line with the demands of the electronic marketplace.

Many banks made huge investments in technology over the period under study to maintain and upgrade their infrastructure, in order not only to provide new electronic information-based services, but also to manage their risk positions and pricing. At the same time, new off-the-shelf electronic information-based services such as online retail banking are making it possible for many small firms to take advantage of new technologies at quite reasonable costs. These developments may ultimately change the landscape in the financial services and hence upgrade the banks' international standards.

Globalisation has increased in importance in Zimbabwe banks. Banks have been finding ways through which they would serve their clients more cost effectively as well as increase the utility to their clientele. Their main concern has been to serve clients more conveniently as there are still queues appearing in banking halls and as this research found out that there are still many frequent visits by individuals to their banks that can be reduced by use of technology. Electronic and communications technologies brought about by globalisation have been used extensively in banking for many years to make transactions or business easier, faster, more competitive and convenient.

In Zimbabwe, the earliest signs of globalization came in the forms of electronic and communications technologies mainly office automation devices. Telephones, telex and facsimile were employed to speed up and make more efficient, the process of serving clients. There was a somewhat slow development in this regard as these remained the main information and communication technologies used for transacting bank business.

As competition intensified in the 1980s the personal computer (PC) got proletarian, Zimbabwean banks began to use them in back office operations and later tellers used them to serve clients. Advancements in computer technology in globalization saw the banks networking their branches and operations thereby making the one-branch philosophy a reality. Barclays and Standard Chartered Bank pioneered this very important electronic novelty, which changed the banking means in the country.

Arguably the most revolutionary global electronic innovation in Zimbabwe and the world over was the Automated Teller Machine (ATM). Standard Chartered Bank installed the first ATM in 1990. Other major banks followed after it and increased the networking for a greater satisfaction to the customers. The ATM has been the most successful delivery medium for consumer banking in Zimbabwe. Customers considered these devices as very important in their choice of banks and those banks that delayed suffered a slow pace in business. ATMs have been able to entrench the one-branch philosophy in the country by being networked, so people do not necessarily have to go to their branch to do some banking (Koch, 2006).

Another global innovation in Zimbabwe was the various types of electronic cards which have been developed over the years. The first major cash card was a product of Standard Chartered Bank introduced in 1997, onto which a cash amount is electronically loaded. Many cards developed are online so anytime a client uses the card, or changes occur in their account balance, their card automatically reflects the change (Rose, 1999).

Though ATMs have enjoyed great success, it has been found out that it is possible for banks to improve their competitive stance and profitability by providing their clients with even more convenience. In Zimbabwe in response to the global technological change banks started to offer PC banking services though to a limited scale as mainly corporate clients have access to it. Banks have started offering internet banking (i-banking) and among them are Stanbic, Standard Chartered and Kingdom bank. Telephone banking, has also taken a big leap with its convenience and time.

Barclays Bank, Standard Chartered Bank and Stanbic Banks are among those that offer telephone banking in Zimbabwe.

The services available with this channel are ascertaining credible information about the bank's products, the customers' complaints, bank statements and cheque book request and general enquiries. Leow (1999) argued that telephone banking provides increased convenience, expanded access and significant time saving. Electronic Funds Transfer as Point of Sale (EFTPoS) is an online system that has allowed customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (purchase points). This has contributed to an increased banking productivity in Zimbabwe as it has become very popular with many merchants in the country.

The health of the banking sector is vital for enhancing the competitiveness of an economy. A weak banking sector jeopardizes the socioeconomic development of a nation. Globalisation has played a major role in enhancing productivity and efficiency in the banking sector. However, much of the digitalization brought about by globalisation is at its infancy in Africa and other developing economies. Furthermore this has led to financial institutions being unable to realize high return on investment on their infrastructure. Governments have a role to play in supporting infrastructural development of the banking sector and this can be achieved through placing various incentives to encourage people to use this (ICT) medium of financial transaction.

Globalisation has also given rise to different ways of doing banking. Islamic banking is one type of banking that been adopted by different countries to harness the benefits and gains associated with it. If adopted in Zimbabwe this may attract the much needed capital from investors seeking hallal investment (Njanike, 2009). It was also established from the research that globalization has actually restored confidence in the banking sector with many people preferring to use plastic money.

The development has also contributed to the reduction of fraudulent activities in many cases. Quality of products in the banking sector also improved due to globalization. This also resulted in faster transaction processing, enquiries made faster, increased bank productivity, increased bank growth and efficient service delivery within the banking sector.

8. CONCLUSION

Globalisation brought a number of changes in the banking service sectors in many economies. ATMs are the most popular and utilized by customers followed by telephone banking and PC banking in Zimbabwe. There is a great capacity for internet banking but its not yet well developed. Customers still visit their banks regularly and with globalization effect its set to be reduced following the use of modern services delivery channels.

With globalisation:

- enquiries are faster;
- transaction time and costs are reduced;
- bank productivity increases;
- bank growth is achieved.

In Zimbabwe the effect has ensured customer patronage that is willingness of customers to continue saving with their respective banks. Human bank tellers are still necessary as some customers resist change. Globalisation has also helped in reducing fraudulent activities within the banking sector. The research found that the implementation of global measures improves the quality of products in the banking sector. In conclusion globalization of the banking sector has appreciable positive effects on bank productivity, cashier's work, banking transaction, bank patronage, bank services delivery, customers' services and bank services.

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DERIVATIVE MARKET: AN INTEGRAL PART OF THE ZIMBABWE STOCK EXCHANGE

KOSMAS NJANIKE *

ABSTRACT: *The study assesses the need for a derivative market as an integral of Zimbabwe Stock Exchange. It also aims to evaluate the feasibility of establishing a derivative market as an essential element of Zimbabwe Stock Exchange. The research identifies factors that need to be addressed to facilitate such a market. Views of various fund managers, financial analysts and dealers drawn from asset management firms were used. Changes in market trends are influenced by hyper inflation and acute financial policies increase the level of unpredictability in fund growth and return. Asset managers need to be in a market where they are able to actively manage and devise mechanisms that promote fund growth and managing the risks they are exposed to. The study revealed that there are many institutional arrangements lacking to facilitate this financial innovation. A thorough analysis of the research findings was made and it concluded that there is need for a derivative market as it can be an efficient vehicle for improving investment performance.*

KEY WORDS: *Zimbabwe Stock Exchange; derivative market; fund management*

JEL CLASSIFICATION: *G10, G11, G15*

1. BACKGROUND

Financial services sector in Zimbabwe grew out of the liberalization of the financial sector following the economic reforms of the early 1990s. This was one of the major changes of the financial sector as many financial institutions came aboard during this period. Financial services business continues to grow in Zimbabwe due to increased awareness and the realization by the public of the need to effectively manage their wealth so as to keep ahead of the macro-economic condition in Zimbabwe. As at 31 July 2008 there were seventeen licensed asset management firms in Zimbabwe regulated by the Reserve Bank of Zimbabwe (RBZ). Asset management firms administer pension funds, equity funds, money market funds and property funds as well as offering investments advice.

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Asset and fund management firms have designed a number of different equity funds (financial products) to appeal to different investors in which they invest in different kinds of stocks on the Zimbabwe Stock Exchange (ZSE). Notably the ZSE being the only registered exchange that trades in financial instruments has grown phenomenally as shown by the industrial index and mining index reaching the all time high levels (Kingdom Stockbrokers Equities Report, 2008) indicating an increase in market volumes traded on the exchange. This however, has transpired on the backbone of recurrent bubbles which have hit the financial sector. With such an environment, financial organizations are being exposed to high portfolio management risks which are inhibiting growth and sophistication. Portfolios managed under asset management and fund management which are mainly made up of equity investments are not realizing their potential growth because of restrictive policies. A case is the closure of all derivative trading desks in 2003 by the RBZ. This is despite the fact that internationally the level of sophistication and participation in such instruments has developed bringing stabilization and growth (breadth and depth) in the financial sector.

Furthermore annual inflation of 12 000 000% for the month June 2008 up from 66 212.3% in December 2007 and being estimated at 11 200 000% for the month of February 2008 rampaged the economy (First Quarter RBZ Monetary Policy, 2008). Price distortions have made forecasting of price movements on the ZSE difficult leading to poorly crafted portfolios. A futures derivative market for equities seems to be a missing ingredient for fund management firms. Generally equity price efficiency will be facilitated in a stock market where there are derivatives instruments like put options, call options and futures.

Operating in such a macro economic environment, investors with surplus amounts of money tend to seek higher returns on their surplus funds and on the other hand those investors with deficits hardly carry the cost of borrowing rendering financial institutions failure to fulfil their intermediary role. The risk sharing characteristic of derivatives seems also to be the missing link in the Zimbabwean financial markets. Fund management firms and banks therefore need to engage in more aggressive active dynamic portfolio management strategies so as to limit the level of risk they are being exposed to, thus the advent of derivatives and other innovative products in capital markets will bring about stable and sound operating environment which will play an integral role in portfolio growth and economic development.

Financial institutions in this environment are seeking consolidation of their portfolio management strategies so as to realize the real growth of funds under management. There is a conviction that there is need to make the derivatives market an integral part of the ZSE. Some fear that derivatives will be counterproductive; others believe that they will establish safer and healthier portfolio management techniques. In light of this background and divergent views expressed, it is of paramount importance to investigate the need of derivative market as an integral part of ZSE.

The study seeks to identify the need of a derivative market to fund management and evaluate the types of derivatives instruments that can be traded in Zimbabwe. It also seeks to establish the capacity of the regulatory framework in adopting derivative instruments and the conditions necessary for a derivative market to kick off.

2. RESEARCH QUESTIONS

The paper therefore seeks to answer the following research questions:

- a) Will the derivative market improve investment portfolio management?
- b) Is there enough regulation in place to monitor and control derivative transactions?
- c) What can be done to sustain and facilitate a vibrant derivative market in Zimbabwe?

3. METHODOLOGY

The study aims to bring to light the importance of derivative instruments to asset management firms and will take into consideration derivative market regulation, types that can be offered by ZSE and establish conditions necessary for adopting. The research was primarily based in Harare where most head offices of asset management firms are located. From these firms the researcher targeted fund managers, financial analysts and dealers as they are constantly involved in trading of shares on the ZSE thus undoubtedly give relevant information on the subject. A total of seventeen questionnaires and seven interviews were used to obtain data from respondents from seventeen asset management firms. Documentary review was also used to complement primary data.

4. LITERATURE REVIEW

Derivative is a financial asset whose value is derived from that of an underlying asset (Elton and Gruber, 1995). Its value is determined by the value of another asset. Hull (2001) states that there are different types of derivatives that's include Forwards, Futures, Options, Swaps (Interest Rate Swaps and Currency Swaps), Warrants, LEAPS, Baskets and Swaptions.

4.1. Characteristics of Derivative Market

Hawkesby (2000) explained the characteristics that attract market participants such as commercial banks, finance houses, discount houses, merchant banks and asset management firms to the different products of derivative markets. These include liquidity, low transaction costs, ability to achieve leverage, arbitrage opportunities and transparency.

Liquidity in a financial market is the ability to buy or sell without moving the price too far, transactions being done easily at the quoted market price. As activity increases, the liquidity of some derivative markets overtakes that of the physical markets themselves. This is especially evident in exchange-traded futures where contracts are standardized and the rules are clear.

Low Transaction Costs With greater liquidity in some futures markets, transaction costs fall below those in the physical market. The bid-offer spread which is the difference between the price at which a buyer can be found (the bid) and the price at which a seller can be found (the offer) thought as type of transaction cost with no

change in the asset price, to buy and sell an investor must 'cross the spread' directly incurring the cost of the spread only and no extra costs.

Ability to Achieve Leverage Higher leverage enables a greater gain (or loss) to be made for a given amount of initial capital employed-higher risk for higher returns. In this sense, derivatives can be used as an efficient avenue to obtain leverage in financial markets. The leverage that can be acquired in derivatives markets is also a highly attractive feature to those looking to hedge, as it allows a smaller amount of money to be put upfront in order to gain protection against changes in the asset price.

Arbitrage opportunity offers risk free profit. Such a transaction presumes a degree of market inefficiency-buyers and sellers willing to transact away the 'true' price. Derivative markets create links between different underlying asset markets, and hence provide an avenue by which arbitrage opportunities can be exploited if prices in different markets move out of line from each other.

Transparency Investors value having access to accurate market prices. In many physical markets 'prices' are actually quotes, indicating only the general level at which transactions are expected to take place. By contrast futures markets typically have a high degree of 'post-trade transparency'; the price and quantity of trades executed can be seen immediately. In addition, firm prices can usually be seen by those using the market. This tends to increase the willingness of investors to use exchange-traded derivatives.

4.2. Uses of Derivatives Instruments

There are four main uses of derivative instruments which are Hedging, Speculation, Arbitrage and Leverage (Chisholm, 2004). Chisholm outlined the importance of derivative instruments through their application in asset management firms.

Hedging refers to the action taken to protect an existing market position or asset from an adverse market move for example a stock market crash that could erode the value of a portfolio. The hedge is a position that would react in an opposite manner, if the adverse market movement occurs. The idea will be to offset the loss of value in the position being hedged. Chisholm postulates that Asset Management Firms could hedge a share portfolio by selling Futures that represent the portfolio held. He further asserts that not only investing institutions like asset management firms, but also corporations, banks and governments can use derivative products to hedge or reduce their exposures to market variables such as, share values, bond prices, currency exchange rates, interest rates and commodity prices.

Speculation was defined by Hull (2001) as entering a contract with the express purpose of making a profit. Portfolio managers in the form of speculators can take a future position if they believe that they could make a profit. If they are bullish on the price of the underlying asset for example stock, they would buy the future and then sell again once the price of the underlying asset had increased sufficiently, making the future price rise. Similarly, if they feel that the underlying asset is overpriced, they can sell the future and then buy back the price once the price has fallen. Chisholm (2004) asserts that derivatives instruments are very well suited to speculating on the prices of

commodities and financial assets and on key market variables such as interest rates, stock market indices and currency exchange rates. It is much less expensive to create a speculative position using derivatives than by actually trading the underlying commodity or asset. As a result, the potential returns are that much greater.

An **arbitrage** is a deal that produces risk free profits by exploiting a mispricing in the market. A simple example occurs when a trader can purchase an asset like Old Mutual shares which are dual listed both on ZSE and Johannesburg Stock Exchange. The Old Mutual share is cheaper in one exchange and the purchaser simultaneously arranges to sell it in another at a higher price. Such opportunities are unlikely to persist for very long, since arbitrageurs would rush in to buy the asset in the 'cheap' location, thus closing the pricing gap.

Leverage enables a greater gain (loss) to be made for a given amount of initial capital employed-higher risk for higher returns. In this sense, derivatives can be used as an efficient avenue to obtain leverage in financial markets. For example, if a speculator in the form of asset managers thinks a stock will rise, they can purchase a call option on the stock. They use less capital than buying the stock outright, since less money is required on the initiation of the contract. In the case of the forward contract no money changes hands, while with the option only the premium is paid. The leverage that can be acquired in derivatives markets is also a highly attractive feature to those looking to hedge, as it allows a smaller amount of money to be put up front in order to gain protection against changes in the asset price.

4.3. Importance of a Derivative Market

Effenberger (2004) asserts that the volatility of financial markets can affect firm value thus managers should seek to avoid it. Initially many asset management firms tried to build better forecasting models so that if they could predict price changes, they could avoid the risk. Hamilton (1998) postulated that derivatives can be used to combat the adverse effects of volatile commodity prices on the economies of developing countries because forward prices tend to be less volatile than spot prices, giving commodity producers an opportunity to reduce the volatility of the price of their output through hedging.

The Deutsche Bundesbank report (2006) states that an active derivatives exchange plays an important role in facilitating an efficient determination of prices in the underlying cash (or spot) market by providing improved and transparent information on both current and future prices for an asset. For example, in commodity markets spot prices are often pegged to futures prices because the futures market provides excellent pricing information for the underlying product. Prices on derivatives markets reflect anticipated supply and demand, and derivatives markets thus enhance the ability of market participants to make decisions about future production processing, and trade.

Derivatives can be used to generate and deliver abnormal performance that can be packaged within a core-satellite approach to portfolio management, that option portfolios can be used to enhance the performance of tactical asset allocation programmes and that fixed-income derivatives offer significant risk reduction benefits

in an asset-liability management context (Gibson, 1991). Hull (2001) concurs with Gibson as he postulated that derivatives can be more efficient and cheaper than trading in physical securities, but cost was not the main advantage. It was further argued that the big benefit is the ability to make investment decisions that are not contingent on a benchmark. As a result, the number and variety of investment decisions expands exponentially. This exercise serves as an illustration of the benefits that asset managers engaged in tactical asset allocation strategies can gain from suitably designed derivatives portfolios. Other possible applications involve the customization of risk return profiles of actively managed portfolios to help align their risk return characteristics with respect to investors' needs and expectations (Elton and Gruber, 1995).

Derivatives allow risk-averse market participants (such as banks, farmers, processors and traders) to offset risk among themselves or transfer it to other market participants willing to accept the risk-return ratio (Abken, 1994). In the process, derivatives attract additional participants who in turn increase the volume of transactions, thus contributing to the creation of a liquid market. Hanson (2003) asserts that derivatives markets contribute to the integration of global capital markets, hence improving the global allocation of savings and fostering higher investment levels. Merton (1976) propose some of the benefits that can be derived from the use of swaps in taxation and regulatory arbitrage. The introduction of swaps market allows an unbundling in effect of currency and interest rate exposure from the regulation and tax rules in some creative way. Thus with the introduction of swaps, an Australian firm could make a Pound-denominated issue, structure the issue so as to receive favorable treatment under the British tax code, avoid much of the Australian securities regulation and yet still manage its currency exposure by swapping the transaction back into Australian dollars.

Derivative markets contribute to the integration of global capital markets, hence improving the global allocation of savings and fostering higher investment levels (Chisholm, 2004). A United States based investor, for instance, considering the availability of risk management tools such as futures, forwards and options can invest in a British fund with minimal risk available, as she will be hedging her investment.

Hull (2001) stated that the fact that derivatives contracts especially organized exchange traded instruments should meet certain standards prompts regulators to require that quality of underlying asset in the case of commodity based instruments be standard to enable smooth trade.

4.4. Conditions for a Derivative Market

Gibson (1991) included market size, price volatility, standardization requirements and the degree of market liberalization as key parameters for introducing stock futures and options on various underlying spot securities of financial markets from the successful implementation and facilitation of a vibrant derivative market. Emerging markets require well functioning cash markets, a large number of traders and speculators, legal structures that include property rights and enforceable contracts, well functioning credit institutions, the support of government and policymakers, adequate

financial resources and the absence of competing derivative products and exchanges (Tsetskos and Varangis, 1997). Bodie *et al* (2005) in the study of heterogeneity of derivative market development level in different countries in the context of Latin American markets with particular emphasis on Chilean derivative market, proposed that institutional and legal factors should be flexible to allow the development of derivative market, as this was shown by the findings that legal constraints on institutional investors have been a major obstacle in the development of derivative markets in Chile. Chisholm (2004) noted that the degree of market capitalization of a stock market is important because the larger the market the lower there will be the information gathering and transaction costs due to economies of scale effects. It was argued that larger markets are more likely efficient. He further explains that the more frequent the trade the more opportunity for prices to change in response to new information as it becomes available. Hawkesky (2000) stated that lack of liquidity is a critical impediment to investment since both local and foreign investors can not acquire or sell their holdings in reasonable volumes.

5. RESULTS

The analysis takes stock of the positions taken in literature review and the extent to which the results confirm or establish a new trend. The data that is subject to analysis was gathered through questionnaires and interviews while that from desk research was for complimentary purposes. Questionnaires from eight Fund Managers; four Financial Analyst and five Dealers from different financial institutions and mainly asset management firms were used in this study. In addition to questionnaires four fund managers and three Financial Analysts were interviewed.

5.1. Types of Derivative Instruments

All respondents indicated that through the ZSE stock options can be offered on the derivative market. Fund managers and financial analysts also indicated that option contracts have built-in flexibility because the holder is not obliged to exercise or take up the option. The research found that investors may favour options as they participate in the market without trading or holding large stock portfolios; with strong market views and its future movement; and want to take advantage of the situation or opportunities that may arise. It was found that investors who follow the equity market closely and those who want to protect the value of their diversified equity portfolio may be attracted by options trade in Zimbabwe. All asset managers emphasized the issue of hedging against risk in options trading as they manage pension funds and other equity funds that are heavily invested on the Stock Exchange thus allows enough speculators to provide additional liquidity. The study found that call options were more popular than put options and the major reason was to do with stability of the economy. The more volatile the underlying asset, all things being equal, the greater the expected payout from an option on that asset, and the greater the premium charged by the writer. The research found out that due to the buoyant nature of the ZSE index, fund managers tend to favour hedging with options. Futures contracts were indicated by 75% of the

respondents with the rest remaining skeptical about them. The study found out that traders of these instruments tend to rely on some variation of fundamental or technical analysis to predict prices. Traders spend considerable time and energy attempting to identify new measurements or signals that provide the edge in predicting prices. Respondents also highlighted that Forwards which are most common and Swaps can also be traded on the derivative market in Zimbabwe.

5.2. Derivative Market Importance

When asked about the readiness and importance of the derivative market in the economy all fund managers and dealers strongly agreed that it was long over due. However a minority (30%) of the financial analysts argued that it was too early as the market had to be deep with many tradable assets on offer and players in the market. It was affirmed that derivatives are of great importance as they provide a new avenue of risk management through the effective use of hedging, arbitrage, speculation and leverage techniques, thus enabling tactical investment decision making. Respondents highlighted that derivatives trading improves market transparency and liquidity since the instruments are flexible. About 12% of the fund managers indicated that though derivatives can be said to be a new phenomena of risk management and effective price discovery, its not the wholesome answer to the need of realizing real portfolio returns. Their argument was tactful decision in allocating shares in a portfolio may proffer equal or more advantages than the use of derivatives. On the issue of improvement of portfolio management strategies more than 89% of the respondents agreed that the adoption of derivative instruments can help in achieving this. Those who agreed believed that derivatives provide a new avenue of managing portfolios and a new way of effectively hedging portfolios. Those who disagreed argued that improvement can be done without indulging in such instruments but through construction of models which can be used to effectively manage portfolios.

5.3. Regulatory Framework

Financial analysts (71%) cited irregularities that are in the current framework for just the trading ordinary shares on the local bourse. It was indicated that insider trading is continuing unabated and this is a clear manifestation of shortcomings since other brokers' trade with an edge of price-sensitive information that has a material effect on the price or value of an instrument if it is made public. About 50% and 44% of fund managers and dealers respectively also highlighted the same issue of insider trading. There was further indication of cases of inadequate institutional arrangements that see the regulatory framework of ZSE being worry some. The highly noted case was the merger of Renaissance and First Mutual Life (to form Afre) which was termed by some dealers as shoddy handling; it went in and out of courts without proper referendum till its completion. However 29% of Financial Analyst, 50% of Fund Managers and 56% of dealers believed that ZSE has the capacity and that it can accommodate trade of derivatives. The study found out that there should be some adjustments in the framework so as to limit by all chance loopholes that might lead to

resistance by asset management firms if there is to be adoption of derivative instruments.

5.4. Conditions for Derivative Market

The research found out that market capitalization and market liquidity, are important for adopting a derivative market as rising market capitalization means there is increase in trade and volumes traded which implies guaranteed trade. The respondents also hinted the following preconditions as necessary for a successful implementation of a derivatives market:

- i) Continuous electronic trading system or at least three call overs,
- ii) Firm security measures,
- iii) Properly set up regulatory controls,
- iv) IT infrastructure that is robust and secure,
- v) Support from authorities, and
- vi) Well performing financial sector.

All respondents brought up the issue of electronic trading system to be set first on the ZSE and enable the trading period to have three to four call overs so that many investors participate as the current two call overs is very limiting. It was also outlined that there should be will power by regulating authorities so that a number of initiatives from various stakeholders can be made to open up a forum of discussion as to how these financial instruments can be adopted.

There is need for complementary efforts from all corners of the industry like production and processing so as to have excess liquidity which in turn influence transaction costs level that is a major factor in the derivative market trading. Responses clearly show that the ZSE is still developing towards the attainment of standards which allow for an easy integration of the derivative market into the system. Adoption of derivatives can be described as a long journey rather than a destination itself. Undoubtedly, it would require commitment of substantial capital and human resources on the part of ZSE and other regulators if it is to yield any results.

6. DISCUSSION

For the derivative market to be a success there has to be many financial assets and commodities to be traded. The market has to be deep with many players in the market and well capitalized for liquidity purposes. As Tsetsekos and Varangis (1997) observed that the type of instruments should have many traders and significant amount of money at risk. Futures, forwards, swaps and options are types of derivatives that can be traded on the market. As for conditions necessary for the establishment of this market the study confirms the argument put forward by Tsetsekos and Varangis (1997) that the degree of market capitalization of a stock market is important because the larger the market, the lower the information gathering and transaction costs due to economies of scale effects.

Potsiwa (2005) referring to the Zimbabwe situation outlined that there is need for concerted effort on the part of bankers and financiers to lobby regulators to put in

place legislation that enable them to trade derivatives instruments. This is in line with Rutter (2006), who for the adoption of derivative instruments included such things as market size, price volatility and market liberalization as the key parameters for introducing stock futures and options.

The research revealed that it is important to introduce derivatives in the economy of Zimbabwe as it opens different opportunities. This confirms Brealey and Myers (2002) assertion that derivatives assist in the standardization of commodity or financial instrument contracts in the cash markets because derivative contracts are highly standardized themselves. Derivatives respond more quickly to new information than the cash markets and allow people who do not participate in derivative trading to forecast accurately this information to make better consumption, pricing and investment decisions what is termed price discovery role of derivatives. The fact that derivatives contracts especially organized exchange traded instruments should meet certain standards prompts regulators to require that quality of underlying asset in the case of commodity based instruments be standard to enable smooth trade.

A country's financial infrastructure is enhanced by the links among hedgers, speculators, and cash markets. A derivatives exchange can improve the allocation of resources, maintain efficient pricing and information flows, and act as a conduit for the transfer of risk within a country and even across countries. It was also found out that derivatives encourage greater international investment. This confirms a study by Geske and Roll (1984) where they postulated that derivatives promote greater international investment since they improve asset pricing and facilitate effective risk management strategies. As international investors constantly sought markets offering higher returns on investment across the globe, this would result in the integration of capital markets. Sometimes securities, loans and other assets are traded in markets that are characterized by transparent trading or centralized pricing or benchmark pricing. In these circumstances derivatives markets can improve upon the efficiency of the price determination process.

The key benefits from establishing a domestic derivatives exchange are improved price discovery and a higher correlation between the prices of derivatives products and cash prices. These benefits should be compared with the risks and benefits of using already established derivatives exchanges that are more liquid and that stress prudential regulation. Higher transaction volumes usually lower transaction costs, which can outweigh the benefit of having a derivatives contract closely associated with local market conditions. The major risks when using established exchanges are the lower correlation between exchange contract prices and local cash prices, and the risk associated with fluctuating exchange rates.

The authorities have to put in place legislation to enable the market to be established. Barbican Bank (in Zimbabwe) before it was placed under curatorship was trading call options which some quarters believe it was the source of its financial demise. The failure of the financial institutions was attributed mainly to lack of proper regulatory structures guiding the trade of derivatives. This is in line with Potsiwa (2005) who examined the case from an industry perspective and stressed the need for concerted effort from bankers and financiers to give a serious look at the importance of derivatives as hedging instruments for themselves and their clients. He called for

industry players to lobby regulators to put in place legislation to enable them to practice. He further explained that there is need of a derivative society to be established thus this will have the contributions from academic institutions working together with industry. Stringent regulation of a derivative market is a cornerstone for success and stability of the market. There is also need to train staff so that they are effective and efficient in delivering in different regulatory bodies.

The inclusion of derivatives in a portfolio improves portfolio management strategies. Assertions by majority of respondents concur with Gibson (1991) which concluded that derivatives improve tactical asset allocation techniques. Trading in an environment characterized by high uncertainty which is influenced by severe macro-economic policies, funds under asset management firms mainly pension funds, institutional and private portfolios have a significant investment portion invested in equities.

These have generally been not well managed by traditional portfolio management techniques such as diversification through use of physical securities alone. Demand for investing techniques better tailored for their risk profiles leads inevitably to the need for derivative based strategies. The investment decision will be matched to long dated obligations through absolute return products (derivatives) that aim to preserve capital and deliver steady returns rather than more volatile market driven performances.

The issue of regulatory sufficiency, based on the findings above remains inconclusive. Insider trading which most respondents highlighted is difficult to manage since most of the information which is sensitive emanates from the companies not from ZSE offices though they have access to information such as financial year end results before they are published. Rutter (2006) asserted that regardless of legal and regulatory environment available regulatory bodies should set broad parameters to monitor all operations in order to foster a sound trading environment.

7. CONCLUSION

It can be concluded that there is need for derivative instruments for the improvement in ZSE operations and investment portfolio management. Derivatives are important in that they improve overall market scenario through improved price determination processes, information dissemination and portfolio management strategies.

The volatile nature of ZSE makes options the most suitable instruments to start trading as they favour bearish or bullish approaches. The volatile nature also makes stock options most suitable instruments as they offer hedging techniques to asset management. The regulatory framework of ZSE lacks sufficiency to regulate, control and monitor the trading of derivative instruments. The ZSE lacks the infrastructure that permits the adoption of derivatives as alluded to in the literature review.

Also the current manual trading system with one call over inhibits trading by many investors thus compromising the breath and liquidity of the market. The research recommends ZSE to implement an electronic trading as it favours more trading time and thus improving market liquidity.

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THE ROLE OF COMPETITION ON THE PRICING DECISION OF AN ORGANISATION AND THE ATTAINMENT OF THE ORGANISATIONAL OBJECTIVE

IMOLEAYO OBIGBEMI *

ABSTRACT: *Pricing decision has been a crucial decision made by all business enterprises at all levels and has posed a great challenge for Small and Medium Enterprises in Nigeria. This research work treats the role of competition on the pricing decision of an organisation and the attainment of the Organisational Objective, a study of SMEs in Nigeria. The methodology adopted was the survey and empirical approach, with the administration of questionnaires to some SMEs in Nigeria, evaluating the effect competition has on pricing decision (change in product price) and its overall effect on the attainment of organizational objective (profitability). Primary and secondary sources were used in collecting data. It was discovered that competition plays a major role in pricing decision and that there is a relationship between pricing decision and the attainment of organizational objective. Recommendations were made for the close monitoring of SMEs and that SMEs should employ the service of price experts when making pricing decisions.*

KEY WORDS: *competition, pricing decision, profitability, organisational objective*

JEL CLASSIFICATION: *D40, L11, L53*

1. INTRODUCTION

For any organization that is involved in the production of goods and rendering of services, after answering the question what to produce, and who to produce for, there is need to answer the question how much will our potential customers be willing to pay for the good? This difficulty of price fixture and the other various intervening variables such as cost, competitors price, demand, political factors, environmental factors, etc involved in fixing price for goods and services, has posed a sense of concern to most small and medium enterprises in Nigeria. This work is aimed at finding an answer to some probing questions in the mind of manufacturers and

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managers of small and medium enterprises on how to price effectively combining all the various factors influencing pricing, as well as meeting the organizational overall objective, which is profit maximization.

Pricing decision is a crucial decision every organization has to make, because this will eventually affect their corporate objectives, either directly or indirectly (Monroe 2003:8). For every business entity, irrespective of their line of business and objective, cost minimization and profit maximization is a general factor to be considered and for non-profit making organizations, there will always be the need to reduce cost at all means and to maximize output. A business whether small or big, simple or complex, private or public, is created to provide competitive prices (Ayozie 2008:10). According to Hilton (2005:634), setting the price for an organization's product or service is one of the most crucial decisions a manager faces, and one of the most difficult, due to the number of factors that must be considered. Some of the factors that influence pricing decision are demand, competitors, cost, political, environmental, legal and image-related issues. Horngren, et al (1996:428), buttresses this point by stating that managers are frequently faced with decisions on pricing and profitability of their products.

Some of the objectives of business enterprises vary from maximization of profit, minimization of cost, maximization of shareholders fund, becoming a market leader, etc. From the various objectives of business organizations, the primary objective of any business enterprise is to maximize profit and minimize cost, except for charity organizations that are set up primarily not to make profit, but there will be need to minimize cost by all means, therefore the need to set prices, which therefore connotes that pricing decision arises in virtually all types of organizations, irrespective of their level of activities. According to Lovelock & Wirtz (2004:151), the principal approach to an effective pricing strategy is to manage revenues in ways that support the firms' profitability objectives, which leads to the question; how well can we complement the various factors that influence pricing decision, to achieve our overall objective, which is maximization of profit.

Small scale business in Nigeria constitute over 80 percent of all registered companies, occupying positions in agro based and allied industries, rubber based, leather shoes industries, chemical, electronics, general merchandising, restaurants, dress making, hair dress making, cane-chairs, leather products, pomade and toiletries, animal feeds and husbandry, printing, etc. They have accounted for a large percentage of all businesses and a favourable percentage of the nations' gross national product. This fact is more relevant in the developed countries of Great Britain and United Kingdom where proper accounting system is kept (Ayozie 2008:10-15).

This study is aimed at evaluating the various factors that influence pricing decision and how well an organization can manage these factors effectively to maximize profit. The study focuses on the pricing policy decision of Small and Medium Enterprises in Nigeria, with a study of some selected Small and Medium Enterprises in Ogun, and Lagos State Nigeria. There are various definitions to the word Small and Medium Enterprises (SMEs), but for the sake of this study, SMEs are business enterprises with a maximum manpower of 300 workers, and Working Capital of ₦10million. This research work is divided into five sections, with the first section

introducing the research work, section two reviews some of the related literatures that will help in the theoretical and conceptual analysis of the problem at hand, section three looks at the research methodology adopted as well as the statement of the research design. Section four of the work looks at the data analysis and presentation, while section five gives a brief summary of the research work and gives a concluding remark on the research work.

Statement of Research Problem. Decision is a choice between alternatives, having all the necessary information about the various alternatives available. Pricing decision is a decision that must be taken carefully, because of its nature and its effect on the overall goals and objectives of the organization, which is mainly profit maximization. Hilton (2005:633) reporting on the interview held with President Winston Darrough III, stated that the President noted that pricing is a sticky wicket, in which you keep an eye on the costs as well as the competitors. The competition will always be driving the price down, and there will be need to respond appropriately. You can't sell the same product for more than the other bloke does. But at the same time, there's need to cover costs of production. Nobody can indefinitely sell a product at less than its cost of production, because it doesn't work that way. The stage of the product in its life cycle will determine the pricing decision for the product at hand. For new products, the target costing approach is used, in which the company estimates what they think consumers will pay for a new product, and then back out the cost that is in excess of it in order to sell at that price. This aspect of an organizations activity (pricing decision), is handled with mere guess work by most SMEs in Nigeria, with little consideration for some factors, which thereafter influences their decision making without weighing the cost and benefit of the decision made on pricing. This paper is aimed at looking at the various factors that influences pricing decisions, their effect on price and what the end result will be on profit appropriately.

Objectives of the study. At the end of the work, it is expected that the following objectives, which serves as the driving force behind the topic at hand will be achieved: evaluate the role of organizational objective in the pricing decision process, evaluate some of the factors that influence the product pricing policy an organization will adopt, evaluate the role the price of similar products (competition) on the pricing decision of an organization, evaluate the role the price of similar products on the attainment of the organizational objective.

The hypotheses below will be tested and conclusions drawn from the outcome.

H₁: The change in price of a product has a significant impact on the organizational objective

H₂: Pricing decision is dependent on the price of similar products

H₃: The price of similar goods affects the attainment of organizational objective.

For the purpose of this study, pricing will be looked at from the accountants' point of view, which looks at how a relationship can be established between price and the various factors that affect it. This paper is structured such in a way that section two that follows introduction presents the literature review and the theoretical framework. Methodology is section three, section four presents the survey results and the discussion of the results, while section five is conclusion and implications.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. Pricing

Every multinational business entity is set up with the primary objective of making profits and several considerations underlying their profit motive come to bear in determining the pricing of their goods between associated parties. A business whether small or big, simple or complex, private or public is created to provide competitive prices. Most Nigerian small business owners lack the knowledge and skills of basic marketing ingredients, such as marketing research, market segmentation and market planning and control, which thereafter leads to poor quality products, unawareness of competition, poor distribution, and poor pricing methods. The poor pricing methods thereafter lead to poor product pricing, which will eventually affect sales (demand) and finally the profit of the business. In a developing country like Nigeria, with low income and high level of poverty, a company that wants to succeed should offer its product at the price the consumers can bear. But often, small manufacturers set prices of their products arbitrarily without regard to consumer characteristics in the environment (Ayozie 2008:10-12).

2.2. Basic Concepts in SMEs

There is no universally accepted definition of Small and Medium Enterprises, as a term, many scholars and researchers have defined the term Small and Medium Enterprises from different angles and perspective. The definitions even change with time depending on the level of development of the country (Akinbinu 2003:8). The Central Bank of Nigeria (CBN) defines a small scale enterprise as an enterprise whose total cost, excluding cost of land but including working capital, is above ₦1.0 million but does not exceed ₦10.0 million (Aregbeyen 1999:7; CBN:1996:7).

Table 1. SMEs Employment-based Classification

Organisation	Micro-Enterprise	Small Enterprise	Medium Enterprise
International Finance Corporation (IFC)	< 10	10 – 50	50 – 100
Central Bank of Nigeria (CBN)	-	< 50	< 100
National Association Of Small Scale Industries (NASSI)	-	< 40	-
Accenture	-	< 50	<500
Centre for Industrial Research and Development (CIRD)	-	< 50	

Source: Various texts consulted by researcher (2008)

The Small and Medium Industries and Equity Investment Scheme (SMIEIS) defines Small and Medium Enterprise (SME) as any enterprise with a maximum asset base of ₦200 million excluding land and working capital and with the number of staff employed not less than 10 or more than 300. Small and Medium Enterprises (SME)

have been defined along a broad range of size and type. In terms of size, measures used to classify SMEs include employment, assets and revenue. Below is a summary of the various definitions from different organizations and on different basis of classification.

Table 2. SMEs Asset-Based (excluding Real Estate) Classification

Organisation	Small Enterprise	Medium Enterprise
IFC	< \$2.5 million	-
CBN	< ₦1 million	< ₦150 million
NASSI	< ₦40 million	-
Federal Ministry of Industry	< ₦50 million	< ₦200 million
National Economic Reconstruction Fund (NERFUND)	< ₦10 million	-
The Nigerian Industrial Development Bank (NIDB)	< ₦750,000	₦750,000-3.0 million
National Council on Industry 1992	> ₦1,000,000 < ₦10,000,000	

Source: Various texts consulted by researcher (2008)

2.3. Importance of Small and Medium Enterprises

Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe, and prior to Nigerian Independence, the business climate was almost totally dominated by the Colonial and other European Multinational companies like United African Company (UAC), GB Olivant, Unilever Plc, Patterson Zechonics, Leventis, etc. These companies primarily engaged in bringing into the country foreign made products, thus rendering our resources idle, and those who use the materials export them to their various home countries for production. The industrial revolution changed the status quo and introduced mass production, while the twin oil shocks during the 1970s undermined the mass production model, which triggered an unexpected reappraisal of the role and importance of small and medium sized enterprises in the global economy. It is worthy of note that the introduction of the Structural Adjustment Programme (SAP) during the Babangida regime made matters worse for employers of labour and created a veritable ground for self employment, after which many industries and companies sprang up in every sector of the economy, thus marking a new beginning in the industrialization of Nigeria (Ekpeyong 2002:40). Beyene (2002:132) citing Fadahunsi & Daodu (1997) stated that the role SMEs play in development of countries is acknowledged universally. Countries like USA, where big corporations dominate, SMEs still play enormous role in the country's economy. In the U.S, of the 6,200,000 small businesses, 5,400,000 employ less than 20 employees each, while small businesses employ 72,000,000 people. In Asia, small enterprises make up more than 90 percent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India & Sri Lanka. They account for 98 percent of the employment in Indonesia, 78 percent in Thailand, 81 percent in Japan and 87 percent in Bangladesh.

Findings by economists over the years show that small firms and entrepreneurs play a much more important role in economic growth and development. Countries that have made economic breakthroughs in the last two decades demonstrate beyond doubt that the development of entrepreneurship has been the engine room of economic growth and development. The private sector which in the past played a modest role in development is now being recognized as an engine of growth and encouraged to spear head the development process (Beyene 2002:131). SMEs are referred to as the engine room for the development of any economy, because they form the bulk of business activities in a growing economy like that of Nigeria.

This is manifested in the following ways:

1. Employment Generation: The problem of unemployment has reduced, as a lot of youths, retired workers and out of school graduates are now gainfully employed, thus becoming a job creation avenue. The introduction of the entrepreneurial development program in schools has also sensitized most students of the need to have their own business and not rely solely on the white collar jobs.

2. Rural Development : The need for space and nearest to source of raw materials, has led many business owners into the rural areas, which thereafter results into the development of the host community. SMEs constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services, and the employment opportunities offered apparently reduces rural-urban migration and allows for even development.

3. Economic Growth and Industrialisation: SMEs are the vibrant tool for the economy, as national economic development prospects hinge on entrepreneurial energy of vibrant SMEs as most big business enterprises grew from small scale to become big icons, and as they grow, they protect nations from the geographical cost-benefit permutations of a few multinationals who are ever prepared to close up their businesses and relocate at the slightest provocation or appearance of economic downturn.

4. Better Utilisation of Indigenous Resources: There are many untapped human and physical resources, which can only be harnessed through the establishment of small and medium enterprises. The considerable low capital outlay required for setting up SMEs enables them to convert minimal resources into productive ventures, they also offer veritable outlets for technological advancement especially in businesses with rudimentary technology requirements.

2.4. Challenges faced by Small and Medium Enterprises in Nigeria

SMEs in Nigeria have faced a lot of challenges, which despite their potentials and the benefits they have to offer has impaired their growth and development. These challenges vary from keen competition, to high cost of infrastructure, demand, which has thereafter led to the closure of some of these companies. Before the Structural Adjustment Programme, the problem was mainly finance, but after the introduction of SAP and various programmes by the government to sensitise the people on the need for industrialization, the challenges changed considerably, from finance to demand and other problems. Specifically, successive governments in Nigeria have in the last three

decades shown much interest in ensuring adequate financing for Small and Medium Enterprises (SMEs), by establishing various schemes and specialized financial institutions to provide appropriate financing to the subsector. The failure of most of these schemes revealed that the problem of SMEs in Nigeria is not limited to lack of long-term financing, but also inadequate management skill and entrepreneurial capacity (Sanusi 2003:2). As part of the effort of the Nigerian government, to help the Small and Medium Enterprises in Nigeria, the Industrial Development Centres (IDCs) were established to provide consultancy and extension services for small and medium industries in the country. Industrial Development Centres provide basic functions, which include giving marketing counsels regarding pricing, packaging, sales strategy, advertising and marketing methods for the promotion of sales of their products. The first IDC was established in Owerri, in Imo state in 1962 by the Eastern Nigerian governments' Ministry of Trade and Industry. It was later taken over by the federal government in 1970. Today, there are over 21 IDCs in the country, with just about six of them operating minimally (NISER 2005:5, Sanusi 2003:4). Institutions such as the Industrial Training Fund (ITF), Raw Materials Research and Development Council (RMRDC), Federal Institute of Industrial Research, Oshodi (FIIRO), Project Development Agency (PRODA), and Centre for Management Development (CMD) have in their activities supported the promotion of SMEs in the country through technical, training and extension services programmes.

Taking a close look at some of the challenges faced by SMEs in Nigeria, it was deduced that finance is not the main problem, but poor management of the available fund. Sanusi (2003:11) stated that many SMEs do not keep proper accounts of transactions, which has hindered effective control and planning of most Small and Medium Enterprises in Nigeria. According to ECA (2001:1), from the report generated from an evaluation of 13 African countries (Nigeria inclusive), it was discovered that for most industrial enterprises in developing countries, the 1990s are different in two respects from previous decades: competition is more intensive and it is waged over a wider range of factors. While price continues to be important, quality, speed and flexibility matter more than before, thus a need for close emphasis at the pricing strategy adopted by small and medium enterprises.

2.5. Small and Medium Enterprises and Pricing

For an organization, to compete favourably with its peer in the same industry, it must be able to meet the demand of the people, as well as set the right price for the right product. Low cost and high quality infrastructure service tends to improve price competitiveness (Beyene 2002:140). In the same vein, Uzor (2004: 30-31) noted that governmental policies should be directed to overall production efficiency of the SMEs, which will in turn lower costs at the same time increasing the purchasing power of the consumers, when the prices are reduced. Besides reducing costs, increasing the efficiency will also position the SMEs in the cluster to compete effectively in an open economy. The efficiency gained in local market will project them as well towards an export oriented production system and possibly help to integrate them effectively into the global economy.

2.6. Pricing and Organisational Objectives

Without a goal, it is said that a man will live like a goat, so also without an organizational goal, a company will only be moving round the circle without direction, and it is the overall organizational goal set by the management of a company that serves as the driving force, towards which everyone in the organization will drive towards. In every organization, there is always the general organizational goal, as well as the departmental goal, and the various departmental goals are framed in line with the overall organizational goal. Various goals are set by the organization and these directly and indirectly affect the pricing policy of the organization, which is expected to be tailored in line with the overall goal. A nonprofit making organization will always look forward to satisfying its customers only, therefore the pricing policy will be towards minimizing cost and customer satisfaction. Some of the objectives and goals set by organizations and the various ways in which they affect pricing decision are as stated below:

1. **Increase Sales:** Organisations that want to increase the turnover of their product may need to fix price at a level that the consumer will accept it as being commensurate with the benefits of the product.
2. **Increase Market:** Organisations may set price because of the need to reach out to a particular part of the market, thereby increasing their market size. When this objective is set, price should be set in a competitive manner to attract new customers and retain old customers.
3. **Profit Maximization:** Profit maximization is the main organizational goal for any profit making organization. To achieve this objective, price must be set strategically in such a way that maximizes revenue and minimizes cost.
4. **Market Penetration:** When a producer wants to enter the market, he can adopt this strategy, by setting price below or at par with the price of existing or similar products, not considering the effect it may have on profit.
5. **Company Image:** An organization might want to build up its organizational image, by setting price in such a way that it provides an insight into the quality of the product.

2.7. Factors Affecting Pricing Decision

When pricing decision is to be made, some factors have to be put into consideration, so that the decision will not affect the overall objective of the company. Some of the factors which must be considered among other things include:

1. Cost of Production: For effective pricing, the total cost of production must be fully ascertained, leaving no stone unturned. The fixed cost as well as the variable cost must be determined and all the various costs that may be incurred in the marketing process must be inculcated e.g. advertising expense, transportation, etc. When cost is not fully ascertained, pricing decision becomes faulty and when the price is wrong, it will definitely affect the income of the company and eventually may affect the survival of the business, especially for the new business and also the small and medium

enterprises. Alongside with the other factors that affect pricing decision, cost is a factor that must be looked into critically.

2. Nature of market competition: The nature of market competition must also be considered when pricing decision is made. For a business that is in a monopolistic market, competition may not really affect the pricing decision, but a business in the oligopolistic market or a free market, where competition is tense, this has to be considered before price is set. In a situation where the market leader dictates the price and others follow, the price of the market leader must also be considered and in a situation where the price of substitute goods will affect the price of the product, this is very important.

3. Customers and market segment: When a producer knows his customers, he will be able to set his prices accurately. The market segment must be carefully identified and the amount they will be willing to pay for the product identified. For the producers of cars, there are different models for different set of people, thus producing varieties for different set of people. There are some products which are mainly for the elites, while some are for the masses. A producer of products for the masses will need to consider the per capita income of the people before making his pricing decision.

4. Demand: For a new product, there is need to price such product strategically in such a way that it penetrates the market, even if it will be at par with the total cost, while for a highly demanded product, an increase in price may not really have a high effect on the demand for such products, so is the need for management when making pricing decisions to consider the demand for the product. Some companies who receive order from customers may decide to reduce their price per unit or increase their discount, when it is noted that demand from a customer is high, and this may be on the other way round, depending on other factors considered by the management.

5. Consumer behaviour and perception: Consumers attitude and perception about the product must be considered, when making pricing decisions. The company should consider if an increase in price will lead to an increase or a decrease in demand, and vice versa.

6. Channel of distribution: The cost of distribution and the channel of distribution must also be considered when the price of a product is to be set. It must be considered if the product will be supplied directly to the final consumer or has to pass through the various channels of distribution. For a product that has to pass through the wholesaler, to the retailer and then to the final consumer, the profit of these middle men as they are called must be considered, so that the final price set by the retailer will not affect demand negatively. In some situations, the producer may need to set a standard price, which is known by the wholesaler, the retailer as well as the consumer. For example the Nigerian Bottling Company has set a standard price for the sale of a 35cl bottle of Coca Cola in Nigeria to ₦40 as at this date, thus both the consumers and the retailers are aware of the standard price.

7. Macroeconomic trends: The macroeconomic trends of the country must also be put into consideration when pricing decisions are made. In an unstable economy, where cost of living increases, without a change in the income of the people, an increase in the price of a product may affect demand for that product, so also when there is an

increase in the income of the people, increase in the price of a product may not necessarily affect the demand for that product at that point in time.

8. Company Objective: When pricing decisions are made, they must be in line with the overall company objectives, as this is what will inform what the pricing objective really is, so that the pricing decisions made will not be against the company objective.

2.8. Pricing Strategies

The pricing strategies to be adopted by a company differ and are influenced by some of the factors stated earlier in this study. Some of the pricing strategies that may be adopted when pricing decision is made include among others:

1. Market penetration strategy: This is the process of setting a considerable price, which will be affordable for the customer, thus there may be need for price reduction in order to gain acceptance and thus create speed for the product in the market.

2. Market skimming: This involves setting a product price high initially and later reducing the price to improve sales. It is used mostly for newly introduced products so that consumers will not react negatively to an increased price to meet cost or make profit. When the price is reduced, consumers may see it as an advantage for more patronage. However, this strategy may not work for some products where increased price is attributed to greater prestige and products with numerous substitutes in the market.

3. Loss leader pricing: Where a product is sold at a lower price probably at a loss in order to attract customers who might then buy other items at normal price. It is used when consumers resist prices charged by sellers and thus encourage sales of other products by the producer.

4. Promotional pricing: Short term reduction in prices intended to attract increase sales. It may be used during dull seasons e.g. the price of soft drinks during rainy seasons are reduced to increase sales

5. Demand oriented: This strategy has to do with setting prices on the basis of demand for the product. When this strategy is adopted, changes in demand will have an effect on the price that that product.

6. Competitive pricing: This involves setting prices on the basis of activities of competitors. When using this strategy, the company must be sensitive to changes in the market.

7. Cost oriented pricing: This is a strategy that is based on cost of production. With this strategy, the full cost of production is considered plus the margin, before price is set.

2.9. Pricing Decision and Cost

In any organization, profit making, nonprofit making, private enterprise, public enterprise, manufacturing or service rendering, before the price of a product or service is set, the cost of putting it in a sellable condition must be considered. Cost is the total amount expended to bring certain products or services to its present condition. It can also be termed as the amount expended to transform raw materials into finished goods.

According to Monroe (2003:257) “Indeed, cost is probably the least important factor to consider when setting product or services prices.” Looking at it from the accountants’ point of view, it is noted that there is no direct relationship between selling price and product costs, because of competition and elasticity of consumer demand (ICAN 2006:469, Lucey 1997:306). Cardinaels et al (2004) observed that the more accurate cost data means that participants with activity based costing would be more likely to detect and filter competitors' prices when these prices are a poor reflection of actual costs than would participants with biased cost data.

2.10. Product Price and Competitors Price

Dockner et al (2004:3) stated that when firms are engaged in strategic competition, a higher speed of diffusion causes the individual firm to decrease the price, thus competition either directly or indirectly has an influence on the price of products, but vary from company to company, depending on the nature of the product and the industry in which the company operates. In an industry where there are few producers of the product or few market leaders, competition may not be the main factor to consider when setting price, but for small and medium enterprises, who operate in an industry where there are market giants already, their pricing policy will be influenced by the competitors price. An example is the case of Nigerian Bottling Company, amongst the producers of other products in Nigeria, this company indirectly regulates the price of soft drinks in Nigeria, therefore the 7-Up Bottling company has to either set its price at par or below the price per unit of the products of the Nigerian Bottling Company, so also any company that wants to operate in that industry, for them to remain in business. In a study carried out by Dockner et al (2004), the result of the analysis conducted shows that, in the case of strategic (oligopolistic) competition, the speed of diffusion have an important influence on the optimal pricing policy. It can be said therefore that in a monopolistic market, when essentials are sold, competition is not considered when setting price.

2.11. Ways of Changing Prices

There are various ways of changing price, with respect to changes in cost of production and changes in other intervening variables, which may at the long run affect the long term objectives of the company, if not changed. Most organizations only pay attention to the amount of money to be received from the customer, without taking a close look at the quantity of goods delivered. One way to change price is to change the quantity of money or goods and services to be paid by the buyer. Another way is to change the quantity of goods or services provided by the seller (Monroe 2003:5). This a major approach adopted by most of the producers of biscuits in Nigeria. When the cost of production increased, an attempt was made to increase the price of a pack of biscuit, from ₦5 to ₦10, and after discovering that the attitude of buyers changed negatively, these producers resolved to reduce the quantity of biscuit and thereafter introduced new products that sold for ₦10. The third way is to change the quality of goods and services provided. This is a method adopted by most large companies in

Nigeria, who introduce new products with lower quality and at reduced price, thereby increasing the price of the existing products, giving different categories of buyers the opportunity to choose. When you need to determine what to charge for your products and services, there are some common mistakes management should avoid. Some of these mistakes include:

1. Underselling: To set realistic prices, you need to be aware of all costs involved in producing your product or service. This includes easy to track costs such as the price of parts and supplies, as well as less tangible costs associated with the skills and knowledge you bring to the table. Some entrepreneurs set prices that do not account for all of these expenses. They may forget to add in overhead such as utilities or rent, or have difficulty putting a price tag on the value of their time. One approach service-based businesses use to determine a fair rate for their offerings is to set an hourly wage to charge for services. They then multiply this figure by the total number of hours it takes to complete a job to determine a project's overall price.

2. Following the competition: Basing your pricing structure on the competition's can be dangerous because the costs competitors use to calculate prices may have little relation to your own. They may pay suppliers less or more than you do, buy different technology, and have larger or smaller marketing budgets. That said, it does pay to know how much competitors charge so you can confirm that your prices are realistic for the market. If you notice your figures are much lower than competitors', check to be sure you haven't left something out of the pricing equation.

3. Competing on price: Setting prices solely to beat the competition is a shaky proposition. You're bound to attract buyers this way, but they are unlikely to be loyal customers. If low cost attracted them to your business, they may abandon your company when a less expensive option comes along. A better approach is to differentiate your business from competitors in other ways, such as superior customer service, enhanced product features, or finer quality.

4. Waiting too long to raise prices: Increased demand or the rising cost of supplies may put you in the position of having to decide whether or not to raise prices. Some business owners avoid increases because they fear customers will react negatively. In many cases it's a better strategy to make regular, small price increases than to hit customers with one large increase. In other words, a 10 percent price increase is likely to draw more negative attention than two 5 percent increases.

5. Dropping prices without changing delivery: Some clients may try to negotiate a better deal from your company. This can put you in a difficult position, especially if you run a service-based business. Delivering an agreed-upon order for a lower price can inadvertently send the message that your initial prices were too high, and all future business is open to price negotiation. A better approach is to agree to a lower price, but change the delivery terms slightly. For example, if you're negotiating the price for a three-month long technical installation, you might agree to a lower project cost if the number of weekly meetings is reduced or monthly reports are streamlined. Another option that makes sense for large orders is to position lower rates as volume discounts.

6. Setting random prices: Some customers may insist upon having an understanding of how your pricing structure is designed, so it is critical to be able to justify the prices you charge. In addition, unless you have a clear sense of how costs relate to your

prices, it will be difficult for you to identify when the right time is to adjust the amount you charge.

3. METHODOLOGY

The main objective of this research is to find out the effect of competition on the pricing decision of an organization and the role of pricing decision on the attainment of the organizational objective with a close look at the profitability objective of an organisation, using Small and Medium Enterprises in Nigeria as a study focus. In applying the general framework of the accounting pricing theory, this study focused on providing answers to the following research questions: will pricing decision have a significant impact on the attainment of the organizational objective? Is pricing decision dependent on the price of similar products? Does the price of similar products affect the attainment of organizational objective?

3.1. Measures

To measure the relationship between the attainment of organizational objective and pricing decision, the questionnaire was structured to contain respondents' occupational level and position in the organization, as well as the respondents' involvement in pricing decision in the organization. Also the financial report of the sample company was measured to examine the effect of pricing decision (price change) on organizational objective (profitability). Check for the validity and reliability of the instrument was provided by ensuring that items that most related to independent and dependent variables are built into the instrument in line of the advices of several experts. The respondents were made to indicate the degree of their agreement with the statements on the questionnaire about themselves. Both open and close ended questions were asked, thus a hybrid type of questionnaire was designed. Also close ended questions were used to ask the respondents if they have made pricing decisions (changed the price of their product) before and if they consider the price of similar products when making pricing decision. Several items relating to both dependent and independent variables form part of the contents of the instrument. The Student t-test analysis tool was used in testing the null hypothesis.

3.2. The sample

A sample size of 200 respondents was randomly selected from the population of the Small and Medium Enterprises in the Ogun and Lagos State Nigeria was used. Our target was on managers who have changed their product price before. A total number of 166 questionnaires were found useful for the study.

3.3. Data Collection and Variables

The variables used for this study are variables relating to pricing decision, price of similar products and organizational objective (profitability). These variables

include price changes, cost of sales, price of similar products, demand, sales turnover, profitability, etc.

4. SURVEY RESULTS

The analysis of the sample includes the demographic characteristics of the managers and other aspects related to the research questions. Below is a summary of the total number of respondents interviewed. The table shows that a total number of 166 respondents were interviewed. This section asks questions that relate with the hypotheses to be tested by the researcher. Below is summary of the responses to the questions asked.

Table 1. Statistics of Respondents to Questionnaire

		Sex	Qualification	Designation
N	Valid	166	166	166
	Missing	0	0	0

Question 1: Have you changed the price of your products before? From a total of 166 respondents, 153 representing 92.2% disclosed that they have changed the price of their products before, while 13 respondents representing 7.8% disclosed that they have not changed the price of their products before. Thus at one point or the other all the respondents have made pricing decision, 92.2% of the respondents have made pricing decisions to change price, while 7.8% have made the decision not to change price.

Table 2. Response to Question 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	153	92.2	92.2	92.2
	No	13	7.8	7.8	100.0
Total		166	100.0	100.0	

Question 2: If your answer to question 1 is No, why haven't you changed the price of your product? A total number of 13 respondents responded to this question, and because it is an open ended question, where respondents are at liberty to express themselves, with some of their responses as enumerated below:

1. It is a new product;
2. The price is presently competitive;
3. The price is regulated by management;
4. There has not been a significant change in the cost of production;
5. It is the policy of the company not to change price at certain periods; etc.

Question 3: When fixing the price of your products, do you consider the price of similar products? Respondents were asked if they consider the price of similar products when pricing their products and from the data collected, 159 respondents representing 95.8% of the total respondent agreed to this fact, while 7 respondents representing 4.2% said they do not consider the price of similar products when fixing the price of their products.

Table 3. Response to Question 6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	159	95.8	95.8	95.8
	No	7	4.2	4.2	100.0
	Total	166	100.0	100.0	

Question 4: If yes, how often do you do this? This question tries to measure the extent to which the price of similar products is considered when fixing the price of products. Out of the total of 159 respondents that indicated that they consider the price of similar products when fixing the price of their products, 97 respondents representing 61.0% said they consider the price of similar products when fixing price very often, 48 respondents representing 30.2% said they consider the price of similar products when fixing price sometimes, while 14 respondents representing 8.8% of the respondents indicated that they consider the price of similar products at will.

Table 4. Response to Question 7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Often	97	58.4	61.0	61.0
	Sometimes	48	28.9	30.2	91.2
	At Will	14	8.4	8.8	100.0
	Total	159	95.8	100.0	
Missing	System	7	4.2		
Total		166	100.0		

Question 4: If no why don't you consider it? This is an open ended question and some of the response from the 7 respondents that said no to question 3 includes:

1. The demand for the product is on request.
2. The product has few producers (competitors)
3. The price of the product is not uniform, because of the variance in quantity and quality.
4. The major determinant for fixing price is the cost of production.

Data Analysis - Advance

Table 5. Correlation of Consideration of Price of Similar Products when pricing

		Similar products	Pricing
Similar products	Pearson Correlation	1	.461(**)
	Sig. (2-tailed)		.000
	N	166	166
Pricing	Pearson Correlation	.461(**)	1
	Sig. (2-tailed)	.000	
	N	166	166

** Correlation is significant at the 0.01 level (2-tailed).

Table 6.**One-Sample Test**

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Similarproducts	66.610	165	.000	1.04217	1.0113	1.0731
pricingprofit	43.530	165	.000	1.12651	1.0754	1.1776

From the tables above, there is a positive correlation between the two variables (Price of similar products and price changes) at 0.01 level of significance. It can be decoded that there is a positive significant relationship between the consideration of the price of similar products and pricing decision.

Table 7. Correlation of Price Changes and Profitability

		Changed Price	Pricing profit
Changed Price	Pearson Correlation	1	-.111
	Sig. (2-tailed)		.155
	N	166	166
Pricing profit	Pearson Correlation	-.111	1
	Sig. (2-tailed)	.155	
	N	166	166

Source: Data collected by Researcher (2008)

Table 8.**One-Sample Test**

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
pricingprofit	43.530	165	.000	1.12651	1.0754	1.1776
ChangedPrice	51.556	165	.000	1.07831	1.0370	1.1196

Source: Data collected by Researcher (2008)

From the tables above, there is a significant negative correlation between the two variables (Profit and Price Changes) at 0.05 level of significance. It can be decoded that there is a negative significant relationship between change in price and profit, thus, an increase in price will not necessarily result in an increase in profit.

Table 9. Changes in Gross Profit, Net Profit, Operating Expenses & Sales

Month	Gross Profit (₦)	Net Profit (₦)	Operating Expenses (₦)	Sales (₦)
January	3,061,050.91	2,824,408.91	356,343.96	5,738,160
February	2,455,971.20	2,068,965.20	506,707.96	4,771,884
May	2,191,552.20	1,800,630.85	510,623.31	6,141,000
July	3,154,538.32	2,987,176.82	287,063.46	7,336,429.30

Source: Data collected by Researcher from the sample company (2008)

To measure the impact of change in price on the profit of organizations, three profitability ratios will be used.

Table 10. Profitability Ratios

Month	Gross Profit Margin	Net Profit Margin	Operating Expenses Ratio
January	53.30%	49.20%	6.20%
February	51.50%	43.40%	10.60%
May	35.70%	29.30%	8.30%
July	43%	40.70%	3.90%

Source: Data collected by Researcher (2008)

Note: Operating Expenses = Distribution Expenses + Administration Expenses (Indirect Expenses + Staff Salary)

From the above calculations, it can be seen that the company had a favourable Gross profit margin of 53.30% in January, which later dropped to 51.50% in February, but in May, due to the change in price of the products, and other concealed factors, there was a drastic reduction in the gross profit margin to 35.70% and in July, the company picked up and moved to 43%, but was unable to reach the 53.30%. The same trend occurred for the Net profit margin and a close look at the Operating expenses ratio, it can be said that the company had the highest operating expenses ratio in the month of February, which is the month preceding the change in price, thus in the month of May, this ratio reduced to 8.30% but was unable to get to 6.20% which is the figure for January, but in July, the Operating expenses ratio reduced drastically.

Table 11. Correlation of Consideration of Price of Similar Products when Pricing and Profitability

		Similar products	Pricing profit
Similar products	Pearson Correlation	1	.461(**)
	Sig. (2-tailed)		.000
	N	166	166
Pricing profit	Pearson Correlation	.461(**)	1
	Sig. (2-tailed)	.000	
	N	166	166

** Correlation is significant at the 0.01 level (2-tailed)

Source: Data collected by Researcher (2008)

From the analysis, it can be said that when there is a significant change in the price of a product, it will have an effect on the sales turnover generated, which will in turn affect the profit margin on the product, which may be either positive or negative, depending on the type of change and how this change is effectively executed and managed.

Table 12.

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Similarproducts	66.610	165	.000	1.04217	1.0113	1.0731
pricingprofit	43.530	165	.000	1.12651	1.0754	1.1776

Source: Data collected by Researcher (2008)

From the tables above, there is a positive correlation between the two variables (Price of similar products and profitability) at 0.01 level of significance. It can however be deduced that there is a positive significant relationship between the consideration of the price of similar products (competition) and the profitability (organizational objective) of small and medium enterprises in Nigeria.

5. CONCLUSION AND IMPLICATIONS

From the various discussions above, it can be said conclusively that price changes is an inevitable factor in the operations of a business enterprise, and that any significant change in the price of a product will have an effect on the quantity demanded for the product which will in turn have an effect on the sales turnover and finally on the profit margin generated from that product, which will eventually have an effect on the corporate objective for a profit oriented company.

However, there is also the need to consider the price of similar products when changing price as this will also affect the demand for the product which will also have an effect on the attainment of the organizational objective. To this end, it is expected that managers of business enterprises take cautious efforts in evaluating the market as well as the effect a one percent change will have on the organizational objective of the business enterprise.

Therefore if SMEs are a major tool for economic growth and development, there must be a close monitoring of the SMEs up to the point of maturity to reduce the rate of liquidation and collapse of SMEs in Nigeria and Africa at large. Also lack of adequate information about the various pricing techniques will affect the pricing decision of SMEs, which may in turn affect their survival and profitability.

The following are some of the recommendations proffered by the researcher:

- the Nigerian Government should help the small and medium enterprises in providing advisory services, which will also improve their level of productivity the nation at large;
- small and medium enterprises in Nigeria should take time out to conduct market research, because this is a toll that can be used for effective pricing;
- the organizational objective should be visited when making pricing policy;
- the reaction of customers should be considered when fixing and after any significant change in the price of a product;
- other methods of changing price, like reduction in quantity and quality, introduction of new products, etc. should be adopted by the managers of small and medium enterprises in Nigeria;
- small and medium enterprises should employ the service of price experts when making pricing decisions.

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SOCIO-ECONOMIC ISSUES CHARACTERISTIC TO THE JIU VALLEY RESIDENTS

ION PÂRVULESCU, ROXANA PLEȘA, RALUCA RIDZI *

ABSTRACT: *The sociological research was conducted in 2008 on a sample of 1 612 adults, aiming at highlighting the socio-economic situation of the population in the Jiu Valley and, therefore, the problems addressing the local people. Failure or even the lack of financial resources is a consequence of lack of jobs in the area and, as a result the low living standard of the population.*

KEY WORDS: *level of living; financial situation; living conditions; unemployment*

JEL CLASSIFICATIONS: *Z10*

The research was conducted in 2008, the very year that proceeded the year marked as the beginning of the economic crisis in our country. Research area comprised the adult population of the Jiu Valley cities and the sample size was 1612 persons. The most serious problems facing the residents of the Jiu Valley (Figure 1) are mainly related to material and financial nature whose solution concerns almost three quarters of the questioned subjects (poverty, unemployment, financial problems) problems characterizing the whole Romanian society, but not at a such high a level.

The insecurity sweeping their working place troubles the employees which live with the fear of uncertainty in relation the future of mining. Nevertheless, it is positive that, unlike other areas of the country, the shortage of dwelling houses or corruption are not considered serious problems for the Jiu Valley, registered an insignificant percentage. The degradation of living standards for the people living in the Jiu Valley occurring after the year 1989, compared with the previous period, is highlighted by Figures 2, 3, 4, 5; according to the answers of the respondents, by 2008, the most favourable period was before 1990, when most of them (54.1) says that life was good to very good from the material point of view and only a small percentage said it as bad.

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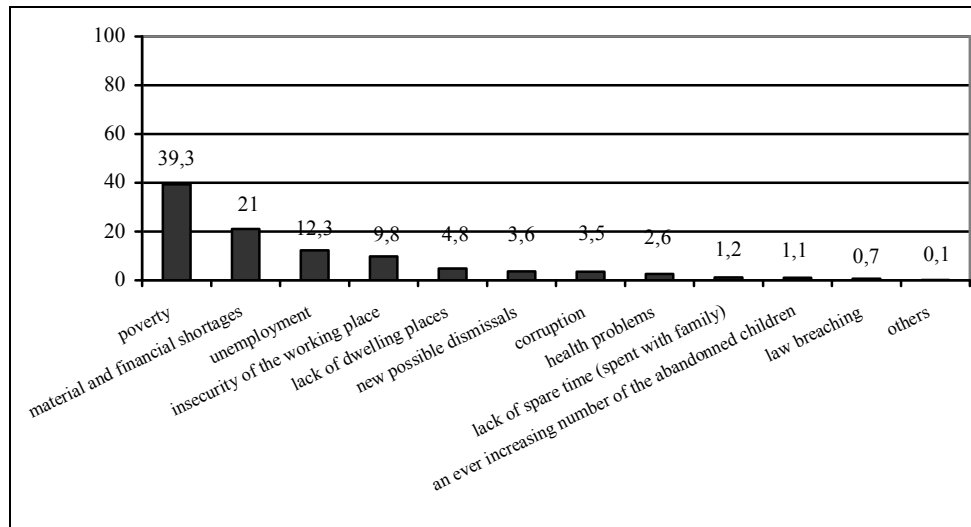


Figure 1. Problems facing the residents of the Jiu Valley (%)

By merging the variants very bad with bad and good with very good, it results following situation:

	Very bad + Bad	Good + Very good
1. Until 1989 inclusive	7,1	54,1
2. 1990 – 1996	11,3	42,6
3. 1997 – 2004	21,8	33,3
4. 2005 – 2008	27,2	35,8

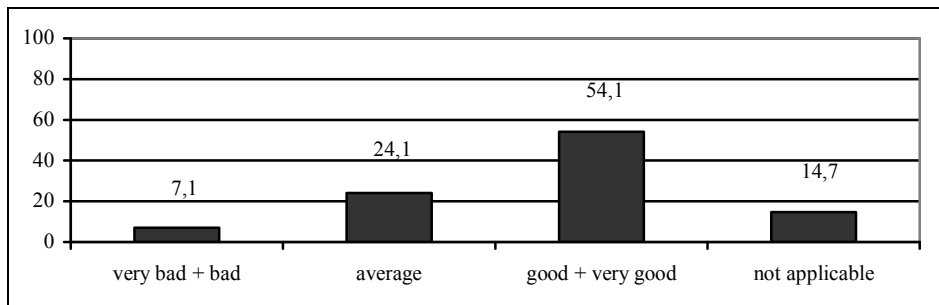


Figure 2. Evaluation of the level of living from a material point of view until 1989 (%)

One can clearly note the phenomenon of impoverishment of the population after 1989. Even if we were tempted to say that the results of the evaluation represent the "nostalgia" for the period before 1990, the differences between the first period and the following ones are too great so that such a claim could resist; the percentage of those who feel that life is very difficult and difficult is 3.8 times higher in 2005-2008 compared to the period before 1990, and the ones that say good and very good is 1.5 times lower in the same period. The situation is in some degree balanced by the rate of

one third, for all the periods, of those who place themselves at the limit of a decent living, alternative "average".

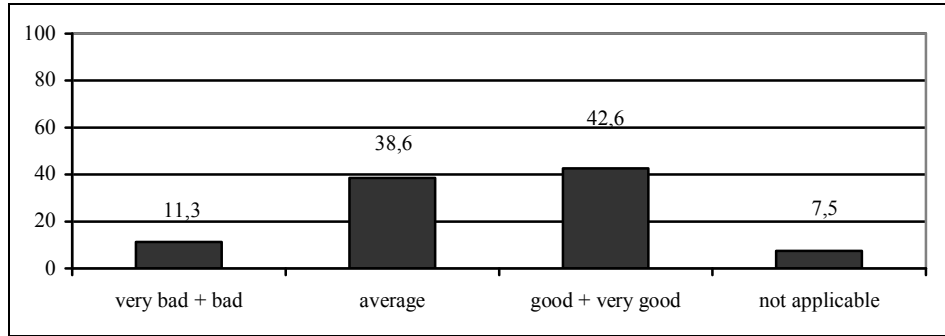


Figure 3. Evaluation of the level of living from a material point of view between 1990 and 1996 (%)

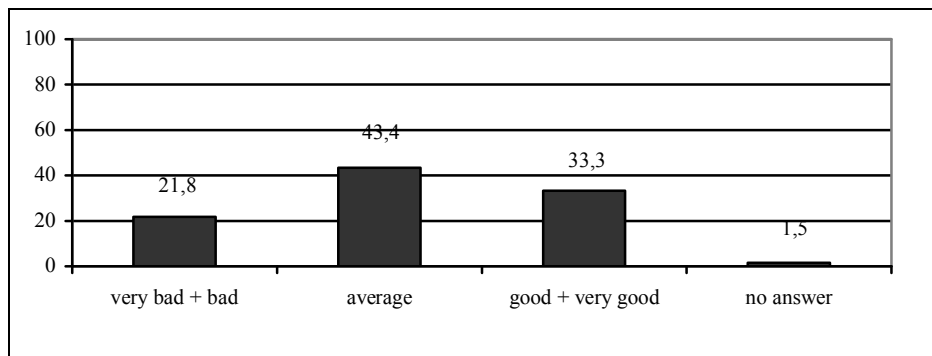


Figure 4. Evaluation of the level of living from a material point of view between 1997 and 2004 (%)



Figure 5. Evaluation of the level of living from a material point of view between 2005 and 2008 (%)

We have to mention that the option "not applicable" includes the answers of younger subjects who have not reached yet maturity at different periods of time, which did not allowed them to make judgments on the material situation of those periods. One should note that the rate of these respondents decreases significantly, certifying a good coverage for various age categories of the subjects.

On the relative worsening of the living standards after 1989, the answers summarized in Figures 6 and 7 support this assertion, just under two thirds of respondents saying that the household income reaches the bearable limit and the percentage of those who live over this limit is 3.6 times smaller than those which are placed below this limit (Figure 6).

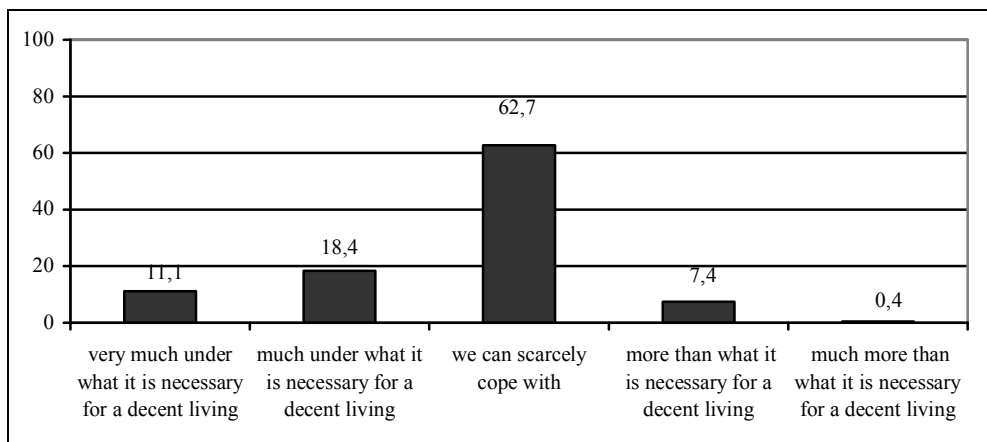


Figure 6. Evaluation of the household income (%)

Of course, the situation in Figure 6 is supported by data in Figure 7 that reflects the distribution of monthly family income, one-fifth of those having an income of up to 500 lei, while those up to 1,000 lei including amounts to 58%; mostly, larger families fit in this category.

A situation which raises questions is that of the 316 families who have an income of up to 500 lei per month. How can handle the financial issues a family, even composed of two people with this amount of money? Unfortunately, there was not a direct question aimed at this response, but neither the control questions could give an explanation. But assumptions can be made, for example: have the subjects been reluctant to say the real situation of the family income? Do some family members engage themselves in seasonal activities whose income is fluctuating and it is not included in the family income? Do they work without any legal documents? Are they helped by family members working abroad? Either of these options may be valid.

Figure 8 highlights some issues that can not be overlooked, namely:

- Less than a fifth of respondents admit that their incomes is supplemented with seasonal activities or they have a second job, which they included in the family's monthly income;
- About a quarter of respondents would like to engage themselves in activities to supplement the family budget;

- Almost half of those interviewed, even though many say that in spite of the fact that they situate at the decency limit, they are satisfied with the situation and they don't take any initiative to supplement the family budget, showing passivity in this regard, whilst those with incomes of more than 1,500 lei can "justify" this attitude, but they represent only fairly small percentage. Is this the "reflection" of the content of the witticism "instead of working for almost nothing, better stay and do nothing?"

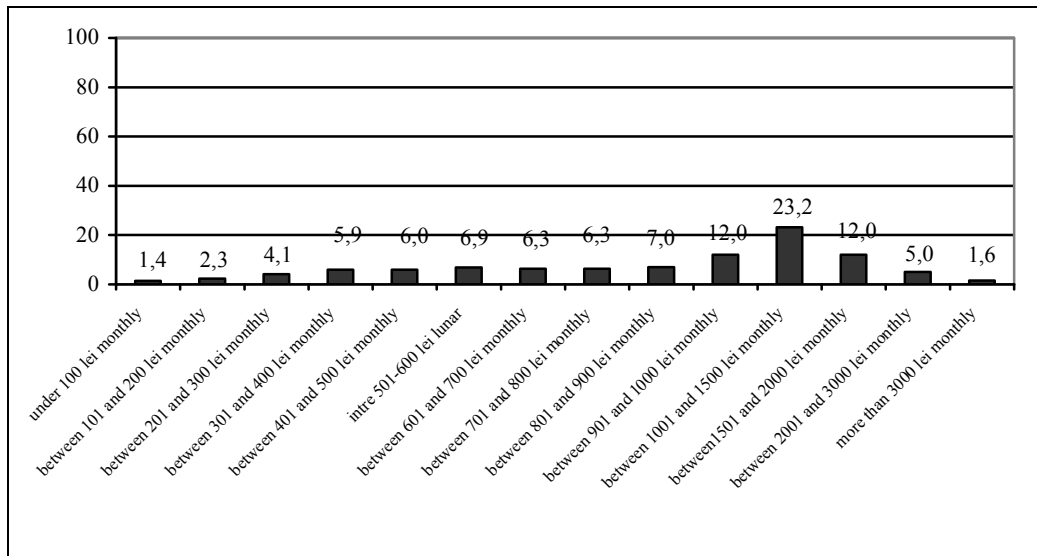


Figure 7. Categories of income for the families of the respondents (%)

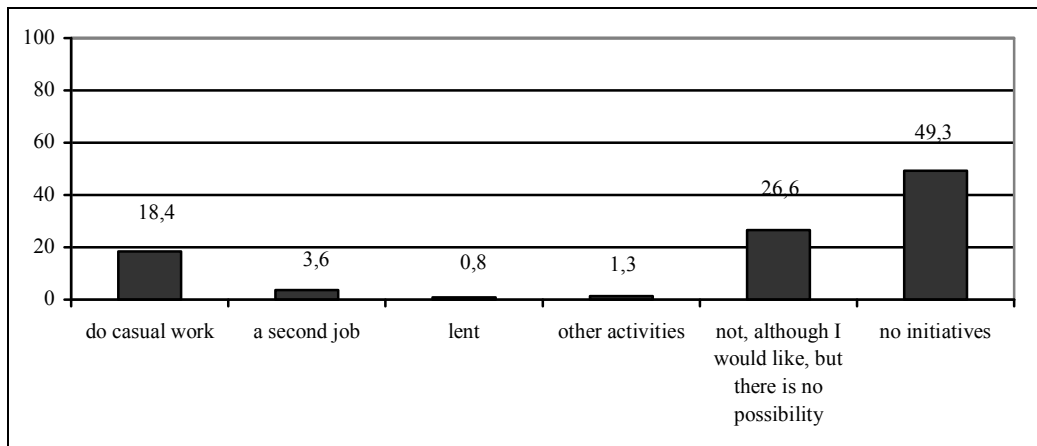


Figure 8. What people do to increase the family income (%)

It is most likely that economic policy of the Romanian state, with massive layoffs in 1997, through unjustified compensation payments and lack of a strategy to create jobs - these strategies were only at propagandist level - induced mentality and

resignation for a large of the population that says that "work" route is: employed - dismissed - unemployed - poor.

The literature states that a high standard of living involves allocating one third of family income on food – of course, it also counts the amounts of income. The more this rate increases, it requires an income below the "normal" limit, aspect that characterizes the population of the Jiu Valley and supports to a certain extent the idea according to which this area has become poor, given that a much higher percentage of families interviewed spent money for food (Figure 9). If we add the costs for home maintenance for other needs to these costs, it results only ten percent left. It is sad that education and culture get only 1.3 percent

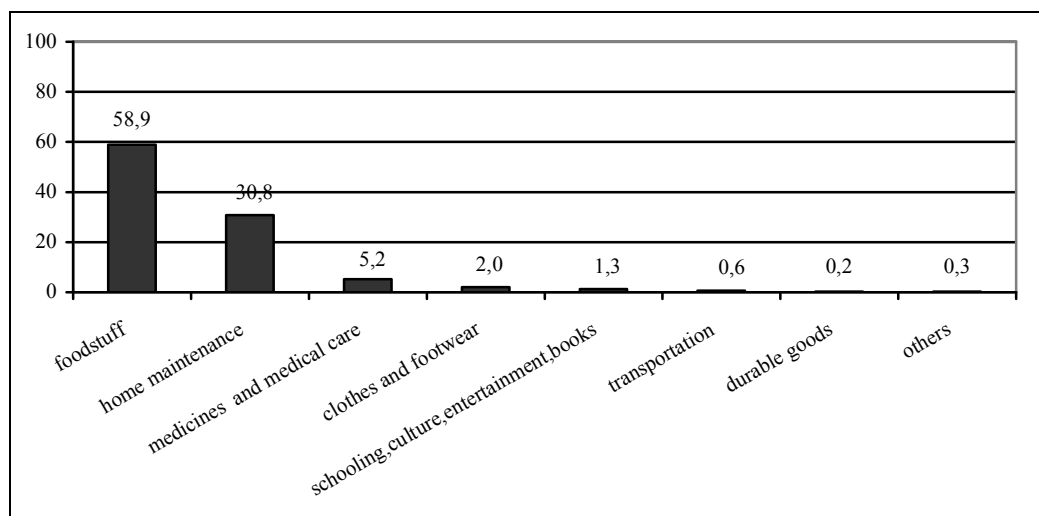


Figure 9. Monthly household expenditure for (%)

In Figures 10 and 11 show the socio-economic situation of Romania and of the Jiu Valley for the next 10 years. One can notice that respondents are more pessimistic with regard to development of the Jiu Valley compared to the development of the whole country, getting a sharper view more over the realities of the area where they live and due to the fact that this area has not been yet a centre of interest for those who could invest here. It is no doubt that the "joy" of massive dismissals in mining in 1997 was, in fact, a "kick-back" in the economic development of the Jiu Valley because the promises in relation to the conversion of the labour force and creating jobs for those dismissed has been a pre-election slogan over the years. The implication of local authorities to revive the mining zone has remained without the desired result as long as it is a lack of interest for the population lives here at higher decisional levels. The collective consciousness of the local population, the socio-economic development of this area is still linked to mining, even if the facts do not support it any longer.

With respect to the evolution of Romania, 18% of respondents say that it is going to be negative in the following 10 years (much worse and worse), 29.2% of them have the same opinion for the Jiu Valley.

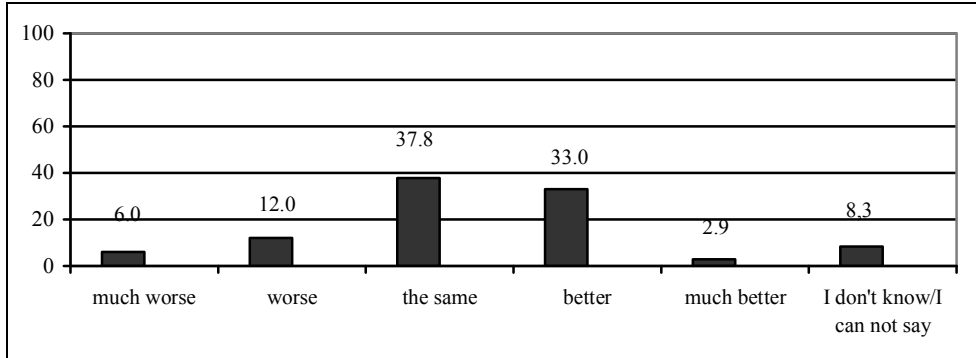


Figure 10. Evaluation of the socio-economic situation of Romania from 10 years on (%)

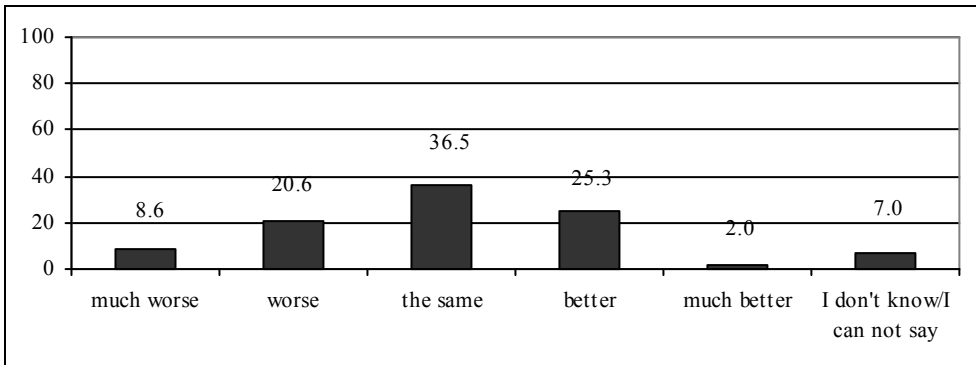


Figure 11. Evaluation of the socio-economic situation of the Jiu Valley from 10 years on (%)

The Jiu Valley residents' pessimism regarding the chances for recovery of the area is reflected in the Figure 12; only a very small percentage (12.4%) gives a real chance of recovery, while those who believe that chances are minimal (less and no one) is 4.8 times higher.

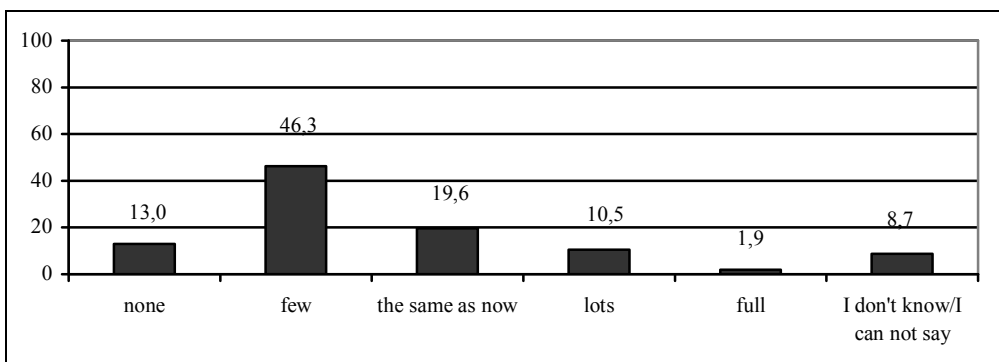


Figure 12. Chances of recovery for the Jiu Valley area while the mining operations diminish (%)

Conclusions:

- the problems facing the population of Jiu Valley are generally the same as the ones in the whole Romanian society, i.e. issues related mainly to material and financial aspects, but more acute for this area;
- the quality of life deteriorated continuously between 1990 and 2008 in the opinion of those interviewed, being worse compared to the period before 1990. People have become poorer and those who feel life as very difficult and difficult are 3.8 times more numerous in the period 2005-2008 compared to the period before 1990, and the percentage of those who are doing very well and well is two thirds lower compared to the same period;
- the financial possibilities of the investigated families are relatively low, one-fifth of them cumulating revenues of up to 500 lei, and those who have an income up to 1,000 lei, including, hold a share of 58%;
- a little over one fifth of subjects with low income completes their budget engaging in seasonal activities;
- almost one half of respondents, although they situate at the limit of decency with respect to their revenues, they are satisfied with the situation or at least they have not yet taken any initiative to find work. The absence of a government strategy to create new jobs has induced mentality and resignation for a large of the population that says that "work" route is: employed - dismissed - unemployed – poor;
- expenses, foodstuff and housing maintenance costs amount, in most cases to 90% of the family income; only ten percent of income can be allocated to meet other needs (what does it mean 10% of 500 or 1000 lei?);
- it is a sad fact that education and culture gets only 1.3% of the family income which is so low.

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ASPECTS RELATED TO THE SOCIO-ECONOMIC SITUATION OF THE RETIRED PERSONS IN ROMANIA

ROXANA PLEȘA *

ABSTRACT: *Pension's level in Romania has been a matter of passionate debates inside the political class since 1990 until today. The alarming increase in the number of pensioners, which exceeded the number of employees in the economy, linked to the economic and social development of our country, has made impossible to create a social system for older people, system able to provide a decent level for their income. Research and evaluation have displayed regular concerns in relation to the social and economic situation of the older persons and they have demonstrated that they are social category that is being subjected to the highest injustices in the market economy.*

KEY WORDS: *revenue and expenditure of pensioners; living standard, pension scheme; social assistance and protection*

JEL CLASSIFICATIONS: *Z10*

Among the particularly acute social problems faced by Romania during the current period, the situation of the older persons is one of the most dramatic. The difficult economic situation our country is going through decreases in living standards of most people, and perhaps primarily of the older persons. In these circumstances, old age as a social problem feeds itself many other social problems. The negative aspects that the old regime used to keep them hidden, refusing to be named or improved, have increasingly came to light and there have been added other new ones generated by the dysfunctional consequences of transition and poor government policy in the field of social assistance and protection.

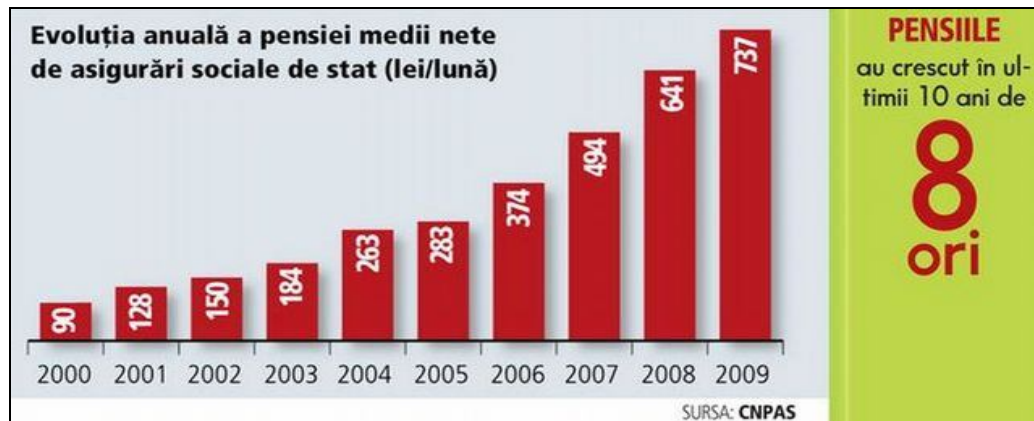
The aging of the population is a social problem as it affects a large number of people, involving not only the part of the population in question, but also the policy makers and the society at large that bears important consequences. The phenomenon asks for concrete and joint social measures so as to trigger a change in the meaning of

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autonomy and welfare of older persons, for a healthy aging, ensuring a quality life, with social costs as low as possible.

The aging of the population and the fewer jobs available shall lead to socio-economic structural changes over the active and inactive population. According to the information delivered by the National Institute of Statistics and Economic Studies (INSSE), the pensioners hold the largest share of the total inactive population, accounting for a steady upward trajectory in recent years.

Similar to the vast majority of population, the income of older persons, although increases occurred, can be characterized, in real terms, by a decline, which could not lead to decent living standards. The pensions are smaller than the population needs, but if their progress is compared to the evolution of salaries and to the gross domestic product in the past 10 years, it results that these pensions increased eight times between 2000 and 2009, while the salary and GDP increased only six times, according to INSSE data.



Source: <http://www.zf.ro/eveniment>

Figure 1. Evolution of average net annual pension of state social insurance (lei / month)

Pensions have increased much faster in recent years compared to the salaries, after the '90-2000 – period when pensions collapsed. One possible explanation of this aspect could have political connotations, if we take into consideration the fact that in the past ten years, six to seven were with elections, and population of pensioners holds an important share. Another explanation could be the fact that a large part of the salaries from the private sector is not recorded fair and square in order to avoid paying the related social security because of their high level.

In the latest years, the salaries of persons working in the state – owned institutions have risen from 5% of GDP to 9% of GDP. And this aspect, connected with labour shortages in some sectors, has also increased the salary level in private sector. According to economists, there occurred the so-called "demonstration effect".

In 2008 Romania recorded a growth of 7.1% and in 2006 a growth of 7.9%, while the economic potential was estimated at around 5.5 to 6%. In 2000, the average pension represented about 41% of net average salary, while in 2009 it reached 53% of

net average salary. In developed countries, the average pension reaches around 70-75% of the average net salary.

According to Law 19/2000 on public pension and other social security rights, the value of the pension point situated between 30 and 50% in the 2005-2007 - period and since 2008, it situated between 37.5 to 45% from the gross average salary (abbreviated SMB) and it was used to substantiate the state social insurance budget. Annually, there is being approved the gross average salary by the State Social Insurance Budget Act and the value of the pension point is updated.

Table 1. Evolution of the value of the pension point and its share of the annual gross average salary

DATE	Value of the pension point	%	SMB	Year
01.01.2005	295,5	32	921,1	2005
01.01.2006	323,1	30	1077	2006
01.09.2006	339,3	31,5	1077	2006
01.12.2006	396,2	36,7	1077	2006
01.09.2007	416	32,75	1270	2007
01.11.2007	541	42,6	1270	2007
01.01.2008	581,3	37,5	1550	2008
01.10.2008	697,5	45	1550	2008
01.04.2009	718,4	45	1693	2009

Source: <http://www.x3m.ro/cjptl/val-punct.htm>

Knowledge on the living conditions of population, its wealth, information on final consumption and opportunities for meeting the vital needs, on the living standards and lifestyles, on the quality of life as a whole, has always been a current concern. A significant decrease of the population's quality of life, compared to the years before the transition period, stems in the degradation come from the social sphere.

Defining the living conditions of any segment of the population can be achieved by knowing a large number of parameters; some relate to the economic support of the existence and others, to the daily living conditions, health status, the general mood, etc. Within these parameters, the crucial role is held by the economic support. Income and consumption are essential components of quality of life and they are characterized by low levels, structural imbalances and inequalities, highlighted by a national comparative analysis among types of households.

Of the whole monthly income, the pensioners set aside more than 50% for foodstuff (53.6%) and of all the types of households, they spend a higher percentage from their monthly income for buying medicines (4.8%, three percentage points or more than other categories). Nevertheless, a higher percentage of monthly expenditure is allocated to the purchase and consumption of alcoholic beverages and tobacco (5.6%). The retired persons spend almost as much as unemployed for clothing and footwear (4.6%) and investments in housing facilities are equal for the two categories and only 0.1% away from average value registered for the country. After the households of farmers, the retired persons spend the smallest amounts for education,

but for cultural and leisure activities this share is amplified, reaching 2.9% of their monthly income. Spending time in hotels, cafes, restaurants seem to hold an insignificant share among pensioners (0.6%) compared with other types of households. Overall, for the category of "social costs" - transportation, communications, recreation and culture, education, hotels, restaurants - pensioners pay less than 3.1% compared to maintenance bills, water, electricity, gas.

Table 2. Monthly consumption expenditure structure, in relation to the types of households in 2009 (%)

Total consumption expenditure categories (monthly, 2009)	Average monthly total household expenditure	Monthly expenditure of households with employees	Monthly expenditure of households with farmers	Monthly expenditure of households with unemployed	Monthly expenditure of households with pensioners
Total expenses (lei monthly / household)	4 744 691	6 337 094	3 686 802	4 035 838	3 854 772
Foodstuff and soft drinks	49,9	43,9	65,4	56,2	53,6
Alcoholic beverages and tobacco	5,9	5,5	8,5	6,9	5,6
Clothes and footwear	6,1	7,5	5,9	4,5	4,6
House taxes, water, electricity, gases and other types of fuels	14,6	15,5	7,9	13,7	15,3
Furniture, facilities and home maintenance	3,2	3,5	2,5	3,1	3,1
Health	2,8	1,7	1,1	1,6	4,8
Transport	5,6	7,1	3,2	3,7	4,1
Communication	4,0	5,1	1,1	3,4	3,2
Recreation and culture activities	4,8	4,7	2,2	3,0	2,9
Education	0,7	1,0	0,2	0,7	0,4
Hotels, cafés, restaurants	1,0	1,3	0,8	1,1	0,6
Different products and services	2,4	3,2	1,2	2,1	1,8

Source: INSSSE, Romanian Statistical Yearbook, 2009, pp.148-149

Food overcomes in the balance of expenditure in households of pensioners, followed by home maintenance costs, the so-called social costs and payment of medicines.

A sociological research conducted in 2009, the Jiu Valley has highlighted aspects of quality of life of the retired older persons. Research aimed at breaking down the concept of quality of life into many indicators - financial situation, health, relationships with family, neighbours, the received medical care, social services, trust in people and institutions involved in social and political life, satisfactions in life, etc. - with which to build a comprehensive picture of the situation of pensioners in Romania.

Phenomenon of retirement varies from one society to another; in some countries special attention is paid to pensioners, in others they are treated with

indifference. Over time, the retired persons in the Romanian society have built an opinion about this period, their opinions varying in relation to how reality is perceived.

There were found as differences between subjects. Some see retirement as a desirable and expected event, taking it as a new phase of their lives. For others, however, retirement is an undesirable event, but inevitable. The moment of retirement does not mean abandoning any socially useful activities, the beginning of a "social death." Everyone must prepare spiritually to cope with the wave of change that will occur once with age and that will influence to a greater or lesser extent the quality of life. New lifestyles cause many changes. The life of a man has various stages and it is very important how to adjust to them. A thorough training involves a better match. People should be aware that some changes will occur with retirement, some of which can be avoided, others not. With a sustained effort from family and self-confidence, a retiree will adapt more easily.

Adapting to this new lifestyle is neither difficult nor easy. Even if the number of those who recognize that they have encountered serious difficulties in the adapting process prevails- the greatest difficulties are related to the cessation of any job – relating activity and the setting of social hopelessness feeling; however, there are those who say that retirement is a stage of life that has been waiting with impatience. They are optimistic, balanced and declares that "life must follow its natural course."

Most of those interviewed agree that to have a "quiet old age period", they should make an appropriate adjustment to all the changes that occur once the new status is acquired; otherwise, everyone agrees that retirement can trigger a state of loneliness and isolation, a sense of marginalization and social uselessness. Thus, the whole family and everybody else close to the pensioner shall provide moral and emotional support necessary to better accommodate to the new lifestyle. In agreement with this idea, subjects view retirement as the beginning of dependence of others, i.e. family. There is a reversal of positions inside the family. Earlier, the children were dependent on parents, now the latter ones are considered dependent to their children. They feel that their lives depend on family and society, often lonely and not being able to cope with the current problems.

Most retirees with university education consider retirement as recognition of merit and of work performed along a "work life ", believing that everything they undertook throughout life has not been in vain. Another idea found in the same group is that retirement is a way to regain freedom, but also is beginning when social prestige reduces. This latter approach has been common in the middle of those with higher education and in high position, with great social responsibilities. On the opposite side there situates the retired persons with primary or secondary school education, which think retirement as a period marked by deprivation and frustration. Shortages are present at several categories of people, but they are more visible at pensioners.

Whatever the opinion about retirement and what it means retirement for them, one thing is certain, namely, people expect that after a lifetime of work, they should get what they deserve: a decent life. "Decent existence" is perceived differently, however: either to provide an income sufficient to remove the worries for tomorrow or the possibility to purchase various things they deem as absolutely necessary in the

household or the possibility of granting a special attention to old age period, taking care of their health or safety of their homes, etc.

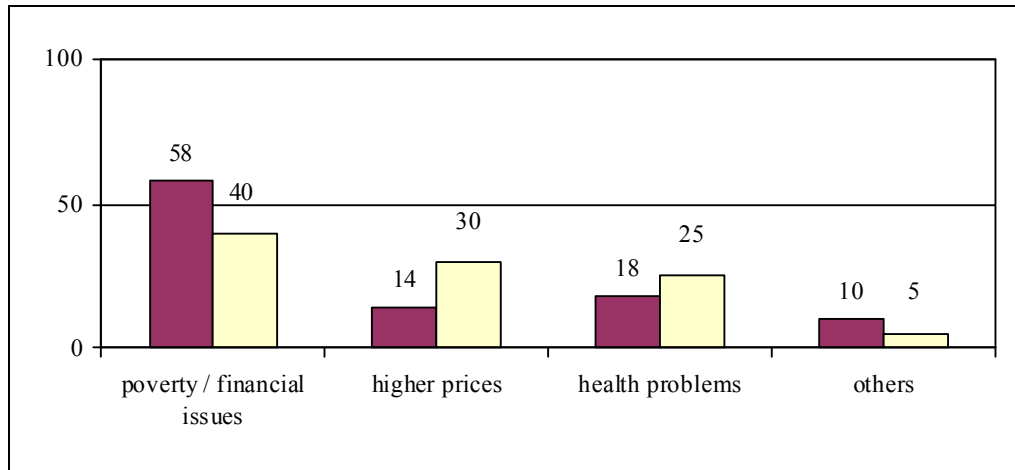


Figure 2. The main problems faced by pensioners (%)

The main concerns of pensioners mainly focus on disproportional ratio between the amount of pension and the continuous and unexplainable price growth amid an ever increasing mass poverty. Also, they are worried about poor health / health problems that inevitably arise, even if retirement is not equivalent to disease, and consequently, hence, access to medicines in relation to their cost. To a larger extent, the deterioration of older people health has its explanation in reducing body vigour, and thus diminishing its ability to resist pathogens. Worsening health status enhances the feeling of discomfort and discontent that is reflected in the perception of general living conditions.

The proportion of those who show particular concern in relation to income is higher among those with a lower education, secondary school at most. Among subjects with university education level there was a greater diversity of responses; in addition to financial issues, they are concerned about corruption in the country, the political class incompetence or about failure in meeting their rights - hence a lack of trust in leaders and disgust in relation to their involvement in politics. The education level that supports the employment in a specific job position determines, therefore, differences in wages and hence, in the calculation of pensions, but it is also emphasized as a prerequisite of hierarchy in society and implicitly in building a social image.

With respect to incomes and to economic situation, the state of discontent, seen in the statements of subjects investigated, prevails. Most times, the family income is strictly only for stringent needs, thus failing to be able to save money from one month to another. When they have financial troubles, people turn to family / friends or to institutions which they consider as reliable. Nevertheless, when appealing to various institutions they should fulfil certain conditions, so it is always easier to asked help from family and friends. There are those who refuse any kind of help, contenting

themselves with the pension they have. Even if material deficiencies exist, they prefer to abstain from many things, considering a cash loan would multiply their problems, which are already in pile. Of the whole income, the percentage allocated by pensioners for food and drink is quite high (60%). One fifth is for medicines and medical care, followed by house maintenance costs and costs for buying stuff for the house, followed by costs for buying clothing and footwear, and finally, a very low percentage (less than 5%) represents expenditure for education, culture, transport and telecommunications.

Subjects said that their economic situation was much better before 1989 (80%) and worse in the period 2000-2009 than between 1990 and 1999. For the following years, more than one third of respondents are optimistic regarding their economic situation and almost half of them regarding the economic situation of the country.

The most important aspect from the life of a retired person is the family because family gives them moments of joy both during their active period and especially after retirement when the circle of social relations is reduced considerably. Family tends to be more careful with the retired person, providing emotional support and helping him to overcome difficult moments of this period. Family relationships must be tight for a better life run. In many situations, the family is expecting the retirement moment so that they should take care for grandchildren; subsequently, this activity keeps them active and useful and also gives them the necessary dose of satisfaction. There are situations where the family show respect for the peace of the pensioner - especially in cases of illness – and asks just for very easy jobs.

At the question related to whether there is communication in family, with friends or neighbours, more than three-quarters of respondents said that they were satisfied with the quality of relationships. Nevertheless, the social communication is weaker, and at the societal level, almost nonexistent, thus resulting a dissatisfaction concerning their rights and a low degree of security on the street / at home. Due to proper care and habits formed during their active life, which coincides with years before 1990 for many retired persons, when medical services were provided, in principle, free, most subjects address individuals and institutions to take special care of their health. The very small number of those who ignore medical help consists mainly of those with financial problems and a low level of school education.

Even if the subjects turn to medical care services, they did not hesitate to disclose most unpleasant aspects, in their opinion, in relation to these services: the program and sometimes, the arrogant attitude of health professionals, high treatment and consultation costs and, at last but not in the least, the obligation to provide "presents" to the health professionals. If the use of qualified health services is not a problem for the older persons, the accessibility of medicines is a real burden, both due to their very high price, and due to their lack in pharmaceutical units. This analysis of life for the retired old age persons shows some aspects where individual assessments on certain issues of life are positive, representing elements of support in their lives, while the other aspects still situate in the negative zone, being permanent sources of dissatisfaction in people's lives and representing a risk of marginalization and social exclusion.

An option to settle the problems of older persons who have serious health disorders and who have broken all ties with family is the admission in residential

facilities for old persons. To increase the contribution of these institutions, it is necessary to increase their number and the places available in these facilities, and especially to increase the quality of service delivered. Although it was included as an option to protect older persons - in addition to increasing the amount of pension so as to ensure a reasonable meeting of the needs, building of hospitals and wards especially for the older persons, the existence of medical staff that makes house calls - once it got a more personal tone, a certain shyness and mass restrain has begun. The reaction can be explained by fear of the unknown imposed by these institutions and, especially, by not allowing separation, for the rest of life, of the environment in which they are accustomed to.

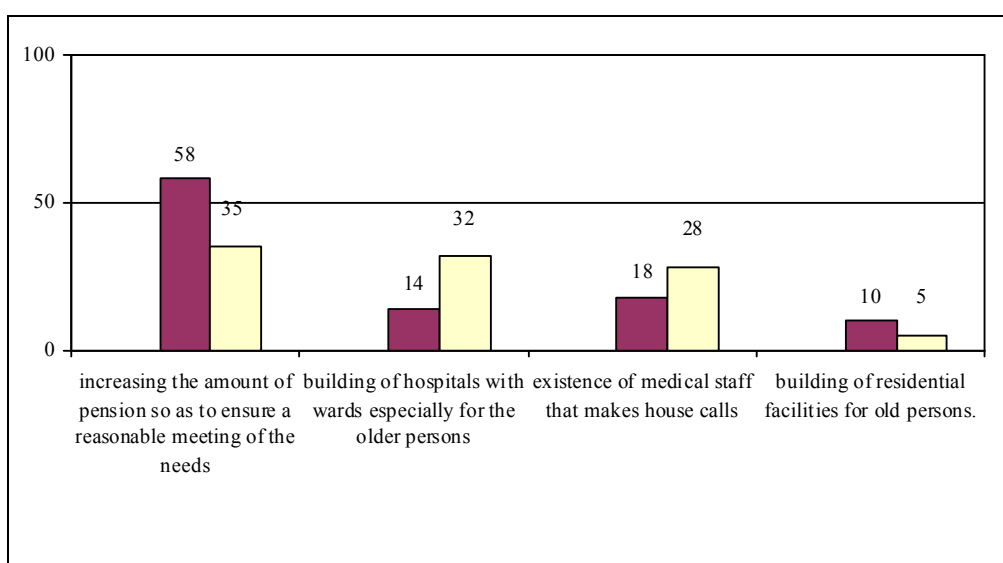


Figure 3. Measures taken by the authorities to protect older persons (%)

Social services are part of more comprehensive social protection system, which aims at supporting individuals, groups and communities in difficult situation, unable to maintain, through their own resources, a minimum living standard considered normal; it is achieved through social, financial benefit and social services. Social protection systems are highly developed in the European Union. The organization and financing of these protection systems is the responsibility of each Member State. EU promotes close cooperation of Member States to modernize social protection systems which face social problems. Based on the Open Method of Coordination, there is provided social support to the authorities for social policies in each member state in the following areas: pensions, health and long-term care, health and social services of general interest.

Pension systems in EU Member States are characterized by high diversity. At European level, although it tends to harmonize the applicable pension legislation, there is no intention to impose a model of the "ideal" pension; it is considered that setting the parameters of these systems is a prerogative of the domestic policy of each state. It is

the EU governments which are actually setting the public policy in this area in terms of application of European directives and regulations in force, but also the common principles and values to which the Member States agree with in order that their pension systems can handle the stringent problems and be able to use the new opportunities. In this context, it should be taken into account the interdependence between the economic and social issues. Thus, a well-structured system of social security plays a vital role in supporting the economic system and improving its performance. Also, a social security system must display an evolutionary character, i.e. to adjust constantly to changes in society and economy.

Insurance systems for old age period in the European Union provide a high level of pensions and financial autonomy for older persons. EU priorities include: adequacy and sustainability of pension systems, transferability of pension rights within and beyond borders, encouraging additional savings through private pension schemes. Regarding social services in the European Union, it is encouraged the exchange of best practices to improve their quality and integrate efforts to combat poverty and social exclusion. The main legislative act governing the social support of older people in Romania is Law no.17/2000 on Social Care for older people, published in Official Gazette no. 104 of 03.09.2000, supplemented and republished in the Official Gazette No. 157 of 03.06.2007. Older people (persons who have reached retirement age set by law) are entitled to social assistance in relation to socio-medical situation and to the economic resources available. It is intended to harmonize the Romanian legislation in this domain with the international legislation, creating a clear and coherent legislative framework on social assistance to this vulnerable group, a global approach of the issues the older people have to face based on their fundamental rights, enforcing the option for individual responsibility in relation to their life and care.

A fundamental right acquired by retired persons after Romania joined the European Union is their mobility between Member States. The issuance of the Law no. 19/2000 on public pension and other social security rights, whose actual implementation began on April 1, 2001, was imposed by the need to reform the pension system, which no longer met the realities of social - economic situation in Romania that entered after 1989 in a period of adjustment and restructuring process.

Previous pension system became more and more difficult to sustain financially and it had to face serious problems, which exceeded its personal adjustment possibilities. Furthermore, system was not able to take over and mitigate the shocks generated by the contradictions between the principles that were the basis for its institutional construction and the new operating conditions; this is the reason why serious discrepancies between pensions have come up, the pension's purchasing power has decreased dramatically, inter-and intra-generational discriminations have arisen so that temporary poverty turned into permanent poverty for large social groups, the shocks of transition have become unbearable, while the pension system can not provide in-depth solutions.

Taking into consideration the previous legislation limits, Law 19/2000, there has been tried to create the legal framework for the organization and functioning of a public pension system, based on new principles adjusted to the specific socioeconomic

conditions in Romania, able to offer solutions to reform and streamline the previous system, with the help of few principles that are found in all modern pension system:

- ensuring the same conditions to contribute and to obtain social benefits for all categories of population who get an income in a single system;
- introducing mandatory insurance to the public system for all persons who receive their income from employment or as freelancers because their contributions shall provide the support of costs with the payment of benefits in a normal and necessary intergenerational social solidarity;
- creating a separate institution by laying the foundation of the National House of Pensions and Other Social Insurance Rights and its structures, to manage income and expenditure of the public pensions system;
- widening the optional range of people with access to a pension right by introducing new types of pensions, intended to ensure flexibility in the public system;
- introducing a new formula to calculate pensions, i.e. the use the pension system points calculated for the entire period of contribution from the professional course of the insured persons, that ensures a fair correlation between the contributions paid into the social benefit system and the amount paid by the system;
- a gradual increase of the age of retirement that was quite low at the moment when the system started reforming, with a very smooth upward trend, over the 14 to 15 years to ensure financial stability;
- continual updating of pensions, depending on available funds in the system, specific measures in order to maintain the purchasing power of pensions, with coverage of the rising inflation.

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STRATEGIC OPTIONS IN THE CONSTRUCTION OF THE BUCHAREST BRAND THROUGH THE APPLICATION ANALYSIS OF THE MEASURING INSTRUMENTS FOR THE URBAN BRANDS

**RUXANDRA IRINA POPESCU,
RĂZVAN-ANDREI CORBOȘ ***

ABSTRACT. *The reality demonstrates that, in the present context, the competition between the cities is harsh, amplified by the economic and politic effects of the globalization. The cities are fighting to attract investments, influence, businesses, tourists, residents. One of the challenges of the urban management in its efforts to grow the performance is linked around the construction of the urban brand as a solution in the process of the cities' development. This construction implies the validity, credibility, simplicity, attractiveness and distinctiveness of the city's image. The answer of the researchers to the need of a critical effective instrument in this area was the creation of the Urban Brand Index. Through these measuring instruments, the actors implied in the administration of the cities can easily understand the perception of the visitors, investors, costumers and future residents upon the image of the city, to identify and apply some pro-active measures to stimulate and improvement of the existing opportunities that have as main result the development of the city. In this study are presented three of these instruments - The City Brands Index, The European Barometer of City Brands and The Global Cities Index - and the way in which these can contribute to the actions for constructing a powerful urban brand of Bucharest, is analyzed.*

KEY WORDS: *city brand; marketing strategies; tourism; ways of measuring the brand*

JEL CLASSIFICATION: *M39*

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1. INTRODUCTION

As the phenomenon of globalization is intensifying, the cities are entering into a harsh competition, to gain attention, influence, sale markets, investments, businesses, visitors, residents, talents, and nonetheless, important events; obviously, the competition is not represented anymore by neighbour areas, but by regions and countries from anywhere. Even if the urban branding concept is relatively new, the process itself was conscious or unconscious practiced since the cities became rivals in the fight for commerce, population, wealth, prestige or power in a global context.

Usually, the individuals associate the cities with a single quality, a promise, an attribute or a story. Paris means romanticism, Milan means style, New York means energy, Washington - power, Tokyo-modernity. The branding operates especially with these mental images. These become thus the raw material that needs to be processed and finished through branding. The management of the urban brand is the one that tries to influence this image, being the object of the urban marketing, and not the city itself.

There are more important reasons to study the need and potential of a place or city branding. A positive powerful image has the capacity to offer a city a competitive solid and distinctive advantage. Moreover, it can influence the decisions in the process of choice of the places for direct foreign investments and affects the attitudes towards the services and products of that place, of its ability to attract tourists and entrepreneurial activities. The image of a city plays an important role in the belief of the labour force and the students with potential to choose that place.

In the last years, the conception that a country, a region or a city can transform in a brand won more and more partisans and started to obtain more attention both from the practitioners, and the theoreticians. But, until now there was no consensus regarding the appliance of the techniques that belong to the commercial brands management.

2. THE CONSTRUCTION OF THE URBAN BRAND - STRATEGIC OPTION IN THE DEVELOPMENT OF CITIES

“The conscious attempt of the governs to shape an identity of location projected especially and to promote in front of the target-groups both on the internal plan and external one, is a practice almost as old as the civic government act itself” (Karavtzis & Ashworth, 2005). Really, the concepts of promoting the places and identity do not represent something new. The existence of the civic government act was, as it appeared, doubled by the efforts of the cities to promote for attracting objectives such as the development of the entrepreneurial climate and the growth of the tourist sector, which Short (1999) names “the labour city” and “the fun city”, elements that inter-condition each other.

At the start of the 1990s, the researchers like Ashworth and Voogd, Berk or Koetler started to mention the concept of “place marketing”. Nevertheless, the urban branding represents a new notion, few authors referring to it. Karavtzis and Ashworth (2005) specify that “there are important lacunas in the literature referring to the city branding problem in general and to real case studies in particular”. Moreover,

Parkerson and Saunders (2005) recognize that “there were few empiric researches to determine how you can build a successful urban brand”. Thereby, it is very hard to approach a theme that the theories almost don’t treat at all. Hankinson states the idea that there is still a general theoretic frame that differentiates the development of the place brands from the classic theories referring to the commercial products branding.

Ashworth and Voogd declare that the place marketing suffered generally from the lack of understanding of the concept by the marketing specialists and by the markets. Karavtzis (2004) adds that “the limited implementing of the location marketing is caused by the lack of marketing knowledge by the urban administrators”.

At the beginning of the marketing proliferation, the notion of urban marketing meant promotion or, more exact, the advertising of the city as a whole. Until the last decades, the urban marketing was treated as a process in which the urban activities were in close connection with the demands of the consumers to maximize the social and economic efficiency of the area according with the goals wanted to be achieved. Ashworth and Voord (1990) emphasize that the urban marketing is “the approach oriented towards demand” in which the changes in the urban space are planned from the approach of the present and potential users of the urban product. Nevertheless, Shidt-Jensen (2006) argues that if a city concentrates only on marketing, instead of inoculate to its citizens, companies and local organizations the brand values, then the risk of misunderstandings between the real experiences lived by the tourists or the new residents and the promises of the branding company, appear. If the promise refers to “dynamism” and “opening”, but the experience resumes only to an inactive local community and little opened to foreigners, the city becomes a disappointment.

According to the definition of Mommaas (2002) the urban branding represent “a strategy that wants to confer cities an image, a cultural significance, which ideally will function as an added and symbolic value source”. The city brand is an instrument meant to grow the statute and prestige of the city as a tourist destination or as a residential or entrepreneurial location. On internal plan, this could determine the positive implication for places or cities providing a civic pride, sense of community, investments in the public area, a feeling of development. A powerful city brand must be created holistic, because the entire city represents a brand. In the creation process of the brand, some aspects, such as images, characteristics and experiences are usually selected, while others are eliminated. In brad, many times there can be integrated ignored aspects until then.

Once the urban planners understand the current image of the respective place, they can deliberate regarding the type of image that can be built accordingly. One of the challenges that result from this situation is the creation of an image that determines efficient results for all the target-groups. The eligibility conditions of an urban image to the title of universally available efficiency are (Koetler&Gertner, 2002):

- **Validity**: if the place promotes an image being to far from the reality, the chances of success are minimum.
- **Credibility**: The exaggerated efforts of promotion become dangerous if they are practiced on long term.
- **Simplicity**: Because most of the cities do not develop promoting strategies, they tend to disseminate any information a little positive, without making a profound

analysis of it; so, the priority process is usually inexistent, generating an exhaustive promotion and implicit, confusion in the target-groups.

- **Attractiveness:** The image must offer reasons to generate the wish of the individuals to visit, live, invest or work in the respective place. For this, it is based on the promotion of different attributes like the economic stability, quality of life, opening towards exterior, infrastructure etc.
- **Distinctiveness:** The image “works” most efficient when it approaches differently other common themes.

The creation of an image with resonance for the public represents an organic part of the entire process of branding, needing both a profound improvement of the city at a real scale, and the call to creativity for discovering symbols.

3. ACTIONS IN THE CONSTRUCTION OF THE BRAND OF BUCHAREST THROUGH THE POINT OF VIEW OF THE APPLICATION ANALYSIS OF THE MEASURING INSTRUMENTS FOR THE URBAN BRANDS

Through the measuring instruments of the urban brands, the political leaders and business men can easily understand the perception of the visitors, investors, costumers and future residents upon the image of the city, to take pro-active measures, improvement and stimulations of the existing opportunities. The Urban Brands Indexes prove that there is a need of a sincere rethinking of the city’s offer for the present and future. The urban branding is not something held just by the local governments or by some agencies and departments from their structure. It represents a responsibility and a common practice of the main urban actors. What can be more powerful than an urban brand defined and created by the authorities of a city that use their quality and advantages to assure that the world receives a comprehensive and consistent message about the city? To achieve this goal, the urban branding demands the use of new forms of leadership, strategies and creativity. This represents the premise in the intervention of evaluating the capacity of constructing a solid urban brand for Bucharest in the context of the place analysis occupied by the capital of Romania in the offered charts by the most known instruments of measuring the urban brands.

3.1. Context

Bucharest is the capital of Romania, and in the same time, the biggest city, industrial and commercial centre of the country. The population is of 1.944.367 citizens (evaluation at 1 January 2009 according to www.insse.ro) makes Bucharest the sixth city in European Union as inhabitants. Still, in fact, Bucharest concentrates daily more than three million people, and the specialists forecast that, in the next five years, the total will exceed four millions (Benezic, 2009).

The first mention of the town appears in 1459. In 1862 it becomes the capital of Romania. Since then, it suffers continuous modification, being the center of the artistic, cultural and mass-media scene. Between the two world wars, the elegant architecture and the Bucharest elite brought it the fame of “Little Paris”. Presently, the capital has the same administrative level as a county and is divided in six districts.

According to www.citymayors.com, Bucharest is situated in the category of “*the regional marginal metropolis, with limited international influence, having few third party services at metropolitan level and international functions little developed*”, similar with Athens and Lisbon, but with the possibility to prepare the pass to the superior category of “*regional metropolis with powerful international influence, with a structure of activities little specialized and specialized or incomplete international functions*” as Rome, Madrid or Bern.

Bucharest is still looking for its identity. Reported to the national brand, presently being in an incipient phase, it can play two roles: either ingredient of the country brand, capital being an element included on the list of values promoted at national level, either as mark point for the definition and later, the improvement of the country brand. The potential remained unexploited must be improved in the future by the urban branding, some marketing steps adapted to the local specific.

3.2. City Brands Index

A. Principles of functioning. The City Brands Index was realized for the first time in 2005, being the result of the collaboration between Simon Anholt¹ and Gfk Roper Public Affair & Media².

The City Brands Index is the only analytic chart of the urban brands realized at global level. It uses an innovative set of instruments that assist the cities in the development, implementation and evaluation of their own brands, offering global and local perspectives necessary to the urban progress and the success of businesses, commerce and tourism. Through this chart, the political leaders, the business men can easily understand the perception of visitors, investors, costumers and future citizens upon the image of their cities, to take pro-active measures and improve and stimulate the existing opportunities.

The Urban Brand hexagon represents the basic premise of this index. Its components consider (Anholt, 2007):

1. **Presence** is an element that refers to the international statute of the city and its place on global plan. The questions that aimed the quantification of this dimension referred to the familiarity of the questioned ones with the cities, to the proper visiting of them, and to the major elements that recommend them for celebrity. “The place” in the top does not reflect just a one dimension characteristic, does not express just a superior or inferior position, but also the importance of the contribution of the respective city to the cultural, scientific patrimony or urban government from the last 30 years.
2. The opinions of the questioned persons are incarnated in points granted to “**the place**”: physical aspects of each city, that refer to elements such as exterior

¹ *Simon Anholt* is an authority in the marketing area, concentrating upon the activities of states, cities and regions branding. His expertise is confirmed by the position in the United Kingdom’s Government, being a member in the Council of Public Diplomacy, and moreover, working as independent councilor for other 20 national, regional and local governments on the strategy of brand and public diplomacy.

² *Gfk Roper Public Affair & Media* is a division of Gfk Custom Research North America, specialized in the pollster and social problems, media researches, communication and the measurement of the corporative reputation, both in United States of America, and at global level.

ambiance, traveling through the city, exterior aspect and influence of the climate upon the state of the individuals.



Source: *The Anholt City Brands Index - "How the World Views its Cities"*, 2005

Figure 1. The Urban Brand Hexagon

3. **The potential** takes into consideration the economical and educational opportunities that each city can offer to the visitors, business men and immigrants. The differentiation criteria for this component are: the facility to find a place of work in the city, choosing the best one for business, the best city to obtain a university diploma.
4. **The pulse** underlines the meaning of the vibrant urban life in the city brand, the easiness of which the people think they can find interesting things to do, both as a resident, and tourist. This dimension has an intangible character, taking into consideration the emotional impact of the city, being a decisive element to characterize the townsman spirit.
5. **The people** represent one of the most important elements of the marketing strategy, the approach of urban actors depending on their grade of hospitality and their prejudices for strangers. The brand is based on the facility of the new comers to integrate in a community which they share the language and culture with, and the level of security in the city.
6. **Basic necessities/Fundamental demands** express the basic qualities of a city that imply the life in that place, the facility of finding satisfying and convenient accommodation and which are the general standards of the public services.

B. Index City Brands and Bucharest. Bucharest isn't in the Urban Brands Index realized by Simon Anholt and Gfk Roper Public Affair & Media. The reasons of this absence are multiple: Bucharest isn't perceived as a brand, there isn't a unitary urban image; it is a part of the "wronged" cities even by its own citizens, its image being undermined by the lack of administrative will and initiative, by the lack of implication from the civil society and the inability of the marketing activity to fill a

feeling of pride, of townsman membership; Bucharest offers a “story”, even a complex “story”, fascinating as evolution, history, culture, but this story was not yet transposed in a marketable product.

The causes of the non-inclusion of the capital in the first 60 cities of the world can be identified by the analyze of a potential hexagon of the urban brand of Bucharest:

- **Presence** of the city is based on two elements. From the familiarity of the foreigners with the city, point of view, it is very low. While the image of other cities from the ex-communist block were loomed increasingly better by the promotion (the best examples are Budapest and Prague), Bucharest is identified with difficulty. Even if the statute of capital of Romania is recognized and its geographic position, its image hasn't the capacity to generate international echoes. The contribution of the city at the cultural and scientific patrimony is minor, if not inexistent of negative; so, the consequences of capitalism translated not only into a denial from the communist past, but also by the architectural interwar heritage, will of modernization and freedom translated by the inadvertence and partial destruction of the Bucharest cultural image. The problems from the educational system were not attenuated by the dimensions and importance of the capital, because it is not yet an international university centre and can assert only punctual on the scientific scene. Of course, neither the local administration doesn't represent a model of governance, because of the multiple problems of the urban development, the inexistence of durable and feasible urban strategies that take into consideration all interest groups, but also of an organizational structure that doesn't permit a harmonious collaboration between governors.
- **Urban location** doesn't benefit of a feedback from the respondents because they don't have a well defined mental image about Bucharest.
- **Potential of Bucharest** is a major one from the businesses opportunity point of view, but it is undermined by the lack of fiscal and financial stimulants for the foreign investors, considering that in the last years, numerous international companies oriented towards Central and Eastern Europe to open branches. As a university profile, the lack of proper campuses, a solid university spirit and opportunities offered to the students, determines the low potential, but in the conditions of suitable reforms, it presents real chances of improvement.
- **The pulse** of the city is the aspect which demonstrates the unfair consequences of the inexistence of a branding activity: Bucharest is a vibrant, young, open, interesting city, but the absence of an international image doesn't permit to the foreigners to perceive it at its true value.
- The chapter “**People**” considers the level of urban security, not a high one for Bucharest, its familiarity with language and culture, available only for visitors with Latin roots (from Spain, Italy, Portugal etc.) and the image of people; internationally, we can't talk about a separate perception of the people from Bucharest from the Romanians, the latter not having a positive image because of the values of immigrants from Europe and some unpleasant punctual events. Nevertheless, Bucharest is a friendly social environment, its residents being hospitable with the foreigners.

- About the **basic necessities/fundamental demands** we can say that they represent the “Achilles heel” of the capital. So, the real-estate market with high prices inadequate to the quality of accommodation, low quality public services or with an unequal coverage of the territory and the existing disparities between different Bucharest neighbourhoods, the road, sportive, educational infrastructure which is undesirable “convicts” Bucharest only, at most, to the statute of touristic and/or business destination, but not into a city in which the individuals would desire to move.

3.3. The European Barometer of the Urban Brands

A. Principles of functioning. Another reference index is “*The European Barometer of Urban Brands*”, created by the British consulting company Saffron in 2008. This is an instrument used to compare the strengths of the European cities, taking into consideration that the competition between them intensified due to the large integration, the expedient travel conditions in the space of the old continent, rediscovery of the local identities and cultures. The barometer measures the force of the urban brands and evaluates the efficiency of branding in the exploit process of the goods held by the cities.

The study aimed 72 European cities, the majority over 450.000 inhabitants, but also metropolis like Manchester, Bristol, Cardiff, Leeds and Newcastle. The analysis emphasized **two major aspects**:

a). The force of the urban goods: depending on this, the potential maximum power of the urban brand is foreseen. The survey realized by Saffron implied two stages: the identification of the best wanted urban goods and comparing them with the real offer of the cities subject to the barometer.

b). The force of the urban brand: experts from Saffron chose **4 factors** to be included in the Barometer that measures the force of the urban brand: *recognition of the city (can the people identify the city by a simple visualization of a postal card?); the quantity/force of the positive/attractive features; the conversational value (how interactive can be a debate about visiting the respective city?); the recognition in mass-media, quantified by the number of mentions in media in the last year.*

B. The European Barometer of the Urban Brands and Bucharest. Regarding Bucharest’s position in the European Barometer of the Urban Brands, it occupies, from the viewpoint of the criteria categories taken into consideration, the following positions: at the chapter “force of the urban goods”, obtained 61 points and occupies place 36 from 72; at the chapter “force of the urban brand”, obtained 44 points and occupies place 42 from 72; regarding the use of the Brand, Bucharest uses it in percentage of 73%, occupying place 47.

So the capital is on the medium side of the chart, but remarkable is the sub-use of the urban brand, because of the absence of a proper urban marketing activity. By analyzing the top, we can observe the presence of some cities with lower scores for the first two categories that use more efficiently their brand upgrading Bucharest (table 1). Newcastle, Marseille and Rotterdam have solid marketing and branding strategies, sustained by specific organizational structures from the City Councils. They have

declared values and aim the procurement of the durability and growth of the visibility of the cities on an international plan. So, even if the offered urban goods and the force of the brand have lower values, they maximize their efficiencies by using a message that will overpass until the target-group and raise its interest.

Table 1. Comparing the scores - Bucharest - other relevant European cities

City	Bucharest	Belgrade	Marseille	Newcastle	Rotterdam	Sarajevo
Force of the urban goods (points)	61	47	56	43	52	49
Position considering the force of the urban goods	36	64	47	69	55	59
Force of the urban brand (points)	44	38	44	43	43	43
Position considering the force of the urban brand	42	55	42	46	46	46
Grade of brand use (percent)	73%	80%	79%	99%	83%	86%
Position considering the grade of brand use	47	41	42	18	38	35

The superiority of Belgrade and Sarajevo could surprise, regarding the struggled history after 90s from the ex-Yugoslavia. So, even if Sarajevo is a small city, with little over 300.000 inhabitants, it benefits of a favourable geographic position, with impressing landscapes due to the presence of the Dinaric Alps. Its promotion was assisted also by the collaboration with cities like Shanghai, Venice, Istanbul, Madrid, Barcelona, Amsterdam and Stockholm.

Belgrade has an urban development strategy which contains a single chapter designed to the promotion of the city’s identity, the marketing activity being powerfully sustained by the Tourism Organization of Belgrade.

If we analyze the top of the most desired urban goods, we can observe that Bucharest has a rich offer for the first three positions:

- touristic attractions, less natural because of the degradation of the environment, but historic, due to the numerous ages of the city and the architectural heritage, make the capital a city of contrasts which addresses to various target-groups;

- even if there is no typical Bucharest kitchen, the local gastronomy is an open door to the Romanian kitchen, offering diversity and colour, flavour, but also many restaurants with international profile;
- the local population is more opened to the foreigners, while the Latin character of it facilitates the communication with tourists.

Regarding the utilities and facilities, Bucharest is known as a relatively cheap city, occupying the 57th place in the top of the most expensive cities in Europe (according to www.citymayors.com) and benefits a favourable climate, due to the relative stability of it.

So, we can say that Bucharest is “satisfied with little” and is underrating its qualities. The lack of a structure with clear defined responsibilities for the marketing activity and a capable strategy to improve the favourable elements of the branding lead to a sub-use of the brand potential. The recommendations regarding the improvement of this situation will be presented later in the chapter.

3.4. Global Cities Index

A. Principles of functioning. Global cities index was realized by “Foreign Policy” magazine, with managerial consulting company A.T. Kearney and the Council of Global Problems of Chicago. Even if, at first sight, it can not be considered an explicit index of the urban brands, the elements on which the classification is based represent the key ingredients of a successful urban brand. Moreover, it places the city into a larger context, determined by globalization and best illustrates the international presence of every metropolitan area and the way in which they integrate in the planet’s mechanism of function. From the used methodology, Global Cities Index realizes a chart for 60 cities based on 5 *dimensions*: business environment; human capital; exchange of information; cultural experience; politic power.

B. Global Cities Index and Bucharest. The absence of Bucharest from the Global Cities Index is explained by its weak performances. The incapacity of promotion is translated through the episodic role of the capital on the international scene, the power and sophistication at low levels, the lack of attractiveness for researchers and students, but also the still starting level of connection to the society based on knowledge, characterized through rapid information exchanges. The only element which could take it in the far future would be the cultural experience, under the conditions of the efficient improvement of the architectural, historic and cultural patrimony and the organization of numerous events with international echo.

3.5. The European Cities Monitor Report or The top of the business cities in 2008

The Central and Eastern Europe countries are the most popular for the first 500 multinational top companies in the world, regarding the opening of branches. Bucharest classified in 2008 on 31st place (with a decrease of three places from 2007) from the total of 34 big cities included in the European Cities Monitor report of the real-estate consulting company Cushman&Wakefield, presented by citymayors.com.

On the first three places of the chart are London, Paris and Frankfurt.

- at the question how well the companies know the 34 cities included in the report as a possible business location, Bucharest obtained the lowest score. So, only 14% from the 500 companies knew the capital.
- the capital of Romania is also on the last place at the situation of external transport connections, declining three positions from 2007, while the intern transport improved, situating Bucharest on 26th place, at the same level with Prague and Oslo.
- Bucharest recorded a decline from the 28th place, in 2007 to the 32nd place in 2008 at possibility of companies to recruit qualified personnel, and is on the second position at the costs of labour force, after last year was on the first place, being passed by Warsaw.
- At the chapter availability of office buildings, it is on 28th place, with a decline of 18 positions. "If in 2007 the rents of the office spaces were considered accessible and placed Bucharest on the second position in this aspect, from the European cities, in 2008 Bucharest lost 11 places, situating at the half of the chart, on 13th place. Budapest rose from the 5th place on the 3rd place, Prague rose from the 8th place to 6th, and Warsaw, which occupied the first position in 2007, rose on 5th place. This aspect is tight linked with the lack of such quality spaces solicited by companies, Bucharest being only on 28th place in 2008 in this matter, a fall of 18 places from the last year. Prague maintained as in 2007 on 19th place, while Budapest improved its position from place 13, in 2007, to place nine in 2008" (according to www.citymayors.com) the report shows. Its intention of extension in the next five years places the Capital on the third position followed by Moscow and Prague, but at the same level with Warsaw.

4. CONCLUSION

The charts realized by companies with international fame reflect the perceptions of the citizens at European or global level regarding the urban image; both the positive perceptions and the negative ones can be used as instruments for the branding activity, the first being basic stones of the urban image, urban launch ramps, while the pejorative ones are becoming the premises of a reactive and proactive urban strategy. So the capital can be perceived as an offensive player, and not just as a defensive one that tries to preserve its position.

We have to mention that there is no universal recipe for the urban branding, this being a complex and personalized matter. Maybe the most difficult task is the deploy of a coherent and solid urban audit. This must describe accurately the portrait of Bucharest: which are the strengths, weaknesses, opportunities and threats and what the urban essence that makes it unique is. All these key points must be researched in the business urban life, but also in the tourists and residents life, because they are the base of every city's use. It's opportune that the capital's brand to be oriented, first of all, towards people in the detriment of business concentration itself, on the tourism indicators or on the necessity of building a new museum to demonstrate its "cultural city" statute. It must facilitate the social imply by the active participation of the citizens (either tourists, residents or business men) in the urban life, this phenomenon

translating later in positive economic results. For example, the researchers will accept to work in the city only if there are powerful motivations: a high qualitative level of life, an adequate educational system for their children, an efficient sanitary system, etc. So, the alchemy is complete only when the impact of the brand is felt at every level, when all the needs of the residents are fulfilled, because the people are the ones who are building the city.

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INTELLECTUAL INVESTMENT. THE PROSPECTS IN EDUCATION IN THE USA AND IN THE EU

LOREDANA-IOANA PRIBAC *

ABSTRACT: *This paper approaches a few theoretical issues related to the investments in intellectual capital and those in human capital, these investments influencing education system and society. As a particular case, we have analysed the education prospects for the next ten years in the USA and in the European Union, the education system being one of the most important immaterial investments, with a decisive impact over the society we live in. The main conclusion is this: a tendency of increase in the number of individuals who will hold a higher education diploma, both in the USA and in the European Union. In other words, the decrease in the number of secondary school graduates and high school graduates is desired.*

KEY WORDS: *intellectual capital; human capital; education system; intellectual investment; efficiency*

JEL CLASSIFICATION: *A20, I10*

1. INTELLECTUAL INVESTMENT

The concept of *intellectual capital* has been defined and solidly argued for the first time by Thomas A. Steward, one of the editors of the famous American magazine *Fortune*. Specifically, it represents the totality of what each employee in a company knows and can be used in the development of its competitive capacity (Steward, 1999).

As opposed to the elements manipulated by the accountants and by those who assess the value of a company - land, buildings, equipment and financial flows, intellectual capital is *intangible*. That's why it is very difficult to identify and assess.

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But those who manage to do it, even if approximately, they have a competitive advantage. *"Intellectual capital is the intellectual material - knowledge, information, intellectual property, experience - which can be used in order to create wealth"* (Brătianu, 2006).

The features of intellectual investment are:

- *heterogeneity* - determines that type of expenses which don't represent a supplement, but they are part of the structure of the company's expenses and have their own effect upon the company;
- *human corporation* is certainly a major particularity of intellectual investments; it has significant effects which explain the profitability of the investment. For instance, an investment patent resulting from an effort of research-development is found in a collection of documents;
- *social and collective character* - formation and research emerge simultaneously as private investment and as public investment;
- *the lifespan of intellectual investment depends on its diverse uses* - intellectual investments are usually long term investments, because their results, their effects emerge after a relatively long period;
- *the term of recovering the intellectual investment is shorter than that of material investment* - with intellectual investments the moral wearing occurs later than with material investments;
- intellectual investment is *supple, flexible*, being less specialized in connection with material investment, the latter being destined to an exact specialization;
- *the effects of intellectual investments are multiple* (economical, social, human) as compared to those of material investments and are more difficult to be quantified.

Seven components which belong to intellectual investment:

- research-development - where intelligence replaces an essential function of investment;
- training and development of human resources - the proper place to exhibit knowledge;
- commercial investment according to which man applies his/her intelligence for determining the dimensions of his/her activity;
- investment in information systems, which divides our abilities in intelligence forms artificially named;
- investment in new ways of organisation and participation in the decisions which put an emphasis on man;
- investment in production materials, targets and processes by which we divide our intelligence;
- strategic investment, based on everything it precedes, because man confronts his/her intelligence to complexity or to length and thus builds what is to be named his/her future (Matei, 1996, p.48).

In the following table there are a few samples of intellectual capital:

Table 1. Components of intellectual capital

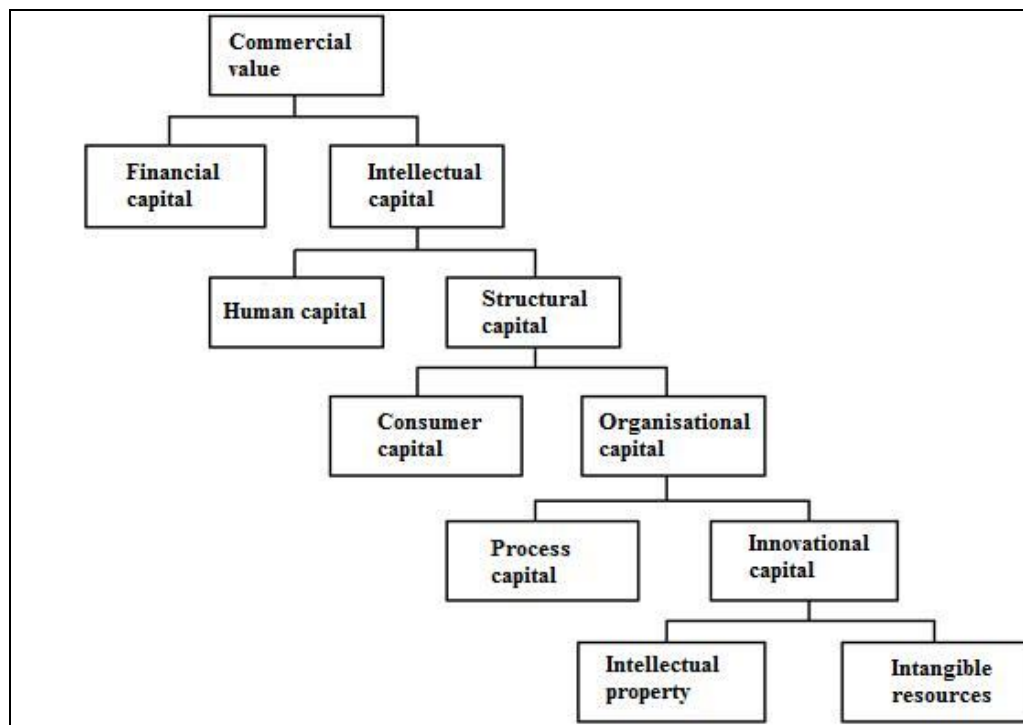
Sample	Components of intellectual capital
Balanced Scorecard (Norton and Kaplan)	Intellectual capital is not presented on components. This sample suggests we should consider organisation from 4 different perspectives: the learning and growth perspective, internal processes perspective, customers perspective, financial perspective, which are much similar with some of the classifications on components of the intellectual capital developed later on.
Sveiby's Intangible Assets Monitor	<ul style="list-style-type: none"> • External structure • Internal structure • Individual abilities
Skandia	<ul style="list-style-type: none"> • Human capital • Structural capital, which in its turn is divided in customers capital and organisational capital, which is the innovational capital and processes capital.
Intellectual Capital Index	<ul style="list-style-type: none"> • Human capital (abilities, attitude, intellectual agility) • Structural (relational, organisational and innovational/development) capital
The Technology Broker' IC Audit	<ul style="list-style-type: none"> • Market assets • Human capital • Intellectual property • Infrastructural capital

Source: Brătianu, C. & Jianu, I. "Dynamic semantics of the concept of intellectual capital" - <http://managementmarketing.ropdfarticol45.pdf> [accessed on 15.05.2010]

One of the most well-known samples is the one suggested in 1996 by Hubert Saint-Onge, from the Canadian Imperial Bank of Commerce and by Leif Edvinsson, from the Swedish insurance company Skandia. In the specialty literature it is known as Skandia sample and it has been taken over and described in detail by Thomas A. Steward in his works. It is interesting to underline that, at that time, Hubert Saint-Onge held the position of vice-president for organisational learning and leadership development, whereas Leif Edvinsson was director, dealing with intellectual capital within Skandia. The creation of such brand new management positions proves that practical business life has surpassed the theoretical occupations coming from universities and research.

Financial capital is the measurable component of the tangible resources, and intellectual capital is the financially immeasurable component of the intangible resources. Human capital is the total number of employees in a company, with all their knowledge, experiences, skills and individual talents, and structural capital is the component which belongs to the organisation and can be defined as what is left in the organisation after the employees go home. Consumer's capital refers to the whole relational system used by the company in order to satisfy their customers as best as they can and in order to reach a high level loyalty of the consumers to the company products and services. Organisational capital comprises the component of the process capital and the component of the innovational capital. The component of innovational

capital refers to the innovation process and to its results. The innovational capital comprises the intangible resources attached to the innovational process and the intellectual property of the company, represented by patents, trade marks or other intellectual property rights.



Source: Brătianu, C. & Jianu, I. "Dynamic semantics of the concept of intellectual capital" - <http://managementmarketing.ropdfarticol45.pdf> [accessed on 15.05.2010]

Figure 1. Skandia sample

2. INVESTMENT IN HUMAN CAPITAL

Besides the expenses for formal education and professional adjustment, the investment in human capital involves the expenses assigned for health insurance, those for finding a job and last, but not least, those for the efforts of the families, made both before entering the formal educational system, as well as afterwards (Suciu, 2000, p.67).

Another definition of human capital is: "stock of experience and knowledge collected and stored up inside the human being, which represents for its holders a possible future revenue, based on the productive services provided" (Dobrotă, 1992).

It is considered that investment in human capital means using financial resources so that the individuals get knowledge, professional qualifications and so on, with the help of which they be able to increase their contribution to the production of the community, respectively to their possible revenue, to their employment on the labour force market (Culyer & Wieseman, 1977).

In the foundation of the human capital concept one has started from the following considerations:

- goods in the sense of capital mean resources, products or goods which can be used in order to produce future goods; machines are capital, as well as industrial and commercial buildings, as well as knowledge and professional skills that people get through education, qualification or experience and which allow them to provide production services of great value to others;
- the resources production implicitly determines the formation of capital or investment. Similarly to permanent capital, which is the result of an investment, human capital results from investments made previously in order to get this form of wealth, which becomes potential, generating future revenues. That's the reason why people make investments in them by attending schools, acquiring special professional qualifications, practising certain jobs or increasing in other ways the value of the services they are able to provide to others. It is thus logical, to consider such investments as acquiring human capital (Hayne, 1991, p.234).

Human capital is characterised by:

- personalisation - human investment involves the entire individual upon which it is performed;
- limitation of human capital - not incorporating the human capital in individuals limits the acquiring possibilities and stays tributary to the physical and cerebral abilities of the investor;
- opacity of human capital - hidden within an individual, the human capital is relatively opaque and difficult to be perceived by another person (Matei, 1996, pp.12-13).

3. EDUCATION - AN IMATERIAL INVESTMENT

It can be admitted that education has become the most advanced form of investment. According to Drucker, the more productive and the higher its profit rate is, the more "advanced" is an investment. But it is more "advanced" if its production time is longer. In fact, a relatively long time elapses between the moment when one makes the investment and its full productivity. But, once made, the period of time in which the profit is reached, is also long. The instruction level of an active person is thus a high profitability investment, even if it may seem expensive, because as compared to others, this investment determines the highest level efficiency and productivity (Matei, 1996, p.140).

Between the notion of expense and that of cost there are quantitative, as well as qualitative differences. From the quantitative point of view, the expenses for education are higher than the costs, because they comprise both the expenses destined to insuring the conditions for a good functioning of the education, as well as the expenses for education, made for the education action. From the qualitative point of view, the expenses for education are represented by the funds assigned to this action, whereas the cost of education represents the expenses made specifically for education, diminished by the revenues made by the education institutions. In other words, expenses represent

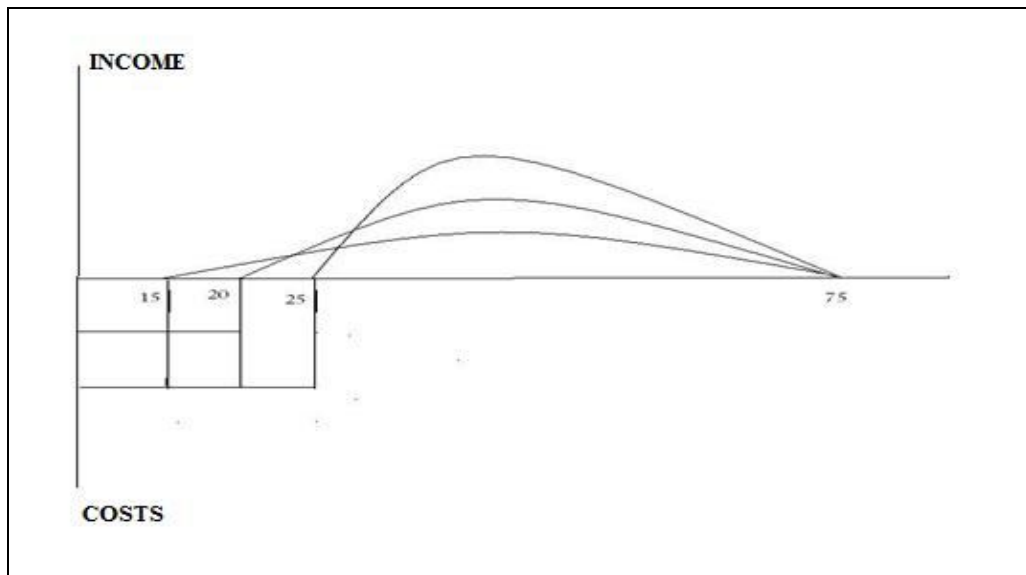
the funds assigned to education, and cost represents the specific consumption of these funds.

There are two types of cost: financial cost - represents the total of sums spent with different purposes for learning, and real cost - includes "the opportunity costs", that is the abandonment of other economical and social projects in favour of education. In the education system there are no variable costs, there are only fixed costs, because schools must deal with the same amount of expenses, irrespective of the number of students who attend them.

The monetary expenses refer to capital expenses (investments), functioning (current) expenses, other expenses specific to the education actions supported by the state, by economical agents and by families (school supplies, different school books). The non-monetary expenses are the lack of benefit during the time in which individuals are in professional training, as well as the "negative" costs of education coming from the discrepancy between the components and the content of education on the one hand, and the requirements of economy, on the other hand.

The investment cost in education comprises: buying land, buildings, purchasing equipment for a long period of time (libraries, teaching materials, audio-visual materials, computers and accessories etc.).

The public sources of financing of the education system are the taxes - a significant source for the state budget, the lease - public credit and self financing. The way in which the financing sources for education are distributed is the following: higher authorities deal with the expenses corresponding to the salaries of the personnel in the education system, whereas local authorities cover the expenses regarding the investments and the material expenses.



Source: Bert Hosebitz - "Quelques reflexions sur l'economie de l'education dans les pays sous developpes" in "Tiers Monde" nr. 1-2/1960, pp. 68-78

Figure 2. The revenue flows according to the moment they enter active life

In the chart above, Bert Hosebitz has indicated the revenues that are assigned to individuals after graduating from schools and entering active life, at the age of 15, 20 and 25 and presuming that all of them are going to work until the age of 75. The revenue of an individual will increase, if the school degree is higher. Out of these revenues we have to subtract the costs that are indicated in the lower part of the chart, as well as the amount of money that that individual could get in case they entered active life at a younger age.

The efficiency of education must be looked at from the following point of view:

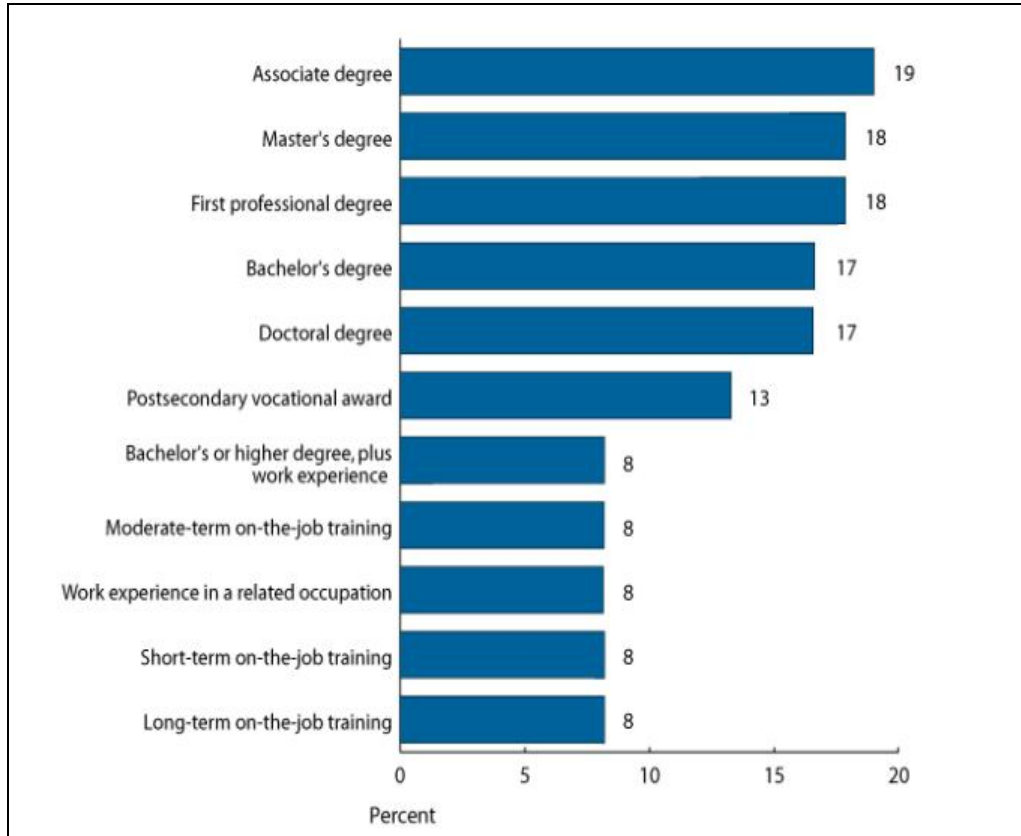
- *pedagogical* - the length of specialisation according to different levels, the system of plans and programs according to years and subjects, the relation course - seminar, the relationship student - professor, the level of training of the teachers, the efficiency of the system of competitions and examinations;
- *psychological* - efficiency may be assessed by studying the issues regarding: the formation of personality, the capacity of adjustment, the capacity of creativity, the psychological preparation for the chosen job, the testing methods etc.;
- *medical* - efficiency is influenced by: the conditions of physical and psychological health, age conditions and limits, the length of the school day and the length of holidays;
- *ergonomic* - the accommodation and study conditions of the course attendants and of the professors, the conditions related to lighting, heat, dimensions of classrooms and schools;
- *the point of view of the technology* for conveying and assimilating the pieces of knowledge: the modern technical audio-visual methods used;
- *socio-political* - the structure according to social classes of the course attendants;
- *sociological* - the relation between cultural and social reproduction, the issue of social mobility and education, the relation education-science-production from an inter-social point of view;
- *economical* - all the points of view mentioned above may also be regarded under the economical influence in what concerns the increase of the educational background and of national evolution;
- *the efficiency of the education system* may also be regarded from the point of view of international comparisons in what concerns the methodology of indicators, of monetary parity and of price index.

The efficiency of the expenses for education is reflected by the relation between "effort" expressed by the volume of expenses aimed at accomplishing the educational act and the "effect" of these expenses manifested in multiple aspects, such as material, social, human, cultural.

4. EDUCATION IN THE USA AND IN THE EU

Below one can notice which the tendencies for the year 2008-2018 in the USA are, according to the different school levels, data that have been provided by the Bureau of Labour Statistics, USA. One can notice that the percentage of people who will hold a master's diploma and diplomas for postuniversity courses will increase by

18, and the percentage of people who will hold bachelor's and doctor's diplomas will increase by 17. The tendency seems to be that of investing in education.



Source: http://www.bls.gov/oco/images/overview_chart_07.gif

Figure 3. The perspective 2008-2018 in the USA - the increasing percentages in finding jobs according to one's graduation diploma

In the strategy of the European Union "Europe 2020", an objective regarding the study level, which approaches the problem of early school abandonment, having in view the decrease in the abandonment rate from the present value of 15% to 10% and the percentage increase of the people between the age of 30 and 34 who hold higher education diplomas from 31% to at least 40% in 2020.

Within the European Union a quarter of all students have low reading abilities, one in seven young people abandons school and formation too early. Approximately 50% reach an average qualification level, but that is not sufficient to satisfy the market needs. Less than one out of three people from the population between the age range of 25 through 34, holds a university degree, as compared to 40% in the USA and over 50% in Japan. In compliance with the Shanghai index, only two European universities are among the first 20 universities in the world classification.

In each of the member states of the European Union one must: invest in the education and formation systems at all levels (from kindergarten to university); improve the results in education in view of reducing early school abandonment; strengthen the opening and the relevance of the education systems by creating national qualification institutions and by better heading the results of learning toward the needs of the labour market.

Approximately 80 million people hold reduced or elementary skills, but it is the instructed people who mainly benefit from the possibilities offered by life-long-learning. By 2020, 16 million jobs will require a high level of qualification, whereas the number of jobs which will require lower abilities will be reduced by 12 million. In order for the workers to have a longer active life, it is also necessary that they be offered the chance to acquire and develop new skills during their entire life.

5. CONCLUSIONS

Investments in education - intellectual capital - human capital - are an important chapter worldwide, as the growth and development of our society is built on them. Intellectual capital plays a decisive role when companies try to achieve competitive advantage, being the hidden part of the value of a certain company, as it represents the intangible resources of the company, which cannot be measured with the financial matrices used for measuring the tangible resources.

It is not recommended to adjust the expenses for the education system, as this would have unfavourable effects on medium and long term. By the contrary, the issue that needs special attention is that of amplifying the funds assigned to the education system and especially of giving them a destination as rational as possible.

It is desired an increase in the number of people who will hold a higher education diploma, both in the USA and in the European Union, in other words it is desired the reduction of the number of secondary school and high school graduates.

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THE MODEL OF THE FIVE COMPETITIVE FORCES ON ROMANIAN RETAIL MARKET

SILVIA PUIU *

ABSTRACT: *The paper is about the model of the five competitive forces of Michael Porter. In the first part, I have presented the theoretical aspects of the model and after that, I tried to apply the model on the retail market in Romania. I used data gathered from national and international institutes of market research and also from the information offered by the main retailers on their web sites. The retail market in our country is not very good crystalized, but has had a good evolution in the last years. The competition is intense, the barriers are relatively high, the power of national suppliers is diminished by the integration of Romania in European Union, the power of consumers is moderate and the substitutes appear as discount stores and e-retailing.*

KEY WORDS: *retail; Porter; Romania; competition; market*

JEL CLASSIFICATION: *M19, M39*

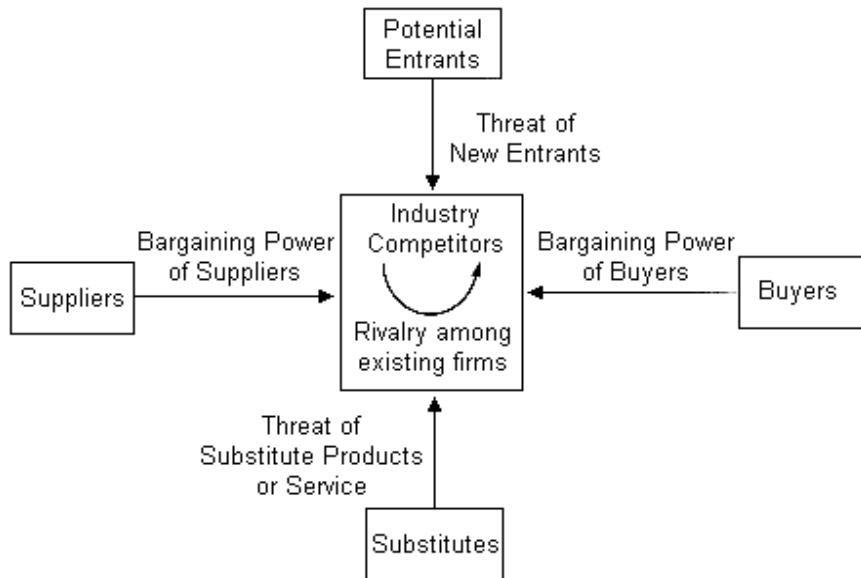
1. THE THEORETICAL BACKGROUND OF THE FIVE COMPETITIVE FORCES MODEL OF MICHAEL PORTER

Michael Porter (1980) considers that rivalry (competition) on the market is result of the five variables or main forces: rivalry level, bargaining power of customers and that of suppliers, the threat of new entrants and of substitute products. These variables are interconnected. They are illustrated in the matrix of the five competitive forces of Porter (figure 1).

Level of rivalry among existing firms characterize the intensity of competition in a particular industry to fill a specific market segment and is determined by factors such as number, diversity of competitors and the relative strength of them, the extent to which industry can be defined as young or mature (growth prospects are limited in a mature industry, leading to increased competition among participants and

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the difficulty in maintaining market share), high fixed costs, low product differentiation, major strategic stakes in industry, higher barriers to exit the sector, etc..



Source: Porter, M., (1980), *Competitive strategy*, The Free Press, New York

Figure 1. Forces determining competition in a sector

To competitive pressure, the company must adopt a strategy aimed at two objectives: increasing competitive pressure that they exert (increasing its size and market share through a strategy of growth) and reduce the competitive pressures that bear (in distinction its products from those of competitors). There are industries in which firms meet their niches and segments of customers, calling the strategy Live and Let Live (live and let others live). But there are branches in which regular practice and the suppression of any move is sanctioned competitive (e.g. electronics). Suppression is by pricing and quality and game theory requires that applications need to find optimal strategies.

Bargaining power of buyers. Buyers affect an industry through their ability to force lower prices, negotiate a better or more services and to determine competitors against each other (Wheelen & Hunger, 2000). For a company, buyers may be the final consumers of products or companies distributing products in stores. Bratianu (2000) believes they may be considered as a force and that, as a threat, if they demand the lowering of sales prices or request a growth company producing quality products and services, leading to increased costs. When buyers are a weak force, the producing company may increase prices and thus can obtain higher profits.

According to Porter (1980), a buyer or group of buyers will be hard if you find one of the situations: buying a lot of buyer's product or service, is able to integrate upstream, causing the good one; suppliers are numerous because the product is standard and undifferentiated, very little switching costs, the acquired product represents a substantial part of the buyer's costs, which creates a desire to seek a lower

price, the buyer has a low income and is thus very sensitive to cost and service differences, the product purchased is immaterial in terms of quality and price, and thus can easily be replaced. A group of buyers is low when producers threaten downstream integration, conversion costs are very high because the products are not standardized or buyers are fragmented and have no particular influence on product or price.

Bargaining power of suppliers. Power suppliers of firms in an industry may be manifested by increasing prices or reducing quality products delivered. Power depends on a number of market characteristics, and relative importance of the recipient business system. Power increases if the resource is important for the recipient company, the number of suppliers is reduced for one reason or another or switching transfer entails significant costs. In terms of Porter (1980), the bargaining power of suppliers is determined by factors such as degree of product differentiation (increase their power to customers), degree of concentration of suppliers, the relative importance of a product for the buyer, the availability (or on the contrary the unavailability) of substitutes, the degree of integration of downstream suppliers. Business strategy is to moderate pressures from customers or suppliers through: concentration to increase bargaining power, diversification of outlets and the company supplies to reduce dependence, vertical integration upstream or downstream.

The threat of new entrants. Newcomers are companies that can compete or start companies already compete in an industry. They bring a desire to win and often have significant resources. New entrants enter the market when the profit margin is attractive and the barriers to entry are low. Porter presented his works seven possible barriers to entry to a sector: economies of scale, product differentiation, the necessary capital, transfer costs, access to distribution channels, absolute cost advantages, due to their position on the curve of experience, access to resources and low cost of designing products, government policy. These types of barriers vary from one business area to another, having for some sectors a considerable influence. *Economies of scale* consist in the reduction of the unit cost of production as a result of judicious allocation of production, which constitutes a real barrier to entry in many industries. *Product differentiation* is based on the qualities of products or services, a strong brand identity or business reputation on quality, reliability and after-sales services (Morden, 2007). *The needed capital.* Intrusion in a sector requires significant investment in technology, production facilities, distribution, after-sales services, which new entrants cannot be achieved only by taking additional risks. *Transfer costs.* Switching costs are costs that will incur new entrants to attract a customer of a company already on the market. *Unequal access to distribution channels.* New entrants on the market have to ensure distribution of the product or its distribution channels often controlled by companies already on the market. *Absolute cost advantages* are the effect of economies of scale and experience curve for companies on the market, which translates significant barriers to new entrants in the field. *Government policy.* Although the main role of government is the protection of competitors on a market, it restricts competition by granting monopolies and certain regulations. Industries that provide utilities are considered natural monopolies because it is more efficient to have one company that provides energy in a locality than to permit the existence of several companies to fight a local

market. The European Commission has worked with member governments to remove a large part of these barriers.

The threat of substitute products or services. Substitutes are those goods that seem different but can satisfy the same need as another product. The competition created by the threat of substitute products coming from outside that industry. When the threat of substitutes is high, an industry profitability suffers. Substitution products and services limited profit potential of an industry by placing a ceiling on prices. The threat from substitutes is determined by factors such as price and availability of substitute products, the sensitivity of the product sales price change compared with their substitutes, switching costs from one product to its placeholder, availability buyer to purchase replacement products. Although the five competitive forces model of Porter is particularly useful in strategic analysis of competitive environment, it is also open to criticism. Thus, the analysis is mainly static, while in reality in the competitive environment is changing. The model assumes that all five forces are close in importance, while critics such as Aaker (1992), Baker (1993) and Harvey-Jones (1991) believes that nothing is beyond the client. Other criticisms concerned that forces from the model are seen as threats, although some organizations adopt successful strategies for cooperation with suppliers and that the model ignores the human resource involved in the strategic approach. Despite this criticism, M. Porter's approach provides a useful starting point in environmental policy analysis and development of corporate strategy. The model was followed by analysis of changes in industry in decline and launch strategic groups analysis of the market.

2. APPLICABILITY OF PORTER'S MODEL ON ROMANIAN RETAIL MARKET

In recent years, retail activity in our country has undergone many changes both in the types of incumbents and the range of products. There is a large difference between the distribution sector in Romania and the developed European countries, Romania retail continuing to evolve much slower rate compared to other countries in Central and Eastern Europe. Retail system in our country has as main features: fragmented nature prevail traditional trade, the emergence of new forms of retail, an early stage of development of electronic commerce.

The threat of new entrants. In the retail sector, barriers to entry are relatively high. No need for a long time or financial resources that cannot be attracted to open a store at a smaller scale. To increase but significant investment is needed and greater economies of scale. It is difficult to understand but that is the one year extension retailers because many operators of commercial establishments open, but just as quickly give and bankruptcy. If consider the major international retailers entering the market in Romania, we appreciate it increasingly difficult for small traders to face the competition that manifests itself in the market. A trend that emerged in the last decade is the continuous decrease of independent retailers. Thus, if barriers to launching a new store is not impossible to overcome, the ability to establish favorable contracts with suppliers, procurement of certain facilities and competitiveness become practically a utopia for small retailers. Vertical structure and centralized procurement of large retail

chains give a competitive advantage over independent retailers. In terms of top international retailers entering the market in 2009, according to a ranking conducted by the consulting company CB Richard Ellis, which was attended by 69 states, Romania ranked as second with new nine retailers on the market and three large commercial centers opened in 2009, the first position being occupied by the United Arab Emirates, which has attracted 21 new openings. Romania has seen the opening of three new mall sites in 2009, added to the existing supply of retail market, says the report “How Global Is the Business of Retail?”

The bargaining power of suppliers. Retailers' growing power in the last decade has weakened the bargaining power of suppliers, as is the globalization and integration of Romania into the EU while, allowing the use of foreign suppliers to ensure and lower prices. The strategy of many retailers was to increased volumes for best-selling products to absorb cost pressures and, more importantly, focused on reducing capital expenditure and reducing inventories. As the consumer goods industry dynamics change, a new set of priorities for retailers is emerging. These changes have affected, inevitably, and business relationships. The top priority list are included aspects such as optimizing and streamlining the product range of products, optimizing structures, procurement, review of capital expenditure, increasing store productivity, reduce inventories. Providers had to deal with multiple requests and that is why their expertise should cover a broad spectrum of skills. They must be prepared to become more than just suppliers of products for retailers, so they should be data providers to help them in the process of retailing activity. Manufacturers who fully understand the business model of each retailer in hand and will be able to adapt the set of priorities imposed by them will have a major competitive advantage in the that class of narrow vision suppliers, which are limited to promotional plans and launching new products (Figure 2).

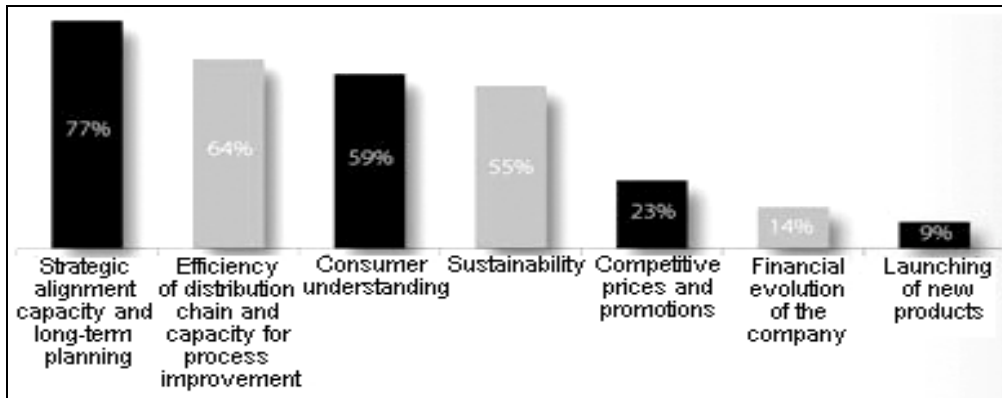


Source: www.magazinulprogresiv.ro

Figure 2. The capability shield proposed by Institute of Grocery Distribution

As shown in figure 3, retailers expect their partners to have and provide information both on current trends and consumer buying behavior and about the future. Another key area that appears on the list of priorities is related to supply chain efficiency, the logistics of each provider, through which one can obtain significant cost

reductions and can leverage stocks. Providers must be prepared to cope with the situation, no far away, when in any business plan, they will take into account issues such as reducing waste and carbon dioxide emissions and providing organic products. As retailers seek new ways to improve business models, there is no doubt that these elements will play a central role in trade between retailers and suppliers.



Source: www.magazinulprogresiv.ro

Figure 3. Key points for retailers in bargaining with suppliers

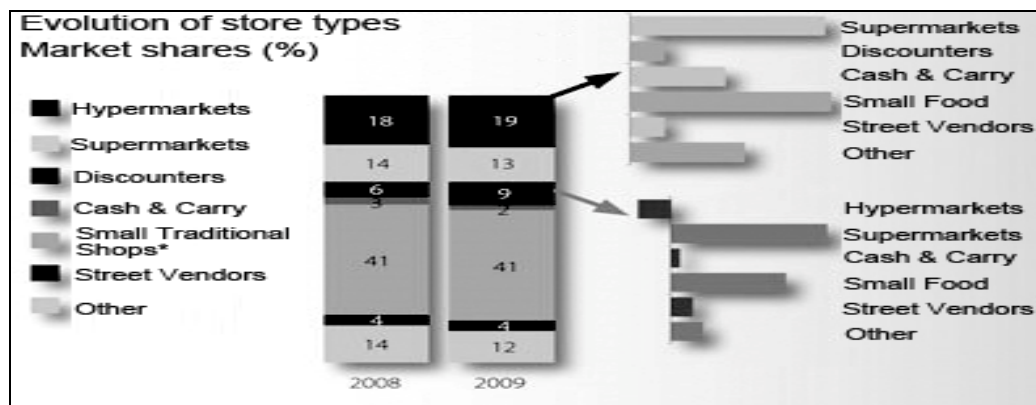
Bargaining power of buyers is moderate because of the size and concentration of major retailers. To reduce power and you retain customers, retailers seek to differentiate products and create strong brands. Individual private customers have a relatively low bargaining power in front of large retail chains, however, their power is greater for small retailers, who are less organized. As a result of economic crisis, low purchasing power and decreasing trend of Romanian consumer confidence in the future, retailers have had to adjust supply to changes in customer behavior, focusing increasingly more on products at affordable prices and promotions.

A comprehensive study on consumer behavior in times of crisis, conducted by the GfK institute in 25 countries, showed that 84% of participants were forced to change their behavior. The main things affected by the crisis were: going out, spending on energy and telephone bills, vacations and travel frequency. Asked in January 2010, within the study GfK Roper Report, to which they gave up the last 12 months, Romanians placed in descending order: clothes and shoes, vacations and travel expenses, inability to further savings and not least the night out. Moreover, in 2009, 47% of the Romanians said that many visitors get home, compared with 40% declaring this two years ago. Regarding how leisure, most Romanians were predominantly oriented in 2009 to less expensive activities such as walking outdoors or sports. Another trend resulting from this is consumer concern for health. The GfK survey highlights in the segment devoted to finance that 39% of the Romanians plan to deal with personal finance and investment in 2009 while in 2008, only 13% declared their concerns for these issues.

Romanian consumers became more interested in sound management of finances from the desire to ensure a safer future for himself and his loved ones. A

notable fact is the early disappearance of casual consumers. If they rarely bought a product category from either spoiling, or from curiosity, now began to abandon it completely. He focuses on products of primary necessity, as living standards and purchasing power declined considerably. George Mucibabici, president of Deloitte Romania, considers that we are witnessing the birth of a new type of consumer who prefer useful and durable products, which renounces impulsive purchases and carefully analyzing purchase decisions, weighing prices, quality and value added to innovative products. The crisis proved to be a learning experience for the consumer and his new habits will continue after the exit from the crisis. For the retail operators and companies producing consumer goods, the challenge will be to adapt to new requirements and to bring the consumer market to the level before the crisis.

Regarding the evolution of the types of stores, the Gfk study highlights changes in market shares of channels distribution in 2009 compared to 2008. Thus, in 2009 hypermarkets increased their market share slightly from 18% (in 2008) to 19%. Supermarkets have registered a slight decrease from 14% in 2008 to 13% in 2009. By contrast, discount stores rose from 6% in 2008 to 9% in 2009, thus increasing market share by 50% (figure 4).



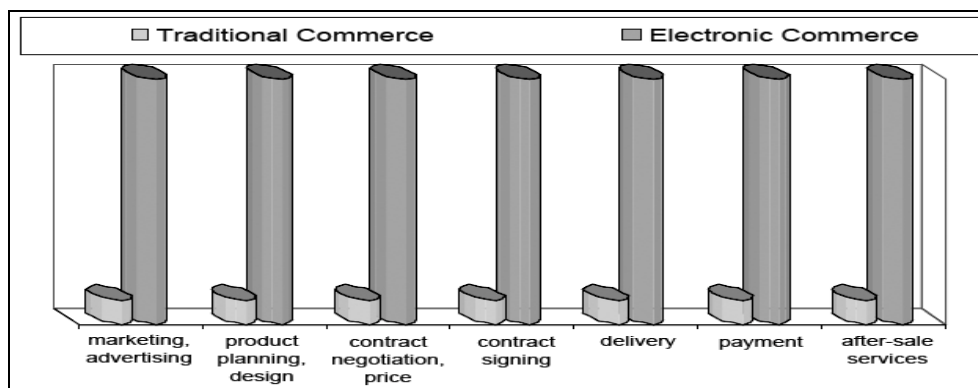
Source: GFK Roper Report 2010

Figure 4. Impact of purchasing behavior in conditions of crisis on market share of retailers

In direct relationship with other types of stores, hypermarkets have gained some customers of supermarkets and traditional stores. In contrast, discounters, even if they won a lot of supermarkets and traditional stores, hypermarkets lost in relation. They have benefited from a richer assortment, promotions, especially affordable prices prevailing in 2009, positioning themselves from this regard in a peer battle with discounters.

The threat of substitute products. There are many threats on the retail market - entering the big discount stores, for example, they usually offer products at much lower prices. This is why major retailers have launched their own brands (TIP for Real, Clever for Billa, No 1 and Tex for Carrefour, Expert Digital and Westwood for Domo, Myria for Altex, ARO for Metro, etc.), thus attracting customers which are

moving towards cheaper products in recession conditions. For retailers, the rising share of income available for expenditure on leisure, travel, etc. may pose a threat of substitution, less present in recent years due to reduced purchasing power, caused by financial and economic crisis. E-retailing (e-commerce business to consumer B2C) is also a threat to retailers from stable trade. With the increasing accessibility of Internet, electronic commerce captured the interests of individual consumers and companies of all sizes and interests. This is a new business model (e-retailing or e-commerce) via the Internet, which radically changed their efficiency, reduced the cost, including transaction ones (State & Costache, 2007). Size of advantages obtained by the use of e-retailing technology in business varies according to the model of the applied e-retail, the quality of management decisions and the degree of specialization of operational staff, issues that we address below in figure 5.



Source: D. Radoi, *The electronic commerce – vector of the new economy*, National Institute for Economic Research, Working Papers Series, no. 9, Bucharest, 2008

Figure 5. Productivity surplus got through the use of e-commerce, in comparison with the classic model

On virtual market, millions of people have access, being the largest potential market. This means increasing market share and sales opportunities, which may result in more demand. The demand gets new values through the role that it has on production and economic branches, the ability to require production of goods and services are in accordance with customers' particular requests. Advantages of e-retailing and the need to reduce costs, in order to adapt to cheaper products targeted by buyers, have led some of the local market retailers to create virtual stores that complement and sometimes replace physical units that are much more expensive. For example, in the case of electronic products and appliances, specialized retailers like Domo, Flamingo and Altex own their online stores, which may represent an important substitute for products sold in stable trade. Customer enjoy much lower prices, free or cheaper shipping, the opportunity to compare more easily and quickly the offerings of competitors and also save time.

Rivalry between the existing firms on Romanian retail market is increased by equal size and power of dominant retailers, who are pushing to increase market share, the trend of extinction of small retailers through acquisitions, mergers or

alliances, and high costs to exit this market. The 15 biggest retailers on the Romanian market in 2009 have achieved cumulative sales of nearly 8 billion Euros, down by about half a billion euro in 2008, but increased their market share from 14% to 17%, according to a study of a Polish market research company PMR. This shows that the decline in consumption last year hit less the top ranking in retail industry and more among small retailers on the market. Among leading groups there are Metro, Rewe, Schwarz and Carrefour that are dominant the large markets of western Europe, particularly France and Germany.

Table 1. The first 15 retailers on the Romanian market

No	Company/ Group	Turnover in 2009 (mil. Euros)	Turnover in 2008 (mil. Euros)	Field	Stores
1	Metro	1900	2120	Food	Metro, Real
2	Rewe	1500*	1524	Food	Selgros, Billa, Penny Market
3	Carrefour	1135	1190	Food	Carrefour, Carrefour Express
4	Schwarz Group	900*	778	Food	Kaufland
5	Louis Delhaize	400*	400	Food	Cora
6	Tengelmann**	369	277	Food	Plus
7	Auchan	350	278	Food	Auchan
8	Praktiker	257	292	DIY	Praktiker
9	Dedeman	250	250	DIY	Dedeman
10	Bricostore	190*	240	DIY	Bricostore
11	Altex	180	344	Electro Retail	Altex
12	Domo	170	207	Electro Retail	Domo
13	Delhaize	150*	132	Food	Mega Image, Red Market
14	Avon	113*	113	Direct sales of cosmetics	Sales agents
15	Ambient	100*	200	DIY and construction materials	Ambient
TOTAL		7900	8400		

Note: *estimation made by Ziarul Financiar, ** the company was taken this year by the Germans from Lidl and Schwarz.

Source: www.zf.ro, 30.03.2010

International operators are expected to continue to strengthen their position in Romanian retail, under circumstances of the global economic crisis. According to PRM consultants, several local retailers have been forced by market conditions to close their businesses, while others have frozen expansion plans, having solvency problems. The study includes both sales of consumer goods and DIY products, machinery and fuel. Retail market in Romania will go down with 2.3% in 2010, the second consecutive year of decreasing, to 190 billion lei (46.9 billion Euros), according to PMR study, which estimated a return of the industry in 2011-2012. Representatives of the research company stated that the retail market in Romania continues to offer good prospects for investors, due to the reduction of costs for labor and real estate prices.

3. CONCLUSIONS

The model of Porter led to the following conclusions about the threat of new entrants, bargaining power of suppliers, bargaining power of customers, the rivalry between existing firms on the retail market in Romania and the threat from substitute products. In the retail sector, barriers to entry are relatively high. No need for much time or financial resources that cannot be attracted to open a shop, but to increase requires substantial investment and economies of scale. Increased power of retailers in the last decade has weakened the bargaining power of suppliers, as is the globalization and integration of Romania into the EU because allows the use of foreign suppliers that ensure lower prices.

Consumer bargaining power is moderate because of the size and concentration of major retailers. In order to reduce their power and gain their loyalty, retailers try to differentiate their products and create strong brands. Following the economic crisis, low purchasing power and downward trend of Romanian consumer confidence in the future, retailers have had to adjust supply to changes in customer behavior, focusing increasingly more on product with low prices and also on promotions.

There are many threats on the retail market - penetration of large discount stores, for example, they usually offering products at prices much lower. This is why major retailers have launched their own brands, thus attracting customers that are turning to cheaper products in conditions of recession. E-retailing is also a threat to stable trade retailers. With the increasing accessibility of Internet, electronic commerce has captured the interest of consumers, individuals and companies of all sizes and interests. Rivalry among existing firms in the retail market in Romania is enhanced by the equal size and power of dominant retailers, who are pressured to increase their market share, the trend of extinction small retailers through acquisitions, mergers or alliances, and high costs to exit this market.

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AN AGENDA OF MORALITY FOR BUSINESS ETHICS

ANCA PUP*

ABSTRACT: *The aim of this paper work is to conclude a short confirmation for business ethics. A redundant argument for business ethics, should, in our opinion start from the philosophical field. A major problem with business ethics is the foreclosing of philosophy, society and politics from its debate area. Before understanding the common sense for business ethics, we have to know how to act in a moral way. It is important to understand the identity of the human being, its signification and goals. Therefore the first part of this research enclose to philosophy, pointing out three aspects concerted to morality. We consider that only after a proper analyze of the human being, we can argue for business ethics and its implication in different area. Otherwise “business” becomes a problem for “ethics” and “ethics” become a problem for “business”.*

KEY WORDS: *morality; business ethics; decisional process; moral law; personal ethics; microethics; macroethics*

JEL CLASIFICATION: *A13, B22, B23, B30*

1. INRODUCTION

In the classic work of Plato, *Republic*, the presentation of the Gyges' myth throw out the following question: *Why should I be moral?* The second book features a shepherd, named Gyges, who enter in the possession of a ring. This granted its owner the power to become invisible at will, by adjusting it, without been constrainedly by the consequences of his facts. This so called advantage - of been invisible - is abundantly applied. Gyges used his new power of invisibility to seduce the queen, and with her help, he murdered the king in order to become himself a king. Plato puts his tale of the ring of Gyges, in the mouth of Glaucon, which asks himself: *Suppose now there were two such magic rings, and the just person put on one of them and the unjust the other, would they stand fast in justice, would they both be moral?*

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2. THE SIGNIFICATION AND THE GOAL OF THE HUMAN BEING

For a better understanding of the meaning of the term *morality*, or *how should I live*, we have, at first, to understand our identity and the goal of being. Several psychologies confessed that the main pursuit of the human being is his own signification. So far, we also admit that at least once in our life, we were wrought up about personal being. Our banal questions were attended by some profound once, such as:

- Who am I?
- Why do I live?
- How should I live?
- Which is the goal of my existence?

The understanding of the human being is pointed with the help of a debate related in Forbes magazine, when the worldwide savants had the opportunity to face off their ideas (The theme was debate on the 75th anniversary number, under the title *Why do we feel so bad...when we have it so good?*). Their focus was not on economical crises, new research and inventions, high tech technology, investment options neither diverse analyses nor synthesis but on the following question: *Why we are so unhappy?* Their answers were constructed in the area of their activities, but although these all pointed in one direction: *the deprivation of the moral centre*. The common echo form different articles, was that something is missing from our life, something that can not be fulfilled with all sophisticated gadgets (Leider & Shapiro, 2002, p.15).

As a first conclusion, we observe that over the centuries, people were concerned about their happiness, how can it be possessed. These pursuits have in fact a deeper reference to the signification of the human being - *Why do I live?* and morality - *How should I live?*. The list of the names who settle these kinds of questions is rich, and constitute a good reason to mention no name, because it can start with the savants and end with the common person. They formulated many answer with conducted them in the area of ethics and permitted to create different ethical systems based on happiness such as: utilitarianism (In utilitarianism an action is considered moral if it creates the great happiness and imoral if it creates pain).

3. THE EXISTANCE OF A MORAL LAW

When we operate with terms such as morality, automatically are involved two others: good and bad, right and wrong. It is important to understand that the human being has knowledge about good and bad, from creation. It is something settled in each of us and neither of us can discharge. For a better understand we will use a banal example. When we are in a disagreement the most often used words are: *You promised me, why do you not keep our promise? It is unfair what you say!* or *How do you feel if a act in the same way you did?*

These kinds of questions illustrates, that the person do not say incidental that the behaviour of the other person is not according. He makes reference to a standard which is supposed to be known also by the others. So it seems that both persons have in their mind a principle or rule about correctness, which they agree. The disagreement

is a tentative of showing to the other that he is wrong. It will have no sense to argue if there will not be an understanding about what is right and wrong as if there were no sense to say that a football player committed fault if there were any agreement about the rules of the games.

The existence of the moral law means that each person has a fundamental knowledge about right and wrong. We all know that love is above hate and the courage is above cowardice. We all know some principles. There is no country where the crime is considered a virtue and the gratefulness as a vice (Budziszewski, 2003, p.39). The same idea was reformed by Lewis (Lewis, 1952, p.3): imagine yourself a county where the people are admired because of their break from the battle field, or will fill proud because he befooled all the persons which had a good habitués to them. In the same way, Kant confirmed his assurance of the existence of two things: the star lighting sky and *the moral law* form his own being.

This affirmation evidences that the absolute moral laws are enclosed in each human being, listless from location, time or space. But the existence of the moral laws do not represents an automatically solving of the ethical dilemmas, in the same way as the availability of some mathematical formulas do not implicit means the resolving of some equations. The formulas must be used in a correct way to conduct to a proper correct result but formulas do not solve the equations. In the same way our inside moral laws standing in our conscience helps us to handle an ethical dilemma or advertise us when we are focus on a wrong direction, but do not implicit resolve the problems, because the final decision and the way of acting belongs to us. We chose to listen the inside voice - our conscience, or not.

When we speak about morality we understand an essential aspect: the moral law is inside of each of us. We know the fundamental elements about right or wrong no matter if we want to admit or not, to apply or not. The entire humanity got the prescription of doing good throughout the conscience. Even our reactions prove the existence of a moral law. Otherwise how do we know that we were aggrieved? The fundament is that we make appeal to a moral standard when we exclaim: it is not right or it is not correct.

This affirmation is confirmed also by the serious literature, where the personages are in many situations driven by conscience in the decisional process. From the Romanian literature we extract two personages which are enclosed to the business field such as Mara, considered the first Romanian capitalist woman and Ion, a representative character of Rebreanu. Slavici's heroine, Mara, urges his daughter to listen to his moral impulse: *Do what you know, how your heart and mind guide you* (Slavici, 2009). Ion, considered also a prototype of Romanian mentality, is presented in a social context, where the possessions of land, subordinates the human relation and confirm appreciation. Oscillating between the land call and love call, his wrong decision can not let him passive but: *priest's blame seemed to him as a fire crop* (Rebreanu, 2006, p.58).

So far it had been exposed that the human being has enclosed in itself the moral law which prescribes the fundamental elements for good and bad. Our next concern is to elucidate *why do we action against of the moral law*. A possible answer

relies on the nature of human being which knows an impulse in making right and an impulse in making wrong.

To confirm the impulse for wrong we will use the second law of thermodynamics. There are many ways to stating this law, but its essence is that in a system a process that occurs will tend to increase the total entropy of the universe. The evolution tends to disorder. In the same way as a physical process the bad is irreversible and behave in time and space according to the causality laws. The time march favorites the self degradation, even to the human being. Thus we can explain how the innocent child's lie, turns over the time, into abuse acts.

Once again we will use the serious literature to illustrate the law of entropy. A famous personage of Oscar Wilde is Dorian Gray, who wants to stay forever young. To accomplish his aim, he appeals to an artist. Realizing that one day his beauty will fade, Dorian expresses his desire to sell his soul to ensure the portrait. So Dorian Gray continues to be young while his picture gets old. After many year he looks to his picture portrait, and astounded discovers the ugly old face, which represent on fact his own life full of wretchedness.

Analyzing the human behaviours, we observe that the human being is also engraining with the impulse for wrong action and more than that the contemporary issues seems to banality the evil.

4. THREE ASPECTS ABOUT MORALITY

The analogy will help us this time to fathom the concept *morality*. As a relevant example we will use the comparing between the human being and a fleet offered by the novelist C.S. Lewis. The journey will be successful if all the fleets are in functional parameterizes and will be no crush between them. But there is also an important thing to be concerned. If our fleet establishes as a direction New York, but it arrives to Calcutta, then the trip failed because of the wrong destination.

From this example, we apprehend that the morality engrosses three aspects: the correctness between persons; a harmonized arrangement inside each person; the end goal of the human being.

These three aspects confirm a unitary form. It is not satisfied if we are concern with the accomplishing of two of them, and let apart the other one. It is like, our fleet tries to avoid the clash, but in fact it has no helm. In the real life this represents the situation in which we law down diverse principles and rules, but we know that actually, the avarice, cowardice and pride will barricade their realization. We do not what to say that these are not important. It is quite simple to eliminate some particular forms of stealing, but as far the people are still glutton and coward, they will find another way in practicing stealing.

Therefore, we consider that a moral conduit set forth with the own identity of the human being, concluding a proper answer to the question: *who am I?* Our identity is offered by the relaying to right and wrong. People can not be done better only by the laws, applying some rules, and with no better people we do not have a better society. So we move forwards to the second branch of the morality: the rationalization of the

human behaviour throughout ethics. If I know who am I and how to live than I can focus on my goals, the third branch of morality.

5. WHY FOR BUSINESS ETHICS

So far, this part of this research work was centralized on the philosophic side. Our aim was to come aside to business ethics form this aspect, because business ethic poses questions of ethics and ethical questions are an important part of philosophy. An actually problem with business ethics is its disconnecting to the philosophical side. As Campbell (et.al. 2005) mentions business ethics is a part of business education that makes the most explicit claim to be interested in philosophy.

There are three major steams of ethical thinking that have dominated business ethics. We find that its origins go back to the ancient world - for the first one, ethics of virtue - one is from a late eighteenth century German - the ethics of intentions, and the last one - the ethics of consequences, dates in nineteenth century in England.

This briefly mention about the three ethical system, do not want to conduct to a wide debate of them, but only to stress the philosophical side met in the business ethics area. We consider that the philosophical part of the ethics is reviewed in the personal ethics. Personal ethics or the ethics to the individual level exposes the norms, rules, standards that mange each life having as an aim offering a support in the decisional process. It analyses the nature of promises and obligation, the nature of individual rights, intentions and consequences with influence the ethical behaviour. Applied in the economical field, the person is analyzed in the way he relates to his collages, business partners and in a complex situation to stakeholders.

Each economical agent brought his personal ethics into to field he activates. So different personal ethics interacts in a social context and conduct to a micro ethics. To a micro economical level, ethics has as unit base the firm. The ethical guide, to this level, makes reference to the institutions and organizations. There are analyzed the specific core value of the company. We can identify many typology of organization, according to the values that are promoted. In many research works, these aspects report to social responsibilities. As a unilateral portrait, we identify the companies with invest their responsibility only in increasing their profits, aspect sustain by Milton Friedman (Friedman, 1970). At the opposite, there are the company active social implied, how Peter Ducker exposes us.

A step further, conducts us to the last level, the macro economical one. The national and international context contours some specific questions about the justice, legitimacy and nature of the corporations that construe the social political philosophy. Some specific questions to this level are (Singer, 2006, p.390):

- Does the market economical system or the schedule one response better to the ethical existences?
- Which economical system offers a efficient solution to the redistribution of the resources?

The specifics elements of ethics, at personal level, micro and macro, illustrated above, are cooperating. We consider that there is no hierarchical character between them, form the personal level to the macro level or opposite. The analytical level of the

ethical declamation can be found at the intersection of them. Although, we consider that the main unit is the personal ethics, and the central questions of business ethics are focused on managers and employers. Their own ethics can be modelled under the influence of micro and macroeconomical level. The importance of personal ethics knew some solid arguments in the first part of this research.

The great influence of the corporation upon the entire society illustrated more than ever that the immoral politics created huge prejudices not only to the level of the organization but also upon the entire society. It had been said, that different crises conducted also to some redundant solutions, which otherwise, could not be materialized. Though, the context of the actual crises can constitute a opportune moment, which invite us to an introspection moment of reanalyzing of the principles which guide our actions. Much more are the advices for an ethical behavior, at micro and macro economical level. We can easily remember the losses created by some unethical conducts such as the one met by Eronn, World Com. The power and the dominance of the great corporation upon the entire society are more relevant than ever before. So their prejudices reflect upon the entire society.

The lines bellow offers an encouragement for an ethical behaviour from diverse specialist in economical and political field such as the economist Kenneth J. Arrow (Arrow, 1974) *Trust and other similar values, such as honesty, loyalty and truth, are important both under a practical aspect but also under an economical side, they enlarge the efficiency of the system, allowed us to produce more goods and more values which are appreciated in a special way.*

Also Jose Barroso (2009) mentioned: *"The crisis resulted, in part at least, from a failure by some businesses to understand their broader ethical responsibilities. Now all businesses must rise to the challenge. "Calling for a "new culture of ethics and responsibility", Barroso stressed the importance of re-building trust in business. "This is essential - not just to restore the brand image of particular enterprises but to restore people's faith in the market economy itself. People still want markets - but they want markets with a conscience"* (http://www.csreurope.org/news.php?type=&action=show_news&news_id=2434). Although, this affirmation "a new culture of ethics" knows some limits in our opinion, the entire affirmation stresses the importance of business ethics. We consider that ethics can not be remodelled under a new culture, in this situation we speak about some value which is changeable under the passage time.

The arguments for an ethical behaviour are multiple, and one of them is axed on profit. Paradoxically, we met arguments quite opposite. A few sustain that the ethical conduit is an obstacle in gaining profit. They form a special category of pretenders of diverse myths and prejudgment about the business world.

At the opposite, there are the sustainers that do not believe that he have to assure the people that ethic is capable to catch a huge profit, but it is important to bring over that it is more profitable in a medium a long runtime, to cultivate their own business morality. As Robert Solomon, (2006) a name with great distinction in ethics business world, sustains the not profit per se are the aim of the business, they are distributed and reinvested.

The profit is a mean of constructing business and a reward for the employments, managers and investors. The accumulation of profit is not an end mean

and least of all the unique aim of business. Therefore it is adopted a narrow vision about business. Based on the vision of the profit as a mean and not as an aim, ethics business encourages the getting of some benefices on long term.

6. CONCLUSION

Our research was axed in the first part on a philosophical area. As a proper aim was the understanding of the human being and the way he acts in the decisional process, in an ethical or no ethical approach. Each person has the knowledge of some fundamental elements of right and wrong - concepts specific to ethics - which supported by conscience offer reliance in the decisional process. In this way no one can defend himself of his decisions.

Many try to justify their decisions based upon the social and political context, under which they were constrained. We recognize the influence of these factors, although this should not be transformed in a plausible excuse; because this was a way of action, remain in history by Adolf Eichmann. Being responsible for transporting countless Jews to concentration camps, he justified his action under the words: *I was just following the orders*. He considers that breaking an order itself constitutes an immorality. The blame is exposed on the social context.

Unfortunately, this technique of **banality of evil** and **moral neutralization** is frequently met. Also in the economical field this excusable expression, is often used by the employers. Some unethical practices are justified by the following orders, from the superiors. So far it seems that there is a logical and plausible argument for such acting. As Campbell (2005) sustains, when Eichmann defended himself by saying that he was merely following the orders, he was actually pointing to a common way that people in organization still account for themselves nowadays. Many organization allow people to declaim their personal responsibility go what they have done. If an employee is asked by mail, by his manager, to present only the advantages of one product, it has a reasonable defence for doing just that. It is not necessarily a watertight argument, but the beginning of some sympathy from others and comfort for himself.

Anchored into the reality, we met this way of actions also in our country, more specifically the banality of evil and denying ethics by bureaucracy. As the American sociologist Robert Merton mentioned that bureaucratic organizations value conformity not innovation, and this leads to a situation, in which adherence on some rules it is lost the ethos of the organization. He defines some problems related to the aspects debate above (Merton, 2005):

1. Relationships between members of the organization tend to become depersonalized as they respond to rule rather than to persons;
2. Rules become so important that they are seen as ends in themselves rather than as means to an end;
3. Moral decision making become a technical matter: people only check whether they have abided the rules.

He also argues that the actual tendency of modern organization is to create a particular type which is inclined to obey authority, as William Whyte named them "yay-sayers", puppets following orders.

This is an ample reason, why this research focused upon personal ethics - morality - and its aim is an encouragement for developing it, regarding its three aspects: correctness between persons, a harmonized arrangement inside each person, and the end goal of the human being.

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FROM TRADITIONAL ACCOUNTING TO KNOWLEDGE BASED ACCOUNTING ORGANIZATIONS

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ROXANA STAN ***

ABSTRACT: *Nowadays, we may observe that the rules of traditional economy have changed. The new economy – the knowledge based economy determine also major change in organizations resources, structure, strategic objectives, departments, accounting, goods. In our research we want to underline how the accounting rules, regulations and paradigms have changed to cope with political, economic and social challenges, as well as to the emergence of knowledge based organization. We also try to find out where Romanian accounting is on the hard road of evolution from traditional to knowledge based.*

KEY WORDS: *new accounting; green accounting; corporate governance; business intelligence; information technology; intangible assets and intellectual capital*

JEL CLASSIFICATION: *M21, M41*

1. ACCOUNTING PARADIGM TRANSFORMATION IN THE CONTEXT OF KNOWLEDGE-BASED ECONOMY

In the same time with change of economic paradigms, we can observe a major transformation also within the accounting field. This shift is reflected by growing the importance of intangible assets and intellectual capital within the new organization, in the information technology that is intended to generate new models of financial accounting recovery information, by emergence of a new vision on the accounting profession. In addition, the knowledge organization and the knowledge economy generate interdependencies between different research areas - accounting and ecology

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(Green Accounting), business intelligence, or corporate governance (corporate governance). Generated changes are highlight in Figure. 1.

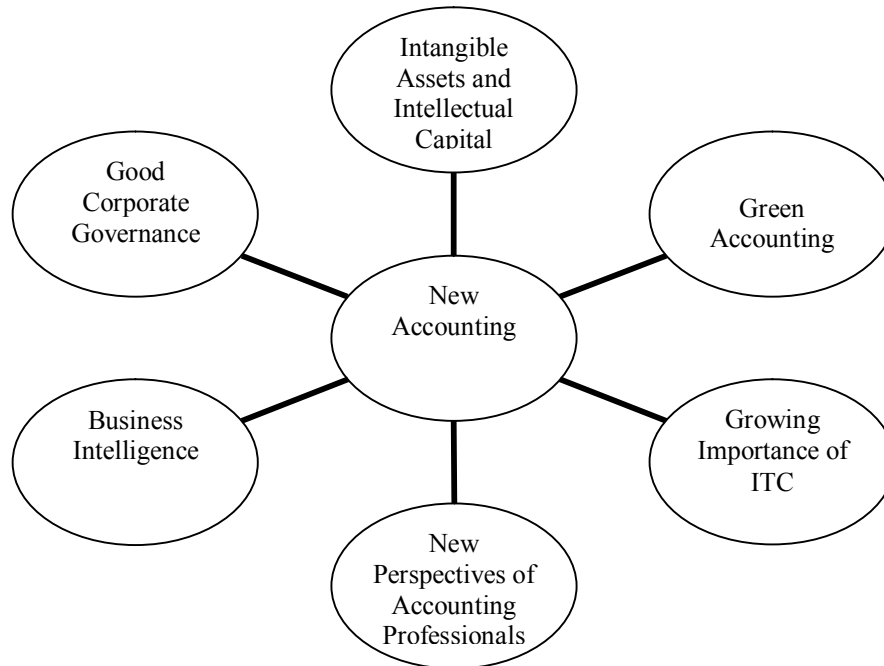


Figure 1. A new accounting prerequisite

2. INCREASING IMPORTANCE OF INTELLECTUAL CAPITAL AND INTANGIBLE GOODS

The essence of a person's capacity, an enterprise or a whole society to generate wealth primarily consists in the specific knowledge they possess. Referring to the reversing roles of the two categories of assets, material and immaterial, which was amplified in the modern economy, A. Toffler says: "what matters is not a company's buildings or equipment, but contracts and power marketing and its sales force, administration organizational ability and ideas that yeast in the minds of employee (Toffler, 1995). In these circumstances, the management has targeted companies' efforts to create and develop intangible assets in order to support the process of innovation through the achievement of R & D expenditure, resources allocation to train employees, etc. As a result, the market value of the enterprise is becoming increasingly influenced by intangible assets and by default intellectual capital that it owns.

The increasing importance of the intangible assets has led to a new perspective on traditional balance sheet, assets evaluation and added value generation. The growing of "dot com" areas has led to revaluation models and financial statements. In addition, it emphasizes the issue of documents registering and these operations category of assets reflecting into accountancy. Complex requirements of market

economy based on knowledge involve products differentiation not only by appearance and functions but also in the terms of related services included in the package. Challenges of the new economy cause businesses to change their distribution system and internal organization as customers' requirements (Walters & Buchanan, 2001).

The companies sell today equity resulted from good ideas and use capital raised to implement these ideas, and competition is currently mainly based on existing knowledge as intellectual capital (Persaud, 2001). The decisive role that the knowledge has concerning absolute all activities of state / nation clearly demonstrates that a country's economic future may depend decisively by knowledge (ACS, Carlsson, & Karlsson 1999) and by the ability to apply properly this knowledge. In fact, Michael Porter noted that the chief of a nation's competitive advantage lies in its ability to take the full advantage of the property related knowledge they have (Porter, 1990).

Property related knowledge of a company consists of employees' creativity, plus the technical and market related expertise (Halliday, 2001). Therefore, in the knowledge based economy, knowledge and creation, properly usage and re-usage of it are inextricably linked to increase of organization profit, which means gaining and maintaining competitive advantage. Conscious of the importance of knowledge-related assets, many companies have moved from the kind of centralized and hierarchical structure to a decentralized one, with multi-functional teams composed of individuals motivated by ownership they have in the companies (McGarvey, 2001).

Reluctance to calculate the value size of the intangible assets is explained by the difficulty and cost of implementing the available measurement procedures, but also to select indicators that are relevant under management facet. In turn, the reluctance to report the results of measurement of existing intangible assets arises from increased relativism in interpreting the values obtained, the risk of revealing aspects of companies' strictly internal matters and the lack of an established format of such reports.

3. GROWING IMPORTANCE OF THE INFORMATION TECHNOLOGY

In the knowledge-based economy, technology plays a leading role in the development of the economic potential (Persaud, 2001). The economic potential primarily depends on maximizing the use of intangible assets and requires stimulation of innovative and creative initiatives. Information is required to support such initiatives (Wickramasinghe N, Dag von LuBlitz, 2007).

However, the information serves a dual purpose: reduce operating costs and stimulate new ideas and creativity. For example, the use of ERP management systems (Enterprise Resource Planning) enables organizations to reduce transaction and agency costs. This is possible now thanks to embedded computing systems specialized for certain specific tasks and activities that can be purchased in a very short time (Wickramasinghe, 2000).

Furthermore, information accessed by various modules of common services is a real support for the new innovative generation initiatives (Probst, Raub, & Romhardt, 2000, Shapiro & Verian, 1999). In addition, continuous collection and analysis of data and information resulting from the multitude of transactions along the supply chain is

boosting the emergence of new ideas and the design and development of new products, processes and even new ways to meet the requirements.

Proven importance of information and communication technologies (ICT) in all areas of economic and financial activity has made its presence felt also in the frame of systems computer (CIS), as accompanying permanent accounting and financial audit of almost all entities. The companies' access to the Internet has led to commercial transactions based on the electronic data transmission - e-commerce - that in accounting field resulted in significant changes in recording, processing and storage information.

Information and communication technologies (ICT) have the greatest potential of all modern technologies, to encourage "dematerialization" of goods production and consumption "immaterial" because it allows the increase of adding value to products with lower consumption of resources and by reducing the environment pollution. The production "dematerialization" and the consumption growth of "intangible" goods signify major objectives of innovation and sustainable development. Traditional procedures for data collection and results interpretation are replaced in whole or in part, by computerized procedures (Haiduc, Andre, 2008).

In consequence, we notice a change; we would say historic, where the virtual equalizes reality and even overcomes it. It is noticed significant changes in registration processing and storing information in production, developing numerous computer applications in finance and accounting such as Ciel, Navision, SAP, Oracle, etc.

Development of electronic commerce brings a great challenge to the traditional business and accounting systems that they serve. The Internet will play an increasingly more important role in spreading of business and financial information. This changes the information international borders and raises expectations over on time delivery of updated information, fact that causes the bookkeeping opinion to be given on the entity's existing computer system, rather than on the financial statements data (Radu, 2002).

4. A NEW PERSPECTIVE FOR THE ACCOUNTING PROFESSIONALS

Due to the knowledge based economy changes, the management accounting is seen as a part of the management process. The accountants combine the financial and non- financial resources in order to achieve organizational objectives. The management accounting has evolved from the cost determination and financial control to the prediction and ascertaining of adding or creating value, to participate in decision making and organization strategy. The accountants have become part of strategic, visionary and creative staff who takes part in decision making with the company management body. The accountants play a new role in the knowledge-based organization (i.e. issuing the company strategy and policy, training, consulting), and exercise new skills, "they think as managers" and adopt "the management decision".

The accountants professional associations in countries like: Austria, Canada, Italy, Malaysia, recognized the key role of accountants in the management process.

The future and the past of the companies, with business strategies and plans, measurement and control of information, organizational issues depend on the

management accounting. This requires an innovative mindset of the accountants, a mix of the old and new roles and skills, targeting a new image, that of the accountant as advisor, who has knowledge of accounting, law and management (Radu, 2002).

Within the accounting, professional training should focus on three essential attributes: knowledge, ethics and professional values, and not least the professional skills. The general required knowledge refer to the management, information technology, the economy fields and the accounting and complementary areas (statistics, quantitative methods, tax, legal, auditing). The intellectual, interpersonal and communications skills are included in professional skills. The professional values should focus on the professional ethics and moral values.

Developing knowledge based economy cause accounting professionals associations to form alliances or networks. The reasons of this phenomenon are complex, including:

- Access to ideas and solutions to common problems;
- New information resources;
- Access to skills, knowledge and the other programs;
- Sharing the costs / benefits of research / services;
- Harmonization of standards;
- Protection against local or global competition exerted by other associations or alliances;
- Access to similar cases worldwide;
- Flexible business orientation.

Future accountants will have the opportunity to become a key resource in their organizations. They have to diversify their knowledge base beyond traditional financial analysis in order to be successful in the new trials, to new areas such as information technology, non-financial performance measurement and overall management. Leadership companies will expect more and more as financial and accounting departments to engage in strategic business development far beyond numbers.

5. ACCOUNTING AND BUSINESS INTELLIGENCE SOLUTIONS

Initially, companies appear, both for outsiders and for administration, as a "black box". Without a suitable model to streamline the black box internal systems and often complex, for observers and participants, it is not possible to achieve a strategic and targeted image on their decision.

Take the example of an investor. For investors, the company is a unit, which has the aim to generate maximum sustained profits. Before investing, could choose, assuming that there is an open capital market, the company to invest in. The decision difficulty lies in correctly assessing the strengths that a certain company has in comparison with other companies to transform the today investments into a future positive and high income in the form of dividend payments and growth in market share. The investor must understand the current business of "black box", and how this activity will develop in a certain time, for example when he intends to hold shares (Lev, Daum, 2004).

The information system made to help is traditionally represented by the income statement and balance sheet, which are the published financial statements. The system of reporting and administration has been appropriate when companies operate on the cost efficiency and financial capital basis, on a relatively stable market dominated by the buyer. The income statement has contained adequate information on cost-effectiveness, by detailing production costs and overheads – the essential components of operational productivity in manufacturing companies.

In the frame of industrial economy due to the relatively stable market conditions compared with those of today, this information have led to reliable conclusions, reasonable regarding the future developments. In combination with the balance sheet, investors have received information about the effective use of material assets (such as machinery and equipment) and financial capital. All these have allowed the investor to make a relatively conservative assessment of the future company performance.

This comes in contrast to today's situation: the current results reported in the income statement and balance sheet say less and less about the future of the company. Determining a fair result with a period becomes increasingly difficult because of expenditure growth representing economic investment and affecting the income statement. In addition, on average, the balance sheet contains a small part of the fair value of the company, as balance sheet - market reports point to growing, despite the state of equity falling markets. The basic model reassessment of the company is needed when it has become obvious that the management and reporting tools have failed, in order to make possible to systematically build a new appropriate administration and management concept based on a newer and more accurate model.

In today's competitive climate is vital for organizations to provide quick access to information at low costs for large and various number of users. The solution to this problem could be the BI System (Business Intelligence), which provides a set of technologies and software products that deliver the information needed to users to answer the questions that are arising in solving business problems:

- The need of increasing the revenue and cutting the costs. Today, companies must have fast access to applications and provide users with quick and easy access at information that reflects the business environment changes. ID systems emphasize the information access and fast delivery to the users;
- The need of managing and modeling the current business environment complexity. Understanding and managing a complex business environment and maximizing the investment become more difficult. BI systems offer more than just query and reporting mechanisms, they provide tools to analyze complex information and data mining;
- The need of IT costs reducing. In today's economy, the information systems investment is a significant proportion of the companies' total expenses and need not only to reduce these costs, but also to obtain maximum benefit from the information managed by IT systems. New information technologies as Intranet and multi-level architecture reduce the cost of using BI systems by a wide variety of users, especially managers.

5.1. Green Accounting

Green accounting is a relatively new and dynamic area and is an attempt to identify and bring to light the exhaustible natural resources and the cost paid by companies. Green accounting aims to make the environmental costs more transparent through corporate accounting systems and reports, thus offering the best quantitative assessment (in both monetary terms and in physical units) of protecting the company costs and benefits from the environment activities, which it undertakes. This area involves identifying, assessing and allocating environmental costs, integration of these costs in the business plan, identifying environmental obligations, if any and, finally, communicating that information to the company shareholders as part of overall financial reports. Environmental reporting can be considered an umbrella term that describes the various ways in which companies publish information on their environmental activities (Alok Kumar et al, 2008).

In the traditional concept of economy and environment are two separate spheres, and improve one determines the cost incurred by the other. Unlike this in the nowadays economy the economists, ecologists researchers and managers, consider economy as a whole, comprising the all ecosystems in the world and most of environmental issues, including those not traded on markets, but that have economic value (Copperwinki).

Researchers Gray, Bebbington and Walter (1993) have defined ecology accounting in the following terms: “can be understood as covering all aspects of accounting that may be affected by the company response to environmental issues, including new areas of ecological accounting”.

Economists Pătru V. Ciuraru - Andrea C., Luca M. (2008) perceive green accounting as "a process of identifying, calculating, monitoring, analyzing of the business-environment costs relationship reporting resulted from the prevention, confining and discharging the environmental green disasters, with a favorable impact on company and environment”.

The link between accounting and ecology is obvious at three levels:

- The national accounting level (for example, calculation of gross domestic product and applying Generally Accepted Accounting Principles - GAAP)
- The financial accounting of enterprises (for example, reports used by lenders and Investors)
- The managerial accounting (decisions management).
- Traditional accounting methods do not take into account environmental costs and activities affecting the environment, while ecological methods include calculating environmental costs, as follows:
 - Identification of environmental costs (expenses);
 - Conventional calculation of environmental costs, with the objectives targeted to environmental costs reporting and harmful factors costs affecting the environment;
 - Calculation of costs of losses, including: costs of prevention, protection costs, costs of material losses, costs of generating losses flow;

- Identification and Assessment of Ecological Obligations - cash flow reporting, which identifies and analyzes the total cost of both materials used and the flow generated by the loss of those, generated loss, material and energy use, efficiency in order to get a minimum loss level.

Environmental indicators and green accounting try to examine interactions between economy and environment. Environmental indicators and “green” accounting purposes are meant to reveal the path to sustainable development and to help understand the impact of policies, attitudes or simply contemporary lifestyles (Dachin).

The methodology of administration costs generated by relation between company and environment, facilitated by green accounting, covers two phases (Patru et al, 2008):

1. The first stage involves identifying, collecting, and controlling the costs generated by company-environment relationship and issuing of some development financial reports related to environment (reporting);
2. The second stage involves analyzing and interpreting data from financial reports related to environment. Based on these reports it will be made decisions on correction measures to be introduced, so that in future at least will be possible to reduce the costs of removing the economic damage, by guiding from the principle that “is easier to prevent than to treat”.

5.2. Green Accounting Objectives

Among the main goals of ecological accounting, we can mention (Alok Kumar, 2008):

- reducing the organization responsibility and increasing the environment related transparency;
- recognition and attempt to minimize their negative effects of the conventional accounting practices on the environment;
- helping to negotiate the concept of environment and determine the relationship between the company and society on the whole, and particularly with the group of ecologists. It also helps the organization to seek to manage strategically together with shareholders this new facet;
- inducing a friendly picture, so companies can successfully attract funds from individuals and “green” groups;
- generating competitive advantages for companies producing “green” products and thus they can achieve a competitive advantage by making this public;
- separate recognition of environmental costs and conventional accounting systems revenues;
- taking dynamic actions to improve the conventional accounting practices effects on the environment;

- conceiving of new financial accounting systems and non-financial forms, information and control systems to encourage management to make more environmentally friendly decisions;
- developing new forms of performance measurement, reporting and evaluation, both for internal and external purposes;
- identifying, examining and trying to correct areas where conventional(financial) criteria and ecological are in conflict;
- experimenting the proceedings through which the renewal may be assessed and incorporated into conventional organizational practices.

6. GOOD CORPORATE GOVERNANCE

The concept of corporate governance can be defined, as “the process of making decisions and by which these decisions are implemented (or not implemented) (UNESCAP, 2007). The concept arose from the economy demand (in terms of corporate governance), and political science (as regards state governance) to have a general term to convey different meanings, which are not covered by the traditional term “government”. It represents the pursuit of power or authority - political, economical, and administrative, etc. - to manage the resources and affairs of a country.

Another perspective depicts the corporate governance as a set of institutions and control mechanisms designed to protect the capital providers of a company, especially equity providers and the shareholders, being requisite to satisfy the requirements of other members. Market competition stimulates managers to use efficiently the capital, but only effective corporate governance can ensure that the shareholder interests are protected. Weak corporate governance slow the process of transforming savings into investment, increasing the risk those corporate assets to be ineffective used (Owen et al, 2006).

In the frame of new accounting, owing to the concept emphasis of future economic benefits generation based on the intangible assets and by default intellectual capital use, is the concept of *good corporate governance*.

A good corporate governance (GCG) inside the corporate environment leads to maximize legally, ethically, and on a sustained basis the shareholder profits, providing fairness and transparency to all shareholders - the company's customers, employees, investors, sales partners, territorial and regional government(Murthy, 2006). Good corporate governance is an essential condition to ensure the required values by each group of shareholders. It optimizes the corporate performances by creating an environment that motivates managers to maximize profit through investment, to ensure better operational efficiency and long-term productivity growth. As a result, these corporations generally attract the most talented people. Corporate governance also ensures the compliance of corporate interests with investors and company employees and management, creating a business environment based on honesty, transparency and responsibility (Oman, 2001).

Currently, in a complex and dynamic business climate, good corporate governance became a prerequisite demand for a long-term stability. Therefore, it should be cultivated and regularly practiced in the current business structure.

Corporations that genuinely recognize and apply the principles of “good governance” will enjoy enormous benefits, by their availability and low cost of capital, will attract talented customers and business partners, will improve competitiveness and financial performance, and will sustain a long term growth. Moreover, the accounting will show, without doubt how to implement corporate governance where financial dissatisfaction and abuse of power lead to poor governance (Shil, 2008).

7. CONCLUSION - NEW ACCOUNTING IN ROMANIA

Romania cannot escape by economic development - moving to a new reality – a knowledge-based economy. However, unfortunately, most managers are at literacy and awareness level as regarding the economic development. Increased interest led by change of the accounting traditional economic paradigms obviously derived from the promised benefits.

Mainly, we are talking about creating added value due to predominant use of the intangible assets and intellectual capital according to environmental requirements, the emergence of new reliable raw materials in terms of prices, the use of accessible information solutions (business intelligence) intended to facilitate information flow so that all decisions to be taken based on regularly updated and real information. The world today has already been more than a century in a stage of increasing the information flow. Many successful businesses were based on accumulating knowledge, information capital, but only very recently, the economy as a whole has been changed by the information total reconfiguration.

We also can observe some steps forward from tradition accounting to knowledge based organization accounting. So, for reaching good corporate governance, we can mention the introduction of the Bucharest Stock Exchange (BSE) Code of Governance, January 2009. The Governance Code contains a set of recommendations on corporate conduct and ethics rules applied to companies admitted to trading on a regulated market. BSE Code was drafted along the lines of mature capital markets in order to increase communication and transparency of capital market in Romania and it came into force for the 2009 financial statements.

Another step forward can be considered the launch of XBRL- RO in December 2009 by CECCAR, The Body of Expert and Licensed Accountants of Romania. I-*XBRL* (e*Xtensible Business Reporting Language*) is an informational tool used by some of most important International Accounting Normalization Boards (IASB, FASB) for standardize financial reporting, increase transparency and improve the quality and comparability of financial data. In addition, of *i-*XBRL**, there are many products on the Romanian market for performance management. Of these, we can mention international software like Microsoft BI, SAP Business Objects Edge BI, Oracle BI, etc., but also some Romanian products like CRIsoft Romanian - CROS, Bit Software - Socrate TotalSoft - Charisma Analyzer, etc.

Unfortunately, in terms of green accounting, neither company law, nor accounting rules issued by the Ministry of Public Finance of Romania does recommend environmental transparency rules for financial reporting. Therefore, we cannot talk about a green culture in Romania.

We may clearly observe that Romania is only at the beginning of the road to a knowledge based organization accounting. To be able to pass to a knowledge based accounting it would be required an actively involvement of a wide range of stakeholders with crucial roles in political, economic and social development, including tax and accounting regulators as the Body of Expert and Licensed Accountants of Romania (CECCAR), the Chamber of Auditors, academic institutes, financial and credit institutions, software companies and other organizations that have a primary role in defining internal and external reporting taxonomies and guidance.

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THE ROLE OF THE FINANCIAL INFORMATION IN THE TOURISM SERVICES QUALITY CONTROL

BOGDAN RĂVAȘ, ALIN MONEA *

ABSTRACT: *The quality importance grew in such matter that some tourism units give a warranty for their services. In this way they try to keep their tourists which other way should try the competitor's services. More than that, they receive this way a certain signal over the lacks of quality that can be repaired in a short period of time. Not last, the existence of the warranty motivates the staff to improve their work in order to avoid that the tourists should use the warranty against them. The quality control must be permanent and periodic. In this way the responsible can orient his action on a short term.*

KEY WORDS: *information; tourism; quality; control; management; performance*

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The continuous efforts of the tourism units to increase their efficiency have reached to an approach from a financial point of view of the problems concerning the services quality. In order to reach their objectives, they must organize the technical factors, human and administrative so they could reduce, eliminate and most important prevent the qualitative minuses.

The financial information as part of the economic information emphasizes the quality of the material and financial resources of the units. As a conclusion we can appreciate that the financial information is a private, special economic information resulted by manufacturing the accounting date by special methods, instruments and procedures.

The essential factors that the performance relies on are the services costs and quality and the interdependence relation between these factors. Given the actual facts, we established when the competition on this sector continues to grow, the managers attention should be focused more and more on the services quality even though the costs level is higher because the weight of this factor is in a state of continuous growth.

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In this way, the managers started to be more and more focused as we shall see on the costs needed to ensure the quality of the services demanded by the tourists.

The information reliability joins some qualities such as the information verifiability guaranteed by the international norms and regulations, and the neutrality and sincerity and it means that the managers and the accountants must be neutral towards the information they prepare and present.

For everyone of us the quality means that a service is better than the other because of its characteristics. In this way we consider that the quality represents an operation environment through which a product or service delivered by the company to its customers is related to their demands.

Another quality aspect that we approached is represented by the connection into time of the information, aspect imposed by the necessity of the appearance in a certain form in order to allow the comparison using the currency and the complementary information can be supplied by the material units.

In this way, at the level of the tourism units we discover the need of applying a quality management method which has been generalized by the optimization quality techniques related to the specified costs and based on the principle that says that the growth of expenses made for reducing the malfunctions determines a new dimension of the costs generated by their identification and a substantial reduction of those generated by their repairment, so generally speaking the total quality expenses and the total organization expenses are more and more reduced with the condition of improving this system.

In order for a strategy to be useful for the tourism units is essential to insure the achievement of the comparative advantage regarding the costs and the quality of the services provided.

The comparative advantage relies on the services superior quality from a significant point of view for the tourists in comparison with the competition's offer. In the case of the tourism units the competition through quality is related to the competition by the price and this even more that the quality improvement represents actually an important element in costs reduction

We think that the verifiable character is the quality that allows the professionals to express their own information and conclusions. Another quality aspect is represented by the objectiveness that presumes impartial measures and the use of the standard methods that remove the personal appreciations.

The easy access to the means needed for satisfying the demands of the tourism units it is indispensable for the information quality improvement.

The quality costs measurement is focused on the main area of reducing those by allowing the performance measurement and creates an internal information basis for the services. The quality costs determination allows the promotion of superior quality services and represents a parameter for the tourism unit activity, it supplies the manager with plan and control means and also other costs, by allowing comparisons between the total activity costs and other costs, by helping proceed to a lot of decisions and represents the base of the motivation for the activities developed.

The production and publishing of the financial information that are able to present correctly the above mentioned qualities must lead to some financial situations that reflect the patrimony as real as possible.

Beyond the aspects less favourable the financial information must be the ace in the hand of different type of users, more credible than the other information sources. At the compartments level of the units studied there are still some obstacles in gaining information closer to perfection because of a conflict state induced by the qualities demanded and the one received.

The quality importance grew in such matter that some tourism units give a warranty for their services. In this way they try to keep their tourists which other way should try the competitor's services. More than that, they receive this way a certain signal over the lacks of quality that can be repaired in a short period of time. Not last, the existence of the warranty motivates the staff to improve their work in order to avoid that the tourists should use the warranty against them.

No matter the way they act, the quality costs represent the base for the tourism units performance. The use of the quality costs can allow the discovery of some undetectable costs.

As we saw the quality must be projected and managed, not only verified and controlled. We appreciate that the quality costs analysis is an important area in the efficient activity process of the tourism units in the actual conditions of limited resources, its job being to supply the information the managers need in order to elaborate the strategic decisions.

The conclusion we reached is that the qualitative characteristics are subjective and intelligibility and relevance depend on each other. As a consequence, the information less intelligible but relevant should not be used by the managers in the decision process.

The users benefit also by the support of the general accepted conventions that try to simplify the interpretation of the financial reports.

We also reached to the conclusion that an important demand that must accompany the qualitative characteristics of the financial information is also the acceleration of the publishing process. An accelerated publishing process is based on the communication policies that shouldn't threat the financial information as a simple legal act but as a response to the user's public demand. The increase complexity process must be reflected in the same time with the increased rithm of information perisability that should lead to shorter publishing terms.

At the tourism units we advised the managers in the control procedure to compare the real situation, the results actually obtained with a provisioned situation, the desirable objectives of the organization. So, the mission of the performance control through the financial information represents, in my opinion, the identification and explanation of all the deviations from the plans.

Generally, the control of tourism services is an exception control. The needs for control change with the size of the company's structure. The controlled objectives are different by the order in the structure.

Through their demands, the tourists define the company's activity. The tourism unit must carefully select these tourists for who it can satisfy and serve in an effective

manner. Once the tourists have been chosen it must adapt to their needs by offering them the goods and services desired, and for this to happen they must achieve and develop the resources for these goods and services. The owner knows that he can't hope to any profit if the tourists don't want the company's goods and services. To not consider the expectations and needs of the tourists leads no doubt to the unit's damnation. But the reverse situation is not true. The tourist can declare himself satisfied by asking lower prices with the loss of the company. Also there is a medal reverse. A tourism unit can't function by satisfying the tourists at the demanded prices in the case that these prices are lower than the one the company paid. As a consequence the two interests must converge and the tourism unit must find the middle way. The tourist's satisfaction becomes actually the main objective.

The quality control through the financial information is the activity meant to supervise the management through continuous results comparisons with the purpose of finding the deviations, analyzing the deviations and transmitting the information to the management in order to adopt the decisions.

The quality control must be permanent and periodic. In this way the responsible can orient his action on a short term.

In the quality control process from a tourism unit there must be involved at least two actors: the management controller that controls the quality and the financial information responsible, the person controlled that must justify the deviations.

Assigning competences and responsibilities it is made function of the essence of the quality control method. The autonomy assigned to the hotel manager allows him to adopt, together with his team, the most adequate measures that he consider to be necessary, correlated with the resources he can use. The authority limits are clearly established at every level.

The control mechanism must be directed to the identification and monthly correction of the deviations.

We saw that the deviation must be current because a late measure can lead to a corrective measure unadapted. For example the income deviations in a promotion period must be known a few days after the promotion started. If the deviations are known after the campaign has been finished they would actually have only a limited interest.

The deviation control must be realized only in the situation that the benefits obtained will overcome the cost that is involved. Also the deviations must be calculated not only over the monetary data but also some qualitative data such as terms or quality.

One of the deviation analysis advantages is that it underlines individual aspects of the performance. Also if the attention is excessively concentrated on only one performance indicator, the managers will have the tendency to take decisions that would lead to a positive value of those performance indicators.

These actions could generate a conflict with the general objectives of the company by stopping their achievement. A certain deformed performance perception actually shows up when the management uses a evaluation and reward performance system that ignores the company generally objectives.

The deviations are often connected. For example a bad deviation of the materials used could be associated with a favourable deviation of their price if the responsible bought materials cheaper and with a lower quality.

In the deviation analysis from the quality, we must rely on certain aspects:

- the quality deviations are due to some controllable causes that can be influenced by the management decisions of a responsible. The managers must focus their actions over controllable causes that influence objectives achievement defined by the budget;
- the financial deviations can be good or bad. For example the exceeding of material consumes or direct labour are bad deviations because they affect the budget in a negative manner. The good deviations are generated by values realized under the budget such as: the achievement of some material consume lower than the ones predicted, and also values over the budget, as in the case of a higher price than the one predicted etc.;
- actually any financial deviation is the result of the action of two elements: prices and quantity. For example the deviation from the budget value of the consume is made from a unitary price variation and a quantity variation. Often the responsible, try to have a greater control over the quantity variations and a lower control over the price variations;
- the controllable causes of the deviations can be influenced by an autonomous decision of a manager or are the answer of some external facts for the responsibility centre.

A first step in performance evaluation is to determine if there is a cost deviation. The deviation determination helps identifying the effective areas of activity. But the key for an effective control of the operations is not only to identify the deviations value but the determination of the causes of these deviations. Once these causes determined, the manager can take action, in order to correct the problem. The effective evaluation of the managers' performance depends also by the human factor and the company's policies. The people make the plans, the people develop the activities, and also the people evaluate and are being evaluated. As a consequence the management must establish adequate policies and to obtain a direct participation of the managers and employees when there is a process initiation for the performance evaluation.

Actually, we advised the companies to establish policies and procedures for the elaboration of the operative plans of the key employees, the evaluation of every responsibility area and if there are any deviations to determine their causes and the needed measures.

The deviation analysis must be concentrated over the comprehension of the cause of the deviations and the way that this comprehension can be used to study from experience and improve the performances.

The deviation analysis mustn't be an instrument in the game of guilt, but it should actually help the companies understand what happened and how can the better performances be obtained in time.

The tourism units should reach a balance between the two purposes of the deviation use meaning performance evaluation and personal study, balance that isn't easy to achieve. The deviation analysis is useful in the performance evaluation, but by keeping excessive attention on this evaluation and the individual objectives it can negatively affect the learning process from experience and continuous perfection.

At the level of the tourism units an adequate quality system must have as objectives, to obtain reliable information at low costs and in an operative manner, regarding the important activities, so on the base of the budget control they could take the right actions and allow the appreciation of the budget responsible activity on different organisational levels. In order to comply the purpose of a quality system, the financial information must be the object of a rigorous control process to insure the deviation analysis.

The need for quality at different levels of the tourism units is imposed by the performance determination in a competitive area and with the conditions of using limited resources.

The improvement of the services quality must also include the dinamization and integration of the human dimension and through the modification of the organization manner.

The financial information represents an essential component of most managerial control systems. When it is clever managed a financial information: imposes the strategic plan and implementation of the plans, offers a reference frame for the performance evaluation, motivates the managers and company employees, promote the coordination and communication between the company's departments.

The financial information is more useful when part of the strategic analysis of a company is. The strategy establishes the way an organization combines its own capacities with the opportunities on the market in order to achieve their goals.

In order to be useful the quality control through the financial information advantages, should be understand by the tourism units managers and supported by all the aspects of the management control.

The fluctuation of the economic process in time and space and in structural aspect, I consider it needs a special indicator system to reflect the quality of the information of the management level. Because of the complexe processes and events from the contemporary tourism units, the information reflected or anticipated must be many sided. The multilateral character of the information ensures perception by many angles of the proceedings the unit is involved in.

Because of its importance, the quality problem has been very often studied and debated. Especially for the tourism units the quality problem can be solved by ensuring real information in the sense of showing the exact situation at the long term economic efficiency. In conclusion this demand must be fulfilled even with the risk that the information can became undesirable for the managers at a certain point.

The utility is, in my opinion, the main quality of an information that must respond alone all of all the internal and external goals of the tourism unit and that implies quick information, indispensable for the decision act.

So, we consider that by improving services quality, results the improvement of the tourism unit financial position and the profit growth. For this to happen there is an

imperative need for the introduction and development of a quality management system in order to achieve the objectives defined by the policy in the area of the tourism units quality services, which must be connected with the tourists needs and expectations but serving in the same time the tourism unit's interests.

The quality impact over profit is significant especially on a long term, that's why is important that the efficiency of a quality system to be measured in economic terms.

The quality costs must be constantly followed and related to other indicators such as: development, the economic value added, the business incomes, in order to identify the supplementary areas that need attention and to establish the quality objectives and costs.

The quality costs measurement is focused on the main area of reducing those by allowing the performance measurement and creates an internal information basis for the services. The quality costs determination allows the promotion of superior quality services and represents a parameter for the tourism unit activity, it supplies the manager with plan and control means and also other costs, by allowing comparisons between the total activity costs and other costs, by helping proceed to a lot of decisions and represents the base of the motivation for the activities developed.

The quality costs determination comes up against a lot of difficulties from many points of view. Some of these points are: a series of quality costs can't be measured, as a consequence they can only be estimated and very often this estimation is subjective; there is an important delay between the moment of turning up and the one of the identification of the quality lacks; there is an important delay that can appear between the prevention act and the one in which there can be identified the effects of these actions over the quality costs(the launchment of a staff sensitivity program in the quality area can produce the effects after a few months).

Generally, the control of tourism services is an exception control. The needs for control change with the size of the company's structure. The controlled objectives are different by the order in the structure.

In order to be effective, the control at the tourism units level must be done enough frequent, in order to take the right measures in time, and uncentralised, in order to keep itself at the same level of the correction decisions and responsibilities.

The control is actually the activity meant to supervise the management through continuous results comparisons with the plans with the purpose of finding the deviations, analyzing the deviations and transmitting the information to the management in order to adopt the decisions.

The need for control at different levels of the tourism units is imposed by the performance determination in a competitive area and with the conditions of using limited resources.

The improvement of the control process has been realized by dinamization and integration of the human dimension and through the modification of the organization manner.

All over the year, the quality must be analyzed in comparison with the established indicators. In this sense there are realized prediction functions of new

variables or levels, with the purpose of offering a base of comparison in conditions close to the period of the analysis.

The quality control supplies the managers with feed-back about some effects of the strategies and plans. Sometimes this feed-back signals the managers that they must think again their plans and even strategies.

Some organizations developed quality indicators that reward the managers by the accuracy of their predictions used for their services, thing that should be implemented in my opinion also in the tourism units, no matter the size and structure.

Constantly we suggested that there should be elaborated “control reports” in which there are made statements regarding the quality information and in this way quality pursuit becomes one of the most important parts of the management, given their value as prediction instruments and control and as lining instruments to the predicted objectives.

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STATISTIC ANALYSIS OF INTERNATIONAL TOURISM ON ROMANIAN SEASIDE

MIRELA SECARĂ *

ABSTRACT: *In order to meet European and international touristic competition standards, modernization, re-establishment and development of Romanian tourism are necessary as well as creation of modern touristic products that are competitive on this market. The use of modern methods of statistic analysis in the field of tourism facilitates the achievement of systems of information that are the instruments for: evaluation of touristic demand and touristic supply, follow-up of touristic services of each touring form, follow-up of transportation services, leisure activities, hotel accommodation, touristic market study, and a complex flexible system of management and accountancy.*

KEY WORDS: *statistic analysis; chronological series; territorial classification; statistic indicators; international tourism; ranking method*

JEL CLASSIFICATION: *L80, L83*

1. INTRODUCTION

Tourism represents one of the ways of spending available time for rest, recreation, treatment and entertainment and the main feature of Constanta county economy is touristic and balneary capitalization of Romanian seaside.

In order to meet European and international touristic competition, Romanian tourism needs modernization, re-establishment and development and the creation of modern touristic products that are competitive on this market. Thus, it is important not only to modernize touring structures and resorts, but also to create new touring products, resorts, attractive original programs that can, by means of sustained activity of promotion on the international market, to redirect important touring incoming to Romania. In this respect, it is important to develop the entertainment services by means

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of theme parks and leisure activities, aquatic parks that are very much considered in the countries with worldwide touristic tradition.

Romanian seaside represents the most important touristic area of the country, with almost a half of the hotel accommodation capacity of the country and approximately 2/3 of the accommodation provided to international tourism.

Just as sustained technological progress positively advances national economy fields, it is also necessary that the subsidiary field of tourism takes advantage of highly developed technologies to contribute to optimization and modernization of touristic services.

2. STATISTIC ANALYSIS OF INTERNATIONAL TOURISTIC CIRCULATION ON ROMANIAN SEASIDE

The use of statistic methods within tourism allows achievement of information technology systems that contribute to the following: assessment of touring demand, assessment of touristic supply, follow-up of touristic services of various types of tourism, follow-up of services connected to forms and means of transportation, entertainment, hotel accommodation, study of the touristic market, a complex and flexible system of management and accountancy (Biji, et al., 2000).

The most useful indicators used to characterize dynamics of touristic circulation in touristic resorts on Romanian seaside are as follows: the amount of tourists, the amount of accommodation days and nights and the medium duration of the vacation (Neacșu, et al., 2003).

Table 1. Amount of tourists accommodated during 2001-2009 on Romanian seaside of the Black Sea

Years	Total amount of tourists that arrived on Romanian seaside		
	Total amount of tourists	Romanian tourists	Foreign tourists
2001	745504	687479	58025
2002	754167	686302	67865
2003	788763	708676	80087
2004	845478	746962	98516
2005	821349	712521	108828
2006	806858	724117	82741
2007	926204	842945	83259
2008	977975	912923	65052
2009	897677	847586	50091

Source: statistic data provided by Constanta County Statistic Office

Processing data of table 1, we can say that touristic circulation on Romanian seaside registers a positive trend during the analyzed period: thus, year by year, the number of tourists arrived on Romanian seaside registers increases, so that in 2007, the number of tourists arrived was with 180 thousands bigger than in 2001, that is with 24% more than 2001, and in 2009 with 20.41% more than in the year 2001.

Romanian tourists that arrived on the seaside make up the largest amount of touring visitors, this indicator presenting a favorable evolution, so that in 2007 the amount of tourists is with 23% bigger than 2001.

Foreign tourists that arrived on the seaside also make a good evolution, yet the percentage is low, in the year 2007 with only 8.98% of the total amount. This indicator reaches a peak in the year 2005 that is 108 thousand foreign tourists, with 88% more than in the year 2001 and then it starts to decline in 2006 and 2007, but comparatively to 2001, the indicator registers increases.

Distribution of foreign tourists that arrived on Romanian seaside during 2001-2008, according to their country of origin, is presented in table 2 as follows:

Table 2. Foreign tourists that arrived on Romanian seaside during 2001-2008 according to their country of origin

Countries of origin	2001	2002	2003	2004	2005	2006	2007	2008
Total	58026	67665	80087	98516	10828	82741	83259	65052
Germany	15737	19953	24415	19490	20340	16560	17158	11457
Finland	110	99	120	5606	8679	2514	261	379
Denmark	1880	1946	2289	5774	8422	3270	973	621
Italy	4060	5366	6177	7417	8163	6967	5951	5388
Sweden	1122	2531	2995	7207	7150	1962	812	535
France	1650	6369	5844	5744	5523	5450	8457	4982
Norway	4006	2887	3917	4832	4172	3799	1872	1613
USA	2017	2462	3963	2856	3701	3344	3797	2755
Russian Federation	4989	2097	3911	6715	3679	5773	4779	3449
Moldavia	1267	2228	2464	2888	2404	2355	1241	1160
United Kingdom	1692	1882	2675	2181	2235	2007	2003	1893
Greece	1865	1686	2427	1765	2226	2094	2873	2396
Turkey	2557	2255	2639	2334	2054	2163	2570	2916
The Netherlands	2771	2274	1906	1864	1635	1746	2354	2135
Other countries	12303	13830	14345	21843	28445	22737	9858	23373

Source: statistic data provided by Constanta County Statistic Office

According to countries of origin, most tourists come from Germany – 15 thousand tourists arrived in 2001, the amount rose in 2007 to 17 thousand tourists, that is by 9% comparing to 2001. Next there are France, Italy, Russian Federation, the USA. Thus, in 2007, Germany holds 21% of the total amount of foreign tourists that arrived on Romanian seaside; France takes the second place, with a 10.1% of the total amount of foreign tourists and the Russian Federation with 5.73%.

If we consider these from a dynamic perspective, it is obvious that Germany maintains its leader position all through the entire analyzed period, while the amount of

foreign tourists that arrived from France is rising, from 1650 tourists in 2001 to 8457 tourists in 2007, that is with 412% more than 2001.

3. MULTI-CRITERIA CLASSIFICATION OF THE RESORTS ON ROMANIAN SEASIDE USING THE RANKING METHOD

The ranking method requires to follow the following stages: a partial rank is attributed to each territorial unit, according to the following rule as: territorial unit with maximum qualitative performance obtains the first rank, the following units being numbered with higher ranks, for each territorial unit i a medium rank (\bar{r}_i) is determined, by taking into consideration the positions it takes to all indicators (Biji, et al., 2010).

$$\bar{r}_i = \frac{\sum_{j=1}^m r_{ij}}{m} \quad (1)$$

where m = the number of indicators

According to order by medium rank, each territorial unit is attributed a final rank: territorial unit with the lowest medium rank is the most performant from every point of view presented in the multi-criteria analysis and it obtains the final rank 1; as the medium rank rises, so the final rank rises, reaching to rank n that is attributed to territorial unit that registers the maximum medium rank (Biji, et al., 2010).

Calculation is done in table 3, as follows:

Table 3. Territorial classification of resorts on Romanian seaside by means of the ranking method

Resort	Foreign tourist arrived in 2009 x_1	Day and night accommodation of foreign tourists in 2009 x_2	Accommodation capacity (rooms) in 2009 y	R_{x_1}	R_{x_2}	R_y	\bar{R}	Final rank
Constanța	17839	44776	2552	2	2	7	3,7	2
Mamaia	18474	58932	23710	1	1	1	1	1
Eforie Nord	2895	11435	16302	4	5	2	3,7	3
Neptun	3054	30571	11902	3	3	4	3,3	4
Jupiter	710	3877	7516	7	8	6	7	8
Venus	662	6044	9291	8	7	5	6,7	7
Saturn	983	7235	13041	6	6	3	5	5
Mangalia	1948	12643	1431	5	4	8	5,7	6
Total	46565	175513	85745	-	-	-	-	-

Consequently, multi-criteria classification of resorts on Romanian seaside according to international touristic activity by means of ranking method is presented in table 4 as: Mamaia is on the first place as concerns the international touristic activity,

Constanta City is on the second place and the resort of Eforie Nord is on the third place; Jupiter resort is on the last place as concerns the international tourism activity.

Table 4. Multi-criteria classification of resorts on Romanian seaside

Final rank	Territory developing tourism	Medium rank
2	Constanța	3,7
1	Mamaia	1
3	Eforie Nord	3,7
4	Neptun	3,3
8	Jupiter	7
7	Venus	6,7
5	Saturn	5
6	Mangalia	5,7

In order to complete statistic analysis of the territorial series, we can calculate the correlation indicators, because some interdependence relationships can be established among variables taken into consideration (Secară, 2008).

We shall use for correlation calculation, the correlation coefficient proposed by Spearman (Biji, et al., 2002):

$$r_s = 1 - \frac{6\sum d_i^2}{n^3 - n} \tag{2}$$

where:

d = rank difference between correlated characteristics;

n = number of researched units.

Calculation is presented in table 5 as follow:

Table 5. Correlation among accommodation capacity (rooms) and foreign tourists that arrived and day/night accommodation for foreign tourists

Resort	Foreign tourists that arrived x_1	Foreign tourists accommodated by day/night x_2	Accommodation capacity (rooms) y	R_{x_1}	R_{x_2}	R_y	$d_{x_1x_2}^2$	$d_{x_1y}^2$	$d_{x_2y}^2$
Constanța	17839	44776	2552	2	2	7	0	25	25
Mamaia	18474	58932	23710	1	1	1	0	0	0
Eforie Nord	2895	11435	16302	4	5	2	1	4	9
Neptun	3054	30571	11902	3	3	4	0	1	1
Jupiter	710	3877	7516	7	8	6	1	1	4
Venus	662	6044	9291	8	7	5	1	9	4
Saturn	983	7235	13041	6	6	3	0	9	9
Mangalia	1948	12643	1431	5	4	8	1	9	16
Total	46565	175513	85745	-	-	-	4	58	68

Correlation between foreign tourists that arrived and the capacity of accommodation:

$$r_s = 1 - \frac{6\sum d_i^2}{n^3 - n} = 1 - \frac{6 \cdot 58}{8^3 - 8} = 0.31 \quad (3)$$

Correlation between foreign tourists accommodated by day and night and the capacity of accommodation:

$$r_s = 1 - \frac{6\sum d_i^2}{n^3 - n} = 1 - \frac{6 \cdot 68}{8^3 - 8} = 0.20 \quad (4)$$

Correlation between tourists' arrivals (in thousands) and accommodation by day and night (in thousands):

$$r_s = 1 - \frac{6\sum d_i^2}{n^3 - n} = 1 - \frac{6 \cdot 4}{8^3 - 8} = 0.95 \quad (5)$$

If we consider results of correlation coefficients of Spearman ranks that have been calculated above, we can say that a very good correlation is there between the arrivals of foreign tourists and their day and night accommodation, because the correlation coefficient has a high value of 0.95; yet, between the arrivals of foreign tourists and the capacity of accommodation, as well as between the day and night accommodation of foreign tourists and capacity of accommodation there is not too much connection since the values of the two correlation coefficients are low. An indicator like "operational accommodation capacity" would have worked better in this case.

4. CONCLUSIONS

With their dismembered property and without a clear strategic direction, the resorts on the seaside failed to meet the dynamic markets and suffered losses consequently. Difficulties met by these resorts are numerous and they include as follows (Master Plan for Romania National Tourism):

- accommodation places mostly of lower quality within larger units;
- a very short season that means lack of competitive prices until the minimum level of profitability;
- difficulty in hiring and continuity of trained personnel during such short season;
- a high competition among hotels in developing business, instead of cooperation to increase business;
- insufficient leisure activities inside and nearby hotels to meet the requirements of present market;
- a limited approach of the hotel owners that capitalize the increasing demands of weekend visitors and miss long-term agreements with tourists willing for long vacation and extension of touristic season;

- beach erosion;
- underdeveloped public infrastructure;
- traffic jam and insufficient parking lots;
- conflicting interests of the beach leasers and accommodation providers;
- loss of a large part of charter operations at Mihail Kogalniceanu Airport.

Probably the most serious threat for the seaside resorts is the degradation of its most valuable asset, the beach, as it is also mentioned in the Master Plan for Romania National Tourism.

A serious decrease in the width of the beach was noticed in the last twenty-three years because of erosion and double impact of the Danube river channels and Midia dam over the normal level of sediments along the seaside. Despite various measures taken in this respect, the beach line withdraws yearly by two meters. The capacity of many beaches along the seaside is below the capacity of hotel accommodation, even without considering the visits of daily tourists. Continuous erosion of beaches shall continue to reduce the capacity of beaches and it shall require alternative activities for the visitors. Research is being conducted at present to identify some efficient actions to solve the issue of erosion.

In order to reestablish and develop seaside tourism, two main objectives should be considered, as they are mentioned in the Master Plan for Romania National Tourism: diversification of the range of attractions inside and outside resort with the purpose to add new market shares and extend the touring season, to research on the implementation of management measures that are necessary to restructure and administer resorts.

There have been some initiatives to meet these challenges. Significant investments have been made to modernize hotels and ensure various facilities such as treatment and wellness services and conference rooms that can contribute to the extension of touring season. However, these investments, though welcomed, cannot solve some fundamental issues. Marketing studies and research show that the actual level of services on this seaside resorts is not enough to sustain the position Romania should hold as one of the main seaside destinations of the Eastern Europe.

Making of plans of integrated development of the resorts represent the first stage in solving the main problem of the seaside resorts, that of lack of cohesion at destination caused by the high level of fragmentation of filed properties and products as a result of the state assets privatization at the beginning of '90. Many actives of the resorts have been leased to individual operators. Consequently, supermarkets, public restaurants and entertainment facilities in resorts depreciated and became unattractive, leading more to deterioration of image of resort, than to its improvement. Lack of a general coordination of resorts was a main factor in Government decision to transfer control of the beaches to the Environment Ministry responsibility.

Far from a lucrative framework for beaches, the ministry allowed proliferation of temporary activities with conflicting relationships. These led to confusion of tourists and continuous depreciation as regards comfort level. A solution for this fragmentation should be an agreement for all the shareholders in the resort – both public and private – for a management plan of the cooperating resorts with representation for all its components that are to participate with both the funds and the counseling.

If we are to compare Romania's tourism with its neighbor, Bulgaria, in terms of seaside tourism, we can say that the second one has some advantages. Firstly, Bulgarians reached better and faster to international markets and their touristic areas can be compared to those of Spain before its integration into the EU. Many years in a row, Germany was the main market for Bulgaria, the renovation of many hotels being financed by German touring operators (Meiroșu, 2007).

In 2006, Germany took the fourth place among the most important markets, but Bulgarians found their way. Serbia, Greece, Macedonia, Romania and Turkey became more popular. Romanians, Serbs and Russians spend a lot in restaurants and supermarkets, they enjoy optional trips, have fun in bars for hours at night, while Germans come with all-inclusive packages and stick to them. So, by comparison, Romanian tourists are popular in Bulgaria (Meiroșu, 2007).

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BALANCING HUMAN DEVELOPMENT WITH ECONOMIC GROWTH: A STUDY OF ASEAN 5

SWAHA SHOME, SARIKA TONDON *

ABSTRACT: *Economic growth as measured by the GDP of an economy should eventually lead to economic development and better quality of life for its citizens. In many developing countries however, the ranking according to GDP does not match its ranking according to indicators of economic development. This article explores this issue in the ASEAN 5 economies and draws divergent results for the five economies.*

KEY WORD: *ASEAN 5, GDP, HDI, Life Expectancy, Education Index, Correlation*

JEL CLASSIFICATION: *O40, O47*

Economic growth of a country is defined by an increase in its output which is measured by calculating the Gross Domestic Product (GDP). The economic development on the other hand is a broader concept .It reflects the social and technological progress of the economy and is an indicator of the quality of life led by the citizens of the economy. The two terms referred to above need not always go hand in hand. Economic development refers to improvements in indicators such as literacy rates, health conditions, and poverty rates. A quantitative measure of GDP does not take into account these factors and hence the debate. It is often believed that economic growth can only be a precursor to economic development and the latter cannot happen without the former. The logic is that higher levels of output can be redirected into higher spending on education, health and poverty alleviation which will eventually impact the productivity of the citizens leading to higher growth. A group of economists do argue that economic growth can be significant when countries act as resource providers to rich economies and no gain in wealth gets diverted to the parent economy thus causing a scenario of growth without development.

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The article attempts to study the correlation between growth and development in the ASEAN 5 economies and investigate into the development scenario of each member countries. ASEAN or the Association of South Asian Nations was formed in August 1967 by five member countries namely, Indonesia, Malaysia, Philippines, Thailand and Singapore. The association was extended later by new members such as Brunei Darussalam in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. The human development indicator is an index created by the United Nation Development Program (UNDP). The human development report is published every year since 1990. The Human Development Index (HDI) serves as an indicator to measure a country's progress not just in terms of its output but more social indicators of life expectancy, education and standard of living etc. It is a weighted average of indices of life expectancy, education measured by adult literacy and enrollment and the standard of living measured by the GDP growth. It may however be mentioned that annual comparisons of the index are not very effective as the HDI reflects long term changes.

1. RESEARCH METHODOLOGY

This paper aims to investigate the movement of the two parameters GDP and HDI and check if there exists a significant correlation between their trends. Based on this, we aim to prove the following hypothesis: *H0: There is no difference between the rate economic growth and human development for ASEAN 5.*

H1: The rate of economic growth is faster than human development for ASEAN 5.

For our research we have considered ASEAN economies as a conglomerate and to understand the movement further we have also considered the ASEAN countries individually. The G.D.P data for conglomerate has been taken from International Monetary Fund(IMF). The HDI data for the conglomerate has been found by taking out simple mean of the individual H.D.I's. The Pearson correlation have been found, which are shown by fitting line in the scatter plots. The time period considered for this purpose is between 2000 and 2009. The 2009 report is based on the data of 2007.

For considering individual economies, Pearson's Correlation coefficient has been found and is shown graphically with the help of scatter plots.

As HDI is a summary measure of human development and it consider both income and non income parameters, we conclude our research by finding correlations of GDP with non –income parameters viz. Life Expectancy Index and Education Index for individual economies. These have also been demonstrated by scatter diagrams.

All data for GDP has been taken from IMF site, and HDI data, life expectancy index and education index have been taken from the Human development reports published by UNDP. For our research purpose correlation equal to 0.5 and above is considered strong. Table 1 shows the trend in HDI rank and Human Development Index for ASEAN 5. The latest human development report was released in October 2009 based on data in 2007. The countries were grouped into four categories as shown in the box below. The report covers 180 countries. The top twenty countries this year have been put in an exclusive group of very high human development. Of the ASEAN 5 economies, Singapore and Malaysia are in the category of high human development

and the remaining economies in the category of medium human development. The following chart indicates the trend in GDP and the Human Development index. A correlation between the two parameters has also been attempted. The following table shows the correlation results for the period under study.

Table 1. Human Development Index and Global Rank

ASEAN Countries	HDI INDEX							
	2000		2001		2002		2003	
	Rank	HDI	Rank	HDI	Rank	HDI	Rank	HDI
Indonesia	110	0.673	112	0.682	111	0.692	110	0.697
Malaysia	59	0.797	58	0.79	59	0.793	61	0.796
Philippines	77	0.726	85	0.751	83	0.753	84	0.758
Singapore	25	0.885	28	0.884	25	0.902	25	0.907
Thailand	70	0.753	74	0.768	76	0.768	73	0.778
	2004		2005		2006		2007	
	Rank	HDI	Rank	HDI	Rank	HDI	Rank	HDI
Indonesia	108	0.711	109	0.723	109	0.729	111	0.734
Malaysia	61	0.805	63	0.821	63	0.825	66	0.829
Philippines	84	0.763	102	0.744	102	0.747	105	0.751
Singapore	25	0.916	28	0.922	28	0.942	23	0.944
Thailand	74	0.784	81	0.777	81	0.786	87	0.783

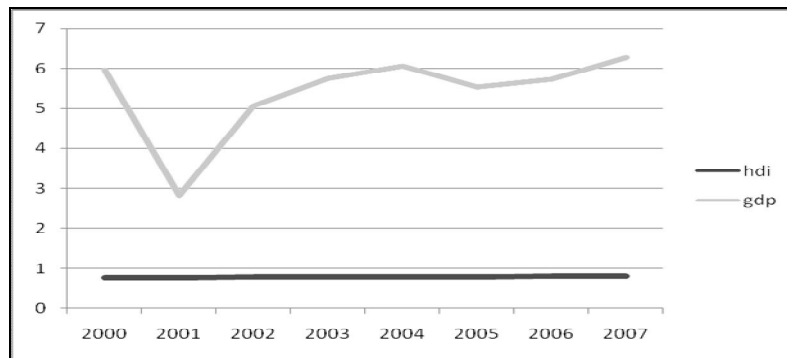


Figure 1. Correlation between GDP and Human Development Index

		HDI	GDP
HDI	Pearson Correlation	1	.476
	Sig. (2-tailed)		.234
	N	8	8
GDP	Pearson Correlation	.476	1
	Sig. (2-tailed)	.234	
	N	8	8

Table 2. Trend Correlation Values between GDP and HDI for ASEAN 5

The above values of correlation indicate that the correlation between Growth and Human development index has been positive but low for the region as a whole. In

other words these economies have made significant progress in growth but not in the index of development. The scatter plot below reflects the same inference.

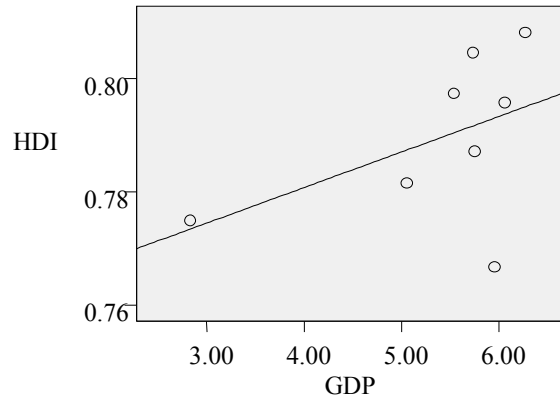


Figure 2. Scatter Plot for GDP and HDI

In order to explore the correlation between HDI and GDP growth rates, we will look at the correlation of each of the member countries. This will help us to understand why there is discrepancy between the countries on the HDI index and identify those economies which are the driver economies in growth as well as development.

2. PHILIPPINES

Table 3. Trend Correlation Values between GDP and HDI for the Philippines

		GDP	HDI
GDP	Pearson Correlation	1	-.070
	Sig. (2-tailed)		.870
	N	8	8
HDI	Pearson Correlation	-.070	1
	Sig. (2-tailed)	.870	
	N	8	8

Inference: Negative low correlation

The following diagram shows the scatter plot for Philippines which clearly supports our inference of low negative correlation. The Philippines have been ranked 105 in the latest report. If one looks at past statistics, the rank was 90 in 2008, 84 in 2006, 83 in 2004 and 85 in 2003. Although the ranking has dropped successively the index has shown a marginal growth of 0.49%. The Philippines showed highest GDP growth in 32 years with 7.4% in 2007. However, even at that point, the HDI rating was only 124th. The life expectancy in Philippines had increased from 1994 to 2000 but thereafter remained stagnant at 77. The slow growth in index despite stagnant life expectancy and high GDP can then be attributed to a stagnant education index. The adult literacy rate increased from 92.6% in 2000 to 93% in 2005 and remained stagnant thereafter. The gross enrollment ratio had increased to 80.6% in 2005 but fell to 79.6% in 2005 and remained stagnant ever since.

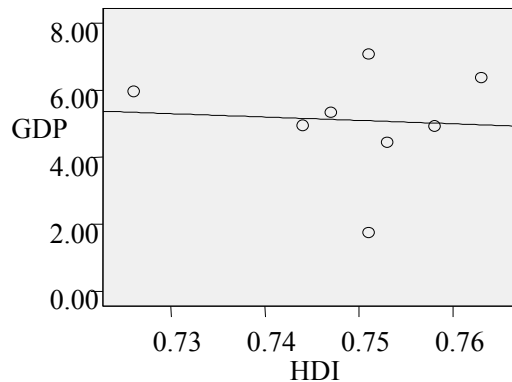


Figure 3. Scatter Plot of GDP and HDI for the Philippines

Table 4. Philippines' Human development index 2007

Hdi Value	Life Expectancy At Birth	Adult Literacy Rate	Gross Enrollment Ratio	Gdp Per Capita (Ppp\$)
105 (0.751)	91 (71.6)	54 (93.4)	58 (79.6)	124 (3406)

*Figures outside brackets indicate global ranking, Figures within brackets indicate percentage of population, * UNDP report 2007

The Philippines has an HDI of 0.751 which is lower than the average of 0.770 for East Asia and Pacific. It is within the category of medium development countries and is higher than the average of such countries in terms of the HDI. As shown in the table Philippines has a reasonably high adult literacy rate at 93.4% and a reasonable life expectancy at birth. However, as seen in chart 1, there has not been a significant change in HDI index since 2001. 28% of children below five in Philippines years are underweight and 7% of population still does not get clean drinking water.

3. SINGAPORE

Of all the economies under study, Singapore has the highest ranking and is considered to be in the category of high human development. Yet, the correlation though positive is not high. This implies that growth has increased at a faster pace than development.

Table 5. Correlation between HDI and GDP for Singapore

		GDP	HDI
GDP	Pearson Correlation	1	.471
	Sig. (2-tailed)		.239
	N	8	8
HDI	Pearson Correlation	.471	1
	Sig. (2-tailed)	.239	
	N	8	8

Inference: Low correlation

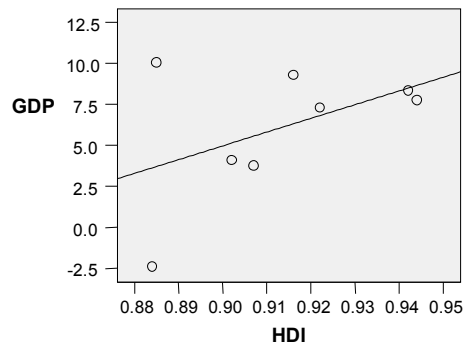


Figure 4. Scatter Plot of GDP and HDI for Singapore

Table 6. Singapore’s Human development index 2007

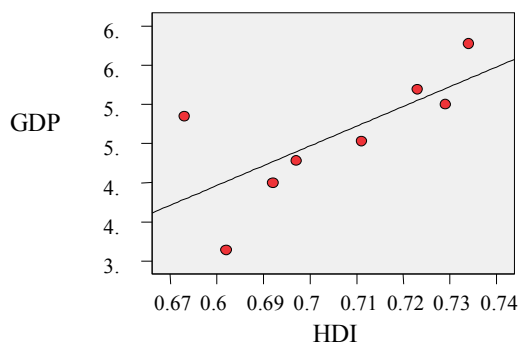
HDI value	Life Expectancy At Birth	Adult Literacy Rate	GDP per capita (PPPS)
23(0.944)	13(80.2)	51(94.4)	7(49704)

*Figures outside brackets indicate global ranking, Figures within brackets indicate percentage of population, * UNDP report 2007

4. INDONESIA

Table 7. Correlation Between HDI And GDP For Indonesia

		GDP	HDI
GDP	Pearson Correlation	1	.706
	Sig. (2-tailed)		.050
	N	8	8
HDI	Pearson Correlation	.706	1
	Sig. (2-tailed)	.050	
	N	8	8



Inference: high correlation

Figure 5. Scatter Plot of GDP and HDI for Indonesia

Indonesia is the only country with high correlation between GDP and HDI. Since the end of the crisis in 1997, Indonesia has made significant progress in reducing poverty. However, 52% of the population lives on less than \$2 a day. This has resulted in a decline in nutritional status of children under five. Indonesia is still under the bracket of a low income food deficient country. Indonesia is also vulnerable to earthquakes, floods, tsunami and drought. Malaria affects 20% of the citizens. About 28% of the children are malnourished. There is a severe lack of sanitation and safe drinking water. There are more than three million children who are working and many of them in hazardous occupation. However Indonesia has made significant effort to reduce the poverty by increasing its subsidized rice program. The HDI index was 107 in 2005 and has fallen to 111 in 2007. The life expectancy for males is 69 for males and 72 for females. Indonesia was severely hit by the Asian crisis in 1997. The economy recovered in 2000 and showed a 4.8% increase. The economy slowed down again in 2004 and 2005. The tsunami and the earthquake in 2005 and 2006 again shook the economy. Between 2004 and 2005 the GDP growth rate ranged between 5-6%. However the unemployment rate continues to remain very high reaching around 11 %.

Table 7. Singapore’s Human development index 2007

HDI Value	Life Expectancy At Birth	Adult Literacy Rate	Gross Enrollment Ratio	GDP Per Capita (PPPS)
111(O.734)	99(70.5)	61(92)	115(68.2)	121 (3712)

**Figures outside brackets indicate global ranking, Figures within brackets indicate percentage of population, * UNDP report 2007*

Indonesia has signed a Dakar Convention which aims to „the attainment of a 50 percent increase in adult literacy, particularly in women, by the year 2015". By 2002, since Indonesia's literacy rate had reached about 89.51, the target was modified to become "the attainment of a 50 percent decrease in adult illiteracy aged 15 and above by 2015". Indonesia has the lowest ranking among ASEAN 5 but is making significant progress in attaining a better life for its citizens.

5. MALAYSIA

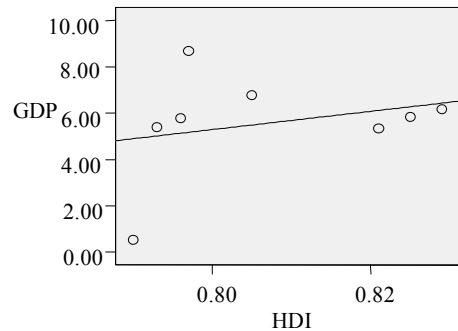
Malaysia is a multi ethnic, multi cultural population with a good standard of living. It achieved universal primary education in 1990.

Table 8. Correlation between HDI and GDP for Malaysia

		GDP	HDI
GDP	Pearson Correlation	1	.268
	Sig. (2-tailed)		.522
	N	8	8
HDI	Pearson Correlation	.268	1
	Sig. (2-tailed)	.522	
	N	8	8

There has been significant fall in the infant and maternal mortality rates. Malaysia can boast of a well developed primary health care system, availability of

drinking water, good hygiene and nutrition. However Malaysia is not without its challenges. HIV threats are increasing everyday. Reported HIV cases are seen to double every three years.



Inference: low positive correlation

Figure 6. Scatter Plot of GDP and HDI for Malaysia

Table 9. Malaysia's Human development index 2007

HDI Value	Life Expectancy At Birth	Adult Literacy Rate	Gross Enrollment Ratio	GDP Per Capita (PPPS)
66(0.829)	55(74.1)	62(91.9)	102(71.5)	61(13518)

*Figures outside brackets indicate global ranking, Figures within brackets indicate percentage of population, * UNDP report 2007

The Malaysian government has started "VISION 2020" to shape Malaysia as a fully industrialized economy with an equally good standard of living. Malaysia has also launched the "unite for children" as well as aids global campaign in 2005 to control its biggest challenge to development.

6. THAILAND

Thailand's development program is based on sufficiency economy which is an innovative approach to development based on principles of moderation, wisdom and need for sufficiency.

Table 10. Correlation between HDI and GDP for Thailand

		GDP	HDI
GDP	Pearson Correlation	1	.397
	Sig. (2-tailed)		.330
	N	8	8
HDI	Pearson Correlation	.397	1
	Sig. (2-tailed)	.330	
	N	8	8

Inference: Low positive correlation

Thailand is a medium income economy. Poverty in the economy has come down from 38% in 1990 to 11% in 2004 but there is still a high degree of inequality. The level of school enrollment is fair but quality of higher education is poor. Availability of health services is also not uniform and maternal mortality is relatively high. Whatever development has so far taken place also has an urban bias. Child mortality is also of concern as is the growing incidence of aids. Since 2001, however there has been effort at providing universal health care rural debt relief and village level development. The following table shows the correlation between GDP and HDI for the period under study.

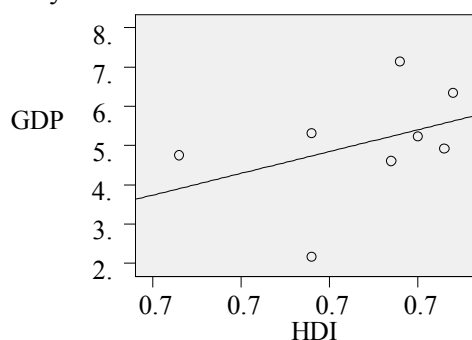


Figure 7. Scatter Plot of GDP and HDI for Thailand

Table 11. Malaysia’s Human development index 2007

HDI value	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and above)	Combined gross enrolment ratio (%)	GDP per capita (PPP US\$)
87.(0.783)	107.(68.7)	52.(94.1)	68.(78.0)	82.(8,135)

*Figures outside brackets indicate global ranking, Figures within brackets indicate percentage of population, * UNDP report 2007

The above discussion clearly reflects that the correlation between GDP and HDI has been low for most economies except Indonesia. This clearly supports our hypothesis that there is much scope for diverting the gains of growth to education and health in these economies.

3. NON INCOME PARAMETERS

Since there is a debate as to whether growth and development are always positively correlated, an alternative study relates to a comparison between the rankings of GDP and HDI.

The UNDP Report states that the gap between a country's HDI rank and GDP per capita rank reflects how effectively economic growth has been directed towards human development. A higher HDI ranking relatively to a GDP ranking indicates that a nation's economic wealth has benefited its citizens equitably. A positive figure indicates that the HDI rank is higher than the GDP per capita (PPP US\$) rank; a negative figure, the opposite. The following table shows the same for ASEAN 5. It is

interesting to note that Philippines which have a negative correlation between GDP and HDI have the highest positive difference.

Table 12. Difference in GDP per Capita Rank and HDI Rank for ASEAN 5

Country	GDP per capita (\$PP) Rank less HDI rank
Philippines	+19
Singapore	-16
Indonesia	10
Malaysia	-5
Thailand	-5

Since Indonesia and Philippines has shown the most extreme results in this group with the former showing high positive correlation and the latter showing negative correlation, a comparison between these two economies is shown in the following diagram.

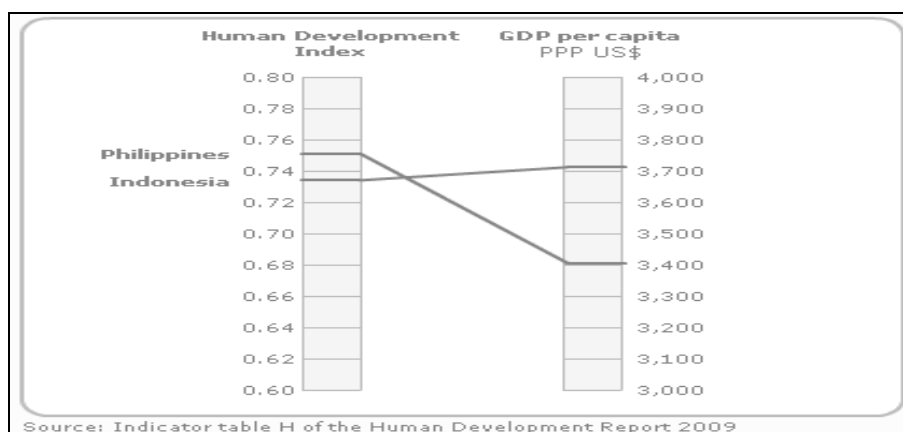


Figure 8. Comparison of GDP per capita and HDI for Indonesia and Philippines

Since the HDI index is a weighted average of the GDP per capita, education and life expectancy of the citizens, we will now concentrate on the non income parameters and its relation to GDP as the per capita income is already included in HDI calculation. According to UNDP, the education index, is measured as a weighted average of the adult literacy rate (with two-thirds weightage) and the sum of primary, secondary, and tertiary gross enrollment ratio (with one-third weightage). The second index is the life expectancy index. **Life expectancy** is the expected number of years of life remaining at a given age. In order to calculate the index the formula applied is

$$LEI = \frac{x - \text{Minimum}(x)}{\text{maximum}(x) - \text{minimum}(x)}$$

UNDP considers minimum = 25years and maximum = 85 years as an average of the population.

To show how the GDP has been directed towards education and life expectancy, we have done a correlation between GDP and education index(EI) and as

well as between GDP and life expectancy index.(LEI).The following table gives the results of the same. Scatter plots for each are included in the appendix.

As seen in the table, the correlation of GDP and life expectancy for all the five economies is relatively high except Malaysia. The correlation of GDP and education index is exactly the opposite. The correlation ranges between very low negative to high negative indicating that education requires a push in every economy. The UNICEF has taken active steps in providing health services and establishing schools and learning centers in most of these economies especially Thailand.

Table 13. Correlations of GDP with Life Expectancy Index and Education Index

Countries	Life Expectancy Index	Education Index
Indonesia	.851 (Very high)	.389 (low)
Malaysia	0.004 (Negligible)	0.080 (Very low)
Philippines	0.655 (high)	-0.760 (Very High ,negative)
Singapore	0.511 (high)	.338 (Low)
Thailand	0.620 (high)	-0.464 (low ,negative)

4. CONCLUSION

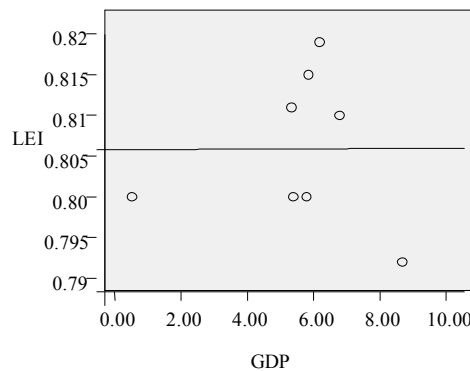
The above inferences clearly indicate that development and growth have not moved in tandem in the ASEAN 5 economies. Removing the income parameter from the HDI has shown that all five economies need to take effort in directing growth towards education. Only then will the challenges of development be met by achieving a higher growth rate.

APPENDIX:

MALAYSIA

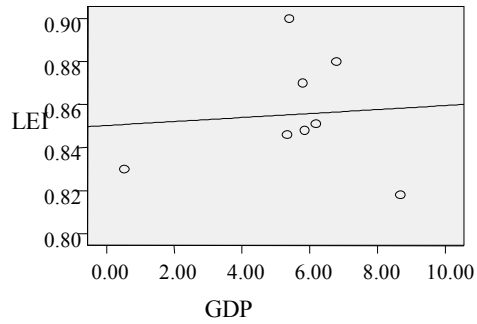
Correlations

	GDP	LEI
GDP Pearson Correlation	1	.004
Sig. (2-tailed)		.992
N	8	8
LEI Pearson Correlation	.004	1
Sig. (2-tailed)	.992	
N	8	8



Correlations

		GDP	EI
GDP	Pearson Correlation	1	.080
	Sig. (2-tailed)		.851
	N	8	8
EI	Pearson Correlation	.080	1
	Sig. (2-tailed)	.851	
	N	8	8

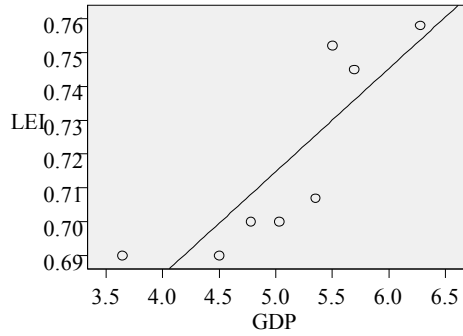


INDONESIA

Correlations

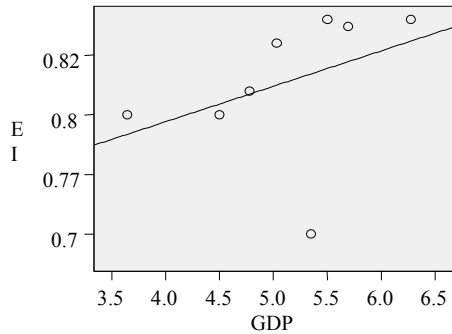
		GDP	LEI
GDP	Pearson Correlation	1	.851**
	Sig. (2-tailed)		.007
	N	8	8
LEI	Pearson Correlation	.851**	1
	Sig. (2-tailed)	.007	
	N	8	8

**Correlation is significant at the 0.01 level



Correlations

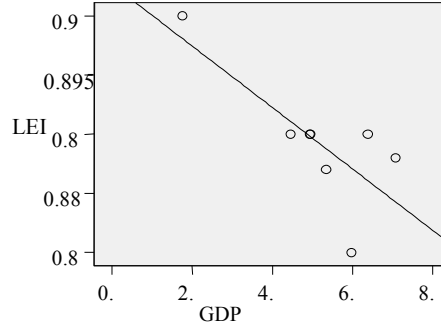
		GDP	EI
GDP	Pearson Correlation	1	.389
	Sig. (2-tailed)		.341
	N	8	8
EI	Pearson Correlation	.389	1
	Sig. (2-tailed)	.341	
	N	8	8



PHILLIPINES

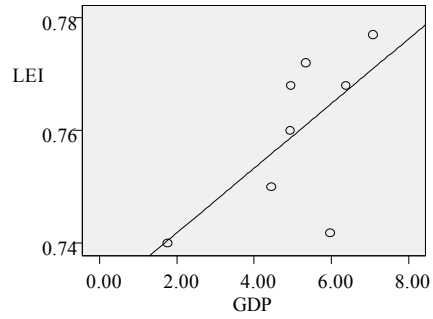
Correlations

		GDP	LEI
GDP	Pearson Correlation	1	.655
	Sig. (2-tailed)		.078
	N	8	8
LEI	Pearson Correlation	.655	1
	Sig. (2-tailed)	.078	
	N	8	8



Correlations

		GDP	EI
GDP	Pearson Correlation	1	-.760*
	Sig. (2-tailed)		.029
	N	8	8
EI	Pearson Correlation	-.760*	1
	Sig. (2-tailed)	.029	
	N	8	8

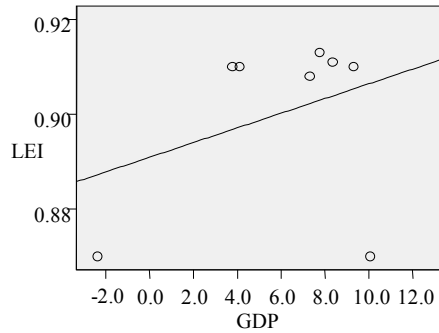


*.Correlation is significant at the 0.05 level (2-ta

SINGAPORE

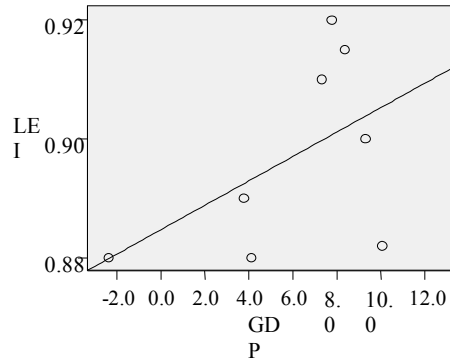
Correlations

		GDP	EI
GDP	Pearson Correlation	1	.338
	Sig. (2-tailed)		.413
	N	8	8
EI	Pearson Correlation	.338	1
	Sig. (2-tailed)	.413	
	N	8	8



Correlations

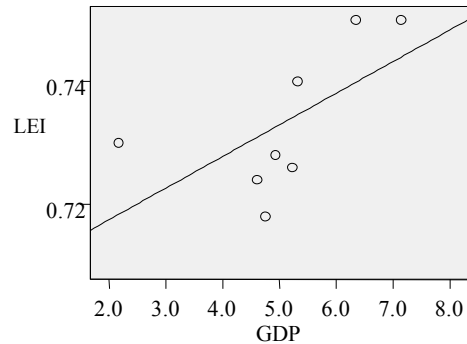
		GDP	LEI
GDP	Pearson Correlation	1	.511
	Sig. (2-tailed)		.196
	N	8	8
LEI	Pearson Correlation	.511	1
	Sig. (2-tailed)	.196	
	N	8	8



THAILAND

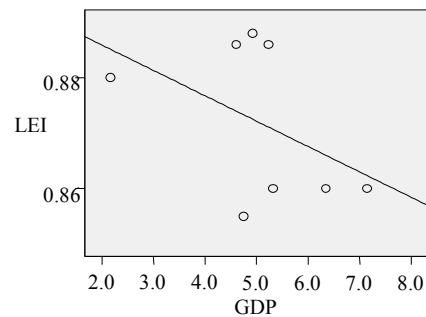
Correlations

		GDP	LEI
GDP	Pearson Correlation	1	.620
	Sig. (2-tailed)		.101
	N	8	8
LEI	Pearson Correlation	.620	1
	Sig. (2-tailed)	.101	
	N	8	8



Correlations

		GDP	EI
GDP	Pearson Correlation	1	-.464
	Sig. (2-tailed)		.246
	N	8	8
EI	Pearson Correlation	-.464	1
	Sig. (2-tailed)	.246	
	N	8	8



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THE GLOBALIZATION OF THE BANKING AND FINANCIAL CRISIS ON INTERNATIONAL LEVEL

MIRELA CATALINA TURKES (VINT) *

ABSTRACT: *The very high exposure of the American banks during the past years, by investments on the real estate market and on those markets related to it, has generated the current financial crisis. Many investment banks and insurance companies have become casualties of the financial crisis, being purchased by other banks or taken over by the government in order to prevent bankruptcy. This paper presents the effects generated by the extension of the USA financial crisis into other states economies. The research consisted in presenting the assembly of the actions taken by the world states governments for saving or restructuring the financial systems. Based on country risk assessment, the paper also presents the situation of the best banks from the economies of the world countries, recently affected by this strong financial crisis.*

KEY WORDS: *globalization; financial crisis; banking; financial resources; nationalized banks*

JEL CLASSIFICATION: *M31, G21, G01*

Well known banks from the United States and Europe become one by one casualties of the financial crisis. Many of them have reached the point of being helped by the government in order to avoid bankruptcy, being practically nationalized. Others have been taken over by competitors for insignificant prices.

The financial crisis started from USA has mainly been caused by the very high exposure which the banks have undertaken during the past year on the real estate market. The impact did not remain inside the USA borders, but it extended its effects towards Europe as well.

1. THE EFFECTS OF THE FINANCIAL CRISIS IN USA

The banking and financial crisis began in the United States on September 7th, 2008 when the government took over the control of the mortgage loan companies

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Fannie Mae and Freddie Mac that were holding almost half of the mortgage loans granted to the American consumers, approximately 5,000 billion dollars. Their crashing would have caused huge problems on the financial markets all over the world.

The first negative signal has been given by Bear Stearns Bank, during the summer of 2008, before the beginning of the financial crisis. Due to the fact that the bank was facing the perspective of the bankruptcy, it was purchased by JP Morgan Chase for a price of only 2 dollars per share. A year before, the shares of the same bank were being sold on the stock exchange for a price of 158 dollars. The transaction of Bear Stearns Bank, with a total value of 240 million dollars, has been supported by the American government through a 30 million dollar loan.

During the same period, the Bank of America purchased Merrill Lynch Bank, the third American investment bank, in order to avoid bankruptcy. The transaction has been finalized at a total price of 50 billion dollars, the bank assets being heavily under-evaluated. Later on, Lehman Brothers, a big investment bank on Wall Street, went into bankruptcy because it did not succeed in finding a buyer until September 15th 2008. The USA government refused the granting of a loan for saving the bank¹.

Morgan Stanley and Goldman Sachs, the last two big investment banks remaining on Wall Street, were forced to convert themselves into commercial banks in order to attract more financial resources so that they could cover their losses.

AIG – American International Group, the biggest American insurance company, has registered problems due to the insurances related to real estate loans and it has faced the possibility of bankruptcy as well. FED intervened and granted a loan of 85 billion dollars for a 2 year period, to prevent bankruptcy, in exchange of 80% of the company shares.

By trying to protect the depositors' funds, in case of bankruptcy, Federal Deposit Insurance Corp (FDIC) shut down Washington Mutual Bank, one of the biggest American retail banks. The Washington Mutual assets have been finally taken over by JP Morgan Chase for only 1.9 billion dollars.

The branches of Wachovia bank have also been taken over by Citi. Later on, Federal Deposit Insurance Corp (FDIC) has offered protection against the possible losses generated by mortgage loans within the portfolio of Wachovia and transferred to Citi.

On September 28th 2008, the USA Congress has reached an agreement regarding Paulson plan, the “Emergency Economic Stabilization Act of 2008” giving to the USA Treasury Secretary the authority and the resources needed for the immediate release of the amount of 250 billion dollars to cover the losses from the banking and financial system and the cancellation of one of the most sensitive items of the initial version – the compensation package for the executives of the companies taken over or bankrupt. Moreover, the American government is given the right to buy the risky assets of some foreign banks with “significant operations” on the USA territory².

¹ http://www.thebanker.com/news/fullstory.php/aid/6439/Caught_in_the_middle.html

² http://www.thebanker.com/news/fullstory.php/aid/3838/Final_cut_but_one_of_the_USA_Patriot_Act.html

It needed four old investment banks to be acquired for ridiculous amounts or to be declared bankrupt, an insurance industry giant to be taken over by the government, two old mortgage loan institutions to become bankrupt, before the federal government announced a 700 billion dollar rescue plan to diminish the crisis effects.

The carousel of subprime loans, meaning the loans “granted on ID only”, was entered by non-banking institutions, mortgage loan companies, as well as risk funds mainly formed by investment banks – the banks with the highest risk appetite in the financial system.

Today, the crisis can be “contemplated in its whole splendor”. The American real estate market has crashed, and many American and British investment banks have been taken over for insignificant amounts or they are bankrupt. To all this we should add the decrease of the big international stock exchange companies, the loss of trust in the financial system, the increase of interest rates and the increase of financing costs.

According to Top 1000 World Banks 2008 published by The Banker magazine, the financial crisis has strongly affected the economies of many countries and it has changed their position in the top compared to previous years, following the country risk assessment. The most developed countries, but also the most dependent on credit, have suddenly become the most exposed to the crisis. In order to find out which are the countries with the highest risk, The Banker magazine has gathered financial and economical information regarding the health state in 184 countries and they have formed a top based on various indicators including GDP/capita, the loan level per capita and the level of the external debt of GDP. Also, assessing the financial health state of the world countries in 2009, The Banker magazine has sanctioned the countries which counted too much on the financial leverage³.

The results are shocking. According to the new model of financial risk realized by The Banker magazine, countries like Moldova, Chile, Peru and Bolivia are less susceptible to be affected by the current financial crisis than countries like United States, United Kingdom or Japan. These countries being poorer, they are less dependent on credit, they have just a fraction of the leverage on the developed markets and they are more financially isolated than other countries.

The best ranked countries in Top 1000, are countries like Norway, Russia, Kuwait followed by Singapore and Moldova.

These countries have high reserves of oil and gas, they have a high development level of savings, a low level of public debt and huge currency reserves. Moldova, being a small East European country, with a gross domestic product (GDP) per capita of only 1,830 dollars, with a very low debt level of 763 dollars per capita and with a crediting level of only 17%, represents a surprise in Top 1000 occupying the 5th place.

According to the World Bank, the banks in Moldova have extended loans of only 35% of GDP compared to USA where the bank crediting level has reached 230% of GDP.

Nevertheless, a part of the American banks have succeeded to obtain significant performances also after the appearance of the financial crisis. The most

³ http://www.thebanker.com/news/fullstory.php/aid/5878/TOP_1000_WorldBanks_2008.html

performant American banks which succeeded to enter Top 1000 World Banks 2008 published by The Banker are presented in the below table.⁴

Table 1. Top of countries with the lowest financial risk to the financial crisis

Indicators Countries	GDP / Capita \$	Loans / capita %	Estern debt GDP %
Norway	43.673	19	9.3
Russia	5.300	22	17
Kuvait	14.760	26	45
Singapore	4.670	29	86
Moldova	1.830	35	109

Source: http://www.thebanker.com/news/fullstory.php/aid/5878/TOP_1000_World_Banks_2008.html

Table 2. The best banks in USA

Ranking Banks	Top 1000 in SUA		Strenght Tier One Capital \$ m	Size Assets \$m	Soundness Capital Assets Ratio % latest	Profits Pre-Tax profit \$m	Performance	
							Real Profit growth % latest	Real Profit growth % latest
1	25	Bank of America Corp	40,161	707,121	5.58	11,470	17.4	33.7
2	28	Citigroup	32,511	470,996	7.64	10,115	6.9	38.2
3	82	JP Morgan Chase	9,268	143,370	6.54	1,985	33.2	26.0
4	148	Well's Fargo & Co	4,452	35,507	12.96	461	0.9	10.6
5	177	HSBC North America Holgings	3,547	47,404	7.87	465	-34.4	12.8
6	196	U.S. Bancorp	3,153	41,585	8.38	1346	-10.3	38.6

Source: <http://tinglebr.files.wordpress.com/2008/06/world-top1000-bank.pdf>

2. THE GLOBALIZATION OF THE FINANCIAL CRISIS IN THE ECONOMIES OF WORLD COUNTRIES

The second half of 2008 and the beginning of 2009 have proven that the interdependences and the correlations between the financial markets and the real economies of the world are much stronger than predicted. The globalization has accelerated and facilitated the spreading of the financial crisis from the United States to all over the world.

China Despite the global crisis, Asia has registered an economical growth of 9.1% in 2007, respectively 7.5% in 2008, growth which will probably be maintained in 2009 as well, according to a recent IMF report⁵.

⁴ <http://tinglebr.files.wordpress.com/2008/06/world-top1000-bank.pdf>

⁵ http://www.thebanker.com/news/fullstory.php/aid/6503/Will_Asia_be_able_to_holdit_all_together_.html

China has registered an economical growth of 11.4% and India 9.2% in 2008 which has determined a strong growth of the Asian banking sector, thus leading to the increase of banking market share at global level.

In the below table, according to Top 1000 World Banks 2008 published by The Banker, the best banks in Asia Pacific region are presented:

Table 3. The best banks in Asia Pacific region

Top 1000 By Region Asia Pacific			Strenght Tier One Capital \$ m	Size Assets \$m	Soundnes s Capital Assets Ratio % latest	Profits Pre-Tax profit \$m	Performance	
Ranking	Country world						Real Profit growth % latest	Profit on Av. Capital % latest
CHINA, People's Republic of								
1	7	ICBC	59,166	961,576	6.15	9,229	19.7	20.1
2	10	Bank of China	52,518	682,262	7.70	8,700	24.4	20.5
3	23	China Construction Bank Corporation	42,286	697,740	6.06	8,416	17.0	21.4
4	62	Agricultural Bank of China	11,425	684,349	1.67	1,561	52.5	14.4
5	68	Bank of Communications	10,647	220,198	4.84	2,229	33.6	22.4
6	101	China Merchants Bank	6,803	119,622	5.69	1,291	49.8	26.2
7	162	China CITIC Bank	3,984	90,503	4.40	897,000	28.7	26.7
8	207	Shanghai Pudong Development Bank	3,002	88,277	3.40	773,000	32.1	31.6
INDIA								
1	76	State Bank of India	9,981	186,988	5.34	2,414	11.2	26.1
2	157	ICICI Bank	4,293	56,258	7.63	693,000	22.6	21.1

Source: <http://tinglebr.files.wordpress.com/2008/06/world-top1000-bank.pdf>

As it is shown in the situation presented in the above table, the banks from China dominate the Asian banking market, as opposed to India whose banking market has increased with only 7% compared to previous years. Shortly, China represents more than 40% of the Asian banking market, a few percentage points over the previous year and about 10% up on two years ago. Taiwan and India represent only 7% of the Asian banking market. Even though India has registered an economical growth, a high number of banks didn't succeed in achieving spectacular results, a sign of a vibrant banking sector. However, the banking sector in China is stable, in expansion and so far it doesn't seem to be affected by the crisis.

Japan The banking system in Japan has also been hit by the international financial crisis, but numerous problems were avoided thanks to a fast action by the Central Bank of Japan. The most affected by the crisis were the following banks: Yocho Bank and Sumitomo Mitsui Banking Corporation which were forced to strongly redirect their strategical trends. Nevertheless, Japan holds an important share of the

global banking market, a fact which is confirmed by the presence⁶ of at least 20 banks in the first 200 of Top 1000 World Banks 2008 published by The Banker in 2008. Among them are the following: Mitsubishi UFJ Financial Group, Mizuho Financial, Sumitomo Mitsui Financial Group, Norinchukin Bank and Resona Holding.

Russia The banking sector in Russia has been hit by the financial crisis, but due to the quick action by the Central Bank of Russia (CBR), it managed to avoid a banking sector collapse. However, numerous Russian banks have got into trouble and they received capital inflows from CBR. Therefore, the company Leader owned by Gazfond – the pension fund of state-owned gas giant Gazprom⁷, declared that they would buy KIT Finance Bank in case of any difficulties in the future. Vnesheconombank, the state's debt agency, took over in September 2008 Svyaz Bank and Globex Bank in quick succession, using a \$2 billion capital injection from CBR. The Central Bank also put \$500 million into the little known Gazenergoprombank, a subsidiary of Gazprombank, in order to bail out another commercial bank Sobinbank. On September 22nd 2008, Renaissance Bank also put out for sale a 49% stake, denying that the move was a rescue package.

In November, the crisis went into a second phase and commercial banks came into play as the lack of liquidity continued to cause casualties. Therefore, the leaders of the commercial banks in Russia announced business plans which included the acquisitions of smaller banks. In January 2009, a 71.87% stake of Soyus Bank assets was sold to GazFinance of Gazprom Group for \$10 million.

Alfa-Bank bought out in December 2008 a part of Severnaya Kazna Bank shares, the second largest in the Sverdlovsk region and said they would buy the rest at the beginning of 2009. BIN Bank acquired a 76% stake in Bashinvestbank in Tatarstan and also informed it was looking at buying more banks in 2009. The lack of liquidity increased the opportunities of the top banks to buy other banks in difficulty and to consolidate their financial position. An example is the merger between the commercial bank MDM Bank, having a liquidity of close to \$1.5 billion and the leading regional bank Ursa (approximately \$1.3 billion), thus creating the largest lender in Russia. The commercial bank MDM Bank was forced into the deal due to an aggressive expansion strategy over the past few years, causing its dependence on the access to foreign capital which now disappeared because of the financial crisis.

In 2009 Russia wishes to restructure the banking sector. Russia currently has over 1200 banks, but at the Banking conference of Top Russian bankers in December 2008, it was said that there would be not more than 800 banks left by the end of 2009. These restructuring efforts of the Russian banking sector will be coordinated by the Deposit Insurance Agency (DIA) which belongs to the state and whose purpose is to evaluate the situation of the banks in difficulty due to the lack of liquidity and to make proposals for recovery, by state capital injections or by acquisitions and / or mergers with other financially stable companies. The quantitative criteria for the banks to be rescued refer to their deposits which must be of \$41 billion for federal banks and \$1 billion for regional banks.

⁶http://www.thebanker.com/news/fullstory.php/aid/6450/Asian_nations_cooperate_todefend_currencies.html

⁷ http://www.thebanker.com/news/fullstory.php/aid/6536/Keeping_funds_toregions_flow.html

Latin America The financial crisis has normally affected the countries in Latin America as well. However, there are countries which may be less affected by the crisis, namely Chile, Bolivia and Peru thanks to the low levels of external debts.

Chile has the healthiest economy among the countries in Latin America with non-performing loans at only 0.8% and bank provisions equal to 210% of the bad loans. Although Chile's debt is rising, the levels of external debt remain extremely low compared to GDP.

Bolivia, which ranks second in the top of Latin American countries and the poorest country in Latin America is also likely to be one of the countries least affected by the crisis. The GDP per capita in Bolivia continues to be painfully⁸ low at only 1,888 dollars, but the country's external debt is also low at only 486 dollars per capita. Bolivia has a trade surplus equal to approximately 12% of its annual GDP. By comparison, the USA has a GDP per capita of 47,002 dollars, the external debt of 40,319 dollars per capita and a current account deficit of approximately 5% of the annual GDP. Furthermore, the banking sector in USA has made loans of 230% of the United States GDP, whereas in most Latin American banks, lending remains less than 50% of the GDP.

In **Peru**, the level of the bank loans is equal to only 15% of the GDP. Only countries like Brazil, Chile and Panama have levels of bank lending approaching the ones of developed countries at 81.7%, 83.5% and 90.8% of the GDP, respectively⁹.

The strong economies of the Latin American countries like Argentina, Mexico and Brazil are more dependent on credit and therefore more heavily exposed to the banking and financial crisis. The level of the bank loans is of 40% of GDP in Argentina and for Mexico and Brazil of 69% and 77%, respectively

3. THE FINANCIAL CRISIS AFFECTS THE ECONOMIES OF EU COUNTRIES

EU could not be immune to this globalization phenomenon of the financial crisis and a part of the economies of EU countries, heavily dependent on foreign financial sources, have faced numerous problems in the banking financial system.

United Kingdom The banking sector in the United Kingdom has been lacking in transparency for too long. According to a survey conducted by the Worldwide Independent Network of Market Research (Win) at the end of 2008, the consumers' trust in the British banks before the crisis registered a very low level due to the lack of quality in the banking products and services. After the appearance of the crisis, this lack of trust has increased significantly.

The crisis has shown how fragile is the British banking system and it has proven that a reform is needed in this field. Moreover, the National Bank of England was forced to put on the market \$64 billion in order to buy shares in eight banks¹⁰ in

⁸http://www.thebanker.com/news/fullstory.php/aid/6452/Latin_America_92s_lesson_for_abanking_world_in_crisis.html

⁹http://www.thebanker.com/news/fullstory.php/aid/6482/Latin_America_92s_uphillstruggle.html

¹⁰http://www.thebanker.com/news/fullstory.php/aid/5669/UK_top_six_results_defy_doomongers_92_predictions.html

difficulty from the United Kingdom and it injected liquidities of over \$260 billion on its own frozen interbank market.

The table shows the main nationalized independent banks in the United Kingdom, for the purpose of market capitalization until the end of January 2009.

The list of banks subsequently nationalized continues as follows: Northern Rock has been nationalized by the United Kingdom government, followed by Bradford & Bingley and Alliance & Leicester which was purchased by Santander Group. The British government also holds control of a 70% stake in Royal Bank of Scotland Group (RBS) and a 65% stake in Lloyds Banking Group, but nevertheless, the banks continue to be independent institutions.

Table 4. The main nationalized independent banks in the United Kingdom

Bank	Headquarters	Market value (£bn)	Assets (£bn)	Assets (\$bn)
HSBC Bank	London	60.84	1,319.65	2,348.98
Standard Chartered	London	13.39	184.63	328.65
Barclays Bank	London	7.23	2,050.00	
Lloyds Banking Group	London	5.57		
Royal Bank of Scotland Group	Edinburgh	4.58	1,900.00	
Co-operative Bank	Manchester	—	39.00	71.33

Source: Market values retrieved at end of 20 January 2009 from Times Online

The presence of 10 banks in the first 200 of Top 1000 published by The Banker, among which the most important being: HSBC Holding, Royal Bank of Scotland Group, Barclays Bank, HBOS, Lloyds TBS Group proves the fact that the United Kingdom holds an important share in global banking market.

Germany Also in a strong economy like the one of Germany, the decrease of the financial sources at global level has generated complex problems for the banks in the system. The German government, by Sonderfonds Finanzmarktstabilisierung (SoFFin), claims that it has sufficient financial funds to stabilize the banking market and it can offer up to €400 billion in government guarantees on bond issuance by the German banks until 2011. So far, less than €20 billion of government-guaranteed paper has been issued, mainly by Commerzbank and IKB Deutsche Industriebank, but there are other banks¹¹ as well interested in joining this scheme.

Aareal Bank has also received from SoFFin a capital injection of €525 million in perpetual bonds in February 2009, together with issuance guarantees for up to €4 billion. CorealCredit Bank has not received yet a state funding but its sale or merger with another bank is intended in the future. Contrary to other governments that are trying to find ways to channel the governments funds into the real economy, the

¹¹http://www.thebanker.com/news/fullstory.php/aid/6472/Commerzbank_92s_new_strategyfor_retail_banking.html

German government offers funds for financing some investments in the infrastructure and other branches of the economy, by the means of commercial banks.

So far, the loan conditions in the German economy are less severe than the ones in USA or the United Kingdom. The exports represented 47% of the gross domestic product (GDP) in 2008 and they mainly took place in countries like France, USA, United Kingdom, Netherlands and Italy, increasing perspectives existing for 2009. The German government is forecasting a GDP growth of 2.25% for 2009. However, the German government will continue to inject capital into the banks with difficulties, by SoFFin, until 2011.

Italy Although they promoted less risky products and services, the Italian banks have been indirectly touched by the crisis because they were leaning upon an industry which was entering a decline in 2008. Most of the Italian banks with foreign capital focused on corporate loans during the past years, and their survival now depends on the market resistance of the manufacturing firms. Affected by the globalization, the textile and clothing sector formed by small and medium firms has fallen by more than 11,000 firms in the past five years, but nevertheless, it continues to hold a share of 10% of the total exports for economy in assembly.

The difficulties faced in this sector will affect on long term the Italian banking system¹², by worsening the relationship of the producing companies with their banks. As a consequence of the global crisis, the Italian banks noticed a decrease in the loans of the companies acting in the automobile industry, construction industry, iron and steel extractive industry, food industry etc. Per total, a worsening of the whole business environment can be noticed.

The Italian banks admit the fact that in 2009 it is possible to face losses, but they are willing to continue to support the small and medium firms, even though, under the current crisis conditions, this has become a challenge. UBI Bank, Intesa Sanpaolo and UniCredit can absorb more than 2% of the additional loan costs and they claim that they have the capacity of overcoming the economical recession without too much trouble. The cautious policy of the Italian banks will continue to be based specially on corporate loans and generally on consumption mortgage loans, ensuring the renegotiation of the loan reimbursement for the customers facing difficulties.

Anyway, the biggest test for the Italian banks will probably come in what happens to the country's real economy and the way in which its evolution will affect the situation of the financial institutions.

France The French banks have shown a higher resistance to the crisis compared to others. They can be included in the category of universal banks, being more stable and much diversified, thus making them less vulnerable in crisis situation. The French banks are specially counting on fixed-rate mortgage loans, which makes them more stable under crisis conditions. Then, they have developed an expertise in specialized areas such as asset management, insurance and consumer loans. This expertise is supported by the marketing performed by retail banking service¹³ networks, which led to a model transformation of the French banks and the creation of an innovative environment, reinforcing on long term the relationship between

¹² http://www.thebanker.com/news/fullstory.php/aid/6475/Allegro_Con_Brio_Fades_forItaly.html

¹³ http://www.thebanker.com/news/fullstory.php/aid/6410/The_future_of_French_banking.html

producers and distributors. The universal banking model developed in France also benefits from corporate and investment banking operations at international level, which seem to be sufficiently resistant to the financial crisis.

Austria The Austrian banks and companies have been preferred for a long time in Central and Eastern Europe thanks to the economical growth which they registered in the past years. Following the application of macroeconomical policies and the microeconomical modernization reforms, Austria has become the country with the most diversified and competitive economy, having an economical growth of 3.4% in 2006-2007. It is predicted that during the period 2008-2011, the economical growth will be of 2.1%, in decrease compared to the previous period. Because the Austrian banking market¹⁴ is a mature one, the Austrian banks had to extend to other markets in order to register an increase of the incomes. Therefore, the top banks such as Austria Bank, UniCredit, Erste Bank and Raiffeisen penetrated the Central and Eastern Europe and CIS. The incomes obtained by these bank groups in 2008 were in Central Europe of 27.1%, in South-East Europe of 27.6% and in CIS of 24%.

Although they have obtained good results in 2007-2008, the Austrian banks have felt tensions in the financial sector, following the globalization of the crisis in the US, the ATX index in Vienna Stock Exchange registering a decrease of at least 20% in the first quarter of 2009 compared to the last quarter of 2008. The problems which the Austrian banks may face in the future are related to the risk increase on the banking markets in Central and Eastern Europe and CIS if the effects of the financial crisis continue to spread at global level.

The IMF Report – Global Financial Stability, published in April 2009, emphasized the possibility that the Austrian and Italian banks, which strongly extended to Central and Eastern Europe and South-Eastern Europe, would face numerous problems due to the current account deficits registered in certain countries of this region, such as Bulgaria and Romania. Under the conditions of crisis globalization, the top Austrian banks continue to be interested in investing in important countries in the region, such as Russia, Czech Republic, Slovakia, Poland, Romania and Hungary, which are rich in agricultural and natural resources, continuing to attract significant flows of foreign investments in order to compensate the deficit and to improve the level of economical growth.

Spain While the Spanish banks tried to avoid the financial crisis, the government has taken actions to ensure a minimum impact of the effects of crisis globalization. Two of the actions taken by the Spanish government were: increasing the minimum deposit guaranteed level to €100,000 from €20,000 and setting-up a Financial Assistance Fund to acquire and support the assets and products of the banking institutions. Also, in December 2008, the Treasury launched a €100 billion programme to guarantee bank bonds for the Spanish banks for a five year period in order to encourage the loans. The Spanish banks¹⁵ registered a fast increase of the loan level in the past years, following their capacity to issue debts in the neighboring capital markets, but now that the financial markets are closed, they will be forced to apply for the programme launched by the Treasury.

¹⁴ http://www.thebanker.com/news/fullstory.php/aid/5805/Austria_keeps_focus_on_CEE.html

¹⁵ http://www.thebanker.com/news/fullstory.php/aid/6432/Spanish_banks_hold_firm.html

Nevertheless, banks such as Santander, BBVA Savings Bank, Banco Popular succeeded to register a profitable activity during the last semester of 2008, as well as in the beginning of 2009. In the table 5, according to Top 1000 World Banks 2008 published by The Banker, the best banks in EU are presented:

Table 5. The best banks in EU

Top 1000 in EU			Strenght Tier One Capital \$ m	Size Assets \$m	Soundness Capital Assets Ratio % latest	Profits Pre-Tax profit \$m	Performance	
Ranking	Country	World					Real Profit growth % latest	Profit on Av. Capital % latest
UNITED KINGDOM								
1	4	HSBC Holdings	87,842	1,860,758	4.72	22,086	2.1	27.2
2	9	Royal Bank of Scotland	58,973	1,710,703	3.45	18,033	12.2	31.5
3	21	Barclays Bank	45,161	1,956,786	2.31	14,009	31.0	34.1
4	22	HBOS	44,030	1,160,245	3.79	1,201	15.0	26.5
GERMANY								
1	30	Deutsche Bank	32,264	1,483,248	2.18	10,701	30.7	35.0
2	33	Commerzbank	20,410	801,184	2.55	3,128	39.0	17.2
ITALY								
1	27	UniCredit	38,700	1,084,267	4.6	10,813	97.7	28.2
2	40	Banca Intesa SanPaolo IMI	16,736	384,276	4.36	5,498	-2.2	30.0
FRANCE								
1	6	Crédit Agricole Group	84,937	1,818,341	4.67	14,060	19.7	18.4
2	11	BNP Paribas	45,305	1,896,935	2.39	13,921	23.5	33.4
SPAIN								
1	17	Santander	46,805	1,098,213	3.1	1,558	10.7	25.8
2	95	Banco Popular Español	8,152	120,704	17.7	13	21.8	29.0

Source: <http://tinglebr.files.wordpress.com/2008/06/world-top1000-bank.pdf>

Top 1000 world banks 2009, based on tier 1 capital, presents the best five banks in the world.

Table 6. Top 5 banks as a % of tier 1 capital , assets, pre-tax profits (all \$ M)

Ranting	Bank	Tier 1 Capital	Assets	Pre –tax Profits
1	JPMorgan Chase&Co	136,104	2,175,052	2773
2	Bank of America Corp	120,814	1,817,943	4428
3	Citigroup	118,758	1,933,470	- 53.055
4	Royal Bank of Scotland	101,818	3,500,950	- 59.281
5	HSBC Holdings	95,336	2,418,033	9307
	Top 5 Total	572,830	11,850,448	- 95.828
	World Total	4,275,767	96,394,600	115.120
	Top 5 as %	13.40	12.30	-83.30

Source: <http://www.riholtz.com/blog/2009/06/top-1000-world-bank-for-2009-by-tier-1-capital/>

4. CONCLUSION

Advanced countries such as USA, United Kingdom, Japan, which cumulate 55% of the global GDP, have entered into recession. The massive reduction of economical growth perspectives will directly affect the most performant countries: Russia, India and China. The world economies are one by one visited by the most virulent shock of the international financial crisis. For this reason, almost all world countries have prepared specific strategical plans for protection, rescue or restructuring of their financial system. These plans specially include guarantee actions for loans and deposits (commercial, institutional, interbank), bonds and debts and the setting-up of some public funds as premiums transferred by the banks to a special fund for guarantee self-financing.

The protection offered to the citizens varies from one European state to another:

- The guarantee limit of 50,000 Euros is applied or is under implementation in Bulgaria, Czech Republic, Romania (from a previous limit of 20,000 Euros), Sweden or Finland.
- We can find higher limits in: United Kingdom (50,000 pounds), Belgium, Cyprus, Finland, Lithuania, Netherlands, Spain (100,000 Euros) and Italy (103,000 Euros).
- Austria is about to adopt in parliament a similar decision for private customers, on October 28th 2008.
- On the other hand, Germany and Hungary confined themselves so far to political statements favoring the 100% guarantee of private savings and current accounts, without issuing any clear legislative proposal.

Of course, there were other actions of financial stabilization such as interbank loan guarantees, capital inflows in banks, legislative actions for the acquisitions of public bank participations or the creation of special funds to intervene in the stabilization of the financial sector.

- France revised its public finance legislation to allow a possible intervention to a bank in difficulty
- Italy proposed a guarantee system based on two instruments in order to protect the stability of the financial system: the creation of a €20 billion special fund for an emergency credit line to be accessible in case a bank in difficulty needs recapitalization; the creation of second rank guarantee fund for all bank deposits, up to the previously mentioned limit, namely 103,000 Euros.
- The Spanish prime-minister announced the creation of a temporary public fund up to 50 billion Euros for the acquisition of non-toxic assets from banks and other financial institutions.
- The British government launched an ample rescue package for the banking system, with a value of 500 billion pounds. The package is to be operated for the biggest 8 British banks in exchange for some preference shares. It seems that other banks will also be able to apply for this programme. Within the same action package, other 200 billion pounds will be offered

by the Bank of England, together with a 260 billion pound fund to guarantee the interbank loans at real market costs.

The financial crisis affected the whole global economy, causing a loss of trust in the financial system, with major repercussions on severe liquidity loss, interest rate increase and implicitly, the increase of the internal and external financing costs.

The current economical instability will test the traditional way of handling situations and will lead to the rearrangement of the economical forces and consequently, the political ones as well. Most certainly, this process will have casualties, but it will also generate opportunities and winners, considering the fact that the banks and the other financial institutions will have to face a heavier competition in order to survive.

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ACCOUNTING PUBLIC INSTITUTIONS FROM CLASSIC TO MODERN

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ABSTRACT: *Local communities in Romania and around the world, faced with extensive decentralization of public services have turned into real management units which must meet the needs of increasingly diverse individuals, the insurance fund with limited resources . This has led to the identification of resource management budget and transparency in their use, on one hand, and secondly the criteria of efficiency, effectiveness and economy.*

KEY WORDS: *Budget classification; public accounting; public expenditure; performance; budget process*

JEL CLASSIFICATION: *M41, M42*

1. ASPECTS OF THE BUDGETARY ACCOUNTS: CONCEPTS AND THEORY

Public accounting is accounting that provides operations evidence all receipts and payments on public funds. It evaluates the obligations of taxpayers, they show the revenue from these obligations and determine the differences in outstanding obligations and officers liability for payment of public funds. Organization is mandatory for all public authorities, territorial communities, national and local institutions.

In the paper "Cours sur les règles de la comptabilité publique, École nationale des services du Trésor", the authors Vincent and Jean Claude Pagat Rauda retain for more public accounting definitions, a common, other technical and other administrative. Thus, one makes the usual definition as "the set of rules for management of state revenues," the technical "rules of presenting government accounts, and the management is considering public and tasks defined as" public

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accounting rules are while presenting the accounts rules and regulations organizing public accounting services.

Public Accounting in Romania remained a "Cinderella" of science books, both at central and local pressure to both taxpayers and financial creditors who became interested in the financial condition and performance of local communities when they turned to capital markets to finance public investment currently goes through a double process of reform, a transfer from cash accounting to accrual accounting treatment and the information unit by the International Accounting Standards Public using (IPSAS).

After 1990, accounting in our country was seized by a wave of reforms in this sphere and are registering public accounting. Local communities in Romania and around the world, faced with extensive decentralization of public services have turned into real management units which must meet the needs of increasingly diverse individuals, the insurance fund to limited resources. This has led to solutions to the funding for public services to be provided under quality and affordability for beneficiaries.

Internationally, the gap between public services and decentralization of financial resources was manifested differently. While in Western Europe were first transferred responsibilities and resources then, due to pressures on maintaining budget balance, and in Latin America was first decentralized management of financial resources and then the public services. Due to the multitude of responsibilities, often beyond the bearable, local communities have resorted to various financial management tools to ensure, first of transparency in resource use, and secondly the criteria of *efficiency, effectiveness and economy*.

Accounts of public institutions providing information to officers on implementation of the budget revenue and expenditure, budget outturn, assets under management, the result patrimonial (economic) cost of the programs approved in the budget, but also information needed to prepare the annual general account executive state budget and special funds.

According to regulations in force in public finance and accounting, public accounting includes: income and expenditure accounts, which reflect the collection of revenue and expenditure budget; cost the state treasury; general accounts based on the principle of finding of rights and obligations, which reflect the financial and economic developments, and surplus or deficit of the patrimony; accounting for cost analysis of approved programs.

Liability for organization and management of public institutions is accounting officer or other persons required management unit. Those responsible for organizing and keeping the accounts should provide, by law, necessary conditions for organizing and conducting accurate and updated accounting, organization and inventory of assets and liabilities, and recovery results, the rules for making financial statements, timely submission of their bodies in law justificatory retain documents, records and financial statements, management accounting organization adapted to public institutions.

Although many years upgrading public institutions' accounting has been postponed, the need of compliance with European directives, imposed a substantial transformation of its organization to meet the old goals - business specializes in measurement, evaluation, knowledge management and control of assets, liabilities and

equity and the results obtained from public institutions, but also new requirements of the publication and preservation of information concerning the financial position, financial performance and cash flows. Underlying these changes lies nr.1917 Order of December 12, 2005 approving the Methodological Norms on the organization and management of public institutions' accounting. Chart of accounts for public institutions and its implementing instructions - published in the Official Gazette. 1186 bis of December 29, 2005.

Development of accounting system in Romania, was to base harmonization of legislation with EU Directives in the area to meet EU accession requirements and alignment with International Accounting Standards, a situation imposed by economic globalization and development capital market. Romania currently faces irreversible processes and high interest accounts: increase the number and power of transnational companies, the globalization of economies, mainly the financial markets, increasing market capitalization and development and the emergence of new financial products. Under these conditions, production and communication of financial information relevant, reliable, comparable to using a common accounting language sufficient to ensure communication between all users of information are vital business. Single solution to achieve these requirements is to harmonize / convergence / Romanian accounting conformity with the provisions of the *acquis communautaire*, and thus the effective implementation of International Public Sector Accounting Standards (IPSAS).

2. PROCESUL LOCAL BUDGET - THE BASIS FOR A MODERN FINANCIAL MANAGEMENT

Starting from the premises the principles, framework and procedures for training, administration, recruitment and use of public funds and the liability of public institutions involved in the budget process we launch a series of objectives designed to ensure better management of public expenditure on one hand, and a program more efficient revenue collection, on the other. These objectives are key compliance starting point coordinates fiscal and budgetary policy are: maintain an efficient and focused on priority sector policies; ensuring and strengthening the necessary finances to support the commitments deriving from integration in the great European family; formulate a development budget to encourage investment and absorption of EU funds.

One of the priorities that should underpin fiscal construction budget, which would lead to sustainable development of the national economy is to strengthen the conditions for absorption of structural instruments as a resource that Romania will benefit from the European Union. In this respect, that is approved by the National Strategic Reference Framework which facilitates the design of budgetary policies on multi bases, consisting of seven operational programs, funded by the European and national funding instruments.

An important role is created and the introduction from 2009 of a series of indicators relating to Budget classification: Projects funded by external grants (NEF) post-accession, amounts received from the EU account payments and grants from other levels of government. The strategic objectives of budgetary policy are: improving the

budget formulation, by shifting its focus on costs budget to implement the budget based on objectives, results and performance; reforming budgetary philosophy meaning supporting economic sectors with high added value and those based on knowledge; financing of priority public policies as a correct approach to the challenges Romania's European integration and globalization. These are: education, health, insurance, transport, environment, regional development, research, innovation, agriculture and defense.

3. CLASIFICATIA BUDGET - ESSENTIAL FOR BUDGETARY RESOURCES

An essential element in formulating the budget and policy issues of allocation of budgetary resources is the classification and presentation of budget expenditure, the more so as compared to the conventional public finance, while public expenditure strictly ensured the operation of the state bodies in scope neutral economic and social, in modern times the scope has expanded in parallel with the diversification of the powers conferred on the state and public spending have also become important lever to influence economic and social life. Classification is important for measuring expenditure allocation in publicly funded sectors, to ensure the possibility to check the agreement with legal permits, to review the policy and performance analysis and daily budget. An expenditure classification system provides a framework both for policy decisions as well as for accountability.

Budgeting steps in organizing a system often determines the classification of expenditure. In this regard, it should be noted that some budget authorization focuses on resource use and, consequently, the Classification inputs and administrative unit, policy formulation and the need for efficient allocation of resources behind a classification of expenditure by function and by program while focusing attention on operational performance is the basis for a tiberius programs or activities expenditure on output and aggregate fiscal control requires an appropriate economic classification.

The classification of expenditures can take different forms, based on different goals pursued: reports, budget management, budget presentation in parliament. Budget expenditures are generally classified according to different needs, the following categories: the function (Functional) - for historical analysis and policy analysis; the organization (administrative) - the responsibility and budget management; the resources (financial) - Budget management; economic categories - for statistical reporting and financial control of aggregates; the articles - for management agreements and domestic; on schedule - for policy formulation and performance accountability.

4. THE SOFTWARE CLASSIFICATION - THE FOUNDATION OF THE MODERN INSTRUMENT OF BUDGETARY POLICY

This form of classification has emerged as a necessity in terms of identifying a tool of modern financial management by which to manage budgetary resources, in terms of economic efficiency. This classification takes into account government policy objectives and the implementation of these policies, with reliance on a program that provides a set of activities to the same set of specific objectives.

A program has a clearly defined budget and can be distinguished from a policy, which is a set of activities that may vary over time and may have different direct beneficiaries. Policies are directed towards common general objectives and goals. A policy is generally not restricted in terms of budget and time schedule. This is often a mix of current or intended expenditure programs, tax incentives and regulations. In terms of expenditure classification, activity is a subdivision of a program in homogeneous categories. In fact, the hierarchy of "primary function" ("strategic area"), "program" and "activity" is comparable to that of the government structure (ministry, directions, divisions). In theory there is no systematic relationship between functional structure and program and organizational structure of government, but is important for liability reasons and for reasons of management to establish organizational structure of the program according to their responsibilities.

Classification of expenditure on software can be used to fulfill two purposes: identifying and clarifying the goals and policies; monitoring operational performance through performance indicators. A differentiation can contribute to increased transparency and greater accountability, it also is not an end in itself but a means to achieve government goals.

5. IMPACT ON ROMANIA OF THE INTRODUCTION OF ACCRUAL ACCOUNTING FOR PUBLIC INSTITUTIONS

Accrual (accrual Accounting) has become a standard in most public administrations in Europe, the European Commission as promoter of this method with the International Federation of Accountants (IFAC). The European Commission has undertaken to modernize and improve the EU accounting system in accordance with recent developments, focusing on transparency and accuracy. Thus, on December 17, 2002, the European Commission adopted a decision on upgrading its accounting system. Reform was the shift from cash accounting (cash) to Accrual (accrual) from January 1, 2005, that provides a clearer picture of assets and liabilities at any point in time.

Ministry of Finance of Romania has initiated action to introduce a system based on accrual accounting for public institutions since 2003. Accounting rules to be adopted will be based on European Directives no. 4 and no. 7 and the European System of Accounts (ESA 95). Adoption of accrual based on a set of policies and Generally Accepted Accounting Principles (GAAP) is a benefit. Thus, accounting rules were implemented in legislation in force and the steps needed to decide and implement a set of rules based on GAAP for public sector use. These rules reflect the requirements of accounting and disclosure in the European Union and the International Public Sector Accounting Standards (IPSAS), accumulated professional requirements of the law and reasoning of the Court of Auditors and of professional accountants in Romania.

Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Accrual-based system improves GAAP financial management reporting entities in the following aspects: phasing resources effectively controlled by the entity; performance assessment in particular for entities competing in similar markets; statement of financial position of government assets and

obligations (assets); ensure financial control by measuring past performance to provide a basis for future decisions.

One of the benefits of accrual accounting is to improve statistical information for internal decision makers and international bodies such as IMF and OECD. Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Achieving timing depends primarily on acceptance GAAP policies and their adoption laws to reflect the accounting law. Accrual-based system improves GAAP financial management reporting entities in the following aspects:

Another benefit is to provide a system of accountability, which can be used ultimately for Parliament to assess performance under the responsibility of government. Establish accounting procedures and relevant results for EU funding domestic investment improves efficiency and speed. The new accounting system and other potential users enjoy. Government has a significant share of all enterprises and adopt policies based on GAAP will improve the ability of these entities to seek private financing.

6. ACCOUNTING AND FINANCIAL PERFORMANCE IN THE LOCAL PUBLIC INSTITUTIONS

As "institutional" look different links of local government decisions to ensure their achievement incorporates some economic load, directly or collaterally, but indispensable. Economic decisions, even social, so requires, always assess the ability of firms, companies, corporations, individual institutions to generate cash (income, fundraising, financing, etc.). Or cash equivalent, including safety and generation period them. Ultimately it depends, for example, its ability to engage and work to pay suppliers, to pay employees to repay loans and to pay appropriate interest, to meet various other obligations. Users are able to assess this ability to generate cash or cash equivalent if they are given full information and focus on financial performance and position changes for each entity to which the person is receiving income, commits expenditure or generate requires resources.

One may say that these statements taken from the "framework of IAS" refers only to businesses, since they are meant to generate revenue fundamental and hence, economic benefits, but not so. A public institution, and in this case a local public institution, is more interesting and more attractive if he can base its budget, to argue the application for funds if ventured to seek and obtain funding on programs that give support scientific and legal sizing and own revenue collection of taxes, related activities, collateral resources, then, if he can properly manage costs between needs and resources - and all in a context which is not omitted efficiency and perspective.

This is not only dealing with "financial performance" the most dynamic sectors of accounting. So it was concluded that the ESA-95 "Accounting is a specialized activity in measuring and tracking (we say and" calculation ") information on financial position and cash flows" and in consensus, Accounting Law no. 82/1991 amended 2004-OG70/13.08.2004) has expressly provided for public institutions (the presidency of the country's "presidency" of the village).

Information about the performance of local public institutions are needed to assess potential changes in economic resources that the entity can control the future, to anticipate the ability to generate cash flows to existing resources, to formulate judgments about how effectively it can engage and use new resources. In practice financial performance information are provided primarily for "profit and loss", where traders and "budget execution account" for local public institutions, but things are not so simple way to reduce the aggregate data from some form of regular reporting on that would be a shame to ignore the information in real time providing the accounting account. Accounting information has advantages over other sources because they have high credibility in relation to other sources of information. Public accounting purpose is to secure the faithful picture of the situation of financial position, financial performance, but also on cash flow and income and expense budget execution. To achieve this goal it is necessary to continue improving the content and quality of information presented in the financial statements of public institutions, which largely took place in Romania in recent years, but the process is concluded.

7. CONCLUSION

Changes that have occurred in recent years in the public system have led to remarkable changes in public accounting. Thus, in its present form, public accounting is more able to provide clear information about the proper management of public funds, thus ensuring a more effective tool in making decisions regarding the most effective management of public funds. Reform measures that took place in public accounting in Romania within the context of international public accounting regulation. Ministry of Finance has set the 2003 deadline for harmonization with EU standards in the public sector (IPSAS). This should be treated as a first stage of implementing a comprehensive commitment accounting system based on Romanian GAAP.

The main objectives of public administration reform, which must be fulfilled in the coming period are: profound restructuring of central government and local change of the relations between administration and citizens, decentralization of public services and strengthening local administrative and financial autonomy, coherence of the administrative and improving management in government, the application of rational policy development and upgrading of urban and rural areas, strengthening of State authority and its responsibilities, harmonization of legislation with EU regulations.

We believe that great importance is the image of heritage that can provide stable local public institution and its ability to raise in order to achieve public interest objectives in the same way that a true heritage of accounts offered by a company managers can provide the information necessary for the proper management. Changes in public management in recent years have led to remarkable growth in public accounting. Public accounting is likely to provide better information on budget management, as well as correct and appropriate use of public funds, ensuring users can take the best economic decisions. In achieving this requirement is necessary to move from cash accounting, resource-oriented entry in a results-oriented approach and performance – accrual. Public sector reform objectives are: profound restructuring of

central government and local authorities, changing relationship between citizen and administration, decentralization of public services and strengthen local autonomy, administrative and financial, community services demilitarization, depoliticization of public administration structures, stopping the bureaucracy, improving management administration, application of rational policy development and upgrading of rural and urban localities, strengthen state authority and accountability, the harmonization of legislation with EU regulations.

The growing role of international public sector, public accounting and budget issues became increasingly important. In this context public accounting reform in Romania is an important step in European integration. We believe that performance is more important than money. Possession of money gives a performance expressed ability to capitalize on the possession, which is possible only through accounting steps to modernize local public institutions, through a double process of reform, a transfer from cash accounting to accrual accounting and uniform accounting treatment of information by the International Accounting Standards Public using (IPSAS).

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THOSE ISSUES AND MANAGEMENT ACCOUNTING PRINCIPLES IN THE ORGANIZATION ENTITIES MILK INDUSTRY

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ABSTRACT: *This paper aims to highlight the features of the entities in the dairy industry. At first, a brief description of the dairy industry in Romania, giving priority factors that contribute to the development of this market. As in any economic unit, organization of management accounting and cost calculation is particularly important activity managers are required to study all factors and exercise influence principles, their implications, and then, taking account of them to choose the most appropriate form of organization of management accounting and cost calculation. Were analyzed and described in the study, factors and principles that characterize the entities in the dairy industry and have an influence in the organization of management accounting, but also in determining costs.*

KEY WORDS: *factors; principles; cost; management accounting*

JEL CLASSIFICATION: *M41*

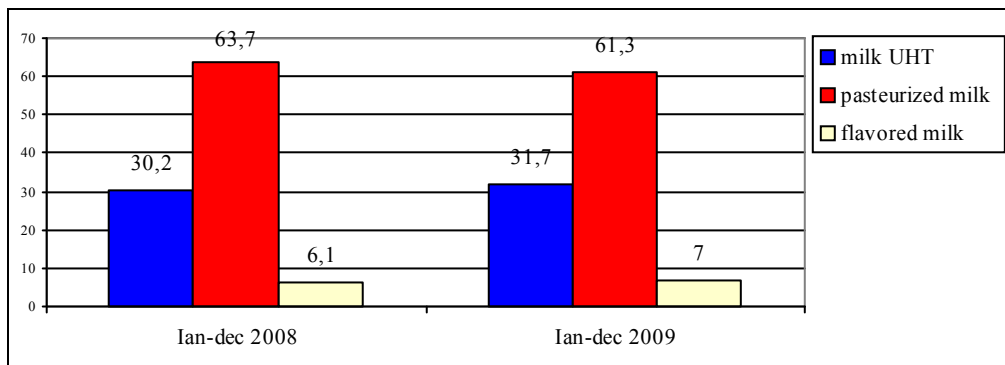
1. CHARACTERIZATION OF MILK INDUSTRY IN ROMANIA

Industry represents an important sector of economic activity, material production and the economy. It includes several branches and sub-branches. After the nature of production, the industry includes: manufacturing, mining, electricity, gas and water. The manufacturing part, milk industry, which converts raw materials into finished products (dairy products: milk, yoghurt, cream, cheese, etc.).

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In 2009, the dairy market reached 1.5 billion euro, according to data provided by the Dairy Industry Association of Romanian Employers (APRIL). The association promotes the exchange of technical and economic information between partners, supports collaboration between members on solving problems related to the collection of raw materials, production and marketing, promoting some negotiations with external partners for the purposes of mediation or collaboration and joint activities to achieve some import-export trade of goods, ensure the promotion of specific trade policy associations, advocates for combating unfair competition and to defend the specific interests of members and the industry in discussions with regulators. One of the important goals of the dairy industry employer novel is the elaboration of legislative proposals in the specific activity sector.

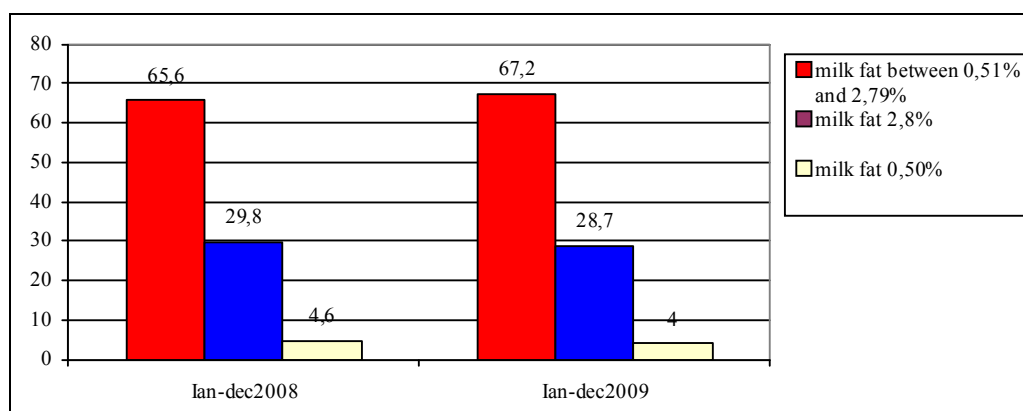
If drinking milk market last year was characterized by an evolution from every point of view, be it the quantity, value or offer, this year the economic situation will put its mark on the class busyness firms will be affected by factors such as unemployment rates, changes in consumer habits and exchange rate. According to data from research agency MEMRB (Cypriot company that provides information on retail sales for various categories of consumer products), pasteurized milk has claimed a 61.3% share of sales in value and 68.7% of sales volume. Secondary position is occupied by UHT milk sales by 35.2% from 29.1% of sales value and volume. In a ranking of gram, packaging sales supremacy has a litter at a rate of 96% of sales in value and 97% of the volume.



Source: www.APRIL.ro

Figure 1. Sales by type of milk in the years 2008 and 2009

The main factors contributing to the development priority is quality products, brand awareness and consumer education. Market development is primarily driven by product quality and attractive offer. Consumers are increasingly demanding and selective in their choices. Therefore, they prefer high quality products in convenient packaging and clear, at an affordable price. Attractive offer comes as a normal requirement of a modern society, are changing. Pasteurized milk, considered by consumers fresher because lower validity continues to be the most purchased Romanian. Act on the local market at around 260 active processors of various sizes. About 50 of them are part of APRIL. The economic crisis will leave its mark on those companies most affected will be small firms.



Source: *www.APRIL.ro*

Figure 2. After sales of milk fat in the years 2008 and 2009

In any economic unit, organization of management accounting and cost calculation to meet the information requirements of managers, require previous study of factors exercise influence and principles, their implications, as then, in light of these to choose the most appropriate form of organization of management accounting and cost calculation.

Study for the development work was performed at plant S.C. Lactag S.A., headquartered in Costesti, Str. Progresului, no.24, Arges, Romania, a privately owned company, the successor of the former icil arges, established in 1962, having as main activity the manufacture of dairy products and cheese. Costesti dairy factory was modernized and refurbished with sapard funds and was commissioned in 2005. In the modernization has been restored and replaced elements of construction, architecture, infrastructure, utilities and facilities. They acquired machinery and equipment production technology. In terms of the classification of milk processing companies in Romania, S.C. Lactag S.A., is the first category, having the number 1 126 authorization specifically for intra-community trade. This means that in addition to requirements for acquisition of machinery and equipment, construction and infrastructure, the company uses raw materials (raw milk) with a quality that meets european regulations in the field. S.C. Lactag S.A. is the first mid-sized company in the south that is approved for intra-community trade.

2. FACTORS OF THE ORGANIZATION OF MANAGEMENT ACCOUNTING ENTITIES MILK INDUSTRY

Management accounting, also called analytical accounting is an internal circuit, designed to highlight elements of costs and results are adjusted to provide confidential information managers at different organizational levels of the enterprise. Secrecy of information provided by the accounting system is a recognition decision-marking autonomy of enterprise in a competitive market economy. In other words, organization and leadership of management accounting economic units can not be imposed through binding rules developed

by national bodies with responsibilities in accounting. Therefore, companies have full autonomy in organization and management of records to provide information externally concealed character.

The role of management accounting and cost calculation is to study the analytic record assets, and how to determine the costs, revenues and analytical results become a handy tool for management unit grounding method for allocating resources and achieving income, aiming at achieving economic performance of product or service work. As management accounting is focused primarily on the study of management efficiency, cost and cost calculation study for the management process must start from the concept of management.

The organization of management accounting and costing jobs, regardless of the trader, undoubtedly depends on a number of factors. Most important factors influencing the organization of management accounting and cost calculation, the dairy industry are:

a) Size of enterprise is the general principle that determines the choice of organization and execution of the work of calculation. Thus, dairy units, which fall into the category of large enterprises, based on self-management, costing organized in accordance with the principle of centralization. This implies that all works are executed in the accounting department who works across the enterprise.

b) Structure of the dairy enterprise; If the administration and management apparatus which is the functional structure of the dairy units, the costs of pursuing its activity using functional calculation of the whole sector and not on each service and office part.

c) Functional structure is based on the number, composition and size of functional units and their internal organization, including functional connections that are established on line business management units in the dairy industry, this structure is ensured by the following services and offices (service Financial Accounting, Sales, compartment car, driver and compartment, material collection service and supply-production service).

d) Operational structure. The structure of production and design facilities in dairy production is considering splitting the body into sections and workshops of the company. The link between production of basic structural S.C. Lactag S.A. is the production department, which is a well established production unit administratively run in which either a product or a phase of technological process. In polling conducted commodity production is giving the company's production profile. The auxiliary stations produce products or services ancillary to the basic production helps to carry through commodities. Sections are equivalent to the flow of production and are set at the enterprise level as cost centres. Here are collected and distributed individual costs later on products made in that department. Structural link a company's production department, which is a well established production unit administratively run in which either a product, or a stage of technology.

Dependents ancillary on their role in manufacturing of products, sections include: basic auxiliary serving. The base stations are giving out commodity production profile of the company. In polling conducted ancillary products or services ancillary to the basic production helps to achieve smooth commodities. The annex

sections running works, services or activities necessary for basic and auxiliary departments (stores and warehouse company, domestic transport activities).

Factory in Costesti S.C. Lactag S.A. is divided into five basic sections (production) as follows (table 1).

Table 1. Department of S.C. Lactag S.A.

No.	Department	Products
1.	SPPR	products fresh
2.	SBPR	cheese
3.	STLM	cheese
4.	SUNT	untar
5	SLCS	milk consumption also derived

e) Type of production and organization of it is also a factor with profound implications for the organization of cost calculation. S.C. Lactag S.A. is a company with limited series production. Production is carried out at S.C. Lactag S.A. based on firm order, issued by the sales department. The products manufactured using this method because it can not be stored only for a short period of time.

f) production technology, seen as the successive operations are fully subject matter is raw milk in its passage through the various stages of processing (milk reception, filtering, weighing centrifugal milk normalization) to the finished product is, also a factor determining the organization of cost calculation. In terms of technology, production of a dairy business may fall, according to some features in complex production category. In terms of technology, production of industrial enterprise may fall, according to certain traits, either in single production category of complex production. Units fall within the dairy industry production simple.

S.C. Lactag S.A. production technology determines the priority at which the calculation of cost per product, this order is the same order they are produced and consumed productive intermediaries or material interposed between raw material and finished product. It should be noted that production technology makes the units of the dairy industry itself making equipment product cost calculations. Milk processing to achieve the classification of dairy production in the S.C. Lactag S.A. in modern. Technological lines are devoted to the types of products. Regarding the technical state of equipment flows, it can concluded that milk production is mechanized, making many operations automatically.

g) The degree of concentration, the profiling and specialization of business momentum caused by the industry also has implications for organization of cost calculation. S.C. Lactag S.A. is an economic unit specializing in the production of fresh milk, the degree of consolidation and organization of production is high. The production process is organized into production flows. Each sector has organized a cost centre for a group of similar products. These products bear the same process technology.

h) The degree of integration of the enterprise. One can appreciate that S.C. Lactag S.A. is an integrated enterprise, and the appropriate method of calculation adopted by the organization of production, implies the adoption of semi-variant.

Following the technological process of pasteurization to obtain preparations (different concentrations of milk fat, cream, integrated cheese). Share blanks, cream cheese and integrated to be the smallest. For company they represent a safety valve for surplus milk in certain periods of the years. For example summer weight of cream consumption is very low, so it is being turned into butter or sour cream in it with greater search summer compared with the cream. Cheese is also integrated summer kept maturing market opens up again and orders.

i) The degree of mechanization and automation of production is also a factor influencing the organization cost calculation dairy units to process complex mechanical or automated production. Automatic processes that take place in closed equipment advocates lowering the number of intermediate calculations required to determine the cost of the product. Milk processing technology to achieve milk production in the classification of S.C. Lactag S.A in modern. Machinery of the technological flows, are modern and milk production is mechanized, most operations being done automatically. Milk enters as raw material in each section and is then processed according to specific work industrialization flow technology products. S.C. Lactag S.A. production process is automated and mechanized, each section is organized as a production workflow technology product groups.

j) Whether the production process; S.C. Lactag S.A unit activity is permanent, but has specific characteristics, being influenced by milk production domestically. Spring material is more expensive, because milk production is lower in summer, production is much higher milk price is lower. In the unit S.C. Lactag S.A. actual unit cost is calculated at the end of each reporting period the full nomenclature of items that determine the structure calculation.

3. PRINCIPLES OF FINANCIAL ACCOUNTING ORGANIZATION IN UNITS OF THE DAIRY INDUSTRY

The two sides meet a company's accounts: global side and analytical side. These sides are of the same economic reality, the business. Therefore there must be a total convergence between the principles of management accounting and financial accounting. That is why it is necessary that the fundamental principles of assessment and calculation of costs and outcomes should be the same.

Calculation of costs is based on certain principles that provide real content and just the cost of production. Thus, as the exact calculation of the cost production must be made based on theoretical and methodological principles (Călin, et al., 2008): object and unit of calculation, the choice of costing method, demarcation of the remaining production costs relating to expenses that are incurred in operating activities, demarcation of the production costs on production of finished running, the delimitation of productive spending unproductive expenditure, while the demarcation of production expenses, demarcation production costs in space or spaces for expenses.

Within S.C. Lactag S.A., management accounting and calculation of costs is organized from a series of theoretical principles, so that they can provide the function of knowledge and resource management. The principle object calculation is imperative for the organization calculation cost because knowledge of the subject calculation

helps us to identify a product volume necessary expenses, work, work for which calculates the cost. The units of the dairy industry, the subject of calculation are the product. Calculate the cost of product which can be expressed by homogeneous units, which are called unit calculation. (Ex: yogurt, which can be of two types: light and classical, the cost is calculated on the box, depending on the gram, for cheese, the cost is calculated per kg for butter or package cost is calculated per kg, etc. Each product has a code section that is linked to produce and help collect the direct costs (eg 9PP0001 - Fresh Products).

Another principle that has particular implications in determining the content and accuracy of the indicators that constitute the method of calculation is the choice calculation method. According to the principle of distinction on types of activities of economic and financial indicators covered the cost calculation, data and accounting information must be defined and localized activity.

The units of the dairy industry data and information collected are limited and activities. Thus the production cost includes costs of manufacturing production itself, not including finance charges on this account, extraordinary expenses, those expenses not related to operating activities. This has presented great importance to calculate accurately the economic and financial indicators, the expenditure and income of the business results but also for monitoring and assessing the effectiveness of each activity.

Another principle with important implications on the assessment of activity of each period is the demarcation in time management of data and information on calculating the costs. In the S.C. Lactag S.A., according to this principle should be included in cost of products obtained in only a certain amount of management expenses relating to that period, regardless of when incurred.

The principle of boundary in space or places (centres) of expenditure data and information underlying the calculation of cost data on major causes delimitation appropriate processes of sectors of activity. This involves mapping and registration breakdown for each sector expenditure and income to determine the effectiveness of their activities, but also a control. Production sections of the unit are dedicated S.C. Lactag S.A technological lines for certain types of products. Achieving this requires substantiation rule calculation based on documentary evidence, both in terms of expected cost and the actual. Analyzing these documents is founds consumption of materials and value underlying production costs. Applying these principles, S.C. Lactag S.A uses cost calculation as a tool for forecasting and tracking of expenditure, so it becomes an effective tool for planning and tracking of expenditure component cost of dairy production units, the influence of time, reducing, the actions that is able to suggest.

4. CONCLUSIONS

The study conducted found that in any economic unit, organization of management accounting requires previous study of all factors and principles which have influence on business entities in the dairy industry, and later to take them into account and to choose the most appropriate form of organization of management accounting. Although prices for S.C. Lactag S.A. have a below average level,

correlated with the purchasing power of target market and comparable to the price level of competition and economic unit has an advantageous position compared with the relatively low prices due to competition, management accounting is necessary to organize the society taking into account the characteristics entities in the dairy industry.

Today, modern society that we go always requires companies to operate in a changing environment more complex. This causes businesses to improve their ability to respond to external factors. Given these circumstances, managers are involved early and called to assume responsibility for flexible pathways, but optimally calculated. The main guidance system, used successfully by managers, it is management accounting. Organization of management accounting is done differently from one enterprise to another, depending on the specifics of each activity.

In addition to the factors listed above, there are others, more or less objective and subjective, which make the organization of cost calculation. Knowledge and taking them into account must be aimed at creating conditions for the determination of unit costs as operative dairy establishments. Considering, in addition to the factors that influence the organization of management accounting and cost calculation and a set of principles that are found in the dairy units, costing will be used as a tool for forecasting and tracking expenditures.

In conclusion, the freedom to set prices is limited by these factors, the consumer is in a position to assess whether the product price is right by reporting the use value of the product. Therefore, the perception by the buyer price is particularly important for professionals in marketing, setting prices according to the strategy adopted within the firm. Thus, costing becomes an effective tool for planning and expenditure tracking that makes up the cost of dairy production units, the influence of time and reduces, the actions that are able to suggest.

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Index of Authors

B

Bachev, H. (5)
Bilianaciurea, J. (29)
Breuer, A. (29)
Brutu, M. (37)
Burja, C. (43)
Burja, V. (43)

C

Chirila, C. (103)
Chirtoc, I.E. (51)
Ciocodeică, V. (59)
Ciumag, A. (69)
Ciumag, M. (69)
Ciurea, C. (75)
Coman (Andrei-Coman), N. (363)
Corboș, R.A. (267)
Crășneac, A. (183)

D

Dima, I.C. (75)
Dumbravă, G. (83)

E

Edelhauser, E. (137)

G

Gabroveanu, E. (307)
Ganciov (Miculescu), A. (91)
Gangone, A. (103)
Gherman, C. (169)
Giurca Vasilescu, L. (111)

I

Ionică, A. (137)
Ishwara, P. (119)

J

Jurchescu, M.D. (129)

L

Lesconi-Frumușanu, N.M. (29, 129)
Lupu Dima, L. (137)

M

Mălăescu, S. (149)
Man, M. (161)
Marcu, M. (169)
Marin, R.M. (161)
Mazilu, M. (177)
Megan, O. (183)
Monea, A. (319)

N

Nistorescu, T. (193)
Njanike, K. (205, 217)

O

Obigbemi, I. (229)

P

Pârvulescu, I. (249)
Pleșa, R. (249, 257)
Ploscaru, C. (193)
Popa, A. (111)
Popescu, R.I. (267)
Pribac, L.I. (91, 279)
Prodanciuc, R. (59)
Puiu, S. (289)
Pup, A. (299)

R

Radneantu, N. (307)
Răvaș, B. (319)
Ridzi, R. (249)

S

Sandu, M. (75)
Secară, M. (327)
Shome, S. (335)
Stan, R. (307)

T

Tondon, S. (335)
Turkes (Vint), M.C. (349)

U

Uța, T. (363, 371)

V

Vasilescu (Gheorghîța), A. (371)
Voicu, I. (75)

Z

Zaharia (Crivac), G.M. (371)

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