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THE SOCIO-ECONOMIC EFFECTS OF ROMANIAN PARENTS' EMIGRATION ON THEIR CHILDREN'S DESTINY

FELICIA ANDRIONI *

ABSTRACT: *“Mother has been gone for six months to work abroad for me, so that I can have a better future. I miss her every day. Sometimes I tell myself it's just a dream and when I wake up mother will be by my side. Dream or reality? Reality or dream? (A sixteen – years old adolescent). The paper shows that are general factors of emigration after post revolutionary period in Romania and also present few aspects of the migration phenomenon from this country and after that it is presenting the social and economic effects of Romanian parents emigration on their children`s destiny.*

KEY WORDS: *migration phenomenon; socio-economic effects; emigration; children left at home; parents go abroad.*

JEL CLASSIFICATION: *Z10.*

1. GENERAL FACTORS OF EMIGRATION AFTER THE POST REVOLUTIONARY PERIOD IN ROMANIA

The post-revolutionary period in Romania had important consequences on the labour market's structure. Giving up government control in the industrial field in the 90's led to massive restructuring in governmental sectors like mining or metallurgy that allowed families secure living conditions and work places before the above-mentioned period. The world market had a great influence upon States, either by determining an economic growth and implicitly a consumption growth, or by creating an international specialisation and changing the structure of national economies (Popp, 2011, p. 338).

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The decrease in work places, massive personnel discarding in the industrial fields and the lack of any viable alternative jobs led to Romanian people that were able to work getting hired abroad.

This was the trigger factor of a phenomenon that grew considerably: the emigration of Romania's labour force to other European countries that held hiring opportunities, especially the migration of parents looking for a well-paid job in order to support their families in Romania.

From a social assistant's perspective, one of the most important causes that led to emigration in Romania, as a follow up of the national economic and industrial restructuring, is of a social nature, based on the problem of poor families, both in the urban and the rural areas, the lack of working places for the adult population, insufficient material resources, along with high monthly current expenses (as a result of prices' alignment to the European level, compared to the wage level that is still very low), and families with many children and no income.

As a result of these factors, both political, economical and social, an adult population emigration phenomenon began, with the purpose of finding a work place abroad that would satisfy the needs of the children and other family members at home.

1.1. A short description of the migration phenomenon in Romania

As Romania lines up to the general European norms and politics, the total percentage of labour force availability in Romania (57.9%) is quite low compared to the European average (62.5% in 2003), and to the desired percentage in the EU for 2013 (70%), and this is the main factor that leads to work force emigration from Romania to other European countries (www.infoeuropa.ro).

The unemployment rate can increase because the labour mobility is more powerful, and as the duration of unemployment is not changed in the sense of the increase, it is a sign of a higher efficiency of the labour market because it intervenes to replace during the same period a higher flow of workers (Popp, 2010, p.121).

There aren't enough feasible statistic data regarding the components of emigration at this moment. Romanians' predilection to emigrate is very high in the context of possible more permissive emigration policies in the western, developed countries of the E.U. High parameter economic growth in the developed European countries has led to a more important growth of Romanian labour force in these countries. Thus we are facing the complex issue of temporary emigration in seek of working places: the problem regarding parents that go abroad to find work and that temporarily abandon their children in Romania. "We don't have trustworthy statistics regarding the number of Romanians working abroad.

The fact that after 2001 – once the entry visas in most European countries were discarded – hundreds of thousands of Romanians left for the countries in Southern and Western Europe in order to escape poverty is well known. It is estimated that the number of emigrants rises up to about 2 million people, from all the regions of the country, which enhances us to speak about the existence of a national phenomenon, given its dimensions, implications, and emigration origin geography" (<http://www.muncainstrainatate.anofm.ro>).

The National Child Rights Protection Authority, the institution responsible by law for monitoring the children left at home as a result of the parents' emigration, made public statistics according to which on the 30th of June 2007, the total number of children in that situation raised up to 82464 (under 18), coming from 56202 families (<http://www.copii.ro>).

1.2. The general situation board concerning children left at home due to parents' emigration

The emigration phenomenon took by surprise the Romanian society that was not prepared to take the shock of such great changes that had never previously occurred, without risk (Miftode, 2006, p.3). The main sources of change, and thus the factors justifying its necessity, are: evolution in the field of technologies; explosion of knowledge; rapid outdateding of products, labour conditions; changes regarding the nature of the labour force (Popp, 2011, p.72). So the emigration phenomenon had a direct effect on the next component: The emotional and educational development of children that were left behind as a result of one or both parents' departure abroad, with general school performance decreasing and emotional dysfunctional events; The nature of the human relations between the members of the natural or extended family to persons left abroad to work (husbands\wives, parents, other relatives), with conflictual issues occurring due to low quality communication between partners, especially when one member of the couple is gone working abroad; The communities and the society in general, with certain areas of Romania where the difference between the financial situation of families gone abroad and the families that didn't leave the country is becoming more and more obvious; The modification of the values system of the entire population, with the general belief that decent living conditions are impossible to achieve in the country, and the children continuing the society model, hoping to emigrate, in their turn.

The individual situation of each child that has emigrant parents are very diverse and are hard to place in different categories. Generally,- according to the children's' and the extended family members' testimonies – one or both parents leave the country in order to find a better paid working place, with the purpose of offering decent financial situations to their children and other family members. According to the time length during which parents are absent, the family receives financial resources and material goods that they could not have accumulated in their own country. The decision to temporarily “abandon” the children is taken by the emigrant parents together with the extended family members that generally take responsibility for the children left behind. So in very many situations of this kind, children with emigrant parents are entrusted to relatives up to the fourth degree: aunts, uncles, grandparents. Legally, according to Order 219\2006 and Law 272\2006, emigrant parents must make a statement as to who is going to be responsible for the children while they are gone to the local authorities. Children generally adapt to their parents' departure, with emotional issues especially during the periods following the parents' departure, and they get used to the parents' being away after some time, but show behaviour caused by the negative effects of the parents' departure abroad.

Some important factors generated by the parents' emigration that children left behind deal with are:

- ✘ One or both parents leaving abroad - in most cases, men\ fathers left first, then wives\ mothers followed, (Soros Romania Foundation, 2007, p.15);
- ✘ The time length the children are left without one or both parents - generally the period parents are missing is quite large, over six months¹;
- ✘ The time frame that parents use to go back abroad (in most cases parents return during time periods, especially during holidays, and then emigrate again²).

Another recent study in Romania regarding the children separated from one or both parents as these are gone to work abroad, proves that "in the case of children left behind, parents' being away for long periods of time can have negative effects on the children's development. The parents' absence can be associated with a series of issues or with not satisfying certain needs the children have." (Luca et al., 2007, p.9)

2. THE REPERCUSSIONS OF THE PARENTS' EMIGRATION ON THE CHILDREN LEFT BEHIND

Undoubtedly, the ones most affected by the parents' departure abroad are the children. The parents' emigration shows both positive and negative implications regarding the children. The positive facts – as identified by the Soros Romania Foundation in their study "The effects of migration on the children left behind" – regard the well being of the child whose parents are gone abroad, resulting in the increase of the child's life quality as a result of the income sent from abroad. Children left behind are emotionally neglected by the parents that are abroad as they are deprived of parental care and attention that are irreplaceable for any child growing up.

The main risks (Luca, et al., 2007, pp. 52-53) that children left alone face are: dealing with too many tasks – early adult responsibilities, taking care of smaller brothers; A deficitary apprehension of ethic and moral norms – the risk of copying the model of affective neglect in the family and applying when they become adults; Social risk factors vulnerability; Dysfunctional inter-relations with other persons; Affective immaturity; Attention disorders; Indifferent, stubborn, or aggressive behaviour; Delinquent behaviour – they become part of delinquent groups as a way to fulfil their unsatisfied needs of attention and appreciation; Feelings of abandonment, uncertainty, sadness, anxiety, depressive moods as they miss their parents; The decrease of their school performance, the risk of school abandon, low attendance; Social adaptation difficulties; Over self assessment – regarding other children with a more precarious material situation –or under self assessment – regarding children that receive parental care.

¹ Relating of childrens from Valea Jiului has remained home and has parents that go abroad

² Relating of families from Valea Jiului had remained home

2.1. The causes of the parents' emigration and the perception of the children left behind regarding these causes

The main causes that lead to emigration, as identified by specialists (Miftode, 2006, p. 3), are structured by the following motivations:

- The lack of social and professional perspective in the country;
- Economical and material dissatisfaction (low salaries, insufficient income);
- The lack of alternatives or professional opportunities in the country;
- The uncertainty of the social and economic future;
- Birocracy, "the barriers" in the way to self-affirmation and achievement of individual and family objectives;
- Social insecurity (the street, the family, the household, the job);
- Trans-national interaction with successful emigrants;
- European appealing financial and material perspectives;
- The perspective of European social better valuing regarding the professional career;
- The chance for a more civilized, more certain and free life.

But what do parents say about the reasons that drove them to the decision to leave abroad in search of a work place that would give their children a better future? And how do the children left behind see their parents' departure for a better payed job?

2.2. Case studies

Here are some direct testimonies from parents left abroad regarding the motivation for temporary abandon of their children and also how children see these situations:

Case Gheorghe, 30 years-old, unqualified worker, married, one child:

"My family became complete in 2000 when my son was born. For a few years I worked as a mining worker in a mine in the Jiu Valley, then I quit thinking I'd find a better job. But that didn't happen. All I found was temporary ill-paid jobs in the area.

Until one day a friend from the mine asked me if I wanted to work abroad for a much better salary than the one in Romania. I accepted. I did it for my family and my son.

I'm young and I want to live better. That's how I ended up working in constructions. As an unqualified worker. Construction work is hard. It's easier and more convenient to work at the dinner restaurant or at the farm, but that requires some abilities in that field.

How do I feel about having left my children home? Grief and resignation. That's it! I have to support my family. My son has to go to school and learn more than I did and have a better life, but it's hard for me and my wife that waits for me at home.

I want to buy a house and a car. I already began saving money for this."

Case –Luminita, 16 years old, divorced parents, mother left to Spain

*“I miss my mother but she’s gone to work for me”
 “My grandmother takes care of me since my mother left to Spain three years ago...And I’m not sad anymore, I’m used to it.
 My grandmother is old and has some difficulties understanding me.
 School doesn’t go to well, but I’m not worried. I have time to study.
 My mother sends us money and presents so that we can live better. I miss my mother but she’s gone to work for me”*

Case Ionuț -12 years old, divorced parents, mother gone to Spain

*“I want mother back home”
 “I have my sister and my grandmother by my side.
 We have what we need because mother sends us money every month. But I want mother back home, near us, like it used to be before.
 It’s very hard for grandmother and she’s ill.
 I like studying, not like my sister, Luminita. I’m a good pupil but I miss my mother very much. She promised me she’d be home in the winter holidays.”*

3. THE SOCIAL ASSISTANT’S APPROACH FROM A MULTIAXIAL PERSPECTIVE TO THE PROBLEM OF CHILDREN LACKING PARENTAL CARE DUE TO PARENTS LEFT ABROAD TO WORK

Taking into consideration the situation in Romania, the social policies in the field approach the problem of children left behind as a result of parents’ emigration from a multi-axial perspective. Thus, the law perspective in Romania foresees and stipulates the means of approaching and dealing with cases of children whose parents are gone working abroad through the following normative laws:

- Order 219\15.06.2006 issued by the National Authority for Child Rights Protection (the law stipulates the activities of identifying, intervention, and monitoring of children lacking parental care);
- Law no. 272\2004 regarding the protection and promotion of child rights;
- Order 286\2006 issued by The National Authority of Child Protection;
- Law no. 156\2000 regarding the protection of Romanian citizens that works abroad.

In the present context of limited spending resources for social assistance, agencies need innovative strategies to harness information for the benefit and in the best interest of the individuals and communities that they serve (Iovu, Runcan, 2012, p.66).

From the *territorial competence perspective* (Luca, et al., 2007, pp.82-83), the approach to cases regarding children temporarily lacking the care of parents left abroad is to be taken care of by the Social Assistance Public Services, responsible with the children's family home or for the area in which the children's family is situated, at city\town\village level (272 Law/2004), and from a *institutional competence perspective* (Luca, et al., 2007, pp.83-84), the following governmental institutions are responsible with such cases: the SPLAS³, the DGASPC⁴ and Courts of Law.

Thus, Local Social Assistance Public Services have certain main tasks: identifying children in such situations, an initial assessment of children in such situations in order to plan suitable services that come to meet the needs of such children, implementing the plan for services based mainly on support services for the family where the child is and on counselling services for the child as well, the involvement of the Social Assistance General Department regarding the cases with the purpose to take special protection measures for these children, re-evaluating and monitoring the children's situations periodically\ trimestrially, providing physical and law protection for children in such situations.

Another Romanian institution responsible with these issues is the General Social and Child Rights Protection Department that functions at county level and mainly takes over cases from the SPLAS, proposing child protection measures to the committee according to each case, elaborates and implements an individual protection plan, re-evaluates the situation of the child.

In certain situation, the courts of Law are obliged to establish proper protection measures deciding as to who is to take over parental obligations or setting the monthly quantum regarding parents' contribution to children support. From the perspective of the parents' responsibility they are obliged by law to notify the SPLAS of their intention to go abroad and regarding the person or persons that are going to take care of the children left behind during their absence.

4. CONCLUSIONS

The situations I have presented, whether unusual, dramatic or touching, are only a small part of the general picture that specialists name "the working force immigration phenomenon". This generated a complementary phenomenon: that of a generation that is-even for a short while-deprived of life in a normal family.

The main negative consequences of working force migration are mainly cast upon the family. Being away from the family especially affects the children emotional needs. The external migration phenomenon become larger after the enlargement of the European Union, when labour force in less developed states.

It is certain that parents absence during long periods of time generates negative effects on the children left behind and constitutes a challenge for the professionals in the social assistance field that are involved into repairing things.

³ Social Assistance Public Local Services

⁴ General Social Worker and Child Protection Direction

The problem of children left behind as a result of the parents' departure in search of a job is complex and this article does not exhaust the multidimensional faces of these.

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A TROPICAL COUNTRY WHICH IS COOL TO ICE CREAMS!

C. ANIRVINNA *

ABSTRACT: *One market which is expected to make a brisk business in the summer is none other than ice-cream. For consumers too there is nothing better than craving for an ice cream particularly during unbearable hot summer period of April-June. But astonishingly given the climate in India, the per capita consumption in India 250 ml has been much lower compared to the countries compared to 23 lt in the US, 18 lt in Australia, 14 lt in Sweden and 800 ml even in neighbouring Pakistan, Sri Lanka shows immense potential for expansion. The US has been the leading producer of ice-cream in the world albeit Europe introduced the product into the country. The ice-cream cone was invented as early as 1904 shows the hallmark of a product innovation in the US.*

KEY WORDS: *Growth; organised and unorganised sectors; market segmentation; cost and profit margins and product variation.*

JEL CLASSIFICATION: *O40; Q 11; Q13*

1. A REVIEW OF LITERATURE

P.R.S. Moorthy, and R. Balachandran (1992) worked on Ice-cream Industry and its future scope in India in 1993 took stock of the production and scope for expanding the supply. The various strategies that will help to increase the market potential in view of the growing competition from other players. The study also focuses on certain non conventional stabilizers and their effect on ice-cream mix. Chand Subhash, Dixit, P. K., and Singh, R. V. (1999) bought out a case study in 1999 on Marketing Management of Ice-cream in Bangalore. The case study focuses on the marketing and advertising strategies for sales promotion of ice-cream. The pricing strategies and a distinct packaging and flavours which dairy industries can adopt during the marketing of Ice-cream.

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Vinay Kamath, (2002) traced out the reasons for profitability of HLL and now known as Hindustan Liver Ltd. The strategy of promoting Kquality Walls as an umbrella brand for its ice creams, rather than a product-driven promotion, has worked to a nicety to the company. Sindhu J. Bhattacharya, (2004) explored the reasons for MNCs to penetrate into the ice cream market in India. The study has come up with ways and means of achieving the success despite the hurdles. Robert Marshall, T. Douglas Goff, Richard W. Hartel (2003) worked on Ice-cream industry in 2003 US market which has been well developed after the initial introduction of the product by Europe. The study has traced the history, composition and properties, features of ice-cream industry which has been well developed market. The study also analyses the production and consumption pattern of ice-cream in the country. Davis, C.G., Blayney, D.P., Yen, S.T., & Cooper, J. (2009) study deals with an analysis of at-home demand for ice cream in the United States was to determine the effect that changes in retail prices and consumer income have on at-home ice cream consumption. The analysis was based on Nielsen 2005 home scan retail data and used marital status, age, race, education, female employment status, and location in the estimations of aggregate demand elasticities. Chitra Unnithan, (2010) emphasized the need for a sustainable innovation in tune with changing time and trends. The commercial success of business depends upon the value creating- ways. The successful innovation in turn hinges on state-of-art ice cream plants employed by the firms.

Thus, there are very few studies on the Ice-cream Market in India that really analyses the trends in the market and challenges faced by the players in the highly competitive environment. The study has taken up with the following objectives in mind.

2. THE OBJECTIVES

1. To analyze the reasons for the stagnant growth rate in Ice-cream market
2. To take stock of organized and unorganized markets
3. To comment on the market segmentation of the market
4. To understand the cost and profit margins and challenges faced in the business
5. To find out the extent of product variation among the players

3. THE METHODOLOGY

The above objectives are achieved by using secondary data collected from the various published sources of the company data base. The collected data is tabulated and analyzed to arrive at meaningful and logical conclusions.

4. THE LIMITATIONS

The study confines to only Ice-cream market and other part of the market is not part of the study

5. TORPID GROWTH RATE

Since 1996, the share of ice-creams in the process food has remained stagnant as it can be seen in both in chart and table 1 even soft drinks share has grown exponentially. This shows untapped potentiality of the market after attaining a large scale industry status. Even though the growth rate of ice-cream market did pick up early part of 2000's still it offers a huge leverage for the players in the market. The other interesting feature of this market almost the complete domination of domestic players such as Amul, Kwality Walls, Mother Dairy, Vadilal and several regional ones such as Dinshaw in the West and Arun in the South over MNC's. The over pricing of the product by Swiss brand Movenpick had not been able to make any dent in India.

The product is now being distributed through third party arrangement still brand suffers low visibility. Though Nestle SA had bought it but Indian operations do not handle Movenpick. So is the case with other MNC's such as Baskin Robbins, Haagen-Dazs and Blue Bunny.

All this point to economies of scale enjoyed Indian brands over the transnational companies. The French major Candia which owns Cream Bell Brand was wise enough to follow competitive pricing when it entered in India through joint venture. It took some time to reap the economies of scale and recently expanded different parts of India by acquiring national status. Needless to say in fairly quick time it has become 3 top brands across India and giving tough competition for the local brands.

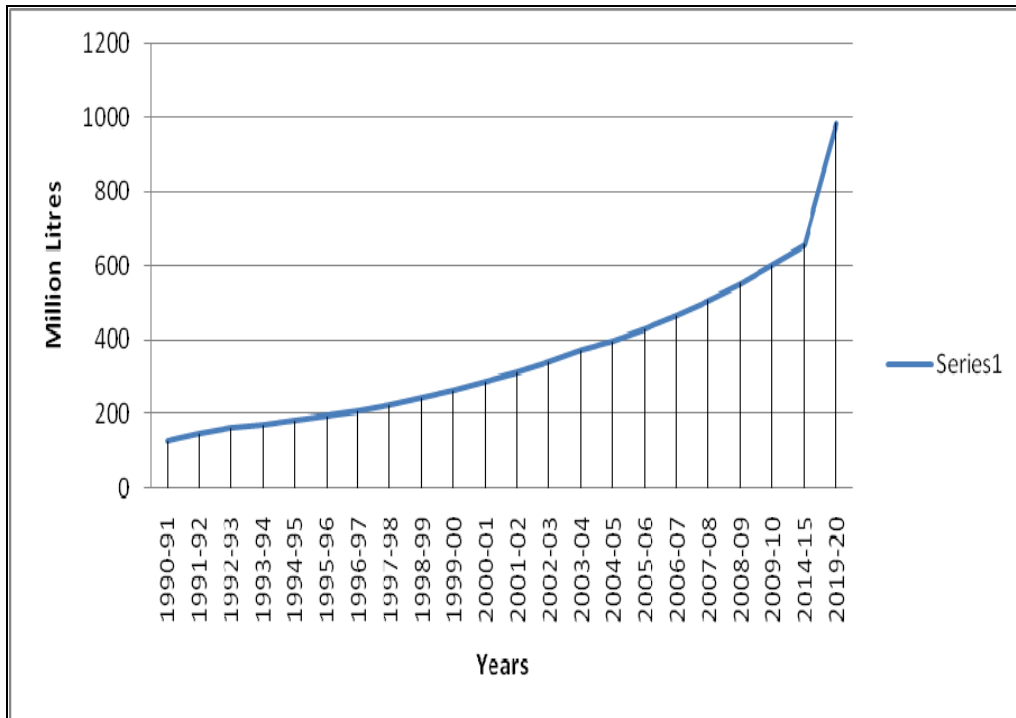
The ice-creams are very tasty only drawback it has to overcome the range of fantasia ice-creams sold in a big family pack instead of smaller cups. But the Cream Bell is known for strong R &D and Quality control. The innovation that is happening in developing new products, packaging and communication show the growing commitment to reach the final consumer.

Table1. Trends in Market Growth Rates of Ice-creams and Soft Drinks

Period	Ice-Creams	Soft Drinks
1990-91-1996-97	4.2%	9.4%
1996-97-2001-02	6.9%	7.8%
2001-02-2006-07	8.8%	5.2%
2006-07-2011-12	8.3%	5.1%
2011-12-2019-20	8.7%	4.5%

Source: Intecos-CIER

The overall ice cream market is estimated at over 250 mn litre valued at around Rs 17 bn. Nearly a fourth of the market by volume at 50 mn litres is in the organized sector with players like Amul, Hindustan Unilever Ltd. (HUL), Mother Dairy, Vadilal having a major share. In value terms, the organised sector has an overall market of over Rs 10 bn.



Source: Intecos – CIER

Figure 1. Trends in Ice-cream Demand: 1990-2019

6. ORGANISED VS. UNORGANISED

In rural areas, kulfi/ice creams made by small/cottage producers are popular. In small towns and villages, there are thousands of small players who produce low quality ice-creams/kulfis in their home backyard and cater to the local market. The organised market in India has been by hit competitive pricing from the unorganized and lack of cold chain facilities. Despite these challenges, it can take enough motivation from poor consumption and growing need for institutional sales channel. Dates with Honey or Pinorgane fantasy are the latest innovations that are being offered by leading ice-cream makers of Amul and Vadilal to beat the competition heat from the organized players.

The branded ice cream market is worth 800 crore which is growing 15 percent annually. Havmor is also adding up to the competition by launching designer ice-creams exclusively for weddings. Vadilala is concentrating more candies and fancy shaped products of late. The company in fact has purchased three candy lines for this purpose. The axiom ‘Variety is the Spice of Life’ applies to this industry very much as firms desperately banking on novelties to break out of the clutter in a crowded market place. Amul is also keen to provide customized flavours to the consumers by adding 1000 scooping parlours through Gujurat Cooperative Mik Marketing Federation limited. Amul has already been a market leader in two- liter take-away home pack.

6.1. Market Segmentation

The market for organised sector is restricted to large metropolitan cities and large towns. Almost 40% of the ice creams sold in the country are consumed in the western region with Mumbai being the main market, followed by 30% in the north and 15% in the south. The western and northern regions knock of the major share of the market. It can also be seen the extent of competition divided between the branded and non-branded varieties in the market. The non branded ones continue to have sway over the branded

Table 2. Market Segmentation of Ice-cream Market

Segment	Share (%)
North	30
East	10
West	45
South	15
Metopolitian Cities (6)	65
Non Metro Cities	35
Branded	48
Unbranded	52

Source: Intecos – CIER

6.2. Product Flavours

It can be seen from Table-III that Vanilla and chocolate are the most preferred flavours among the customers in India, followed by strawberry. The trend has changed from plain flavours of Vanilla and strawberry to chocolate. The majority of players play around three major flavours of vanilla, strawberry and chocolate as it accounted for 60% of the total consumption. But for Amul bulk of the sales come from Vanilla flavour has even helped to retain the top slot in the market. The new trend is emerging in the form of designer ice-cream such as chilly ice cream or paan ice cream among others. These are usually served at weddings. These not only taste differently, but also generate impressive aesthetic appeal. Among other flavours Italian Gelato from fresh fruit and other ingredients such as pure chocolate, coco dried fruit and nuts, cookies or sweets are increasingly being served at the wedding.

Demand for these exotic ice cream flavours is reportedly rising at 15 to 20%. These are known to be selling at Rs 450 a kg and above.

The established big brands are not known to go in for these exotic presentations. Vadilal is, perhaps, the only established name which has introduced a range of 'artisan ice creams. It has three layered 'Tartufo', an Italian ice cream dessert made of gelato; a range of fruit-shaped and sweets shaped ice creams, decorated with 'varakh' and nuts.

Havmor in Gujarat offers a special menu during the wedding season. It has a special range of ice creams, such as Kulfis along with sweet-shaped ice creams, besides its four-flavoured Vibgyor Kulfi. It also offers Mango Barfi ice-cream which

looks like a barfi with 'varakh' or silver-foil on it, dry fruit Katri ice-cream, ice creams with a base of malai and nuts and kesar bhog with golden foil on it. Such ice creams cost anywhere between Rs 20 to Rs 30 per helping according to flavour.

Table 3. Product Variation

Type	Share (%)
Vanilla	30
Chocolate	10
About 200 other flavours	45

6.3. Lead Players

Amul has become the lead player with 40% an impressive market share in the total market. Media Magazine published from Hong Kong and Singapore has ranked Amul as the number one Indian brand in its list of top 1000 brands of Asia –Pacific for the second consecutive year. The strength of Amul lies in 70,000 outlets spread across the nation. The company has many more aces up its sleeve: A new range under the Swirl sub-brand, two new flavours under 'Sundae Surprise' in 750 ml take away packs and jumbo cups (130ml) in five different flavours.

On its part, Havmor plans to add low-fat ice creams to its 'health portfolio' led by sugar-free products. The company is planning to start 50 franchised ice cream parlours and fast food joints in Gujarat, Maharashtra and Rajasthan along with two new restaurants. It has been planning to set up another state-of-art ice cream plants at GIDC, Naroda to meet the demand.

Uniliver's Kwality is not far behind with 33% percent share. Sapien Nitro and Unilver have created world's first simile activated ice-cream vending machine. This machine comes with facial recognition software that detects gender, age mood and even how much a person is smiling will be detected through a simile-O-Meter based upon that it dispense a free ice-cream Almost three fourth of market share has been grabbed by Amul and Uniliver. Mother Dairy and Vadilala share about 14 % and 8% respectively, and the rest include mini players such as Universal Dairy and Hatsun Agro.

Each player has its own marketing strategy in the market. Mother Dairy, the biggest supplier of milk in Delhi and the national capital region, is focusing on attractive packaging as it wants to focus on youth. It plans to strengthen the Impulse and Take Home Category and widen the offerings under the Chillz brand. The company may also increase its mobile parlours to reach out to more customers. Mother Dairy's strategy is target children with its brands Lic Lollies and Chillz range. Kwality Walls was slated to launch its brand Moo, while Mother Dairy was launching two flavours -_O'Blast, an orange-based Ice-cream dessert and Toffee Twist, which tastes like toffee.

Hindustan Unilver Ltd. (HUL) is beefing up vending operations for its ice cream brand Kwality Walls to perk up sales. The company has set a sales growth target of 30% through trikes and carts, much higher than the past two years' growth of 16% and 22% respectively. Vending accounts for nearly 75% of sales for Kwality Walls.

Kwality Walls had a good 2005-06 with 11% topline growth and a positive bottomline for the first time. According to IRS 2005 figures, Kwality Walls is among the more popular brands in several consumer segments, second only to Mother Dairy but ahead of Amul. Kwality Walls is targeting three consumer segments through specific sub-brands: Cornetto for youth, Paddlepop for children aged 8-12, and Selection for home consumption.

Though Vadilal priority on exotic flavours but , the focus this season will be on manufacturing hygienic products through automation. The company has invested Rs 50 crore for expansion recently. It will have more than 100 more Happinezz parlours this year,” .The Company is expecting 30 per cent sales growth over the last year. The health orientation will be a key issue as there is more focus on low calorie, cholesterol and sugar-free ice creams – a segment where Amul with its pro-biotic ice creams launched last year led the way.

Vadilal was setting up a new ice cream manufacturing plant in Kolkata to extend its coverage to the eastern market. Its Bareilly plant has so far been taking care of both the northern and the eastern markets. Vadilal enjoys a 10-12% market share in the Delhi ice cream market estimated at Rs 1.2 bn and around 7% in the eastern markets valued at around Rs 2 bn.

Geneva-based Global Franchise Architects (GFA), the promoters of Pizza Corner and Cof-fee World outlets, introduced a third chain of ice creams and fudges. The new outlets serve premium ice creams and are run by franchisees in Bangalore and Chennai. Vadilal ice cream division has always been a hot favourite with the people both inside and outside the organization. In India, the name Vadilal is synonymous with Ice Cream. The Ice Cream industry in India today has a turnover of Rs. 15 billion. A quarter of this comes from the house of Vadilal alone thanks to the largest range of Ice Creams in the country – 120 – plus flavours, in a variety of more than 250 packs and forms. The range includes cones, candies, bars, ice-lollies, small cups, big cups, family packs, and economy packs. Something for all tastes, preferences and budgets. To make it convenient for our consumers to relish our complete range under one roof, we have set up a chain of Happiness Parlors – ‘Ice Cream boutiques’ so to say. Hordes of people flock to these parlors daily because they know that our products contain the purest and creamiest milk, and the freshest and tastiest fruits and nuts.

Among our products are OneUp Chocobar and King Cone – all-time favourites which have today attained the generic status. Another hit is our Kulfi – traditional Indian milk sweet. Some of our products are a combination with confectioneries. Vadilal has two ultra modern ice-cream manufacturing plants - one at village Pundhra, Gujarat and another at Bareilly, U.P.

Both plants are ISO: 9001:2000 and HACCP Certified. Certification of Bareilly plant is done by BIS and Pundhra plant is done by BVQI under the latest regulations of food safety system, September 2002. BVQI is a wholly owned subsidiary of Bureau Veritas, a France-based multinational organization. Our Pundhra plant has recently received the accreditation from Export Inspection Council of India, Ministry of Commerce and Industry, Government of India certification for exports that in itself is a bench mark for hygiene and quality. Vadilal takes utmost care for ice cream, so that it reaches the consumer in the most hygienic and wholesome way. It has

the latest manufacturing equipment including automated cone-filling, candy-making, cup manufacturing and filling machines, hardening tunnels, computerized continuous freezers, and machines to produce biscuit-cones.

Since our products are highly perishable, quick transport and proper storage are of paramount importance. Hence our refrigeration equipment and deep freezers are imported from companies, which are world leaders in their respective fields. To ensure sufficient, timely and constant ice cream supply, we have a Cold Chain Network comprising three manufacturing plants [totalling a production capacity of 1.25 lakh litre per day], about 23 C&FA (Clearing & Forwarding Agent), more than 500 Distributors and over 40,000 Retailers. We have integrated backward by making biscuit-cones and paper cups; and forward, by fabricating deep freezers and refrigerated vehicles. These help us to serve our distributors, some of whom are situated over a thousand miles away. In days to come, we plan to further expand our manufacturing facilities to meet the growing demand of Ice Creams.

6.4. Cost factor and profit margin

An ice-cream mix costs about Rs 60-65 per liter. Adding up to it one liter of air then per liter mixture would approximately cost Rs32. If one takes 150ml cup will end up making 13 cups of ice creams from one liter of mixture costing about Rs5 per cup. If one adds Rs 5 worth of cost of electricity, cold storage, transports packaging and advertisement cost etc. The cost final cup turns out to be Rs10.

Considering the variety in offering the profit margin can go even up to 100 percent. For the bigger players the distribution and advertisement ate into their profit margin and for small players it is the volumes that matter. It is highly profitable business thanks to incorporation a considerable quantity of air during hardening process to make soft and creamy. Moreover the cost of setting up of a small ice-cream plant will not cost more than 10 lakhs including the cost of plant, labour, storage freezers and so on.

7. CHALLENGES

Selling an ice-cream is different from soft drinks due to infrastructure bottlenecks. An ice-cream requires continuous refrigeration unlike soft drinks. The country lacks proper infrastructure in respect power, road and transportation. It does prevent companies from selling take-home packs inside and far palaces of the country.

The second challenge this seasonal product faces is the regional domination of companies has splintered the market and enjoyed only local popularity the net result was company's total sales pale insignificance before the total business. Say example Mother Dairy has only 150 crore worth of business in the total business of Rs 3000 crore. The players have to face competition among themselves but also other like foods. Though trend is changing consumers still consider ice-creams as a dessert and a side item ordered for it when parents are accompanied by children. The high rent charged by malls for the floor space is also affecting the business and expansion plans.

8. CONCLUSIONS

The ice-creams consumption levels have been pretty low in India given the strength of population and a favourable weather conditions. The customer is needed to be wooed with a wide variety of mouth watering flavours and design at a reasonable price so that demand will jack up. Since unorganized market enjoys a significant market share that may delay aggressive, product innovation and advertisement campaign which will in turn help reduction in per unit cost from the organized sector. All in all a highly lucrative business with minimal capital is required to start with. Vanilla still seems to be the most preferred flavour among the consumers. The western and northern regions account for a larger sales of ice-creams in India. To call a product "ice cream," two basic requirements must be met: the treat must be at least 10-percent milk fat and use sugar as the sweetener. Though there is a potential market for fat-free and sugar-free ice creams, the country's food laws don't permit them yet.

High tariffs and inefficient distribution systems will continue to bottleneck the import market for the short term, but an increasingly affluent younger generation wants to try new tastes. Manufacturers should keep an eye out for market changes and opportunities. Low-fat and low-sugar alternatives are also being increasingly offered. Ice cream parlours - not too successful so far - are increasingly being relied on to woo consumers.

However, a concerted effort to give the consumer reason to consume more ice cream is missing. Individual companies do advertise in summers, especially during high-visibility sports events, but the initiatives lack imagination. No company, for instance, has tied up with coffee chains or liquor companies to offer ice cream-based cold coffees or cocktails, respectively. Sodhi the managing director at GCMMF (AMUL) feels such tie-ups would also cater to only a minuscule population. Instead, he advocates lowering of prices, cut in taxes and reduction in margins to attract consumers. How a 'summer' product such as ice cream has become a craze in cold countries such as Austria and not in India remains a mystery that even Indian companies are unable to fathom. Even while comparing like to like, how Pakistan, which is probably hotter and has worse infrastructure, can have three times India's per capita ice cream consumption is another riddle that companies here admit to not having an answer to. Unless industry players can generate a burning desire for the product among consumers, ice cream looks set to remain in deep freeze.

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STRATEGIC MODEL FOR ATTENUATING RURAL INEQUITIES IN SOUTH-MUNTENIA REGION

CRISTINA BÂLDAN, EMILIA UNGUREANU *

ABSTRACT: *In carrying out the paper: "Strategic model for attenuating rural inequities in South-Muntenia Region", I had like primary goals the accomplishment of two kinds of objectives: general objectives and specific objectives. For the general objectives, I followed: developing the approach theoretical mode for combating rural inequities; the development of strategic plans for approaching the rural inequities combat and identifying strategic socio-economic measures dedicated for promoting necessary measures for combating social inequities. And the specific objectives had like goals the SWOT analysis and the development of strategic plans in local profile, based on clusters. The analysis of rural area in South-Muntenia Region has been made at the level of local administrative-territorial units, the smallest territorial level from which is collecting and after the statistic information is published. Utilizing this kind of territorial level is a positive premise for obtaining results with a high accurate degree.*

KEY WORDS: *cluster; SWOT analysis; rural environment; investments; demo-social dimension; social infrastructure; economic dimension.*

JEL CLASSIFICATION: *Q10; R10.*

1. SWOT ANALYSIS - SOUTH – MUNTENIA REGION

The rural environment of the region contains, from administrative point of view, 509 communes. Different than the urban environment by the profile of economic activities, by occupational structure and available resources, the rural environment, having a great development potential, plays an important role in the socio-economic life of the region.

Concerning the criteria and the selected indicators for classifying the rural environment, the communes from South-Muntenia Region are significant different.

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The results of cluster analysis concerning the data series of rural socio-economic inequity led to a commune split in three clusters:

- cluster I: 98 communes, representing approx. 18.9%;
- cluster II: 195 communes, representing approx. 37.6%;
- cluster III: 226 communes, representing approx. 43.5%.

There is a commune group assigned to cluster I, which is *near the major cities and especially near places with economical potential*. The city proximity gives to residents in the communes employment opportunities and therefore additional sources of income, adequate infrastructure, better social services and even greater opportunities for investment, including public investment.

Another commune group that is identified within the cluster I, we can identify *along major roads*. Transport infrastructure, and therefore its status, is an important and decisive factor on the regarding quality life, but also plays a key role in removing barriers in the development process of regional communities. Infrastructure promotes accessibility and thereby supports business development and increased employment.

Table 1. SWOT analysis - South – Muntenia region

Strengths	Weaknesses	Opportunities	Threats (restrictions)
Territory infrastructure			
<ul style="list-style-type: none"> • High housing comfort in Arges and Prahova County's • Higher technical-urban infrastructure in Arges and Prahova County's (drinking water pipe and sewerage pipe more developed in Arges County, natural gas pipes more developed in Prahova County) 	<ul style="list-style-type: none"> • Housing comfort is reduced in Teleorman, Ialomița and Călărași County's • Technical-urban infrastructure reduced in Giurgiu, Teleorman and Ialomița County's concerning the quantity of drinking water distributed to household consumers and the distribution pipes of drinking water • Technical-urban infrastructure reduced in Giurgiu, Teleorman and Ialomița County's concerning the sewerage pipe and Giurgiu and Călărași County's concerning natural gas distribution 	<ul style="list-style-type: none"> • Development of housing comfort in order to increase the quality of life for people from rural space • Development of technical-urban infrastructure in rural environment in order to develop the business environment • Extension/modernization of transport road network • Development of support infrastructure for economic activities 	<ul style="list-style-type: none"> • Insufficient financial funds on short and medium run, for developing the rural infrastructure • Disequilibrium deepening between rural and urban environment • Omission of investment orientation in the rural environment, support for business environment development • Discrepancies deepening between northern developed areas and the undeveloped areas in south • Disequilibrium deepening between rural and urban communities

Demo-social dimension			
<ul style="list-style-type: none"> • Social emancipation trend • Relative housing stability • Weak external migration fluxes 	<ul style="list-style-type: none"> • Reduction and/or population aging reduction trend • Traditional (family) values degradation trend 	<ul style="list-style-type: none"> • Active population increase by attracting the population from nearby urban centers, affected by the worsening of economic situation 	<ul style="list-style-type: none"> • Rapid rhythm of population decreasing • Accentuation of social dissolution because of a perpetual traditional values degradation • Young population migration from rural to urban areas
Social infrastructure			
<ul style="list-style-type: none"> • Weak social infrastructure (excepting Arges County) 	<ul style="list-style-type: none"> • Premises of a weak social services quality (education, health) • Weak penetration of computing technique 	<ul style="list-style-type: none"> • Attraction of didactic personnel and medics for maintaining a high demographic basin • Infrastructure and social services development 	<ul style="list-style-type: none"> • Degradation of life conditions because of a decreased access to basic social services
Economic dimension			
<ul style="list-style-type: none"> • High agricultural potential (especially for communes in south) • Experience and tradition for hilly communes in orchards and vineyards activities • High touristic potential of communes situated in the mountain area of the region 	<ul style="list-style-type: none"> • Touristic infrastructure insufficiency • Reduced access of rural population at a paid workplace • Lower ability for promoting rural services complementary to agriculture (especially agro-tourism) 	<ul style="list-style-type: none"> • Investment increasing in agricultural exploitations and in tourism activities • Rural environment attractiveness degree increasing • Discrepancies attenuation between urban and rural areas regarding the standard of living 	<ul style="list-style-type: none"> • Impossibility of assuring equal conditions for inhabitants from rural and urban region (especially on the market place) and the deepening of differences concerning socio-professional preparation • High degree of dependency of rural population concerning the social assistance and agricultural measures • Loss of opportunities regarding the tourism potential of

			the region capitalization
Investment			
<ul style="list-style-type: none"> • Good performances in the communes from Argeş, Dâmboviţa and Ialomiţa County's • High rate of real estate investments in the communes that are close to municipalities 	<ul style="list-style-type: none"> • Low interest for real estate investments (houses) in the communes that are outside of influence spheres of urban areas 	<ul style="list-style-type: none"> • Increasing interest for real estate investments (houses) in the areas with a big touristic potential 	<ul style="list-style-type: none"> • insufficient financial sources for infrastructure and services development

2. SOCIAL INEQUITY COMBAT BY DEVELOPING THE TERRITORY EQUIPPING

2.1. Cluster I – SWOT Analysis

At the level of South-Muntenia region, we can observe a disequilibrium between rural areas from northern counties and the southern counties (Călăraşi, Giurgiu, Ialomiţa, Teleorman) concerning the cluster classification.

The three northern counties include approx. 92.9% from the cluster I (91 communes), the most (42 communes) being situated in Arges County (42.9% from the total number of communes of Arges are mapped in cluster I, respectively 44.2% from the total number of Arges communes are in cluster I). In turn, Prahova county has 30 communes mapped in cluster I (30.6% from the total number of region communes are mapped in cluster I, respectively 33.3% from the total number of county communes).

At the opposite pole, the counties with preponderant agricultural economy from the region have a reduced number of communes included in cluster I: Călăraşi (1 commune), Giurgiu (2 communes), Ialomiţa (3 communes) and Teleorman (1 commune). In return, in this county group prevails the communes situated in cluster III, most of them (54 communes) being situated in Teleorman county (23.9% from the total number of communes mapped in cluster III, respectively 58.7% from the total number of county communes) and in Giurgiu County (39 communes, representing 76.5% from the total number of county communes).

Concerning the regional analysis of mapping the communes into clusters, at the level of South-Muntenia region we will analyze the distribution of communes, trying to identify similarities concerning the membership to a certain cluster.

We demonstrated that at the level of South-Muntenia region we can talk about a differentiation of counties from the north part and the rest of them. In these three counties (Argeş, Prahova şi Dâmboviţa) the share of communes situated in cluster I is very big. The territory distribution of those communes let us delimitate more types of areas in which we can find communes mapped in cluster I.

First, it exist a group of communes mapped in cluster I that are *close to big cities and especially close to localities with economic potential* (Pitești, Mioveni, Câmpulung, Târgoviște, Fieni, Pucioasa, Ploiești, Câmpina). The proximity to a city offer to communes inhabitants employment opportunities and thereby supplemental and safe revenues, an adequate infrastructure, better social services and even high investment opportunities, including public investment. We can find in this group very developed communes, as Mărăcineni, Bradu, Albota, Poiana Lacului, Budeasa (in Argeș County), Ulmi, Doicești, Aninoasa (în Dâmbovița county) ot Blejoi, Bucov, Plopu, Bărcănești (in Prahova county).

Another group of communes that are mapped in cluster I, we can find *along major roads*. The transport infrastructure, and thereby their state, represent an important and decisive factor concerning the quality of life, playing also a key role in eliminating some barriers in the process of community development from the region, Infrastructure favorise accesibility and by this sustain business development and an increased occupation rate.

South-Muntenia region is crossed by major roads, as European Road E60 (DN1), which connects Bucharest and Brasov (along this road are communes that belong to cluster 1, as Florești, Bănești, Poiana Câmpina, Bărcănești – all in Prahova county), European Road E574 (DN73), which connects Pitesti and Brasov (communes like Stâlpeni, Schitu Golești, Boteni, all in Argeș county, are part of cluster I and are along this road), DN1B, between Ploiești and Buzău, has along communes mapped in cluster I (Valea Călugărească, Albești Paleologu, Ceptura in Prahova county).

We can identify another group of communes that we include in cluster I in *Sub-Carpathian area* of the three counties from the northern region of South-Muntenia. In this group we include communes, as Tigveni, Mălureni, Pietroșani, Bogați or Priboeni (in Argeș county), Mănești, Tătărani, Malu cu Flori (in Dâmbovița county), Ștefești, Vărbilău, Dumbrăvești, Cărbunești, Doftana (in Prahova county).

Another group of communes mapped under cluster I, we can identify in mountain and submountain areas, representing important destinations for tourism, especially for rural tourism and his form, agrotourism. Communes as Arefu, Corbeni, Brăduleț, Nușoara, Lerești (in Argeș county), Moroeni, Runcu, Pietroșița, Buciumeni (in Dâmbovița county), Măneciu or Posești (in Prahova county) are situated in this category.

In the other four counties of the region, only few communes are mapped under cluster I: in Calarasi county, only one commune (Dragalina), in Giurgiu county two communes (Găișeni and Greaca), in Ialomița county three communes (Borănești, Giurgeni, Mihail Kogălniceanu), and in Teleorman county only one commune (Poeni).

Table 2. Cluster I – SWOT analysis

Strengths	Weaknesses	Opportunities	Threats (Restrictions)
Territory infrastructure			
<ul style="list-style-type: none"> • Advantageous geographic position reporting to 	<ul style="list-style-type: none"> • Presence of isolation phenomena for some village 	<ul style="list-style-type: none"> • Proximity to cities like Pitești, Mioveni, Câmpulung, 	<ul style="list-style-type: none"> • Development restrictions for some economic

<p>the main regional roads</p> <ul style="list-style-type: none"> • Accessibility to a good and very good and very good road and railway infrastructure • Fast access to European roads and to railways • High housing comfort • Higher technical-urban infrastructure 	<ul style="list-style-type: none"> • Poor condition of many communal roads 	<p>Târgoviște, Fieni, Pucioasa, Ploiești, Câmpina</p> <ul style="list-style-type: none"> • Possibility to access European funds • Support infrastructure development for economic activities 	<p>activities determined by specific infrastructure characteristics</p> <ul style="list-style-type: none"> • poor institutional capacity for project accessing and implementing • Lack of financial resources that are necessary for co-funding projects
Demo – social dimension			
<ul style="list-style-type: none"> • Social emancipation tendency • Reduction tendency for population aging 	<ul style="list-style-type: none"> • Degradation tendency for traditional values (family values) • High mobility of labor force 	<ul style="list-style-type: none"> • Active population increase by attracting population from nearby urban centers, affected by the worsening economic situation 	<ul style="list-style-type: none"> • Fast decreasing rhythm of population • Emphasis of social dissolution by a perpetual degradation of traditional values
Social infrastructure			
<ul style="list-style-type: none"> • Good social infrastructure, especially in the communes that have big cities nearby 	<ul style="list-style-type: none"> • Weak penetration of computing technique • It exists a tendency for merging teachers in communes from mountain and sub-mountain areas because of the school merging phenomena 	<ul style="list-style-type: none"> • Teachers and medical personnel attraction for maintaining a high demographic basin 	<ul style="list-style-type: none"> • Life condition degradation by reducing the access to basic social services
Economic dimension			
<ul style="list-style-type: none"> • High agricultural potential (especially for communes in south) • Experience and tradition for hilly communes in orchards and vineyards activities • High touristic 	<ul style="list-style-type: none"> • Reduced share of arable land in the total agricultural surface • Touristic infrastructure insufficiency • Low ability for promoting complementary 	<ul style="list-style-type: none"> • Increasing investments in agricultural exploitation and tourism activities • Diversification of economic activities in rural area • Urban population migration 	<ul style="list-style-type: none"> • Opportunity loss of touristic potential advantages in the region

potential of communes situated in the mountain area of the region • Population access to a paid workplace due to communes proximity to cities with high economic potential, as Pitești, Mioveni, Câmpulung, Târgoviște, Fieni, Pucioasa, Ploiești, Câmpina	rural services (especially agro-tourism)	in nearby communes	
Investments			
• Good performances concerning the finished houses in 2008/1000 existent houses, especial in Argeș and Dâmbovița County's	• Low interest for real estate investments (houses) in communes that are out of urban areas influence	• Increased attraction degree of rural environment	• Disparity accentuation between southern and northern communes

2.2. Cluster II – SWOT analysis

When talking about communes mapped under cluster II, at the level of South-Muntenia region, we can say that they are present in all areas and are very spread. most of them are in the sub- Carpathian areas from Argeș, Dâmbovița and Prahova, but also in Teleorman we can find lots of communes, situated in the plain area, which are mapped under cluster II.

Table 3. Cluster II – SWOT analysis

Strengths	Weaknesses	Opportunities	Threats (Restrictions)
Territory infrastructure			
• Location near to important cities as Pitești and Câmpulung Medium-good road and railroad accessibility	• Defficiencies, especially qualitative, concerning communal roads	• Possibility to access internal and external funds	• Relative reduced capacity for accessing European funds because of the co-funding lack of resources
Demo – social dimension			
• Social emancipation	• Housing instability	• Active population increase by	• Dramatic decrease of the

<p>tendency</p> <ul style="list-style-type: none"> • Weak external emigrational fluxes 	<ul style="list-style-type: none"> • Tendency of reduction and/or population aging • Traditional values (family) degradation tendency 	<p>attracting population from nearby urban centers, affected by the worsening economic situation</p>	<p>population</p> <ul style="list-style-type: none"> • Accentuation of social dissolution because of a perpetual traditional values degradation
Social infrastructure			
<ul style="list-style-type: none"> • Good social infrastructure, especially in the communes that have big cities nearby 	<ul style="list-style-type: none"> • Weak penetration of computing technique • It exists a tendency for merging teachers in communes from mountain and sub-mountain areas because of the school merging phenomena 	<ul style="list-style-type: none"> • Teachers and medical personnel attraction for maintaining a high demographic basin 	<ul style="list-style-type: none"> • Life condition degradation by reducing the access to basic social services
Economic dimension			
<ul style="list-style-type: none"> • High agricultural potential 	<ul style="list-style-type: none"> • Reduced experience concerning viticulture and fruit related activities • Low touristic potential of those communes • Reduced population access to a paid workplace • Weak technological endowment 	<ul style="list-style-type: none"> • Investment increasing in the area of agricultural exploitation and tourism activities • Economic activities diversification in rural area 	<ul style="list-style-type: none"> • Increased dependency degree of rural population concerning social transfers and agriculture • young population migration from rural to urban areas • Loss of touristic potential opportunities in the region
Investments			
<ul style="list-style-type: none"> • Existence of a medium infrastructure, support for real estate investments (houses) 	<ul style="list-style-type: none"> • Low interest for real estate investments (houses) in those communes because of poor quality life and the lack of paid workplaces in the area 	<ul style="list-style-type: none"> • Increased attraction degree of rural environment 	<ul style="list-style-type: none"> • insufficient financial resources for infrastructure and services development

2.3. Cluster III – SWOT analysis

The majority of communes from South-Muntenia region are mapped under cluster III. The plain counties from the region (Giurgiu, Teleorman, Ialomița și Călărași), and also the southern parts of Argeș and Dâmbovița have a big number of communes mapped under cluster III. These communes have an eminently agricultural profile and are based on plant cultures. Today, we can state that it does not exist a competitive and efficient agricultural productivity, mainly because of a poor technical endowment and also due to the exploitation mode practiced, that leads to a very low degree of development for these communes. Most of the communes from this region mapped under cluster III are to a considerable distance from developed urban areas (especially in Argeș, Teleorman or Dâmbovița), having a negative impact on the physical and social infrastructure and also on public investments.

Table 4. Cluster III – SWOT analysis

Strengths	Weaknesses	Opportunities	Threats (Restrictions)
Territory infrastructure			
<ul style="list-style-type: none"> • Good road accessibility 	<ul style="list-style-type: none"> • Weak railroad accessibility • Low housing comfort • Technical-urban infrastructure reduced concerning the quantity of drinking water distributed to household consumers and the distribution pipes of drinking water • Technical-urban infrastructure reduced concerning the sewerage pipe and natural gas distribution 	<ul style="list-style-type: none"> • Development of technical-urban infrastructure in rural environment in order to develop the business environment • Extension/modernization of road and railroad network 	<ul style="list-style-type: none"> • Omission of investment orientation in the rural environment, support for business environment development • Insufficient financial funds on short and medium run, for developing the rural infrastructure
Demo – social dimension			
<ul style="list-style-type: none"> • Traditional values perpetuation • Relative housing stability • Increase and/or rejuvenation tendency of population 	<ul style="list-style-type: none"> • Strong external emigrational fluxes 	<ul style="list-style-type: none"> • Active population increase by attracting population from nearby urban centers, affected by the worsening economic situation 	<ul style="list-style-type: none"> • young population migration from rural to urban areas

Social infrastructure			
<ul style="list-style-type: none"> • Premise existence of an adequate human capital that can assure in the future a good social infrastructure 	<ul style="list-style-type: none"> • Premises for a weak quality of social services (education, health) • Weak penetration of computing technique 	<ul style="list-style-type: none"> • Teachers and medical personnel attraction for maintaining a high demographic basin • Infrastructure and social services development 	<ul style="list-style-type: none"> • Life condition degradation by reducing the access to basic social services • increased distance from urban developed areas
Economic dimension			
<ul style="list-style-type: none"> • High agricultural potential • High share of agricultural land in the total land surface 	<ul style="list-style-type: none"> • Touristic infrastructure insufficiency • Reduced population access to a paid workplace • insufficient occupation of labor force • Weak technological endowment 	<ul style="list-style-type: none"> • Investment increasing in the area of agricultural exploitation and tourism activities • Productivity and population revenue increase • Economic activities diversification in rural area 	<ul style="list-style-type: none"> • young population migration from rural to urban areas • Loss of touristic potential opportunities in the region
Investments			
<ul style="list-style-type: none"> • Existence of a medium infrastructure, support for real estate investments (houses) 	<ul style="list-style-type: none"> • Low interest for real estate investments (houses) in those communes because of poor quality life and the lack of paid workplaces in the area 	<ul style="list-style-type: none"> • Increased attraction degree of rural environment 	<ul style="list-style-type: none"> • insufficient financial resources for infrastructure and services development

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MENTORING IN PUBLIC MANAGEMENT: CONCEPTUAL AND PRACTICAL APPROACHES AT THE NATIONAL AND INTERNATIONAL LEVEL

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ABSTRACT: *The paper aims to highlight the important role that mentoring can play for public sector management in general, and for implementing Public Administration Reform in Romania in particular. An extended documentary research of recent international literature and practices that address this topic allowed us to observe a considerable gap relative to the approaches of mentoring in management of other sectors. Moreover, a gap appears also if when comparing the situation of implementing government mentoring programs in European Union countries and in other countries with a more consistent tradition in mentoring such as USA or Canada. Thus, by presenting some conceptual models and programs of reference in the countries last mentioned, our paper tries to contribute in reducing this gap, both at theoretical and practical level.*

KEY WORDS: *mentoring; public management; reform; referential models.*

JEL CLASSIFICATION: *H83; I28; I29; D73.*

1. INTRODUCTION: THE BACKGROUND

One of the major challenges facing the transition countries of Central and Eastern Europe (CEE) that became members of the Europe Union (EU), including Romania, is the implementation of Public Administration Reform (PAR).

The reform is based on the European principles of administration aiming at democratic and effective governance throughout EU. These principles were developed in the late 1990s within the SIGMA Programme (Support for Improvement in Governance and Management) - a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the EU (Meyer-Sahling, 2009). They were conceived taking into account of a whole range of models and traditions of public

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administration, so that the framework of reference for reform „is compatible with the new public management as well as with the classic Weberian administration; it fits a Scandinavian tradition of administration as much as a Germanic, Anglo-Saxon or Napoleonic tradition” (Meyer-Sahling, 2009, p. 12). Thus, the EU approach to policy of PAR is built on "a mix" of principles reflecting the international developments of conceptual models as well as the good governance practices with tradition in Europe. The main groups of principles are: (1) rule of law: legality, reliability and predictability; (2) openness and transparency; (3) legal accountability; (4) efficiency and effectiveness (Meyer-Sahling, 2009).

It is obvious that the policy of PAR in Romania was aligned with the EU approach described before. One of commitments assumed within the national strategy updated for accelerating the reform refer to creating a professional apolitical body of civil servants comparable with those in the other Member States, with particular focus on developing public managers able to act as a change agent for reform. (GEO No. 92/2008, Law No. 135/2009, Government Note of January, 2010). But, we want or not, the actual progress will be assessed relative to the EU expectations on this matter. For instance, in SIGMA Paper No.44, which examines the current state of civil service reforms in the eight CEE countries (CEECs) that joined the EU in 2004, these expectations are explained through the notion of compatibility with European principles of administration. Thus is clearly pointed out that this refers in the same extent to: (1) the adoption of formal rules; (2) the actual practices of civil service management, and (3) prevalent values and attitudes of civil servants towards these principles. „EU Regular Reports and Sigma assessments therefore placed great emphasis on the professionalisation and political neutrality of the senior civil service in the CEECs. In order to achieve the de-politicisation of the senior civil service, European principles and EU policy aimed to reduce (and minimise) the possibilities for the exercise of political discretion over the selection and appointment of senior staff in the state administration” (Meyer-Sahling, 2009, p. 31). Considering that the term “senior civil service” may be understand through a more familiar and well-established term in management theory and practice - „top management”, we can see the real challenge of expectations related to the public managers.

On this background, our paper attempts to point out why and how mentoring could and should be used in public sector, not only as a component of initial training of managers (enabling them to deal the challenge and meet such of expectations), but also as a managerial practice (for ensuring the continuity, or the reform sustainability).

2. CONCEPTUAL APPROACHES: REFERENTIAL MODELS FOR PUBLIC MANAGEMENT AND MENTORING

The modern public sector was developed in the second half of the 19th century within the industrialized countries having as conceptual foundation the well known model of Weber's bureaucracy (classic model). On this foundation evolved the bureaucratic model (BM) basically building on a bureaucratic regulatory function and a system of values with two main pillars, i.e. the long-term service and relevant work experience (Levente, 2007).

A new development stage emerged at the beginning of the 1980's. According to Levente "within the framework of the New Public Management (NPM) - which basically involved emphasizing business solutions and efficiency - comprehensive reform programmes began to be introduced in several English-speaking countries (the United Kingdom, New Zealand, Australia, the United States of America and Canada). These efforts provided both a model and experience valid also in those European countries embarking on their transformation" (Levente, 2007, p. 7). This view is consistent with those reflected in many other papers of the international literature (e.g. Pollitt, 1995; Christensen and Laegreid, 2001; Green-Pedersen, 2002; Pollitt, van Thiel and Homburg, 2007). Also, it was validated by empirical proofs like the OECD reports on progress of administrative reforms in the Member States at the time (e.g. OECD 1990, 1995). They all confirm a trend of convergence in introducing the concepts of NPM, meaning the adoption of business management ideas and techniques to reach higher level of quality service, client-orientated, thus implementing the new competitive market mechanisms in public administrations of the Western developed countries. A relevant synopsis of the model is offered by Pollitt et al. (Pollitt, van Thiel and Homburg, 2007) which state that NPM implies:

- more decentralization (by separating policy and administration or by the use of divisional structures);
- more contractual relationships instead of traditional hierarchical controls;
- new market-type mechanisms (like vouchers, competitive tendering and outsourcing);
- more attention for public managers and their management skills;
- new management techniques for the public sector like human resource management, benchmarking and results orientated planning and control.

In the latest years, a new model seems to evolve to refine NPM. It can remark an increasingly attention to issues such as establishing dynamic relations with civic society and the private sector, raising society's assumption of responsibilities, significant participation of citizens in decision-making and expressing their views on the public service performance (Welch and Nuzu, 2006). The new stage called by Levente „Adaptive Model" (AM) focuses on shaping a common value, mainly facilitated by:

- the various stakeholders;
- the harmonious and constructive co-operation between public-and private sectors (public-private partnerships);
- the concepts of citizen as key customer, responsive governance, openness and transparency;
- normalising the legal status of public servants.

Obviously, the emergence of a public service which might be termed "complying-optimising" is linked with the spread of the notion of responsive governance, which consider the demands of various stakeholders (Levente, 2007).

Looking to the course of evolution in Romania comparative with that described previously as being typical for Western developed countries, it is a clear lag regarding the period of passing-through the stages corresponding to the public management models of reference (Fig. 1).

The root cause for adopting later of NPM in Romania is the well known history of its long standing tradition in a communist type administration based on centralized state control. Thus in our country were launched reform initiatives following the guidelines and basic principles of NPM only since the end of the 90's. For instance, the strategy for accelerating PAR (adopted in 2001) has established as key goals creating a new legislative framework, providing highly professional public service, institutional modernization, developing a citizen-oriented administration. This strategy was subsequently updated so as to meet the specific terms of accession to the EU. However, the current course of events shows that we are far yet of expected results, especially as concerning the de-politicization and professionalization of the civil service.

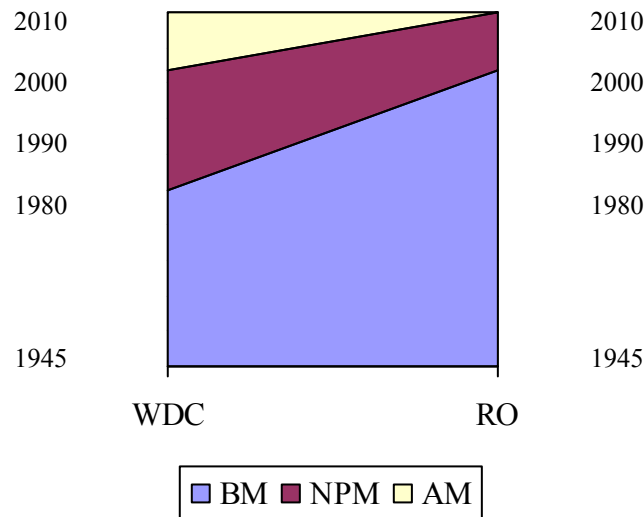


Figure 1. Evolution of public management models - Western developed countries (WDC) vs. Romania (RO) (adapted from Levente, 2007, p. 9)

This is precisely that point where mentoring may prove useful for public management, as revealed in the recent literature. Thus, according to Bozeman and Feeney, "mentoring in the public sector can help to ease the transition between elected or appointed government officials, especially in a highly politicized environment that limits government's capacity to continue efforts across administrations" (Bozeman and Feeney, 2009, p. 142). Based on a critical review of the mentoring literature, the two authors emphasize the scarcities of published papers that address the particular issues of mentoring in the public sector context (i.e. by scanning seven major journals in public administration and public management they found only five mentoring articles published between 1995 and 2005).

The general meaning of the mentoring concept (seen by many authors as having its roots in the well-known "Odyssey" of Homer) has acquired new valences over time. In the contemporary developments, many of the conceptual approaches of

mentoring were in relation with areas such as career development, management, leadership, study skills, teaching and learning. After the year 2000 the concept becomes more and more explicitly addressed as: (1) support for education; (2) support for day-to-day living; (3) support in the workplace (Ionică et al., 2009). Therefore mentoring is usually understood and used today as a supporting tool for learning and development both at the individual and organizational level.

Among the most referred contributions in the contemporary literature of mentoring in business sectors we find the descriptive theory of developmental relationships (Kram, 1985) that seems remaining a referential approach almost three decades (Whitely, Dougherty, and Dreher, 1991; Ragins, 1997; Ragins et al., 2000; Bozeman and Feeney, 2009). According this theory, mentoring is described as developmental relationships between younger and older managers that promote individual development through career stages. There are also some nuanced views emphasizing organizational implications of mentoring. For instance, Lankau and Scandura describe mentoring not only as a relationship that contributes to personal growth but also as an important organizational process that not necessarily depend on seniority or power (Lankau and Scandura, 2002).

Focusing on the public sector, Bozeman and Feeney develop a result-oriented mentoring approach (see table 1), named by the authors "three-tier model of mentoring outcomes" (Bozeman and Feeney, 2009, p.144).

Table 1. Three-tier model of mentoring outcomes

Mentoring Outcomes (MO) - levels:		
Organizational	Individual	Public Service
Improving quality of the Human Capital (HC) of organization	Improving Individual HC	Improving capacity (Portable HC)
Increasing vertical mobility in organization	Increasing career & job opportunity	Opportunities for diverse groups in Society
Enhancing organizational commitment	Enhancing career motivation	Enhancing public service motivation

Source: Adapted from Bozeman and Feeney, 2009, p.144

In the authors view, the three sections of outcomes at the level „Public Service” (third column of table 1) reflect three key features of public sector that make difference relative to the private sector, as follows:

(1) Interdependence (corresponding with MO related to improving capacity/portable HC) - it refers to the fact that public agencies are interconnected in ways that private organizations are not, i.e. by common personnel systems and rules, common purchasing procedures, similar processes of budgeting and accounting. Therefore, is expected to collaborate to share the good practices and knowledge leading to improving overall institutional capacity. Mentoring enables sharing informal institutional knowledge "that resides in individuals but not in personnel manuals, thus preserving institutional memories and intrinsic knowledge" (Bozeman and Feeney, 2009, p. 136);

(2) Opportunity structure (corresponding with MO related to increasing opportunities for demographic and social groups of Society) - it refers to the fact that government agencies have historically a distinctive role in ensuring equal opportunity. As a support of career development, mentoring combines the opportunity of advancing for civil servant with the need for leadership in public management, offering equal opportunity no matter of appurtenance to one social group or another;

(3) Public service motivation (corresponding with MO related to enhancing motivation) - it refers to the "public service ideals" that have (or should have) a central role in public management. Mentoring can give a greater understanding and sharing of these motivational values, leading to their actual use for enhancing individual and institutional commitment towards public service quality and performance.

In their attempts to argue the need of developing a theory of public management mentoring (PMM), Bozeman and Feeney refer also to the increasing numbers of mentoring programs applied in different departments and levels of US Government. In the next section we make a brief overview of practical approaches of mentoring that are materialized through such programs.

3. PRACTICAL APPROACHES: MENTORING PROGRAMS

In our documentary research we based on Google search (both in English and Romanian) using key terms such as "mentoring programs", "government mentoring programs" and "government mentoring programs in Europe Union". In addition we used and alternatives obtained by replacing some words with contextual meanings (e.g. "government programs" with "public administration programs"; "mentoring programs" with "mentoring schemes" - a term that seems preferred in Europe, especially in the UK). The main rationale for using alternatives terms was to verify the preliminary results that indicated a clear difference between the number of results by the type of programs, and location of source (USA & Canada vs. EU countries, including Romania).

Thus, searching for "mentoring programs" in English had over 6.5 million results while in Romanian were only about 34.000 results. But the number of results is significantly reduced when searching for "government mentoring programs" (i.e. about 5.1 millions in English and around of 2100 in Romanian) and especially after searching for "government mentoring programs in Europe Union" (only about 58000). Using of the alternative terms do not had considerably influenced these results meaning that the difference (as size order) is maintained while number of results is further reduced (e.g. around 27.000 results for "government mentoring schemes in Europe Union").

What is more important, by scanning the first 100 results of each searching for government mentoring programs (or alternatives) we found not too many relevant results for us (that referring precisely to such programs). Moreover, these were less and less when the search was related to EU and Romania (most of them being, in the best case, links to mentoring programs in other sectors). For instance, we found an extensive database of mentoring resources (Peer Resources Network - MENTORS PEERS RESOURCES) that includes a section of "mentoring programs listings" which exemplify over 860 programs applied in different organizations and sectors

(<http://www.mentors.ca>). By reviewing the list of 862 programs we found that only 18 are from European countries (UK-13; Sweden-2; Germany-1; Ireland-1; Estonia-1). None of these programs is not among the few examples covering government related areas (e.g. only 5 of category "WITHIN GOVERNMENT"). As expected, the most are mainly from USA and Canada. In table 2 we present three examples of government mentoring programs.

Table 2. Examples of government mentoring programs

Brief description of program (Agency/Institution)
Career Mentoring Program: mentors are civil servants in management positions that are matched with civil servants of lower-ranked to provide them career guidance, helping to increase institutional commitment and to a better understanding of institutional mission and values and sharing them. (U.S. Department of Health and Human Services - DHHS 2005)
The mentoring programs of NNSA laboratories aim to retain a skilled workforce and enhance knowledge transfer from the experienced employees to the new hired ones. Thus, scientists and engineers at higher management levels must act as mentors for the newer staff (this being a condition of their own promotion), and another side of mentoring includes the retirees to assist in the transfer and archive of knowledge that will be preserved for the future. (U.S. National Nuclear Security Administration - NNSA, 2005)
Interdepartmental mentoring program of Canadian Food Inspection Agency (CFIA) includes an 18 month facilitated mentoring relationship; a central coordinator who assists in matching mentors and mentees; mentorship training for all participants; workshops for career orientation and development, etc. (CFIA)

We must mention that despite the small number of government mentoring programs (GMPs) listed by Peer Resources Network, the US Government has many other similar programs at Federal, State and local level. It is a result of the Preparing the Next Generation (PNG) initiative that was launched in 2001 aiming to prepare, develop, and motivate the next generation of US government workers (Cal-ICMA, 2009). The rationale for such an initiative is the US demographic problem generated by Baby-Boomer retirements, since according official estimations „53 percent of all government workers at federal, state, and local levels are eligible to retire in the next three to five years” (Cal-ICMA, 2009, p. 2). Thus, the current demographic problem and the long-standing tradition of mentoring programs in USA can explain our findings concerning the greater number of GMPs, comparative with the EU.

However it is important to note that during the last years it can see a tendency of spreading mentoring programs in the EU countries, especially in educational and business sectors. Given the space limited for this paper we present below just the specific initiative found in Romania related to the project Young Professionals Scheme (YPS), project financed by the EU.

The YPS project was launched in 2003 aiming to support PAR in Romania through selecting, training and attracting some of the best Romanian graduates into the civil service. The first three cycles of the project have already been implemented under the Phare 2001, 2003 and 2005, so as through selection and training processes were prepared 327 public managers during 2003-2008. The fourth cycle started at December 8, 2008, and aims further selection, training and placing in key administrative

structures of around 120 graduates, in addition to the ones already placed after the previous cycles. Training is provided by the National Institute of Administration (NIA), while placements are made by the National Agency of Civil Servants (NACS). The fourth cycle differs from previous ones because it can apply to all public sector employees, including contractual staff (until now the project addressed only to civil servants and university graduates licensed in Romania). This cycle will also place a greater emphasis on assisting graduates of previous cycles to ensure sustainable networks for supporting their career development (<http://www.yps.ro>). Therefore, we can say that YPS is one route to becoming public manager - the title currently conferred on the graduates of the scheme when they enter the civil service. Mentoring is seen as an important component of the training and development program for public managers within YPS. Mentoring of the trainees during their internship and mentoring of the public managers during the early years of their career are two sides of the same problem, meaning to find best way through that trainee/public manager is enabled to learn quickly and with reduced risk, while is placed in a relatively unfamiliar environment (Profiroiu et al., 2007). Mentors are selected from the civil servants in managerial positions of the administrative units that host the internships. In partnership with the YPS managerial team, the mentors must prepare a result-oriented internship program within own unit and provide on this basis guidance and support to their interns.

Among the achievements of the project is mentioned setting up the appropriate legislative framework to clarify the status of civil servants which were formed through YPS (public managers) and ensure their career development (<http://www.yps.ro>). It's about GEO No. 92/2008, Law No. 135/2009 (for approving this GEO) and the Government Note of January, 2010 concerning the norms of application (GN/J2010) which were already referred in the introductory section of the paper. But, for the purpose of this section, we consider important to note some issues arising from these regulations related to the mentoring approach. Thus, according GEO No. 92/2008 (art. 11) mentoring is considered a didactic activity that takes place under institutional agreement, concluded under the law, between the NIA and the authority or institution within which the mentor is employee. The mentors are civil servants in management positions which are especially appointed for exercising the mentoring activity and are entitled to remuneration for this (a minimum wage on economy per internship, according GN/J2010, art. 40). The persons appointed as mentors by the management of a public authority/institution must be confirmed through a notification issued by NACS as meeting the legal conditions to be mentors (GN/J2010, art. 37), i.e.:

- to have a minimum level of knowledge concerning the goal and objectives of training program, as well as specificity of public manager function;
- to know objectives of the institution to which it belongs and how these may be correlate with the activity of its department and with setting individual objectives of the staff, or coordinating them (if the case);
- to be willing to carry out the coordination of trainees in internship, so as to facilitate a better integration of them into the work team and their involvement, as possible, in achieving department objectives.

4. INSTEAD OF CONCLUSION: DISCUSSING THE CURRENT SITUATION IN ROMANIA

According to the latest national report on management of civil servant positions and civil servants for 2009, the main directions for action in this field as resulted from chapter 22 (PAR) of Governance Program 2009-2012 refer to: (1) administrative decentralization, (2) human resources management and (3) raising the efficiency and transparency of the administrative act (NACS, 2010, p.5). Based on the statistics presented in this report of the National Agency of Civil Servants (NACS, 2010), the Figure 2 shows the number's evolution of civil service positions (CSPs) in central and local public administration from Romania during the last five years. We mention that data reported by NACS refer to the body of civil servants, except the ones with special status related to certain public institutions like the Presidential Administration, the Parliament, the Legislative Council, the Customs Authority, the Police and other structures of Ministry of Administration and Interior. Also, it must note that data for central public administration (CPA) refer to positions at the State and territorial level (including de-concentrated services), while those for local public administration (LPA) refer to positions from county councils, local councils and other local authorities.

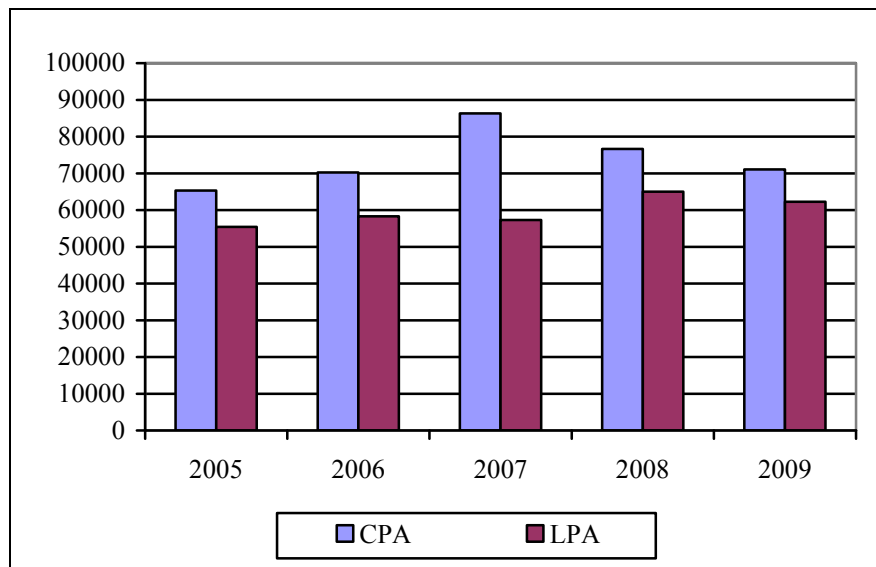


Figure 2. Evolution of the number of civil service positions in Romania during 2005-2009
(primary data source: NACS, 2010, pp.18-19)

As concerning the structure of CSPs by category of civil servants, it can see that at the end of 2009 were 133.429 planned positions, out of which 268 high-ranked civil servant positions (HRP) and 12.054 management positions (MP), others than HRP. Therefore, the leading positions (HRP+MP) were around 9.23% (see table 3),

while only 2.68% from these positions may be theoretically of public managers formed through YPS.

Table 3.

Specifications	Values
Number of CPSs - total planned, out of which leading positions (LP):	<u>133429</u>
HRP	268
MP	12054
Number of CPSs - total occupied, out of which LP:	<u>113023</u>
HRP	50
MP	10243
Number of unoccupied CPSs - total resulted, out of which LP:	<u>20406</u>
HRP	18
MP	1811
Number of notifications (issued by NACS) of contests for recruitment, promotion, employment, - total, out of which LP:	<u>7962</u>
HRP	113
MP	1051
Number of notifications (issued by NACS) for exercising of temporary vacant* LP - total, out of which:	<u>2049</u>
HRP	224
MP	1825

When we consider the situation of occupied positions (or actual number of civil servants), from total number of civil servants in LP (HRP+MP) only 3.14% is likely to be public managers (YPS). That seems a very small percentage for the role of change agent for reform acceleration! Moreover, the ratio between notifications for exercising LP temporary vacant, respective the ones contests-based and the total LP occupied suggest that only one from nine leading civil servants might be in a contest-based position, and is also likely that one from five to be in a temporary vacant position. These contradictory data are not singular in the NACS report, and it may raise questions about how many are in fact the appointments based on political criteria (explicitly or implicitly). If we adding the many other problems of the current year, including the crisis measures of cutting civil servants wages, then we can see how is diminishing the likelihood to attract and retain professionals into the public sector, especially as public managers. That is a good reason to extend the mentoring approach of YPS type throughout the sector, adapting it after the models of government mentoring programs such as the ones referred in our paper.

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LEASING SECTOR IN MACEDONIA-STATES AND TRENDS

DIANA BOSKOVSKA *

ABSTARCT: *In conditions of limited access to traditional sources of funding when lending a privilege of the largest and most creditworthy companies, contemporary, alternative ways of funding, including the leasing are increasingly gaining importance. They are particularly attractive for small and medium enterprises that grow rapidly and are facing a shortage of funds. In terms of general illiquidity of the Macedonian economy, on the one hand, and restrictive credit policies of banks on the other hand, creating a business climate where will apply and promote alternative modes of financing in the Republic of Macedonia is a very importance for the operation and development of small and medium enterprises.*

KEY WORDS: *corporate sector; lease; lease company; SME's; source of funding.*

JEL CLASSIIFICATION: *G29.*

1. INTRODUCTION

In this article the subject of the research is lease, as one alternative source of capital. It's specially importance as a source of capital for SME's that are very significance for the national economy development. Considering the low economic development of the Macedonian economy, the SME's are very important factor for its development that is necessary to include Macedonian economy in the global economy.

When we have in mind the said prior by one side, and additional international experience in the application of the lease by other side, which indicate the existence of a trend of increasing use of this instrument for financing by enterprises can draw a conclusion about the importance and relevance of the lease in macedonian conditions.

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2. CREDIT INDEBTEDNESS OF THE ENTERPRISES IN THE REPUBLIC OF MACEDONIA

In its operation of the Macedonian companies credit support from domestic banks has presented most important external source of funding for the activities of the corporate sector in the country. Table 1 shows the total credit indebtedness of enterprises in Macedonia in the period 2005 to 2009 year.

Table 1. Total debt to credit companies for the period 2005-2009

	2005	2006	2007	2008	2009
	Structure	Structure	Structure	Structure	Structure
Banks	69.60%	69.90%	44.62%	45.40%	43.30%
Lease	2.00%	2.20%	2.60%	2.80%	3.20%
Foreign loan	28.40%	27.90%	52.80%	51.70%	53.40%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: National Bank of Macedonia, Department of Banking Regulation, Report on financial stability in 2009, p.40

The data in the table it is obvious that the indebtedness of the corporate sector throughout the past period has seen a trend of growth. In 2009 the indebtedness of the corporate sector continues to grow, but with a slower pace, as a result of several reasons: the reduction of domestic economic activity and consequent reduction in demand for loans, narrowing the sources of funding for resident creditors of the corporate sector (mainly domestic banks) and continuation of keeping tight monetary policy by the central bank. Also its effect on slowing the indebtedness of the corporate sector had reduced foreign trade exchanges, as well as reducing the credit rating of the Republic of Macedonia (which conditions greater caution in lending to non-residents of domestic enterprises).

The biggest slowdown in the growth of indebtedness of domestic enterprises (nearly six times) was recorded for debt to the banking system. On the other hand, despite the double lower annual growth rate of debt to non-residents, this component of the total indebtedness of domestic enterprises made a major contribution (70.8%) annual increase in the debt of the corporate sector, which reinforced the dominant part in total debt of domestic enterprises by 51.7% on 31.12.2008, at 53.4% on 31.12.2009. Non-residents from 2007 represent the largest creditor of the corporate sector. Unlike the trend in the previous two years the banking sector was the largest creditor (lender) of the corporate sector in the country.

Despite the rise in credit debt corporate sector, financial intermediation, as a ratio between the total loans to enterprises and GDP is still relatively low and amounted to 25, 37% in 2009 (while in 2005 was 6.4%). This indicator is low compared with countries in the euro area (EMU-12) and the European Union (EU-25), where at the end of 2005 amounted to 42.6% and 39.7% respectively (National Bank of Macedonia, 2006, p. 37).

In terms of indebtedness of the corporate sector through leasing contracts in the period 2005-2009 shows permanent growth, but despite having this type of debt in total debt of enterprises is minimal and varies in the range of 2.2% in 2005 to 3.2% in 2009.

Higher participation of the corporate sector exposure to banks in total credit exposure, in large part explained by the limited use of alternative ways of funding the activities by enterprises in the country. Right here, leasing as an alternative source of funding, can successfully play the role of a tool for development of domestic small and medium enterprises.

3. LEASE FINANCING IN MACEDONIA

Republic of Macedonia as can be seen from Figure 1 number of leasing companies in 2005 was 2, while by 2009 this number increases to the number 9 leasing companies activities in this country are focused mainly on performing activities of financial leasing, in particular for movable objects. Although the establishment and operation of leasing companies is regulated for many years, they still have relatively little importance in the financial system and the overall domestic economy, which is perceived by many parameters which are elaborated in the following section.

In 2006 the total assets of active leasing companies represent 0.9% of GDP and 1.4% of the total assets of the financial system, i.e. 14.1% of the total assets of non-depository financial institutions. By contrast in 2009 the assets of the leasing sector was 2.2% of GDP and 3% of the total assets of the financial sector, i.e. 29.1% of the total assets of non-depository financial institutions, which speaks of a revival of the leasing sector in the economy.

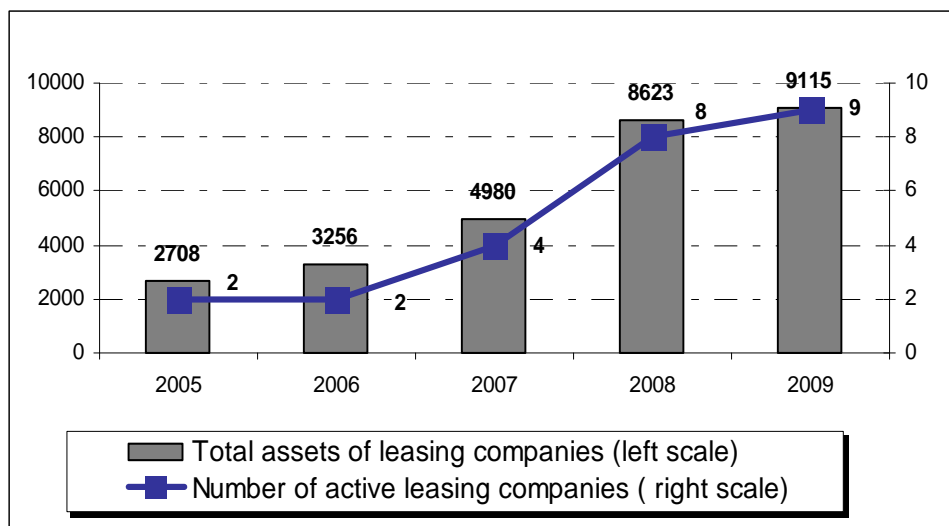


Figure 1. Trends in total assets and number of leasing companies for the period 2005 to 2009

From Figure 1 also shows that the significant revival of the leasing sector comes in 2008 when the assets of the leasing sector rose as much as 73.15% (4980 million of total assets in 2007 to 8,623 million total assets in 2008). But in 2009, the assets of the leasing sector grew only by 5.7%, making this sector experienced the largest slowdown of activities within the financial sector.

Despite the revival of the leasing sector in the last two or three years, compared with countries in the region, and some countries of the European Union, the leasing sector is still poorly developed, which illustrate that this sector in 2009 found last in comparison with the countries analyzed in terms of share of his assets to GDP and the value of new agreements in relation to GDP. The share of the value of contracts for leasing in GDP in these countries is moving in the interval of 1.1% for Greece to 7.1 in Estonia.

Regarding the ownership structure of the dominant capital leasing companies owned by foreign entities, while in terms of the type of institutions, most of the capital of leasing companies owned by foreign financial institutions.

Within the industry sector of leasing services, active leasing contracts¹ with the population dominate by 2007. On 31.12.2006 the indebtedness of individuals on the basis of 3557 (data on the number of new contracts not listed in Table 2) active lease agreements amounted to 36,1 million € which represents 7.6% (see Table 2) of the total indebtedness of population based on borrowings from the banking sector and used leasing services (National Bank of Macedonia, 2006, p. 100).

In contrast, according to report of 31.12.2006 indebtedness of entities based on 1477 active leasing contracts which represents 3.7% of the total indebtedness of entities based on borrowings from banks and used leasing services. The data can be observed that more individuals are opting for the use of leasing rather than legal subjects. This is because the leasing contracts further burden the companies (legal subjects) and to impose requirements that discourage use lease with greater intensity.

During 2004 and 2006 with increasing intensity has grown indebtedness of entities on the basis of lease contracts (the value of concluded leasing contracts rising by 13.5%, while the value of active leasing contracts rising by 127.4% against the indebtedness of individuals that according to the leasing contracts grew by 3.8%, while on active leasing contracts rising by 123.3%.

Unlike the previous period in 2007, the indebtedness on the basis of lease contracts by legal entities grew faster in relation to individuals that have raised appropriate changes in the sectoral structure of leasing services. Namely, the debt of entities on the basis of active leasing contracts increased by 93.3% compared to 2006, which represented a double growth compared with growth of indebtedness of individuals.

In 2009 the number and value of new leasing contracts declined by 51.2% and 31.2%, respectively. This trend of leasing companies are going in parallel with a

¹Active contracts are forwarded through the years if they are closed. The number of active contracts is an indication that users are late with their payments on time so that the time limit of contracts extended.

significant slowing credit activity of banks, in contrast to some developed countries, where reduced lending by banks was replaced by using financial leasing.

Table 2. Structure of the leasing contracts, by type of users (legal and natural persons) for the period 2005-2009

	2004		2006		2007		2008		2009	
	Firms	Individuals	Firms	Individuals	Firms	Individuals	Firms	Individuals	Firms	Individuals
Values of contracts (in millions €)	12.2	15.4	13.8	16.0	_*	_*	44.9	19.8	34.2	10.3
Values of active contracts (in millions €)	15.9	18.0	36.1	40.7	71.0	57.5	100.7	62.5	125.5	61.9

Source: National Bank of Macedonia, Department of Banking Regulation: Financial Stability Report 2005, 2006, 2007, 2008, 2009

* Not available

On the other hand, rising difficult in the servicing the debt, which in the banking sector reflect in the worsening of the risk categories of placements, to the leasing companies are manifested through early termination of contracts with clients due to difficult collection of receivables and separation impairment of receivables. This situation had contributed to the tightening of the criteria (before increasing interest rates) and increased conservatism and vigilance in approving these services (National Bank of Macedonia, 2009, p.116).

Regarding the type of subject of leasing (movable or immovable) dominate leasing contracts for movable objects. Table 3 shows the structure of the leasing contracts in the period 2004-2009, according to the type of object.

Under the contracts for leasing of movable objects, dominate the leasing contracts for light vehicles, which represent 87.4% of the total number of contracts for movable items in 2006, or 82.6% of the total number of active contracts for movable objects of 31.12.2006. Of the total cars sold in 2006, 15.4% were sold by signing lease agreements with interested buyers. On the other side and noted the increased number of active contracts for equipment to almost seven times from 2004 to 2006. During 2009, the value and number of new lease agreements for all types of movable objects decreased. Most of the portfolio of the leasing contract is still in favor of leasing contracts for light vehicles. Their participation in the number of new contracts for movable objects was 86.4% (an increase of 8.3 percentage points).

However, the biggest decline in the number of contracts (contracts for 1161, or 45.5%) are observed in contracts for the purchase of light vehicles. Thus, expectations of some leasing companies that tightening credit policies of banks will shift their

customers to use financial lease have not been forthcoming. Of the total 11,692 vehicles (heavy and light) sold in 2009, only 1,540 (or 8.7%) were sold through leasing agreements (National Bank of Macedonia, 2009, p.118).

Table 3. Structure of leasing contracts for movable objects

	2004	2006	2007	2008	2009
Equipment (machines)					
Number of contracts	34	43	109	194	25
Number of active contracts	49	337	225	338	276
Heavy vehicles					
Number of contracts	348	216	248	414	147
Number of active contracts	376	515	695	902	554
Light vehicles					
Number of contracts	1773	1878	2162	2554	1393
Number of active contracts	2097	4158	6123	7828	8554
Other					
Number of contracts	29	10	176	110	48
Number of active contracts	77	24	426	367	236

Source: National Bank of Macedonia, Reports on financial stability, 2005-2009

Services for leasing immovable objects have negligible participation in the portfolio of leasing contracts for the entire period of analysis. In 2009, it was not signed any new contract for immovable objects, with the number of active contracts for these cases remained unchanged and amounted to a total of four contracts. This situation is the result of still unchanged tax legislation and for her offer of financial leasing real estate is less attractive compared with the offer of loans by banks for this type of case. Unlike this situation in the Macedonian economy in European terms, the lease has a higher rate of increase of the total growth of the economy, primarily due to growth of leasing real estate (for example in 2005 compared to 2004 registered increase of 25%) (National Bank of Macedonia, 2009, p.118).

The structure of total assets and sources of funds to leasing companies for the entire period of analysis remains unchanged. The main sources of funding are loans from abroad, while domestic banks participate minimally (for example in 2009 only 2.3%). The assets of leasing companies are the most frequent claims based on contracts for leasing. Deposits in domestic banks are minimal (in 2009 only 2.5% of total assets compared with 5% of total assets in 2006).

From the above mentioned shows that the mutual dependence of the stability of the banking sector and the sector "lease" is extremely low, primarily because of their negligible interconnection. The data on financial indicators realized by leasing companies in the period 2005 -2009 are shown in Table 4.

Slowed economic developments in Macedonia adversely affected the financial operations of leasing companies in the 2009th they showed a loss of 50 million, and consequently this and indicators of return on equity and assets have negative values.

Namely, the actions of leasing companies in 2009 were not to the extent that would create a sufficient amount of revenue to cover the total expenses incurred for the year. The largest expenditure item in the structure of aggregated income statement of leasing companies is spending on interest generated primarily from the relatively high duties on the basis of credits.

Table 4. Indicators of financial operations of leasing companies for the period 2005-2009

	2005	2006	2007	2008	2009
Net profit/loss (in millions €)	0.2	1.84	1.2	1.8	-0.8
ROE	10.90%	66%	34.30%	50%	*
ROA	0.70%	4.60%	1.50%	1,6%	*

Source: National Bank of Macedonia, Department of Banking Regulation: Financial Stability Report for 2006, 2007, 2008 and 2009.

* The indicators are negative

Hence the need of taking appropriate measures which would go towards reducing the cost of leasing companies, reducing risk premiums and, consequently, improve their competitiveness (especially in relation to main competitors - the banks) and increasing the basis for Income generation, which would be related to:

- Implementation of structural transformation in the liabilities of leasing companies (an increase of capital as a permanent and irreversible investment of the owners at the expense of reduction of duties on the basis of credits);
- Improving performance, as in cases of withdrawal of the termination of the lease contracts with customers that do not comply with the provisions of the agreement, and in their sales (which requires better organization of the secondary market for movable and immovable objects in the Republic of Macedonia);
- Adoption and implementation of long awaited changes in tax regulations (those provisions that burden the operations of leasing companies);
- Such improvements in the functioning of the domestic leasing companies should contribute to easier maintenance of profitable and stable operation, not only in terms of expansion, but in times of crisis.

4. CONCLUSIONS

Research shows that lease financing has recovered in Macedonian economy in the past, but lags in terms of the lease financing in developed countries, where leasing is a third important source of financing, after loan and Euro-bonds. The survey also showed that there is an unfavorable structure lease financing in terms of types of contracts for lease financing, dominated the financing of vehicles, and to a much lesser extent, financing of equipment, which is important for companies development.

Hence there is a need to take appropriate measures to increase lease financing in the Macedonian economy by improving the legal and tax regulations, reduce the cost of using the lease on the one hand, and increasing the awareness of SME's about the benefits of lease financing of its investment activities by other side.

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IASB FRAMEWORK REGARDING THE HARMONIZATION OF FINANCIAL STATEMENTS

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ABSTRACT: *Accounting harmonization has imposed on a certain stage of economic and social development, as a practical necessity, seeking coordination based on uniform standards of accounting work. The purpose of this paper is to highlight the importance of general accounting framework for harmonization financial statements aiming to be a starting point for research, without exhausting the subject. The main source of information used to achieve this paper was a preliminary documentation in order to understand theoretical concept regarding the demarcation of the harmonization concept.*

KEY WORDS: *harmonization; financial statements; international accounting standards; IASB; normalization.*

JEL CLASIFICATION: *M40.*

1. INTRODUCTION

Harmonization of international accounting could be defined as an institutional process that is seeking to ensure consistency between national accounting rules and practices to ease comparisons between financial statements prepared by companies in different countries. The objective of harmonization is to ensure data equivalence and not their uniformity (Colasse, 2000, p.757). With initially only one national character, the normalization process formalizes and materializes the objectives, principles, methods, rules and procedures governing the production and use of accounting information. The normalization process has as a reference the system accounting rules and restrictions on building the truth about the heritage situation, results and financial condition (Ristea, 1998, p.18). Referring to the normalization of the accounting

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process, French Professor Bernard Colasse says:” Today in most countries the accountancies of firms are normalized; this means that they rely on common rules and terminology and prepare summary documents whose models are identical for all firms” (Colasse, 1995, p.37). Paul Holt and Cherly Hein define the harmonization as a process of reducing accounting differences to the extent of standardization (Holt & Hein, 2001). Other authors consider the term “harmonization” as only the jargon used in international accounting to define the "report to reduce differences in financial reporting between countries (Walton and others, 2003). Often called the language of business, the accountancy covers, we would say inevitably, a process of harmonization that is intended to harmonize national accounting rules and practices to ensure comparability of accounting financial statements. Therefore financial resources and necessary time are saved for transnational companies to draw up consolidated accounts and financial statements.

The harmonization of accounting regulations at an international level is accompanied by indisputable economic arguments (Niculescu, 2001):

- allows companies that prepare and submit their financial statements as required by the IASC to be listed on any financial market;
- provides to a wide range of users, in different countries, reliable and comparable informations on the company's financial position and performance;
- delivers an integrated, realistic and relevant vision on the companie’s activity;
- is a source of improvement for the enterprise analysis. The new forms and sources of communication, the methods and techniques of treating the information facilitates the analysts in-depth study of the functioning of the enterprise as a whole.

2. THE ROLE, PURPOSE AND OBJECTIVES OF THE CONCEPTUAL FRAMEWORK

A conceptual accounting framework is a systematization of the theoretical elements of accountancy through a coherent structure, designed to guide accounting practice. It can be considered a tool for the accounting profession sought to protect itself against attempts to monopolize the power of public accounting standardization activities. According to IASB companies around the world prepare financial statements for submission to external users, which are different in terms of content due to a variety of factors: social factors, economic, legal and cultural. These factors lead to the use of different definitions of elements of financial statements and assessment of their various bases. Implicitly, their area of applicability was also influenced.

The first attempts to create accounting conceptual frameworks were in 1975-1985 and they belong to the FASB American body of accounting standardization, the framework was based on the concepts adopted by other standardization bodies for their own accounting conceptual frameworks, including those developed by the IASB.

Even though it is obvious the usefulness of such a framework, the accounting systems do not have each such an instrument. Accounting conceptual frameworks are of Anglo-Saxon origin. It is a question of efficiency in accounting work in terms of using such a tool. Countries lacking such an instrument presently show the trend of

assimilation of a internationally recognized accounting framework, or are making the steps to develop their own conceptual accounting frameworks. Therefore, we mention the project of French conceptual accounting framework developed by the Standing Committee of Accounting Doctrine (CPDC), a body belonging to the Order of Chartered Accountants (OEC).

The option of a national accounting system to implement a conceptual accounting framework raises some problems with inconsistent data, for example in our country there are antagonistic tendencies between the concepts defined in the Framework of the IASB and the defined EU accounting directives. These contradictions that may arise between the two cultures of accounting are present in the comparison study made by the Federation of European Experts on the provision of European Directives and the provisions of state farms, namely: "*Businesses and accountants have to apply IAS in the national context - whether represented of national law or understanding of European Directives in the country*" (Ristea, 2000).

Choosing and designing an accounting system should take into account that no accounting system is perfect for a country's economic realities. He must be constantly reviewed and adapted to new requirements that are constantly changing, but in this dynamic process should be kept in mind that changes too often do not lead to stable rules and accounting practices, which has direct effects on targets of a conceptual accounting framework.

In Romania's case should there must be considered the national, European and international context. Devising of a national accounting system is a complex political and strategical process, taking into account the geography of international accounting and private interests of each country.

The purpose of the IASB framework. IASB accounting conceptual framework was developed in 1989. The aim of this framework is to provide guidance to members of the IASB Council in their work on developing standards, assist those who prepare and audit financial statements. IASB believes that the financial statements prepared on the basis of this conceptual framework provides information common to most users in making decisions, such as: assess the ability or leadership responsibility; determine fiscal policies; to assess the security that a company can provide for the loans which have been granted; determine profits and dividends that can be distributed; develop and use statistical data on national income; to regulate business activities; deciding when to buy, keep or sell parts are of the capital.

The objectives of general framework. The objective issued by the IASB is to provide a basis for the overall financial statement presentation so that it can ensure comparability both over time - the company's financial statements for previous periods, and space - with the financial statements of other enterprises.

The IASB conceptual accounting frame sets theoretical concepts that make up a reference system for the preparation and presentation of financial statements. Thus, the IASB has defined the main objectives of this general framework, which consists of the following: to assist the IASB Board in promoting the harmonization of regulations, accounting standards and procedures concerning the presentation of financial statements, providing the basis that enables the reduction of alternative accounting treatment allowed by IAS; to help develop national standards bodies in the

development of national standards; to help those who prepare financial statements according to IAS to address topics not covered by any standard; to assist auditors in forming an opinion on compliance with IAS financial statements; to help users of financial statements in interpreting the information presented in financial statements prepared in accordance with IAS; to provide information regarding the elaboration manner of the standards of those interested in the IASB activity; to assist IASB Council to develop future International Accounting Standards (IAS) and review existing ones.

As stated in the IASB Board, the general framework of the preparation and presentation of financial statements is not an accounting rule and as such it does not represent a standard for the assessment of events and transactions. Therefore, its content is clear that in exceptional circumstances where there is a conflict between its provisions and those of a specific IAS, IAS regulations will have priority.

3. OBJECTIVE OF FINANCIAL STATEMENTS

Financial statements as general objective of the IASB Framework is to provide information on the financial position, financial performance and position changes, information useful to a wider range of users in order to substantiate their economic decisions. According to the American model, financial statements are for users only an element of all their needs and does not relate to the conceptual framework accounts depending on their needs. According to the American model financial statements are prepared in two situations: 1). basis the result will be *application of accrual accounting* - under which transactions and events are registered in the time of their birth, not in the moment of their clearing; 2). *continuity of operations for the foreseeable future* - requires the company to use certain valuation bases of financial situations elements and hence to quantify transactions and events, depending on which different.

The financial position of the company is represented through the balance sheet and is evidenced by the following: economic resources that the company controls, structure of assets and equity, the liquidity and solvency and its ability to adapt to environmental changes in which they operate. Since the accounting document that reflects this characteristic is the balance sheet, by extension the equation showing the financial position is the following: $Equity = Assets - Liabilities$

The performance of business activity of the company involves primarily its profitability. Financial information in this respect is needed to assess potential changes in economic resources that the company will be able to control the future, the most important ones are those regarding performance variability. Also, this information is useful to predict the company's ability to generate cash flows using existing resources and also in the process of determining professional judgements regarding the efficiency with which the company may use these new resources. The performance is evaluated in terms of income and its evolution, which is defined in terms of profitability of the company. The performance is presented through the profit and loss, relationship through which it can be highlighted is the following: $Exercise\ result = Income - Expenses$.

Changes in financial position reflects information on operations, finance and investment for a particular accounting period. This information is useful in assessing the enterprise's ability to generate cash and cash equivalents, and also the company needs to use these funds. This situation can be presented in different ways, namely: financial resources, working capital, liquidity or cash. These indicators are calculated as follows:

1. Working capital (WC): $WC = \text{Permanent Capital} - \text{Fixed Assets}$
2. Working capital requirement (WCR): $WCR = \text{short-term assets} - \text{short-term debt}$
3. Net Treasury (NT): $NT = WC - WCR$

Cash flows are presented on three types of activities of an enterprise: operating, financing and investment. Operations on the operating activities aim at achieving the object of work of the company. Operations on financing activities aim at procuring resources to finance assets. The operations of the investment activity aim for the use of resources for the purchase of durable goods, usually in the form of fixed assets. Cash flows are determined for each category of activity in part as the difference between revenue flows and payments.

4. USERS OF INFORMATION PROVIDED BY THE FINANCIAL STATEMENTS

In our research the most important actors at company level are: on the one hand accountancy, which provides a range of information on the company's activity; on the other hand, the management which could not operate without financial and accounting information. A complete set of financial information is found in the structure of financial statements:

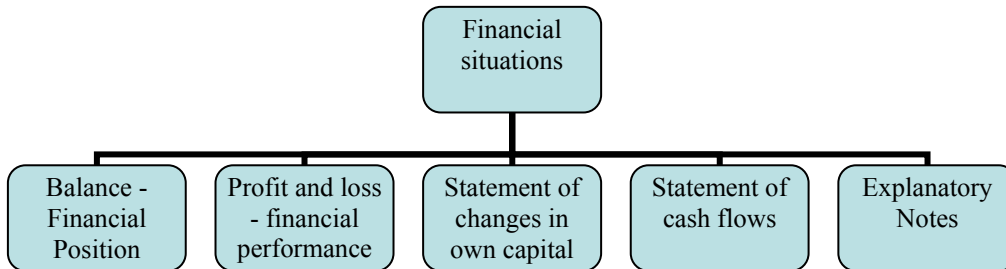


Figure 1. Structure of financial statements

Another category of actors is represented by the users of accounting information. Users of the information provided by financial statements are considered by the Council of the IASB as the most significant categories in the sense that if they are satisfied with the range of their information, others casual users have sufficient information for their information needs. This aspect is comparative from a lot of points of view. First, information needs are not closely related to the type of accounting system used by a particular country. User needs are generally common, especially regarding investors, and accounting systems provide different information in financial

statements that they present. Secondly accounting standards on which financial information is obtained have a theoretical character towards the variety of cases found in practice. Finally, in addition to the categories of users - investors and financial lenders - the needs of other users are various, different and more difficult to define. The main categories of users mentioned in the IASB Framework are:

1) **The investors** are represented by equity bidders and their financial advisers who are interested in trading and risk inherent benefits of their investment. Their information needs are to provide information to enable them to decide when to buy, sell or retain their equity parties. They also are interested in information that will enable them to assess an enterprise's ability to pay dividends. They are seen as providers of capital and its associated risks, in this sense they are interested in decision making when buying, holding or selling of equity.

2) **Employees** are represented by staff and their representative groups, and are interested in information on the stability and profitability of the enterprise. Also, they are interested in information that will enable them to assess the company's ability to provide remuneration, pensions and other benefits and career opportunities.

3) **Creditors** are interested in information that enables them to determine whether the loans and interest will be refunded at maturity.

4) **Suppliers and other creditors** are interested in information that enables them to determine whether what they are due will be paid at maturity. They are also interested in the company's activity for a shorter time period than lenders unless they are dependent on the continuity of the company's activity or when this is a major customer.

5) **Customers** are interested in information regarding the continuity of the company, especially when they have worked with it for a long time or they are addicted to it.

6) **The Government and its institutions** are interested in resource allocation and hence the activity of enterprises. The information requested relates to regulate their activities to determine the fiscal policy and for the calculation of macroeconomic indicators.

7) **The public** is interested in a variety of ways, namely: the contribution to the local economy, number of employees, working with local suppliers, recent developments and future company activity, sphere business. Analyzing the structure of the priority users listed by this referential, the specific situation in our country has come a crossing route from the prevision of European accountancy rules to the accounting norms of international accounting standards. Currently, the general assimilation of the IASB Framework, the priority structure of the users is similar to the one agreed by the international body.

5. LIMITS OF THE GENERAL FRAMEWORK IN ACCOUNTING HARMONIZATION PROCESS

Achieved international accounting harmonization is a necessity imposed by requirements of users of financial statements. The need for this process is shown by the following factors: globalization, the globalization of economies and capital markets, which prints the international character of accounting rules; creation of regional power

centers, by extending the borders of the European Union (EU), which result is in the rise of international circulation process of capitals; diversify globally competitive methods; designing a uniform accounting system and generally able to determine the efficient functioning of enterprise activities; creating an optimal convergence between internal and external system in terms of financial informing.

These phenomena taken both in particular and through the interdependencies that are created between them, are leading to the marketing aspects of accounting, namely accounting information market. Home side which shows this type of market is legal and its objectives are classified according to the preference for certain categories of users, namely investors and third parties for the purpose: developing accounting and financial information published, increasing the intelligibility of accounting information, increasing power in space and time comparison of accounting information.

Achieving these objectives has its resultant in the process of creating accounting rules capable of providing financial information useful in making decisions by its users, which is based on the strength of their information. The process of creating accounting rules generated in two streams:

- *the conceptual and deductive current* in which accounting concepts and principles are determined by professional reasoning, being found in the methods and procedures applied in practice;
- *the pragmatic or inductive current* in which the developing of concepts and principles is based on the experiences and traditions. These currents have led to the creation of two major global accounting systems, namely continental accounting system (conceptual current) and Anglo-Saxon accounting system (pragmatical current).

The usefulness of the general accounting framework gives a certain status in the process of standardization of accounting rules. IASB conceptual framework is criticized in connection with the evaluation of financial statements in the sense that he made only a listing of measurement bases, and paragraphs that have shown the maintained capital are too descriptive.

This framework sets out seven categories of users and their information needs, it does not present problems of the existence of conflict between their different information needs. Another limit is that this framework has been developed to assist in developing future international accounting rules and revising existing ones, so they do not constitute an accounting rule, but is the theoretical basis of international accounting normalization.

6. CONCLUSIONS

In conclusion, we can say that because of changes occurring internationally, Romanian accounting could not remain unchanged. Practically, all these changes are real challenges and issues of contention for professionals in the field, whether practitioners or academics. It always tried to align to the processes of normalization, harmonization and convergence, both on the actions of national organisations for accounting normalisation, but also on their actions of surveillance the capital markets, independent

from the efforts made by the bodies representing the accounting profession. Romanian accounting is in the application phase of International Financial Reporting Standards (IAS / IFRS). Thus, it moved from the accounting regulations harmonized with Directive IV of the European Economic Community and the International Accounting Standards, on the one hand, and the accounting regulations harmonized with EU directives, on the other hand, to the accounting regulations according with Directive IV and VII of the European Economic Community. So, all companies are required to conduct compliance accounting, accounting law and regulations mainly harmonized with Directive IV and VII of the European Economic Community.

In conclusion we can say that the harmonization of accounting is a necessity, especially in conditions of free movement of capital, the investors in securities refusing to accept information on a company's financial position and the results presented differently depending on the location of its registered office. Such a process enhances the credibility and reliability of information provided by companies, regardless of the location of their social headquarters, and provides the support of mutual recognition of annual accounts.

Despite the many advantages brought by the international accounting harmonization and convergence, the number and diversity of those who are pushing for this process are relatively low. The accounting frame is an important basis to members of the IASB Council in standard-setting activities, to assist those preparing and auditing financial statements.

7. ACKNOWLEDGEMENT

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VENDOR MANAGED INVENTORY AND RELISH OF BOTH PARTNERS

OLEG DEJNEGA *

ABSTRACT: *The article deals with new approach of Vendor Management Inventory for better inventory management and flexible planning of production without difference to scope of business branch, than the companies use the traditional replenishment programs. Inventory management is important element of all business subjects and play very important role in the logistic supply chains. Approach Vendor Management Inventory is suitable tool to decrease administrative costs and improve the production process. The article deals with theme in application practice, which is based on the experiences of the companies that build up this approach and focused to implementation this system in Czech Republic. Further the article contains the design of new model Vendor Management Inventory in the form of Vendor Management Inventory – Outsourcing of support activities.*

KEY WORDS: *vendor managed inventory; vendor; supplier; customers; costs; case studies; advantages; outsourcing; and model with support outsourcing.*

JEL CLASSIFICATION: *L60; M10.*

1. INTRODUCTION

In the last decade on the basis of increased density of transport, requirements of customers in the form of higher quality speed and quantity expressed in the rising importance of supply chain management like an important instrument to achieve the competitive advantage. Firms increased the interests for improvement of activities in the form of new modifications of supply chains with smaller partial or complex interventions. The concept supply chain management and particularly coordinate supply chain management managers used to emphasize the role of coordination of different parts of supply chain. Managers try to focus not only on the fragments but on the whole chains.

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The idea of complex supply chain, which is applicable by coordination way in order to achieve the higher level of service with low costs, is an inherent goal of all firms around the world. The results of integration have positive depends not only on the loyalty of customers, but also ensure the alive of all logistic partners in the whole supply chain in the high competitiveness environment. In addition, the key task in supply chain management is the encouragement of all parts in supply chain for cooperation and coordination in order to optimize system. But on the other hand, the participants in supply chain are likely to prefer their own business and own interests than the profit of complex system.

The way of forestalling the integration problems in supply chain lies in the relative new approach of Vendor Managed Inventory (VMI). Vendor managed inventory is the approach that manages, controls and replenishes the stock by supplier in desired amounts on the basis of demand.

The aim of this article is to assess and compare the approach Vendor Managed Inventory as an instrument that coordinates replenishment of relationships between firms in supply chain management with traditional replenishment process by using of outlines from the world practice and undertaking the literature review of the Vendor Managed Inventory - Supply Chain management related body of knowledge. Secondly, the situation in the field of VMI in firms of Czech business environment from results of research project, which was realized in year 2010, is also described. Finally, in the chapter Guidelines for further developing, I suggest directions for the future research, for example in the form of common outsourcing in the main and support activities.

2. VENDOR MANAGED INVENTORY APPROACH

In 1985 the approach Vendor Managed Inventory by companies Wal-Mart and Procter and Gamble, which improved the supply chain and also fixed the position of leader on the American retail market of this company, was introduced in the USA. The Vendor Management Inventory was presented as a new tool for supply of all stores against the traditional replenishment process, which became more administratively and time-consuming and was not able to cover all requirements of customers in time, and thus Wall-Mart lost the potential customers and revenues.

The Vendor Management Inventory is one of the systematic approaches for managing supply chain like complex activity. (Smáros, et al., 2003), define Vendor Managed Inventory like an automatic replenishment program where the supplier is given the access to the customer's inventory levels and demand. However, the responsibility of a supplier in this approach is very important. It is place of interference of many authors, who are interested in the problematic of supply chain management because the uniform view of position of owner of the stock does not exist. Customer built up or rent the stock a use him every day and has an overview of daily operations, which is one of the main guiding principles.

On the other hand, vendor has summary information about inventories in the stock and its customers and about prediction of demand. Currently these principles prevail because vendor is responsible for managing the warehouse and customers only provided the necessary information.

The main condition of implementation Vendor Management Inventory in company's activities is the trust relationship between a supplier and customer and transparent changing of relevant information. (Christopher, 2004), acknowledgements; that information influenced the effectiveness and it is the major power in supply chain management. The supplier is responsible for level on inventory by each customer and works as a central decision maker and these decisions are linked up with problem of inventories. The vendor has an advantage in the form of assigning of needed time for dispatching, the amount of replenishment inventory, and has the access to customer's data. Vendor could control long time plans and also the flow of goods and materials day by day. In addition (Van Weele, 2002) claimed, that VMI is focused on the whole supply chain, not only on some fragments or parts of replenishment.

Vendor Managed Inventory is defined as typical storing in the point of customer use by the Server Valuestreamguru (Vendor Management Inventory, 7.5.2011), but the ownership is not finished until the item is not consumed or moved on "drawn upon"; In comparison with the traditional replenishment process, in which the storekeeper controls the level of inventories in the stock and sends the order to purchasing department of the firm in the case of low level of inventory, this department contacts the supplier and makes the order and controls the whole process of delivering. At its most basic level, the buying and selling organization shares inventory data.

In the approach Vendor Managed Inventory, vendor holds the responsibility for generating and sending all desired amounts of items (orders) to customer, who received the series of messages, which are linked up with organization. On the other side customer moved information about the actual state in the stock to vendor. On the basic level, the vendor and customer share the data. On the basis of these information vendor decided about the replenishment. Vendor Managed Inventory is a very easy system and works very good because vendor sees everything what happened in the stock and can flexible react to actual situation.

The advantage of VMI policy due to the traditional replenishment processes lies in better using of sources. VMI could better react to changes on the market and reduce the uncertainty of demand. We know this fact under the term "bullwhip effect". Supplier can reduce the level of inventories itself by support of same level of service or can increase the level of service by decrease of costs for transport, a better planning capacity of truckloads, crossover the mistakes in deliveries, set up the minimum order to optimize loading, extend the plans to reduce costs and failures in the whole supply chain, reduce administrative costs and cover all requirements in time.

3. MODELS OF PROCESSING VENDOR MANAGED INVENTORY

Although the VMI was introduced for the first time in 80's of the twentieth century, the first research dated to the beginning of nineties. But already in the year 1985 (Silver & Peterson, 1985) provided the first formulation and discussion of simple two-echelon inventory systems. (Svoronos & Zipkin, 1991) evaluated the performance of arborescent inventory/distribution systems. This system has the independent Poisson demand at the lowest echelon and assuming stochastic transit times, one for one replenishment policy.

In the year 1996 the complex research of last eleven years appeared by (Thomas & Griffin, 1996). They focused on coordination task of three fundamentals stages of supply chain (procurement, production and distribution). In the area of operational planning they were interested in buyer-vendor coordination, production-distribution coordination and inventory-distribution coordination with strategic planning and advance in communication and information technology (Erenguc, et al., 1999) joined the integration between production and transport. (Archetti, et al., 2005), implicated approach Vendor Managed Inventory in stochastic demand.

It was noted that VMI is illustrated in most models with content relationship of one supplier and one customer or retailer. Nevertheless, in reality there exist models with many suppliers, distributors, manufacturers, wholesalers that are in many deals with retailers and customers. (Darwish & Odah, 2008) designed the model with one supplier and more customers with penalized over the level of inventories and found the corresponding cost function. Contractual relationships are incorporated in the model and then the authors propose an algorithm for this model, which reduces the complexity of the model and looking for KKT point (Karush–Kuhn–Tucker conditions are necessary for the solution in nonlinear programming to be optimal, provided that some regularity are satisfied) related to the cost function.

(Zhang, 2008) designed integration Vendor managed inventory model for one seller and many retailers without contracting relation. (Choi, 2004) designed the analytic model that measures the level of service in Vendor Managed inventory to better service level and reduction costs. (Jokar & Seifbarghy, 2008) considered one central warehouse and arbitrary number of retailers controlled by the continuous inventory policy (R, Q). The model has Poisson distribution of demands, assumed constant transport time for all retailers and constant lead time for replenishment. Unsatisfied demands are assumed as lost by the retailers and unsatisfied retailers orders are backordered in the warehouse. The aim of model is found as the optimal reorder point for given size of items.

(Nagarajan & Rajagopalan, 2008) investigated the performance of retailers and their managed inventory and Vendor Managed Inventory system. (Nachiappan & Jawahar, 2008) presented two-echelon under the VMI. These authors designed five basic models for various relationships between the supplier and customer with incorporated of outsourcing.

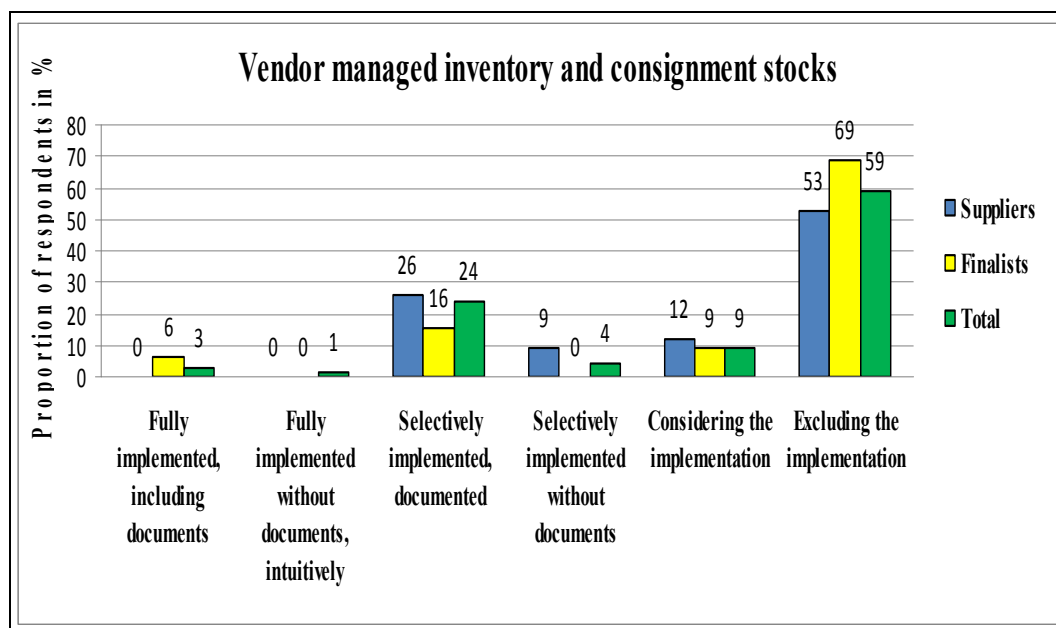
Single vendor – Single buyer (it is the ideal case, but in practice it is not so much extended), Single Vendor – Multiple buyers (big farms and their production sold by agents), Single Vendor – Multiple buyers with outsourcing (when the cumulative demand is higher than capacity of vendor, and outsourcing is the opportunity how to solve this problem), Multiple Vendors – Multiple Buyers and Multiple Vendors – Multiple Buyers with outsourcing. The authors tried to calculate the corresponding costs of these designed models and find the optimal sales quantity, acceptable contract price, optimal sales price and optimal outsourcing quantity.

4. THE IMPLEMENTATION OF VENDOR MANAGED INVENTORY IN CZECH REPUBLIC – ORIENTATION PROBE

In 2010 the research of logistics chains with focus on risks and cost and possibilities of simulations techniques utilization by Technical University Ostrava, Czech Republic was carried out (Macurová, et al., 2010). The research was realized by the Students Grant Competition. The research was undertaken in more than 300 firms, particularly from Moravia-Silesia department and Olomouc department, from all business areas.

The research was focused primarily on the risk management and cost management in logistic chains. In the field of measures to risk reduction, the authors of research were interested in the area of Vendor managed inventory and consignment stocks. The full text of question was, “Are you applied system Vendor Managed Inventory with consignment stocks?” and this question was answered by 82 respondents (100%) from more than 300 companies surveyed.

The approach Vendor Managed Inventory is on the beginning of their practical application in the terms of Czech firms. On the Fig. 1 we can take note that in 2010 9 respondents finished implementation of this approach in the forms of implementation with documents or without documents fully. 29 suppliers, 13 finalists realized Vendor Managed Inventory selectively (it means for selected items in stocks or for chosen subcontractors) with documentation or without.



Source: Own elaboration

Figure 1. Vendor Managed Inventory and Consignment stocks

In addition, 10 suppliers, 8 finalists considered about the implementation of VMI. It means that more than 47% of all suppliers in survey implemented in some form or considered about implementation of this approach, 31% of final producers implemented or considered about Vendor Managed Inventory.

On the other side it is a bit little disturbing that more than 69% of finalists does not think about implementation of this system and hold traditional or some different ways to replenish the stock itself.

5. PUBLISHED EXPERIENCES OF APPLICATION VENDOR MANAGED INVENTORY

In the next section experiences and intricacy with application of approach Vendor Management Inventory are introduced without difference to business area in the chosen companies.

5.1. Volvo powertrain

The first practical case of successful implementation of VMI is from Sweden Company Volvo (Gröning & Holma 2007). The company Volvo powertrain is one of the world's largest producers of diesel engines. The company has about 8.000 employees and the plants are in Sweden, France or United States. The production is customer-oriented which means that every engine has customer itself.

In April 2002 Volvo stated the first VMI relationship. Volvo recognized the exigency to decrease the level of inventory. First, the concept of VMI was realized in the plant Skövde and Köping. The VMI was designed by fifty suppliers; it was about 60% of total volumes. For managed of relationships with suppliers Volvo used VMI application PipeChain. System B2B supported supplier and customer in relationship of transmit information. The concept of Volvo is based on the daily report about demand, level of inventory and required the internet connections.

In February 2004 Volvo evaluated the first results from VMI relationship with suppliers. The cover of inventories dropped down from seven to three days. The inventory level decreased about 67% and also the administrative costs fell down. VMI effected the planning of production in good way, set up time and increased the level of service. Volvo evaluated VMI as the solution for the future that connected all parts of firm. The investment to software was paid back for six months.

5.2. IKEA

Ikea is one of the biggest retailers in the field of furniture and home accessories in the world. In 2000 IKEA formulated a new direction for the new millennium, improved the life of people around the world and became the number one in the world. IKEA used many sorts of distribution channels, like call off, order point distribution center, Vendor Managed Inventory (Henningson & Lindén 2005).

In the new millennium, IKEA went through different direction, they accepted the strategy that decreased costs in supply chains and improved the quality and service

level. In 1996, IKEA introduced the first Vendor Managed inventory relationship. Today IKEA AB is divided into 16 main world areas and about thirty distribution centers. The division “WOOD” is placed in Almhult, Sweden. This division is responsible for purchase of wood from Denmark, Belarus, Estonia or Latvia. These negotiations are linked up with very high level of administrative costs and cooperation of all participants. In addition, the very high competitive environment, in the form of firms from India or Poland, forces IKEA to return to different areas like the very high quality, speed and logistics costs of her products, because IKEA is not so much competitive in the field of wage costs.

In the year 1991, the IKEA purchased the firm Bräntorp, which became the member of SWEDWOOD International, which is in the ownership of IKEA. Bräntorp is the producer of kitchens and accessories from wood. This firm has only one customer - IKEA. The company used 3P-logistic company for delivering of products, which store Bräntorp’s inventory of finished goods and schedules the carriers to the distribution centers (Logistic managers Bräntorp). But in 2002-2003 firms had problems with deliveries and IKEA was not able to cover the demand of her customers because only 70% of all orders were covered. In December 2003, IKEA decided to launch new Vendor Managed Inventory approach with instrument Advanced Production Planning (APP). The results were unbelievable and improved the position of Bräntorp immediately. Already in the year 2005, Bräntorp grow up with 94% of satisfied demand.

The relationship between Bräntorp and IKEA is based on the veracious share of data. Every day Bräntorp receives the file with data and these data are put into the ERP system. In addition, every week firm receives the information about the demand for next 150 days. The manual work decreased from 175 hours to 100 hours, the administrative with better prediction decreased from 240 hours to 120 hours of work and 192 hours are interested in the managed of stocks and VMI revealed false orders by better information between all participants. The investment of new approach was 700.000 Swedish Crowns and 40% of costs were remunerated by SWEDWOOD.

5.3. ICA – not success

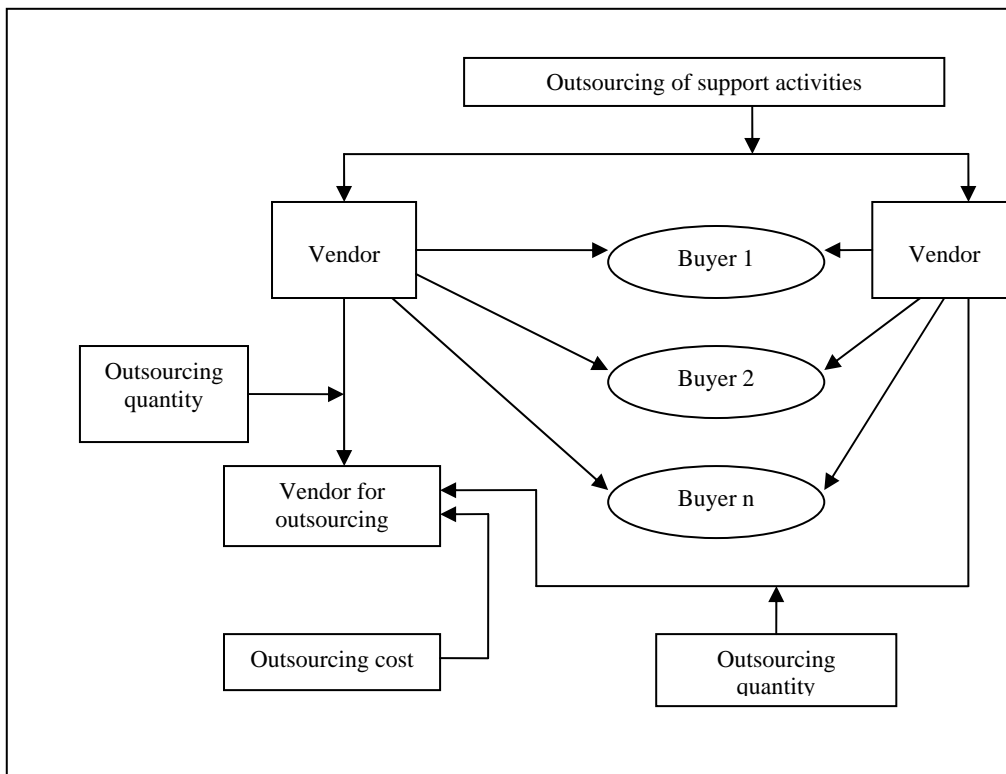
Due to (Henningson & Lindén 2005) ICA is the retailer in the area of food products. The first VMI relationship was linked up with Abba Seafood on the basis of volume of transport and in the year 1997 with Metsä Serla, 2000 SCA and 2001 with Colgate and 2002 with OLW. The goods became the ownership of firm’s customers, as soon as arrived to the stock. Every day firms received daily sale by every products and for every week and next ten weeks. Before implementing of VMI, firms stated objects. For example there was stated with OLW, that work time decreased from 9.2 days to 8 days and that satisfaction of orders grew up from 93 to 98%. These goals were reached after 8 months.

The situation changed very well, the sales grew up about 23%, but it was not given by the approach VMI, but because of the situation on the market. After the first evaluation, any benefits were not pointed out between ICA and OLW. In addition, in every time, controls were launched and the whole system became very demanding in

administrative with OLW and also, after some time problems with ABBA Seafood also appeared. These facts promoted into the higher costs, failures in ERP and the whole system lost efficiency itself. The company decided to leave this approach in the year 2005, so after three years of working.

6. GUIDELINES FOR FURTHER DEVELOPING OF VENDOR MANAGEMENT INVENTORY

In the year 2008 (Nachiappan & Jawahar, 2008) presented five basic models in the condition of Vendor Managed Inventory. Multiple Vendor – Multiple Buyers – Outsourcing model is one of these models. This model works on the basis of inventory tracking and its replenishment. But sometimes, the capacity of vendors is exceeded and these vendors must use the capacity of their contractors. This contractual relationship is known under the name outsourcing. On the Fig. 2 we can observe when the vendor is not able to cover the increased demands of customers, he returns to his contractors and missing goods or materials are taken from him until he does not increase his capacity. In this case, the outsourcing is used for delivering of inventories (main activities).



Source: Own elaboration

Figure 2. Scheme of model Single vendor with outsourcing – Multiple buyers

On the other hand, the main activity is accompanied by the series of supportive activities, without which it would be not possible to operate the main activity. These include for example the management of data networks, computer networks, guarding of buildings or the use of companies for repairs of machines or vehicles (support activities). I suggested that in this case, the vendors can join together and choose one firm to ensure the necessary support activity.

The chosen company due to the expansion of its services can achieved economies of scale and higher revenues, which can reflect in the decreased cost of entire supply chain. The save of costs on the side of vendors and also on the side of support firms lead to the synergic effect. On the other side, the common outsourcing encounters obstacles in the form of different networks software, different guarding policies of firms, and willingness of employees to learn novelties and obtains new skills or the business policy.

The next interesting fact on the field of Vendor Managed Inventory is its new version in the form of Coordinated Managed Inventory (CMI). CMI is a very similar approach as the Vendor managed inventory system. Managers of given company managed the replenishment process of their company, but the biggest difference is that the order placed by the supplier is still recommendation and is not a firm order, until it is approved by the costumers. But in the VMI approach, the order is generated by the supplier who is responsible on the behalf of customer and delivers the products and bills it the costumer.

7. CONCLUSIONS

Vendor managed inventory is a relatively new approach how to manage the supply chain and achieve higher level of service for customers with lower total costs. VMI is based on the true relationship between the supplier (vendor) and customer, who shared the relevant data about the inventory and demand. VMI is the balance relationship between both sides and nobody has an advantage against the traditional approaches in this relationship.

Vendor Managed Inventory is not a universal instrument solving every problem with inventories, demand or truckloads but it could help to achieve better results in supply chain in the area of costs, time and work. It is not suitable for every supply chain because this approach works in some business environments, with given participants and particularly with given products, goods and materials, which have very big influence to VMI.

Vendor Managed Inventory is able to diminish the bullwhip effect that is linked up with incorrect forecast of demand, improve the set up time of machines, help to better planning of production, decrease administrative costs of customers, increase the service level, truckload rate and decrease risk of stock out. It is also able to reduce the time needed for managing the inventory level, set up the minimum order to optimize loading, improve plans to minimize costs or disruptions in the whole supply chain, detect deficiencies or surplus in the goal financial statements and give more trust in the relationship of both sides.

The advantages from VMI are useful for both sides. Particularly, the quickness of order process which is closer to be more effective and there exist not so much mistakes and failures as in the typical order processes, because transparent communication between both sides (vendor + customer) exists. Furthermore, we cannot forget the role of partnership between all participants in the supply chain. It is important to point out that the relationship must be solid for given success.

In addition, when the cumulative demand of all customers is higher than capacity of vendor, a vendor could turn to his partners, which could afford the missing amount of products, goods or materials. At present, the outsourcing in the extend economics became a common part of production, deliveries, but also in the field of support activities like common data management or guarding warehouses it could be very helpful to save the costs. Outsourcing is an acceptable strategy for covering the desired demand in the corresponding quality, quantity and quickness.

Vendor Managed Inventory in the combination with outsourcing could be a good instrument for reducing costs because an outsourcer could use economies of scale, better position in deals with his partners, experiences. On the other side, it could be very hard to implement the same outsourcer by vendors and multiple buyers; particularly the implement process is very time consuming when harmonizing all requirements of all participants in supply chain and everything must be subordinate to the common goal. This could be a problem because the participants of supply chain management are likely to prefer their own profit than profit of the whole supply chain, so this idea could lead to competitive problems and threat of survive itself.

The Vendor Managed Inventory is on the journey to become a common part of supply chain management, particularly in countries of middle, east-south and east Europe. It is not a universal instrument, but VMI could achieve the decrease of cost in supply chain management and thereby save the financial resources for different business activities.

The future research in the area of VMI could focus on the simulation of VMI in relationship of joint outsourcing in the main and support activities of firms, investigating the benefits and non benefits from this relationship. Second, how simulations in VMI effect the production by supplier in given type of production and demand and finally tested the differences between traditional Vendor Management Inventory with new version Coordinated Management Inventory in given supply chain situations.

8. ACKNOWLEDGEMENT

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WEB STRUCTURE MINING

CLAUDIA ELENA DINUCĂ *

ABSTRACT: *The World Wide Web became one of the most valuable resources for information retrievals and knowledge discoveries due to the permanent increasing of the amount of data available online. Taking into consideration the web dimension, the users get easily lost in the web's rich hyper structure. Application of data mining methods is the right solution for knowledge discovery on the Web. The knowledge extracted from the Web can be used to raise the performances for Web information retrievals, question answering and Web based data warehousing. In this paper, I provide an introduction of Web mining categories and I focus on one of these categories: the Web structure mining. Web structure mining, one of three categories of web mining for data, is a tool used to identify the relationship between Web pages linked by information or direct link connection. It offers information about how different pages are linked together to form this huge web. Web Structure Mining finds hidden basic structures and uses hyperlinks for more web applications such as web search.*

KEY WORDS: *web mining; internet; web structure mining; link mining.*

JEL CLASSIFICATION: *L86.*

1. INTRODUCTION

The characteristics of Web applications are the existence of hypertext links and of some procedures that allow real-time dialogue between client and server. Hypertext links are indicated by different marking from the rest of the document of words, images or icons that, when selected, cause browser to bring the respective document, regardless of where it is located on the Internet. Assembly of electronic documents that refer to each other led to the name Web.

The process of bringing documents on the system using browsers is named browsing or surfing the web. Note that currently most web applications are due to electronic publications and the possibilities the Web offers: a fast information and at a reduced price (actually, only the cost of subscription to the Internet connection), the information is structured, interactive quickly updated and made available to users.

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With several billion Web pages created by millions of authors, World Wide Web is a great source of knowledge. We can find information about almost anything.

The information provided can be divided into two broad categories: documents and services. Most important characteristics of information contained on the web are:

- Most data are semi-structured form because the structure of HTML code.
- There are links between information in the pages of a site and between pages from different sites.
- More information is redundant - meaning that the same information or similar versions of it can appear in multiple pages.
- Information can be found on the surface (in pages that are accessed via browsers) or deep (in the database there are queried through different interfaces).
- The dynamic nature of information is obvious. Constantly monitoring changes in the information is an important issue.
- Above all, the Internet has become a virtual company. In addition to information and services contained, the Internet offers the possibility of interaction between people, thus contributing to the creation and development of new communities.

Web size and dynamic unstructured content, makes the extracting of useful knowledge a challenge for researchers. Web site generates a large amount of data in various formats that contain valuable information. For example, Web server logs contain information about user access patterns and can be used to customize information to improve website design.

World Wide Web is certainly the largest data resource in the world. Using global Web network, increasing the role and implications in the daily life of society, has led to a rapid and unprecedented development of many fields such as finance and banking, commercial, educational, social, etc. Because the existing data volume is huge, the application of new techniques for extracting information and knowledge from the web is much needed.

Web mining is the area that has gained much interest lately. This is due to the exponential growth of World Wide Web and anarchic architecture and the growing importance of Internet in people's lives.

2. WEB MINING OVERVIEW

Web mining is the Data Mining technique that automatically discovers or extracts the information from web documents. It consists of the following tasks (Kosala & Blockeel, 2000):

1. Resource finding: It involves the task of retrieving intended web documents. It is the process by which we extract the data either from online or offline text resources available on web.

2. Information selection and pre-processing: It involves the automatic selection and pre processing of specific information from retrieved web resources. This process transforms the original retrieved data into information. The transformation could be

renewal of stop words, stemming or it may be aimed for obtaining the desired representation such as finding phrases in training corpus.

3. Generalization: It automatically discovers general patterns at individual web sites as well as across multiple sites. Data Mining techniques and machine learning are used in generalization.

4. Analysis: It involves the validation and interpretation of the mined patterns. It plays an important role in pattern mining. A human plays an important role in information on knowledge discovery process on web.

Web mining is the use of data mining techniques for automatic discovery and knowledge extraction from documents and Web services. This new area of research was defined as an interdisciplinary field (or multidisciplinary) using techniques borrowed from: data mining, text mining, databases, statistics, machine learning, multimedia etc.

Web mining, when looked upon in data mining terms, can be said to have three operations of interests - clustering (finding natural groupings of users, pages etc.), associations (which URLs tend to be requested together), and sequential analysis (the order in which URLs tend to be accessed). As in most real-world problems, the clusters and associations in Web mining do not have crisp boundaries and often overlap considerably. In addition, bad exemplars (outliers) and incomplete data can easily occur in the data set, due to a wide variety of reasons inherent to web browsing and logging. Thus, Web Mining and Personalization requires modelling of an unknown number of overlapping sets in the presence of significant noise and outliers, (i. e. bad exemplars). Moreover, the data sets in Web Mining are extremely large.

3. WEB MINING METHODS

The Web is a critical channel of communication and promoting a company image. E-commerce sites are important sales channels. It is important to use data mining methods to analyze data from the activities performed by visitors on websites.

Web mining methods are divided into three categories (Raymond & Henrik, 2000; Srivastava et al., 2000):

- Web content mining - extraction of predictive models and knowledge of the contents of Web pages;
- Web structure mining - discovering useful knowledge from the structure of links between Web pages;
- Web usage mining - extraction of predictive models and knowledge from the use of Web resource by using log files analysis.

Web mining tasks can be classified into three categories (Kosala & Blockeel, 2000; Srivastava, et al., 2000): Web content mining, Web structure mining and Web usage mining. All of the three categories focus on the process of knowledge discovery of implicit, previously unknown and potentially useful information from the Web. Each of them focuses on different mining objects of the Web - see Figure 1. In the following section we provide a brief introduction about each of these categories.

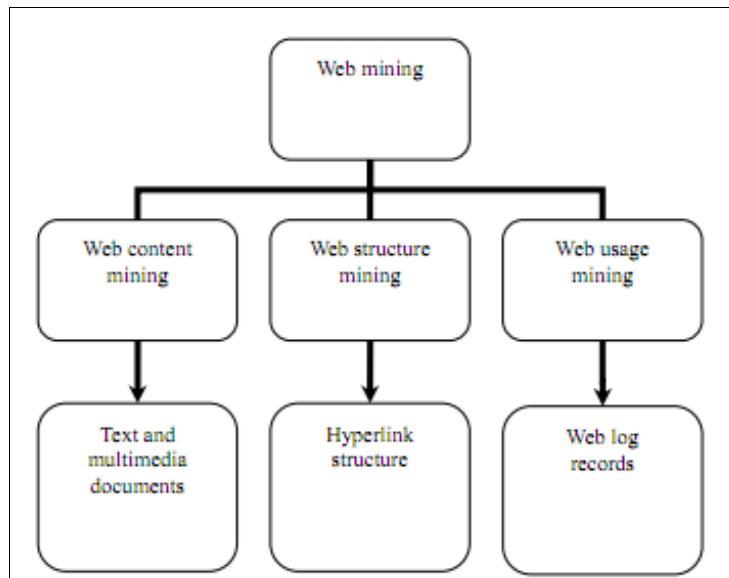


Figure 1. Web Mining Structure

Web content mining is the process of extracting useful information from Web documents content. Web content consists of several types of data such as text data, images, audio or video data, records such as lists or tables and structured hyperlinks. Web content mining is closely related to data mining and text mining because many of the data mining techniques are applied on the Web, where most data are in text form.

In recent years there has been an expansion of mining activities in the field of Web content, this is a natural result of the great benefits arising from such mining activities. However there are still many issues that require further research, such as:

- Extracting data and information;
- Integration of information;
- Extracting opinions online sources (forums, chat, surveys, etc.);
- Knowledge synthesis;
- Web page segmentation and detection of redundant information

Web usage mining is the most relevant in terms of marketing, because it explores ways of navigation and behaviour during a visit to the website of a company. With the continued growth of e-commerce, Web services and Web-based information systems, volume and clickstream data collected by Web-based organization in its daily operations have reached astronomical proportions (Mobasher et al., 2006).

The benefits obtained by analysis of log files are related to classification of users, improved site design, prediction and detection of fraud actions among users. Benefits of clickstream can be seen in the way the content is viewed by website users. The clickstream analysis provides information on: the number of site visitors, the site showing the most interest, the region from where the visitors came, pages or parts of pages that are more or less populated, sites or web pages that offer the highest current advertising for the current website.

Data mining applications that are best suited for log files analysis are the association rules, clustering and classification algorithms and a number of other statistical analysis. Thus, it can be determined by statistical analysis the number of visits in a given period, the average visit a page, the countries from which the site's users came from, together with the percentage of users visiting the country properly, and the most used search engines.

4. WEB STRUCTURE MINING

The main purpose for structure mining is to extract previously unknown relationships between Web pages. This structure mining provides use for a business to link the information of its own Web site to enable navigation and cluster information into site maps. This allows its users the ability to access the desired information through keyword association and content mining. Hyperlink hierarchy is also used to path the related information within the sites to the relationship of competitor links and connection through search engines and third party co-links. This enables clustering of connected Web pages to establish the relationship of these pages.

In the business world, structure mining can be quite useful in determining the connection between two or more business Web sites. The determined connection brings forth a useful tool for mapping competing companies through third party links such as resellers and customers. This cluster map allows for the content of the business pages placing upon the search engine results through connection of keywords and co-links throughout the relationship of the Web pages. This determined information will provide the proper path through structure mining to improve navigation of these pages through their relationships and link hierarchy of the Web sites. With improved navigation of Web pages on business Web sites, connecting the requested information to a search engine becomes more effective.

Therefore, Web mining and the use of structure mining can provide strategic results for marketing of a Web site for production of sale. The more traffic directed to the Web pages of a particular site increases the level of return visitation to the site and recall by search engines relating to the information or product provided by the company. This also enables marketing strategies to provide results that are more productive through navigation of the pages linking to the homepage of the site itself. In order to utilize the website as a business tool, web structure mining is a must.

The role of web page links is similar to the role of citations in scientific literature, for example. Popular articles are often cited. Many hyperlinks pointing to a page draw the attention of web users just as citations to an article do for academics.

In fact, the Web is an example of a *social network*, a network of entities such as individuals or organizations that connect (or interact with) each other in various ways. The notions of *popularity*, *authority*, and *prestige* are central to social networks. There is an approach called *bibliometrics*, which is used in library and information science to analyze the merit of scientific publications. An example of bibliometrics approach is the citation indices. For example, the *impact factor* (number of citations in the preceding two years) uses the in-degree of the nodes in the network of scientific journals to evaluate the merit of a publication. The measures of popularity, authority,

and prestige can be used for ranking web pages retrieved by a search engine. The idea is to assign to each page on the Web a rank based on the hyperlink structure. This ranking can be done off-line (e.g., when pages are indexed) because it is independent of any query and web page textual content and is then used to rank the pages returned by the keyword search query.

We present two important web page ranking algorithms, PageRank and HITS, which further develop that notion and combine it with a content-based web search.

Web Structure Mining (Web Mining Linkage) offer information about how different pages are linked together to form this huge web. Web Structure Mining finds hidden basic structures and uses hyperlinks for more web applications such as web search.

The Links pointing to a document indicates the popularity of the document, while links coming from a document indicate the richness and variety of topics contained in that document. Web Structure Mining describes the organization of web content, web structure is defined as “hypertext links between pages and HTML formatting commands within a page” (Cohen, 2003). Understanding the relationship between content and structure of the site is useful to keep an overview on Web sites. Thus, it can be indicate whether a page fix within the structure of links and content and help identifying topics that extend over several connected web pages, thereby helping web designers by comparing their intentions with real content and structure of the site. Other studies deal with the web page as a collection of blocks or segments. The authors in (Cai, et al., 2004) uses an algorithm to partition the web page into blocks, by extracting the page-to-bloc relations, block-to-page link structure and page layout analysis, a semantic graph can be built on the Web, which represents each node by exactly one semantic topic, this graph can better describe the structure of semantic Web.

5. WEB SEARCH AND HYPERLINKS

Traditional information retrieval systems and search engines first extract relevant documents to users based on content similarity query entered and indexed pages. In the late 1990s, it was concluded that the methods used are based on content alone are not sufficient due to the large volume of information available on the Internet. When applying a query using a search engine the page numbers results relevant to this query is very high. Thus, to meet the satisfaction of users, search engines must choose the first 30-40 pages results of relevant query. Thus, there are used hyperlinks that connect pages together. In 1998, there were created two very important algorithms based on hyperlinks, PageRank and HITS. Both algorithms, PageRank (Palau, et al., 2004) and HITS (Kleinberg, 1998), draw their origin from social network analysis.

They use the hyperlinks structure of the web pages to give ranks according to the degree of prestige or authority. Page Rank algorithm was created in 1998 by Sergey Brin and Larry Page. Based on this algorithm it works the most successful Internet search engine, Google. Page Rank is rooted in social network analysis, it basically

provide a ranking of each web page depending on how many links from other sites leading to that page.

The key idea is to use the probability that a page is visited by a random surfer on the Web as an important factor for ranking search results. This probability is approximated by the so-called *page rank*, which is again computed iteratively. The popularity (or prestige) of a web page can be measured in terms of how often an average web user visits it. To estimate this, we may use the metaphor of the “random web surfer,” who clicks on hyperlinks at random with uniform probability and thus implements the *random walk* on the web graph. Assume that page u links to Nu web pages and page v is one of them. Then once the web surfer is at page u , the probability of visiting page v will be $1/Nu$. This intuition suggests a more sophisticated scheme of propagation of prestige through the web links also involving the out-degree of the nodes. The idea is that the amount of prestige that page v receives from page u is $1/Nu$ from the prestige of u . This is also the idea behind the web page ranking algorithm PageRank (Markov & Larose, 2007).

It is assumed that we have n pages, each page containing a number O_i of links to other websites. Let A be the adjacency matrix associated to the web regarded as a directed graph $G = (V, E)$ where pages are vertices and links between pages are arcs of the graph.

Associated graph adjacency matrix will have the elements:

$$A_{ij} = \begin{cases} \frac{1}{O_i}, & \text{if } (i, j) \in E \\ 0, & \text{if } (i, j) \notin E \end{cases} . \quad (1)$$

Starting with an initial probability vector and using an irreducible stochastic and aperiodic matrix, according to Ergodic Theorem of Markov chains it is obtained a convergent series of vectors of probabilities to a unique equilibrium state:

$$P_1 = A^T P_0, \quad (2)$$

$$P_k = A^T P_{k-1}, \quad (3)$$

$$\lim_{k \rightarrow \infty} P_k = P. \quad (4)$$

The probability vector obtained will give us rank web pages. To apply the Ergodic Theorem of Markov chains the adjacency matrix is transformed to meet conditions for irreducibility and aperiodicity.

The formulate:

$$P(i) = (1 - d) + d \sum_{(j,i) \in E} \frac{P(j)}{O_j}, \quad (5)$$

gives us the rank of page i , where $P(i)$ is the rank of page i and d is a damping factor which takes values between 0 and 1.

The pseudocode algorithm for calculating the rank of web pages is presented below.

PageRank

$$P_0 \leftarrow \frac{e}{n}$$

$$k \leftarrow 1$$

repeat

$$P_k \leftarrow (1-d)e + dA^T P_{k-1};$$

$$k \leftarrow k + 1;$$

until $\|P_k - P_{k-1}\|_1 < \varepsilon$

display P_k

where e is the vector with all elements 1, ε is the accuracy threshold and 1 is the norm of the vector calculating by summing up its elements.

HITS (Hyper-link Induced Topic Search) Algorithm

Kleinberg (1999) suggests that there are two types of pages that could be relevant for a query: *authorities* are pages that contain useful information about the query topic, while *hubs* contain pointers to good information sources. Obviously, both types of pages are typically connected: good hubs contain pointers to many good authorities, and good authorities are pointed to by many good hubs.

A good hub page is a page which is pointing to many authoritative pages on that content and a good authority page is a page which is pointed by many good hub pages on the same content. A page may be a good hub and a good authority at the same time (Ding, et al., 2001; Kleinberg, 1999).

The HITS algorithm treats WWW as directed graph $G(V,E)$, where V is a set of vertices representing pages and E is set of edges corresponds to link. Figure 2 shows the hubs and authorities in web (Kosala & Blockeel, 2000).

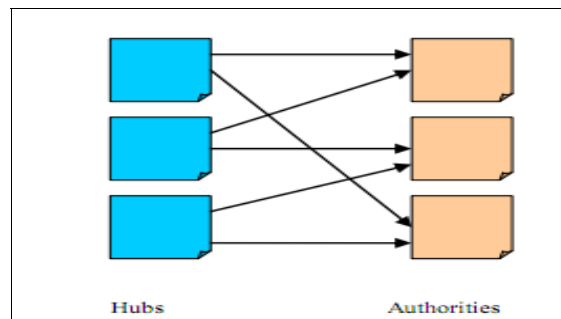


Figure 2. Hubs and Authorities

Kleinberg (1999) suggests to make practical use of this relationship by associating each page x with a hub score $H(x)$ and an authority score $A(x)$, which are computed iteratively:

$$H_{i+1}(x) = \sum_{(x,s)} A_i(s) \quad (6)$$

$$A_{i+1}(x) = \sum_{(p,x)} H_i(s) \quad (7)$$

where (x,y) denotes that there is a hyperlink from page x to page y . This computation is conducted on a so-called *focused subgraph* of the Web, which is obtained by enhancing the search result of a conventional query (or a bounded subset of the result) with all predecessor and successor pages (or, again, a bounded subset of them). The hub and authority scores are initialized uniformly with $A_0(x) = H_0(x) = 1.0$ and normalized so that they sum up to one before each iteration. It can be proved that this algorithm (called HITS) will always converge (Kleinberg, 1999), and practical experience shows that it will typically do so within a few (about 5) iterations (Chakrabarti et al., 1998). Variants of the HITS algorithm have been used for identifying relevant documents for topics in web catalogues (Chakrabarti et al., 1998, Bharat & Henzinger, 1998) and for implementing a “Related Pages” functionality (Dean & Henzinger, 1999).

The HITS approaches combines content-based search with link-based ranking. It makes the basic assumption that if the pages from the root set are closed to the query topic, the pages belonging to the base set (one link farther) are, by their content, similar to the query (Markov & Larose, 2007).

The Hits algorithm has two steps:

1. Sampling Step - in this step a set of relevant pages for the given query are collected.
2. Iterative Step - in this step Hubs and Authorities are found using the output of sampling step.

An important difference between PageRank and HITS is the way that page scores are propagated in the web graph. In HITS the hub collects its score from pages to which it points (Markov & Larose, 2007). The graph shown in Fig. 3. illustrates this. At each step, page u_1 collects its hub score $h(u_1)$ as a sum of the authority scores of the pages to which it points (v_1, v_2 , and v_3). At the next step, page v_1 collects its authority score $a(v_1)$ as a sum of the hub scores of the pages that point to it. This process continues until all scores reach some fix point.

Following expressions (8) and (9) are used to calculate the weight of Hub (H_p) and the weight of Authority (A_p).

$$H_p = \sum_{q \in I(p)} A_q \quad (8)$$

$$A_p = \sum_{q \in B(p)} H_q \quad (9)$$

where H_q is Hub Score of a page, A_q is authority score of a page, $I(p)$ is set of reference pages of page p and $B(p)$ is set of referrer pages of page p , the authority weight of a page is proportional to the sum of hub weights of pages that link to it. Similarly a hub of a page is proportional to the sum of authority weights of pages that it links to.

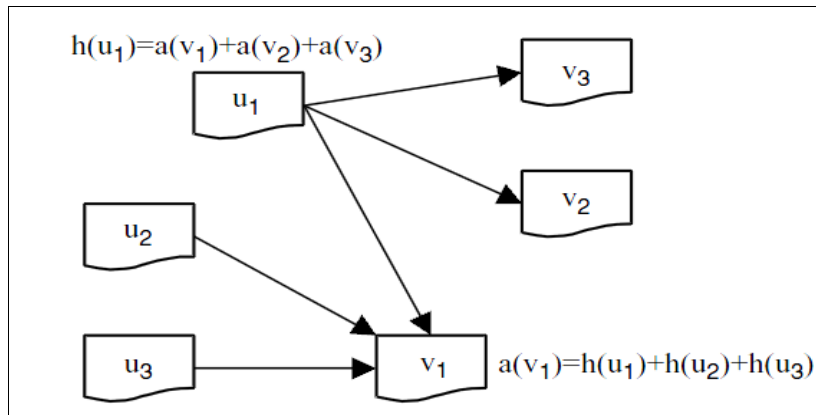


Figure 3. Computing hub (h) and authority (a) scores (Markov & Larose, 2007)

The following are some constraints of HITS algorithm (Chakrabarti, et al., 1999): it is not easy to distinguish between hubs and authorities because many sites are hubs as well as authorities, sometime HITS may not produce the most relevant documents to the user queries because of equivalent weights, HITS gives equal importance for automatically generated links which may not have relevant topics for the user query, HITS algorithm is not efficient in real time.

HITS was used in a prototype search engine called Clever for an IBM research project. Because of the above constraints, HITS could not be implemented in a real time search engine.

The main drawback of this algorithm is that the hubs and authority score must be computed iteratively from the query result, which does not meet the real-time constraints of an on-line search engine.

Complexity of PageRank algorithm is $O(\log N)$ whereas complexity of HITS algorithms are less than $O(\log N)$.

6. CONCLUSION

Web Mining is a powerful technique used to extract the information from past behaviour of users. Web Structure Mining plays an important role in this approach. Various algorithms are used in Web Structure Mining to rank the relevant pages. PageRank, and HITS treat all links equally when distributing the rank score. In this

paper, we approach the research area of Web mining, focusing on the category of Web structure mining. We had introduced Web mining. Later in the paper when we had discussed Web structure mining, and introduced Link mining, as well as block-level link mining issues. We had also reviewed two popular algorithms to have an idea about their application and effectiveness. Since this is a huge area, and there a lot of work to do, we hope this paper could be a useful starting point for identifying opportunities for further research.

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ASPECTS REGARDING THE FACEBOOK USER IN ROMANIA AS A POTENTIAL DESTINATION IMAGE - VECTOR

**MIHAIL-CRISTIAN DIȚOIU,
AURELIA-FELICIA STĂNCIOIU ***

ABSTRACT: *The Internet's rapid development from the 1.0 version to the 2.0 one has triggered the appearance of social networks. Facebook is illustrative of them due to the number of users it attracts and its international range of dispersion. Although a beginner in communication, Facebook Romania is prone to contribute highly to the "content generator" market in what concerns its users. In order to create or maintain a brand's positive image it is necessary to know some elements regarding the demographic aspects of the target public, and its attitudes, predilections or behaviours in general. Thus, web pages created on Facebook can "transform" its users into fans and there is a possibility that afterwards these fans become image -vectors by way of the delivered experiences. This article tries to study the fundamental elements that could make up the profile of a user from the targeted group as a potential destination image- vector.*

KEY WORDS: *Facebook; user; fan; image-vector; experience.*

JEL CLASSIFICATION: *M31.*

1. INTRODUCTION

The necessity to cater for the user and brand's endless need for communication has led to the development of the Internet from the passive Web 1.0 version to the active technology of Web 2.0. This technology gives way to interaction between the users by alluring them into virtual communities through the use of network socialization and by encouraging them to generate their own content.

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Social networks simplify the user's access to public content. Hence in the age of the Internet, when generated content is undergoing a constant process of growth, and the influence factor of this content on the consumer could become important, the possibility to achieve branding generated by the users has arisen (adapted from Burmann, 2010). The consumer expresses himself in the online medium by way of a mix of messages and comments, analyses and assessments, and by using texts, images, audio or video content, etc. This way the social networks transfer power to the consumer and they analyze the Internet as if it were a long contextual discussion between users.

In tourism, because of the specific character of communication, it is very important for the consumer to receive recommendations from friends; that is why the social networks (for example, Facebook) where every user has his own group of friends that influence him, represents for marketing specialists a solution to the problem of reaching the target-public through the help of the consumers that assume the role of vectors. The access to their friends' experiences, as well as to those of other consumers becomes reliable through the multiplication of sources. The entire experience that has to do with a particular product or destination that the tourist brings inside the network forms part of "...a collage of user's inputs (comments, tags, rankings, etc ...)" (Munar, 2010, p.9). The difficulty in this case arises from an apparent lack of control, but "...the opportunities associated with the apparently anarchic nature of user-generated content far outweigh any likely negatives and there is little risk of damaging the destination brand", according to World Tourism Organization & European Travel Commission (2009, p.77).

In these circumstances we feel that it is necessary to constantly engage in exploratory investigations in all the segments of users, after this following a stage in which, based on the results of these investigations, marketing specialists will establish specific strategies of communication in what regards the management of online content: the moment of publishing, the place, the type of content, etc.

2. THE FRAMEWORK

The exploratory investigation was undergone in during the year 2011, using personalized fundamental data, given by the online instruments Facebrands Pro and Facebook Insights, as well as secondary data represented by Facebook and Facebrands. The goal of this study is to identify, from the marketing specialist's point of view, some of the first elements that characterize the Romanian Facebook user as a targeted public for the transformation in an image vector of the destination.

Out of all the social networks Facebook has been the one strongly advertised and it stands out in what regards Internet socialization. Thus, according to the Facebook Company (2011), at the beginning of December 2011 there were over 800,000,000 active users, 900,000 objects of interaction for users (Web Pages, groups or events), 250,000,000 pictures uploaded daily on the network, 70 available languages, 7,000,000 applications and sites integrated within Facebook, 350,000,000 users that access the social network through the use of mobile devices. The access to such a large public that can be found in just one place transforms the Facebook

experience into an appropriate instrument of interaction with the users and of monitoring them.

One of the advantages Facebook poses in what regards the dissemination of information is precisely that it answers the problem of trust regarding the identity of the source (adapted from Svensson, 2011). Hence, if in the case of “word-of-mouth” on the Internet, the source that spread the information was most of the times unknown, in the case of Facebook “word-of-mouth” the user that transmits the information is known, as he is an acquaintance of the user. The spreading of information and trusting the source lead to a better running of communication, and in this way it is possible to monitor the voice rate.

In December 2011 Facebook Romania had 3,847,600 users, that is to say a penetration rate of 17.93% of the population and of 52.73% of Internet users, according to Facebrands (2011). Our source also specifies that 91.39% of users had selected their hometown.

As for the number of Facebook users from Romania divided according to their county of origin, the situation in December 2011 was as follows:

Table 1. The number of Facebook Romanian users according to their county of origin

County	Number of users	County	Number of users	County	Number of users
București-Ilfov	1114720	Suceava	66960	Caras-Severin	32080
Cluj	193100	Arad	60340	Olt	26720
Timiș	182620	Hunedoara	57660	Vâlcea	26440
Iași	170780	Maramureș	55080	Tulcea	23820
Constanța	151840	Neamț	54880	Mehedinți	23140
Brașov	121620	Brăila	41260	Gorj	20540
Galați	94960	Buzău	41180	Harghita	20080
Prahova	92620	Alba	41060	Ialomița	19740
Dolj	91820	Botoșani	39220	Sălaj	19700
Bacău	87300	Vaslui	37240	Teleorman	17860
Bihor	77560	Vrancea	36520	Călărași	17360
Mureș	75000	Dâmbovița	34600	Giurgiu	11560
Sibiu	74420	Bistrița-Năsăud	34100	Covasna	7400
Argeș	70700	Satu Mare	34080		

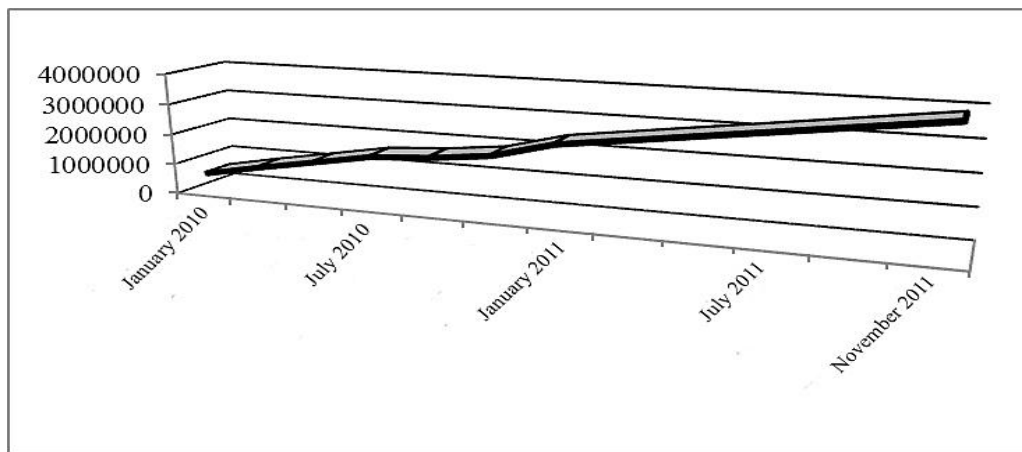
Source: Facebrands (2011)

From a socio-demographic point of view, according to Facebrands (2011), Facebook Romania users present the following distribution:

- According to their sex: 50.05% women and 49.95% men;
- According to their age: 13-17 years old (16.4%), 18-24 years old (32.6%), 25-34 years old (30.9 %), 35-44 years old (13.5%), 45-54 years old (4%), 55-64 (1.8%), 65 + years old (0.9%);

- According to their marital status: single (34.19%), in a relationship (30.10%), engaged (4.67%), married (31.03%).

The 18-34 years old segment stands out as the dominant target-public, and it is made up by two subgroups: the 18-24 years old group and the 25-34 years old one. By analyzing the evolution of the number of Facebook users in Romania (which in less than two years have reached the number of 3,847,600 from 518,140) we can observe the high rate of joining Facebook among the Internet users.



Source: Facebrands (2011)

Figure 1. The evolution of the number of Facebook users in Romania during the period 2010-2011

Because Facebook has more than one instrument of interaction (for example, the users profile, causes, groups, Web Pages, etc.), only Web Pages have been selected for analyze, and that is mainly because in their case a percentage of the users have already expressed their attitude by becoming fans. Facebook pages represent profiles of organizations that offer the users not only the opportunity of becoming fans and of interacting with their brand, but of also promoting the products (by including, for example, a brand message in their chats with their friends from the social network).

A fan is more than just a user because it is characterized by a high level of emotional implication as well, in accordance to with it expresses his "Like" attitude, an attitude which is targeted towards the organization or brand's page. By enlisting as a fan, he displays his desire to interact with the brand. At this moment, his level of commitment becomes important, namely his reactions in the guise of comments, shares or "Likes" directed at what is posted on the page, reactions that lead to the dissemination of information throughout the network, if the user agrees with the messages transmitted by the brand (adapted from Connor, 2011). However, the young behave rationally in social networks weighing the advantages in relation with the stocks and costs, in accordance with their preferences (Koroleva, et al., 2011).

In what concerns the number of Romanian Facebook pages inscribed to Facebrands, this was of 15,160 in December 2011, out of which 543 are pages

dedicated to tourism and vacations. Taking into account the number of fans, the first places belong to artists, but in the Top 10, (see Table 2) there is also present a community of travellers that “present” their experiences. It is obvious that a Facebook page is much more relevant in the case of artists, but the presence of tourism in this classification confirms the already known hypothesis that tourists need information, recommendations and experiences “shared” by others in order to pick a holiday destination.

Table 2. Top 10 – The general classification of Romanian Facebook pages based on their number of fans

The name of the Facebook page	Number of fans	Field/Activity
Inna	3966026	Singer
Akcent	857567	Music band
Edward Maya	600362	Music producer
Alexandra Stan	551289	Singer
Creative Monkeyz	550589	Site dedicated to art
Kiss FM	498189	Radio
Bancuri	438999	Humor
Evadeaza.ro	425592	A community of travellers
Smiley	417290	Singer
Radio ZU	413783	Radio

Source: Facebrands (2011)

Table 3. Top 10 – Classification of “Turism & vacanțe” Romanian Facebook pages based on their number of fans

The name of the Facebook page	Number of fans	Field/Activity
Evadeaza.ro	425592	A community of travelers
Romania	285527	A page that promotes Romania
Visit Romania !	263704	A page that promotes Romania
273 de locuri pe care trebuie sa le vezi inainte sa pleci din Romania	239477	A page that promotes Romania
Ghidcroatia.ro - Vacante si locuri de cazare in Croatia	140702	A page that promotes Croatia
Vola.ro - Bilete Avion	51185	Online reservations for airplane tickets and hotels
Paravion.ro	23465	Online reservations for airplane tickets and hotels
Croaziere.net	14038	Travel agency
Tarom	13876	Airline company
Unde si cum .ro	12265	A community of travellers

Source: Facebrands (2011)

By analyzing, the Top 10 “Turism & vacanțe” pages (see Table 3), we can observe a concern in obtaining favourable images of a country by creating pages that

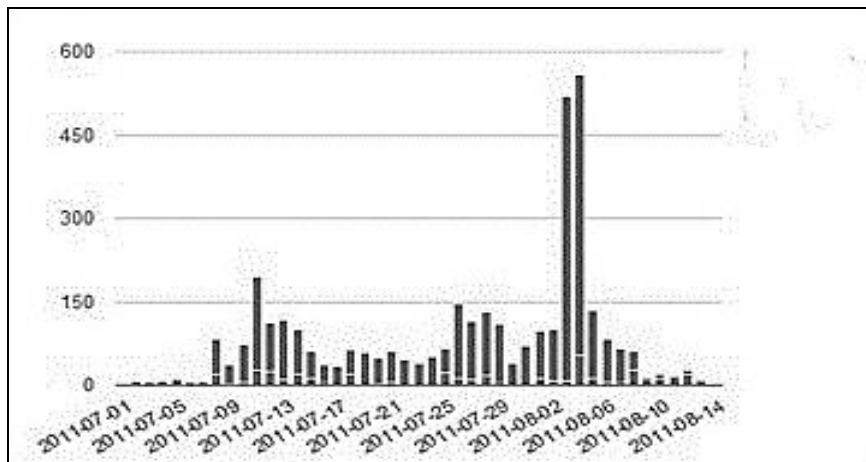
inform the user about it and that promote it. We can identify two major forms of tourism by maintaining this category and by extending the monitoring process to all the pages inscribed in Facebook: adventure and cultural tourism. The appearance of these two forms of tourism can also be explained by the socio-demographic profile of the fans of these pages.

Among the activities proper to adventure tourism we can enumerate: military experiences - Arsenal Park; helicopter flights to secluded ski locations - Heliskiromania; cycling tourism - CarpatBike; mountain-climbing, camping, expeditions, rafting, zip line - Extreme Travel; mountain-biking, horse-riding – Active Holidays; mountain-climbing, rappel, cave exploring, ski - Climbadventure; kiteboarding - D&D Kiteboarding; going on vacation on floating hotels in the Danube Delta – Wild Danube; etc.

Cultural tourism is represented by: the International Documentary Film Festival on Art, Ecology, and Tourism - Document.Art; the music festival “Artmania”; the following touristic attractions - The Romanian National Museum of Arts, The Carolina Citadel in Alba Iulia, houses of worship – The Poiana Mărului monastery, the Monteoru hermitage; cultural projects for young people - RomStudTravel; etc.

From a financial point of view in the category “Turism & vacanțe” we also find luxury tourism (cruises – Croaziere.net, reservations at luxury mansions- Luxury Paradise, holidays on yachts – Yacht Holidays, etc.), as well as economic tourism (through the help of the coupons system - Vacante Reduse, Waz, etc.).

In the category “Turism & vacanțe” the majority of Facebook pages have as subject destinations, lodging arrays, travel agencies, ticket reservations or communities of travelers. Among these internal touristic destinations that are being promoted we find the following: Băile Tușnad, Timișoara, Costinești, Alba Iulia, Brașov, Sibiu, Delta Dunării, Straja, Vatra Dornei, Comana, etc.



Source: Facebrands Pro (2011)

Figure 2. The evolution of the number of fans the Perfect Tour page had during the campaign

These pages can also be used to support a cause, an example of this being Alba Iulia or Timișoara, whose pages are directed at obtaining the title of European Cultural Capital in 2020 with the help and support of its fans, a fact that sustains the idea of forming image vectors through the help of this channel. For a page to be relevant, it must attract as many fans as possible. There are many ways of alluring fans: generating a good content, supporting the page through the help of a site or a blog, financial incentives, etc. If you use financial incentives to attract fans, it is necessary to keep their loyalty. Such an example is the one used by the Perfect Tour travel agency - "If you give a <<Like>>, you will receive a traveling voucher!" The studied period was the following: 08.07.2011 – 07.08.2011, and the period in which the campaign took place was 08.07.2011 – 08.08.2011. The incentive was a 100 Euros voucher that could be used not only at the Perfect Tour travel agencies from Bucharest, but at other Perfect Tour agencies present in the country as well. The evolution of the Perfect Tour page's fan database is presented in Figure 2.

A +3129 fans variation has been detected in the period in which the campaign took place, which meant a 70.05% increase of the Perfect Tour page's fan database, according to Facebrands Pro (2011).

3. CASE STUDY: THE FACEBOOK PAGE "TRĂIEȘTE ROMÂNEȘTE"

Having as a starting point the idea that "the reputations of countries are very much like the brand images of companies and products" (Anholt, 2009, p.IX) and that "the expression <<live the brand>> proves to be adequate for the domain of public services" (Olins, 2009, p.42), the Facebook page "Trăieșteromânește" was conceived, as a page whose central element is given by place in the holistic sense of the term, that includes the political, cultural, economic and, consequently, the touristic dimensions, according to World Tourism Organization and European Travel Commission (2009, pp.15-17).

This Facebook page aims at creating a community of fans centered on the experience "living in a Romanian style", which at first wants to (re)discover the Romanian values, than to disseminate information and, finely, to generate content through the help of its users. Financially speaking, the costs involved in creating and developing the community "Trăieșteromânește" on Facebook amount to nothing.

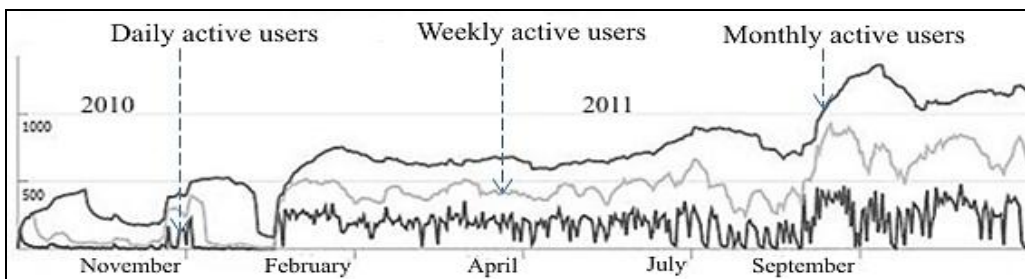
The page was created on the 13th of September 2010, and on December 2011 it ranked as the 4037th page out of 15160 pages from the General Classification on Facebrands (2011) and as the 129th page out of 543 pages from the category "Turism & vacanțe". These tops have been made according to the number of fans every Facebook page has.

In order to increase the efficiency of a Facebook page we need to have as a starting point its analysis, an analysis that presupposes two approaches: 1. *external*: from the user's point of view; 2. *internal*: from the marketing specialist's point of view, by analyzing the mechanisms that lay behind a proper Facebook page.

The number of active users (individuals with a Facebook account that have interacted with the page or have visualized it or what had been posted on it) on the

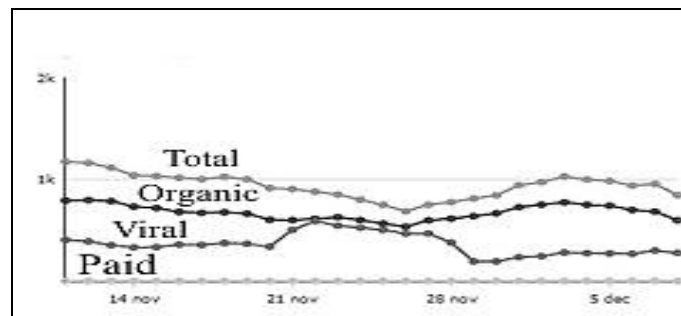
page “Trăieșteromânește” during the period between the 13th of September 2010 and the 10th of December 2011 has been 1354, according to Facebook (2011).

We can observe in the diagram the evolution of the number of active users, and the growth of the fan database which had a very small average (for example, in the period November-December 2011 the diagram shows an average of +1 fan per day). This can be explained by the fact that the measures taken to attract fans did not include financial incentives as well (as in the case of the Perfect Tour page presented in the first part of this article), but were aimed at “reaching” the users through the quality of the content. This type of fan database evolution that does not imply advertisement or financial incentives is interpreted by Facebook as being organic (it presupposes a natural growth without financial support), as it is explained in Figure 4, where we find indicated what methods were used in order to attract users. Thus, we see that the method “Paid” is at zero level.



Source: Facebook (2011)

Figure 3. The evolution of the number of active users: daily, weekly, monthly

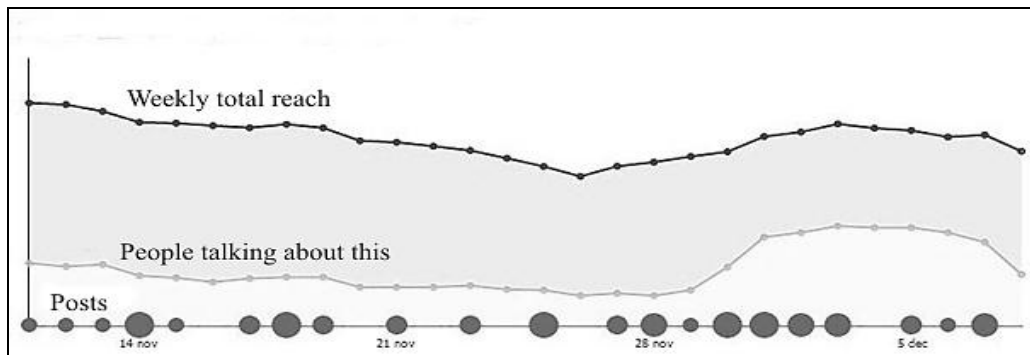


Source: Facebook (2011)

Figure 4. The methods used to reach the target-public during the period November-December 2011

Figure 5 shows the influence the content had on the public from a quantitative point of view. Thus the circles with a small diameter mean one material published per day, and those with the widest diameter mean 3-5 materials published. We may notice an increase in the number of users the content managed to “reach”, as well as an increase in the number of users that reacted to the message as materials were being published uninterrupted, every day, as well as an increase in the number of materials

published throughout the period of a day. The users' reaction can manifest itself by expressing an attitude about the content through the help of the "Like" button, comments or by sharing the material, thus leading to viral. If we look at the period of growth from Figure 5, starting with the 27th of November 2011, there is a possibility to analyze the content from a qualitative point of view so as to determine what topics the user prefers. Table 4 contains the results from a viral point of view, arranged by date of publication, that concern the users that have been reached by the information. The term "reached" public refers to the public that had seen the message, the engaged public is that public that clicked anywhere over the published message, the public that reacted refers to those users that had spread the information by clicking the "Like" button, by leaving a comment or by sharing the message, and the viral represents the percentage of people that have reacted out among the users that were exposed to that message.



Source: Facebook (2011)

Figure 5. The influence the content published had on the number of users reached and on those that reacted to this content

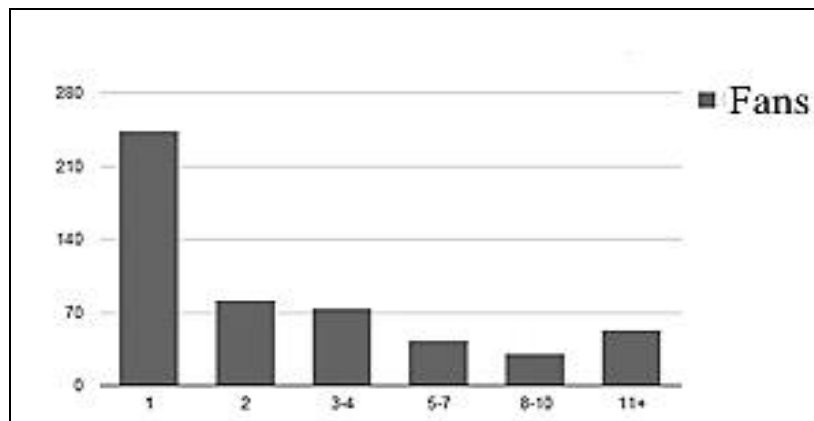
Table 4. The type of content published and the reaction of the public that received the message

Date	Content	The "reached" public	The engaged public	The public that reacted	The Viral
27.11.2011	An eleven years old boy from Iasi offers ...	346	12	6	1.73%
28.11.2011	Traiestermaneste has added a picture...	299	121	1	0.33%
28.11.2011	The telocite cells, discovered by researchers...	302	8	7	2.32%
28.11.2011	Immemorial times, a world that is as ...	279	7	4	1.43%
29.11.2011	The metro treasure from Politehnica	366	582	58	15.85%
30.11.2011	Happy birthday Andrei and ...	327	62	14	4.28%

Source: Facebook (2011)

According to Table 4, the maximum target in November in terms of the number of users engaged on the subject and in terms of the viral aspect was reached by “The metro treasure from Politehnica” on the date of 29.11.2011. This result was obtained based on the criterion of public relevance and on the controversial hint enclosed in the title.

Once it has entered the social network Facebook, an organization cannot control what will be said about it, this aspect been considered by the consumers as one of the advantages this social network has to offer – but the relativization of the content obtained by multiplying the sources can also influence these discussions. One of the methods is to identify fans with the largest activity on the page (because this activity naturally determines virality in the fan’s group of friends from Facebook), as well as the most loyal fans. In the case of the page “Trăieșteromânește” a Top 5 fans based on their activity from December 2011 is offered by Facebrands Pro (2011) and it looks like this: “Trăieșteromânește” (509 “Likes”/65 comments/212 posts), “Dițoiu Cristian” (362 “Likes”/10 comments/4 posts), “Ionuț Blejnar” (104 “Likes”/25 comments/1 post), “Oros Mariana” (84 “Likes”/10 comments/0 posts), “Mihaela Uzum” (84 “Likes”/1 comment/0 posts). According to the same source a Top 5 of the most loyal fans based on the number of days they interacted with the page would look like this: “Trăieșteromânește”- 271 days, “Dițoiu Cristian”- 169 days, “Mihaela Uzum” – 65 days, “Ionuț Blejnar”- 63 days, “Iuliana Șerban” – 53 days. After identifying the active and loyal fans, the organization should pay “special attention” to them, influencing them in such a manner by catering for their needs and exciding their expectations as to make them transmit positive opinions



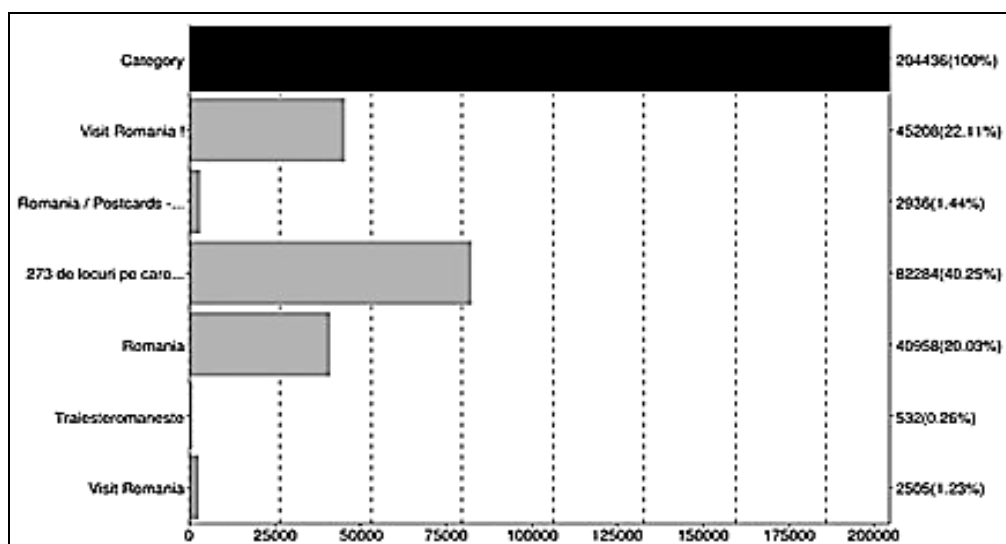
Source: Facebrands Pro (2011)

Figure 6. The number of fans based on their interaction with the page.

In Figure 6, we can identify the core of the community “Trăieșteromânește”. Distinguishing between fans based on their number of interactions with the page allows us to identify those fans that can be transformed into image – vectors. The most

active and loyal fans are also present in the community's core. We can observe a decrease in the number of fans that interact with the page more than once, a process that continues to happen until the area of 8-10 interactions, where the number of fans starts to increase and the core is formed.

The top of competing pages based on the number of shared fans indicates the possible competitors or completes the profiles of the page's fans, and in the case of "Trăieșteromânește" the first results of this top, according to Facebrands Pro (2011), are the following: "273 de locuri pe care trebuie să le vezi înainte să pleci din România" - 209 fans, "Visit Romania!"- 140 fans, "Romania"- 89 fans, "Romania/Postcards-Postales"- 40 fans, "Visit Romania"- 21 fans. Keeping in mind the results of these possible competitors, these can be analyzed on either one of the following criteria: fans, activity, and interaction. Although the page "Visit Romania!" has the highest number of fans out of all the contestants, the page "273 de locuri pe care trebuie să le vezi înainte să pleci din România" represents the strongest contestant if we judge things based on the number of engaged fans (Figure 7).

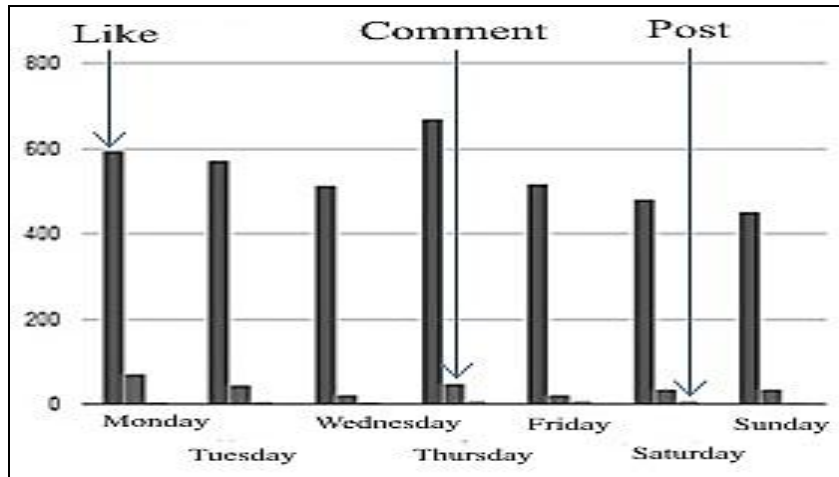


Source: Facebrands Pro (2011)

Figure 7. A comparison between the first contestants of the page "Trăieșteromânește" based on the fans' level of engagement

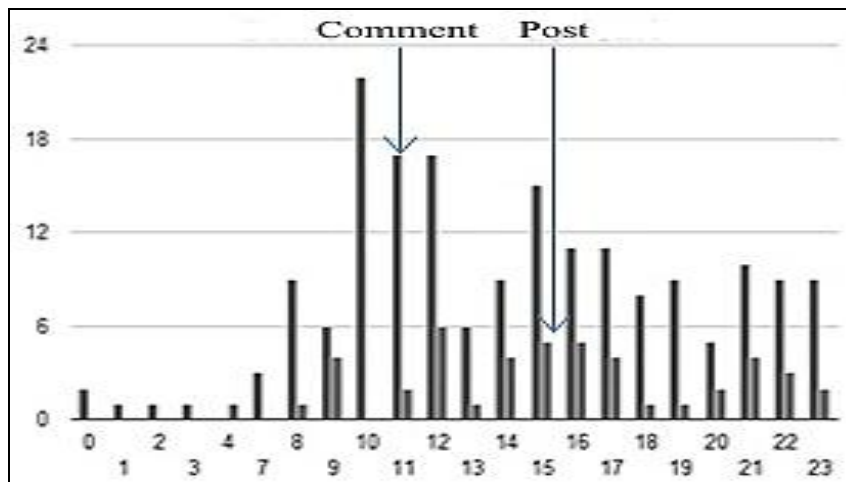
The data entry for the page "Trăieșteromânește" represents the activity of the page's administrator. According to Facebrands Pro (2011) in the case of the page "Trăieșteromânește" this data is the following: 3.62 activities per day in comparison with the average number of activities per day specific to the category "Turism & vacanțe" of 0.82; 1.96 posts per day in comparison with the average number of posts per day specific to the category "Turism & vacanțe" of 0.63. The data entry represents the reaction generated among the Facebook users by the administrator's activity. In the case of the page "Trăieșteromânește" the source Facebrands Pro (2011) indicates the following numbers: the average number of interactions per day is 12.04 in comparison

with the average number characteristic of the category which is 11.63 interactions per day.



Source: Facebrands Pro (2011)

Figure 8. The users' number of interactions on different days of the week.



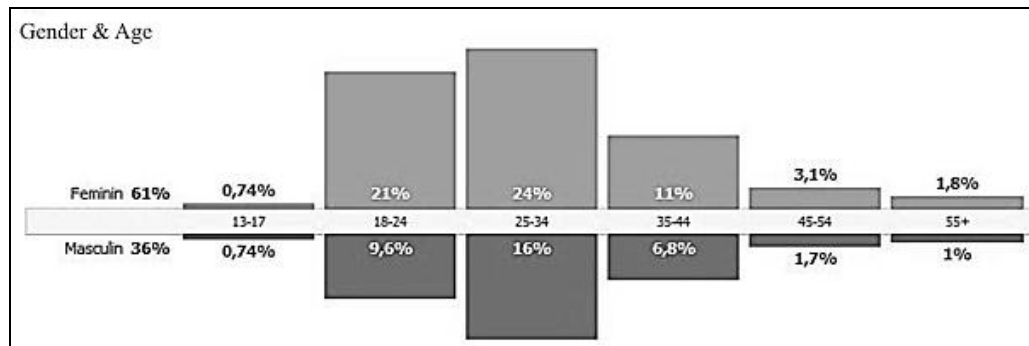
Source: Facebrands Pro (2011)

Figure 9. The users' interactions in different hours of the day

By analyzing the diagrams that show the users' number of interactions with the page "Trăieșteromânește" in different days (Figure 8) or hours of the day (Figure 9) we can infer the key-moments when the published content has a greater impact due to prime time. Such a moment is Thursday, 10:00 a.m. Concerning the forms of the content published on the page "Trăieșteromânește" that act as triggers of the user's reaction, according to Facebrands (2011), these forms are represented by the following decreasing sequences: images, video content, text and links. The same source also

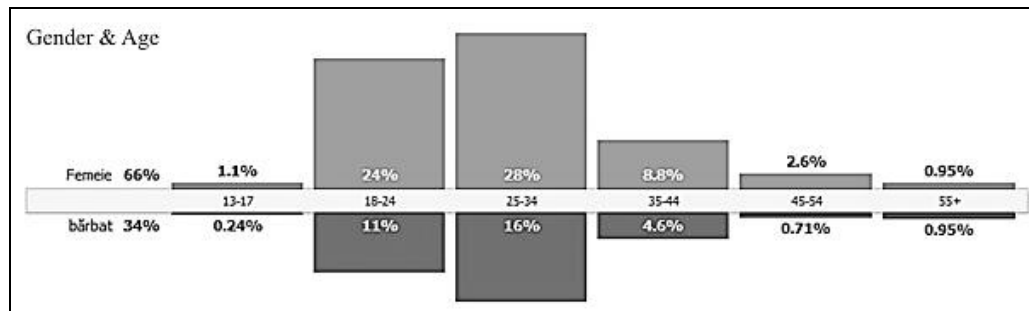
indicates the percentage of types of interaction the users have with the published material: “Like”-91.9%, comments - 6.8%, posts - 1.3%. Therefore, apart from selecting the proper moment for publishing something, the form of the content is also important, and in the case of the page “Trăieșteromânește” the images are the ones that trigger the most reactions. As a consequence of following these rules of publishing that take into consideration the public’s preferences in November 2011 the fans’ “engagement rate” in the case of the page “Trăieșteromânește” was of 10.41%, in comparison with “the engagement rate” the category “Turism & vacanțe” presented, which was of 2.97%, as Facebrands Pro (2011) mentions.

By analyzing the 1354 fans of the Facebook page “Trăieșteromânește” we have come up with the following demographic distribution:



Source: Facebook (2011)

Figure 11. The demographic distribution of the target-public of the page “Trăieșteromânește” based on age and sex



Source: Facebook (2011)

Figure 12. The demographic distribution of the public that transmits the information from the entire target-public of the page “Trăieșteromânește” based on age and sex

Diagrams 11 and 12 identify the target public from a demographic point of view. The Facebook users from all subcategories of age, male or female, have become fans of the page “Trăieșteromânește”, and this indicates the relevance the content has for a large public. However, the main subcategories of age remain 18-24 years old and

25-34 years old. We also notice that the subgroup 35-44 years old has high potential and it should be taken into consideration when developing communication strategies.

From a geographical point of view the target public of the page that has set its location information has the following country distribution, according to Facebook (2011): Romania (1022), Italy (99), Spain (33), Great Britain (31), The United States of America (27), Germany (20), France (16), Austria (10), Canada (8), Moldova (8), Belgium (6), The Netherlands (4), Cyprus (4), Greece (4), Sweden (3), Denmark (3), Egypt (3), Portugal (3), Ireland (2).

In what concerns the structure of the public based on the city they are from, we have the following situation presented by the same source: Bucharest (514), Cluj-Napoca (56), Ploiesti (37), Rome (34), Iași (31), Pitești (29), Craiova (28), Constanța (27), Bacău (18), Brașov (18), Tg. Mureș (18), Timișoara (15), Vaslui (15), Galați (14), London (14), Sibiu (11).

Based on what we have just analyzed the fact that there are foreign fans as well leads to the conclusion that they can be transform in potential image-vectors abroad as well. However, it is not sufficient enough just to expose the message to as many users as possible and to increase the fan base (the quantitative aspect), but, even more than that, it is necessary to make a qualitative evaluation, in the sense of ensuring the fans' constancy and that of their activity by generating a content that is based on the socio-demographic structure of the target public and on its preferences.

4. CONCLUSION

The Facebook pages represent experiential interfaces with the help of which marketing specialists can obtain the conversions user/fan/image-vector. If we analyze carefully the market, and the classification of users based on as many socio-demographic and psycho-graphical criteria as possible and we then identify their needs and interests, as well as anticipate their desires and preferences, we can built a profile of the users that is necessary in order for the two conversions user/fan and fan/image-vector to take place.

By taking as a starting point tourism defined as a social experience on the network Facebook, and by using place marketing as a central element in creating pages, communities are being developed in order to spread positive information about the destination. In order to attract fans on the page and to "convince" them to help generate content by sharing their experiences or expressing their opinions, and at the same time to distribute among their Facebook circle of friends the messages received the administrator of the page and the marketing specialists need to make a constant effort. Thus, strategies to attract fans and to transform them into image-vectors are being developed by continually monitoring and analyzing the content. These strategies are helpful in establishing the proper moments for publishing the content (the days and hours when the new materials should be posted), the quantity of information (the exact number of posts during a day), the form of the content (text, image, video, etc.), the type of message (in order to obtain reactions and virality), as well as the core of community made up of active and loyal users whose dedication paves the way for the conversion into image-vectors.

During this investigation the data was collected with the help of the platforms Facebook and Facebrands. The handling of the data and its analysis, including the graphic interpretations, has also been done through the help of these platforms. The instances where the users have not supplied certain information (such as place or age) have been considered possible gateways of error to seep in.

The study may be continued and it is recommended that it be continued by the integration of the developed community in an independent Internet platform that can bring the acquisition, classification and information archiving support, at the same time simplifying the users' access to the content. Another way of continuing it is to measure "the upside down value of fans", seen as destination image-vectors, the average generated by them, as well as the level of credibility of the content the users have that is obtained in that way. An important aspect in our endeavour is represented by the zero financial factor, as we took as a starting point the idea that the user's level of trust is higher in the case of information received via earned media than in the case of information received via paid media, a hypothesis that is currently being tested.

The Facebook page "Trăieșteromânește" is just one of the components of a complex site belonging to the destination Romania, a site that needs to be interconnected with other sites similar to it, "that emerged from the idea of Romanian experience". Through the help of this site research can also be continued by analyzing in detail the psycho-graphical aspects of the users' profile that have been already identified, at the same time extending the analysis on the other subgroups of age that are poorly represented on Facebook in order to transform the users in destination image-vectors.

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FDI FLOWS AND HOST COUNTRY ECONOMIC DEVELOPMENT

IMOLA DRIGĂ *

ABSTRACT: *The propose of the paper is to analyze the relation between economic development and FDI flows. FDI should have a positive effect on economic growth as a result of positive externalities generated for host countries by multinational companies (MNCs). There are several studies on this issue, some of them pointing out that FDI has a considerable positive effect on host country economic growth but the magnitude depends on host country conditions, while other works indicate that there is no powerful interdependence between inward FDI to host country economic growth. However, it is generally accepted that there is a functional link between the degree of openness of trade and foreign direct investment, especially in developing countries.*

KEY WORDS: *economic growth; foreign direct investment inflows; absorptive capacity; host / receiving country; home / source country.*

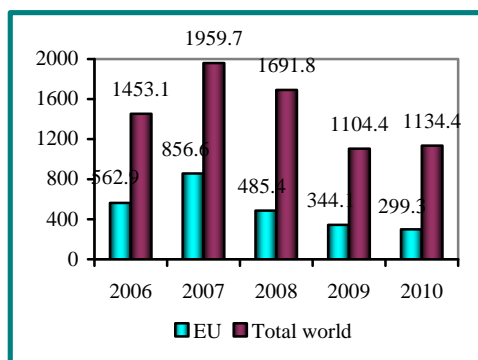
JEL CLASSIFICATIONS: *F21; F23; F43; E22.*

1. INTRODUCTION

In general, foreign direct investments can be described as flows of capital, technology and know-how from one country to another. Foreign direct investments (FDIs) represent one of the significant forms of capital flows, being indispensable for international economic integration. FDIs are also essential funding alternatives for investment and valuable tools for both company and economic development in host countries. FDI occurs when a firm invests directly in facilities to produce and/or market a product in a foreign country. FDI data are usually reported in terms of stocks and flows. *FDI flow* refers to amount of FDI over a period of time, usually one year (new investments made during the reference period), while *FDI stock* represents the total accumulated value of foreign owned assets at a given point of time (Hill, 2011). *Outward flows and stocks* represent direct investment abroad and indicate investment

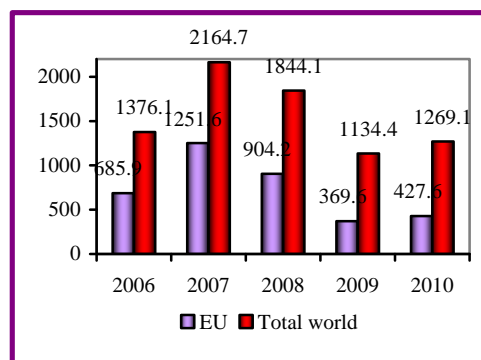
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by entities resident in the reporting economy in an affiliated enterprise abroad. *Inward flows and stocks* occur when foreign capital is invested in local resources and express investment by foreigners in enterprises resident in the reporting economy (European Union, 2010, p.140). Outflows of FDI are the flows of FDI out of a country while inflows of FDI are the flows of FDI into a country.



Source: <http://www.oecd.org>, *FDI in Figures*

Figure 1. Foreign Direct Investment Inflows (Billion USD)



Source: <http://www.oecd.org>, *FDI in Figures*

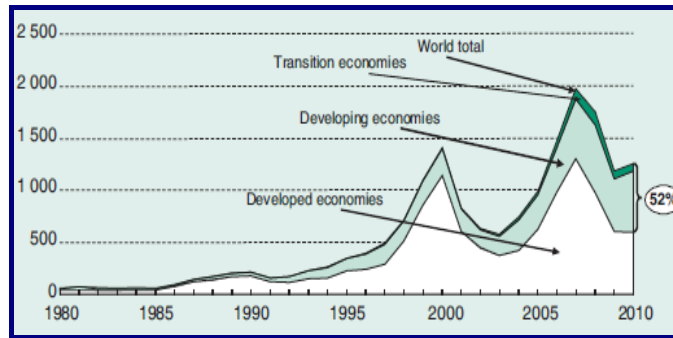
Figure 2. Foreign Direct Investment Outflows (Billion USD)

Due to the global financial crisis, economic activity in all major advanced countries, that represent the main source of FDI, contracted sharply. Thus, in 2010 global FDI inflows rose modestly, following the large declines of 2008 and 2009.

Table 1. Distribution of FDI flows among economies in 2010, listed according to the magnitude of their FDI flows

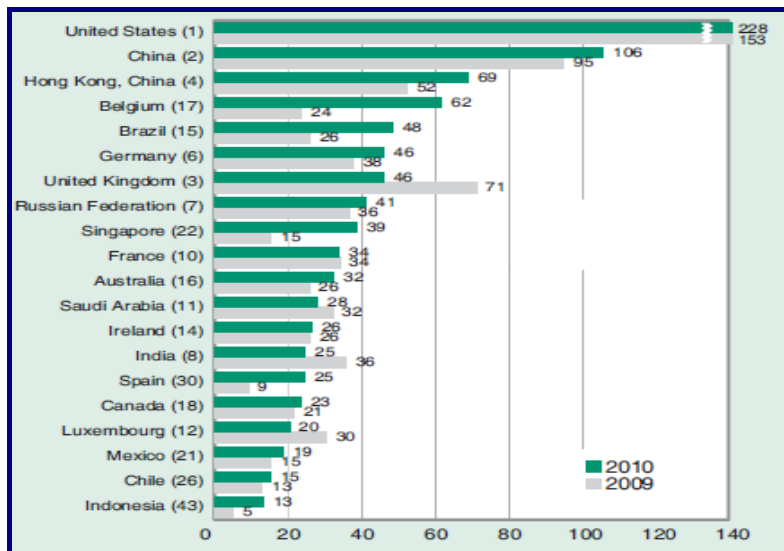
Range	Inflows	Outflows
Above 100 billion USD	United States	United States, Germany
50-99 billion USD	Belgium	France, Switzerland, Japan
10-49 billion USD	Germany, United Kingdom, France, Australia, Ireland, Spain, Canada, Luxembourg, Norway	Canada, Belgium, Netherlands, Sweden, Australia, Spain, Italy, Luxembourg, Ireland, Norway, United Kingdom, Austria
1-9 billion USD	Poland, Italy, Czech Republic, Austria, Sweden, Israel, Cyprus, Finland, Romania, Iceland, Hungary, Greece, Bulgaria, Estonia, Portugal, Malta	Finland, Israel, Poland, Cyprus, Denmark, Czech Republic, Hungary, Greece
Below 1 billion USD	Slovenia, Lithuania, New Zealand, Slovakia, Latvia, Bermuda, Gibraltar, Japan, Denmark, Switzerland, Netherlands	Bermuda, New Zealand, Slovakia, Bulgaria, Romania, Slovenia, Estonia, Lithuania, Malta, Latvia, Iceland, Portugal

Source: UNCTAD, *World Investment Report, 2011*



Source: UNCTAD, World Investment Report, 2011

Figure 3. FDI inflows, global and by group of economies, 1980–2010 (Billions of dollars)



Source: UNCTAD, World Investment Report, 2011, Note: Ranked on the basis of the magnitude of 2010 FDI inflows

Figure 4. Global FDI inflows, top 20 host economies, 2009 and 2010 (Billions of dollars)

In this year, the share of FDI inflows for the developed countries¹ dropped below 50% for the first time. In North America, inflows of FDI showed a strong turnaround with a 44% increase over the previous year while inflows to Europe fell down by 19%. Significant decrease occurred in the United Kingdom, Netherlands, Switzerland and Japan. Developing economies registered a smaller decline remaining

¹ UNCTAD follow the classification of the United Nations Statistical Office: *developed countries*: the member countries of the OECD (other than Chile, Mexico, the Republic of Korea and Turkey), plus the new European Union member countries which are not OECD members (Bulgaria, Cyprus, Latvia, Lithuania, Malta and Romania), plus Andorra, Bermuda, Liechtenstein, Monaco and San Marino; *transition economies*: South-East Europe and the Commonwealth of Independent States; *developing economies*: in general all economies not specified above.

the largest recipient for more than half of the total inflows. FDI flows to developing economies rose by 12%, thanks to their relatively fast economic recovery and the strength of domestic demand. This changing pattern of FDI inflows is confirmed also in the global ranking of the largest FDI recipients: in 2010, half of the top 20 host economies were from developing and transition economies, compared to just seven in 2009 (UNCTAD, 2011).

2. THE RELATIONSHIP BETWEEN FDI AND ECONOMIC GROWTH

FDI acquires increasing importance as an indicator of the international economic climate ensuring more direct and deeper links between economies. It can provide great advantages to host countries being an important source of economic growth. The role of FDI in the growth process has been the topic of debate in several countries. Thus, there are a number of significant papers analysing the relation between FDI and economic development exceptionally summarized by Andreas Johnson (Table 2) who presents an overview and summary of *eight empirical studies*² on the subject considered to be representative for approaches used and results found even if there are additional studies of FDI and economic growth (Johanson, 2006).

Some of these works indicates that FDI has a considerable positive effect on host country economic growth but the magnitude depends on host country conditions such as human capital abundance and macroeconomic stability. Other works conclude that there is no robust, independent influence of inward FDI to host country economic growth. The study developed by Johanson concludes that FDI should enhance host country economic growth through technology spillovers and inflows of physical capital. The author argues that FDI inflows have a positive effect on host country economic growth for developing countries but not for developed economies because in a mature market economy there is no difference between domestic and transborder investment. Developing countries experience both strong capital accumulation and technology transfer through FDI, whereas highly developed countries mainly benefit from FDI as a vehicle of global technology diffusion (Neuhaus, 2006).

More recent studies approach the issue for the case of one country/region, mostly for developing countries³: Nepal, Pakistan, Sub-Sahara Africa, Nigeria,

² 1). Balasubramanyam, V.N., Salisu, M., Sapsford, D. (1996), Foreign direct investment and growth in EP and IS countries, *The Economic Journal*, no.106; 2). Borensztein, E., De Gregorio, J., Lee, J.-W. (1998), How does foreign direct investment affect economic growth?, *Journal of International Economics*, no.45; 3). Olofsdotter, K. (1998), Foreign direct investment, country capabilities and economic growth, *Weltwirtschaftliches Archiv*, no.134(3); 4). De Mello, L.R. (1999), Foreign direct investment-led growth: evidence from time series and panel data, *Oxford Economic Papers*, no.51; 5). Zhang, K.H. (2001), Does foreign direct investment promote economic growth? Evidence from East Asia and Latin America, *Contemporary Economic Policy*, no.19(2); 6). Carkovic, M., Levine, R. (2002), Does foreign direct investment accelerate economic growth?, University of Minnesota Department of Finance working Paper; 7). Choe, J.I. (2003), Do foreign direct investment and gross domestic investment promote economic growth?, *Review of Development Economics*, no.7(1); 8). Bengoa, M., Sanchez-Robles, B. (2003), Foreign direct investment, economic freedom and growth: new evidence from Latin America, *European Journal of Political Economy*, no.19.

³ 1). Yan, X.; Kundan Pokhrel, M., Relationship between Foreign Direct Investment and Economic Growth Case Study of, *International Journal of Business and Management*, Vol. 6(6); June 2011; 2). Falki, N., Impact of Foreign Direct Investment on Economic Growth in Pakistan, *International Review of Business Research Papers*, Vol.5(5), September 2009; 3). Sukar, A.; Ahmed, S.; Hassan, S., The Effects Of Foreign Direct Investment On

Bangladesh and India etc., suggesting either that FDI does not adequately describe the GDP or that there is positive relationship between FDI and GDP. Eventually, FDI may not only provide direct capital financing but encourages efficient production and creates positive externalities via the adoption of foreign technology and know-how. It is thus considered that FDI enhances the productivity of business leading to more competitive economies. Economic growth may induce FDI inflow, and FDI may also stimulate economic growth. According to specialists, for a given country, intense growth periods are characterized by attracting inflows of FDI.

Table 2. Empirical studies of FDI and economic growth, approaches and results

Study	Type of data	Countries and time period	Empirical approach	Assumptions	Result
Balasubramanyam et al (1996)	Cross section	46 developing countries 1970-1985	OLS regressions	FDI effects from technology spillovers, stronger effects for export promoting than import substituting	FDI has a positive effect but only for export promoting host countries
Borensztein et al (1998)	Cross section	69 developing countries 1970-1989	Regression estimations using SUR technique	FDI effects through technology diffusion	FDI has a positive effect on growth but magnitude depends on availability of host country human capital
Olofsdotter (1998)	Cross section	50 developed and developing countries 1980-1990	OLS regressions	FDI effects through technology spillovers	Increase in inward FDI stock has a positive effect on the growth rate
De Mello (1999)	Panel data and time series	32 developed and developing countries 1970-1990	Regression analysis, fixed effects	FDI effects from technology and improved management and organisation	Only weak evidence for FDI effects on economic growth
Zhang (2001)	Time series	11 developing countries in East Asia and Latin America, varying time periods 1957-1997	Analysis of causality between FDI and economic growth using Granger causality tests	There can be feedback effects from economic growth to FDI inflows	Evidence of growth enhancement from FDI, magnitude depends on host country conditions
Carkovic and Levine (2002)	Cross section and panel data	72 developed and developing countries 1960-1995	Regression analysis using OLS as well as GMM	Earlier macroeconomic studies suggest a positive role for FDI in generating economic growth	FDI inflows do not exert a robust, independent influence on economic growth
Choe (2003)	Panel data	80 developed and developing countries, 1971-	Analysis of causality between FDI and	Rapid economic growth might lead to high FDI inflows	FDI Granger causes economic growth and vice versa but

Economic Growth: The Case Of Subsahara Africa, *Southwestern Economic Review*, 2011; 4). Ayanwale, A.B., FDI and Economic Growth: Evidence from Nigeria, *African Economic Research Consortium*, 2007; 5). Sethi, N.; Sucharita, S., Effect of FDI on Economic Growth in Bangladesh and India: An Empirical Investigation, Working Paper, 2009

		1995	economic growth using Granger causality tests		the effects are more apparent from growth to FDI
Bengoa and Sanchez-Robles (2003)	Panel data	18 Latin American countries 1970-1999	Regression analysis, comparing fixed and random effects	FDI effects from technology spillovers	FDI has a positive effect on economic growth, magnitude depends on host country conditions

Source: Johnson, A., *The Effects of FDI Inflows on Host Country Economic Growth*, Working Paper Series, No 58 / January 2006, The Royal Institute of technology Centre of Excellence for studies in Science and Innovation

Other authors, Bijsterbosch and Kolasa (2009), developed empirical studies on the importance of FDI inflows for the convergence process in general and for productivity gains in particular and which economic conditions affect the size of the benefits associated with FDI inflows. They reached the following conclusions: there is a strong convergence effect in productivity, both at the country and at the industry level; FDI inflow plays an important role in accounting for productivity growth; the impact of FDI on productivity critically depends on the absorptive capacity of recipient countries and industries; there is important diversity across countries, industries and time.

Although there is a general belief that FDI enhances the productivity of host countries and promotes economic development, the empirical evidence on the existence of such positive productivity externalities is not decisive. The macro empirical literature finds weak support for an exogenous positive effect of FDI on economic growth. Findings in this literature indicate that a country's capacity to take advantage of FDI externalities might be limited by local conditions, such as the development of local financial markets or the educational level of the country, i.e. absorptive capacities (Alfaro et al., 2010). Thus, host countries only achieve benefits from FDI once they have sufficient absorptive capacity related to human capital resource, absorptive capacity of domestic firm, financial systems, infrastructure, technological, and institutional development.

4. FDI INFLOWS IN ROMANIA

However, the importance of FDI for the Romanian economy is more than obvious as FDI make an essential contribution to economic growth. FDI contributes to the improvement of national economies by implementing advanced technologies, know-how's, most advanced equipment, new quality standards and by moving to a higher type of growth. By economic activity the main part of FDI went to industry (41.3% in 2008, 41.4% in 2009, 43.9% in 2010). Other sectors that have also attracted significant FDI were financial intermediation and insurance, trade, construction and real-estate transactions, information technology and communications.

Taking into consideration the contribution to the equity flow in foreign direct investment enterprises, there are 3 types of FDI, as defined by the National Bank of Romania in the FDI statistical surveys (NBR, 2008-2010): *greenfield*: establishment of enterprises by/or together with foreign investors; *mergers and acquisitions*: partial or

full takeovers of enterprises by foreign investors from residents; *corporate development*: increase in foreign investors' equity capital in foreign direct investment enterprises.

Table 3. Distribution of FDI in Romania by main economic activity

- Million EUR -

Economic activity	2008		2009		2010	
	Value	%	Value	%	Value	%
Industry	20138	41.3	20680	41.4	23093	43.9
Administrative and support service activities	1617	3.3	2299	4.6	2560	4.9
Agriculture, forestry and fishing	707	1.4	552	1.1	1068	2.0
Trade	6060	12.4	6164	12.3	6519	12.4
Construction and real-estate transactions	6155	12.6	6453	12.9	4746	9.0
Hotels and restaurants	181	0.4	213	0.4	417	0.8
IT and communications	3283	6.7	3235	6.5	3081	5.9
Financial intermediation and insurance	10026	20.5	9510	19.0	10055	19.1
Transports	500	1.0	684	1.4	788	1.5
Other	131	0.4	194	0.4	258	0.5
Total FDI	48798	100.0	49984	100.0	52585	100.0

Source: NBR, *Foreign direct investment in Romania, 2008-2010*

Globally, the modest revival of FDI flows in 2010 brought out an uneven pattern among FDI components. Cross-border mergers and acquisitions (M&A) rebounded gradually, yet greenfield projects dropped both in number and value. In Romania, in 2010, out of the total FDI flows, 96.6% (EUR 3,928 million) went to corporate development, 2.3% (EUR 93 million) were destined to mergers and acquisitions and only 1.1% (EUR 46 million) to greenfield investment.

Table 4. Pattern among FDI components in Romania, during 2007-2010

- % of total -

Types of FDI	2007	2008	2009	2010
Corporate development	72.2	66.8	98.3	96.6
Mergers and acquisitions	10.5	32.0	1.1	2.3
Greenfield	17.3	1.2	0.6	1.1

Source: NBR, *Foreign direct investment in Romania, 2007-2010*

As foreign direct investments gain a great importance in the Romanian economy, more and more studies were developed to analyze if there is a certain relationship between FDI inflows and the GDP. Findings in the literature indicated though that there is a weak statistical dependence between GDP and FDI, but it can not be ignored the fact that FDI inflows have potential positive impacts on the economic growth of the host country.

5. CONCLUSIONS

A number of studies have tested the functional relationship between FDI flows, growth and dynamics of domestic investment flows, showing that FDI is an "accelerator" of domestic investments. It is generally accepted that most countries tend

to attract foreign direct investment because of its acknowledged advantages as an instrument of economic development. Thus, evidence suggests that foreign direct investment is playing an increasing role in the global economy as firms increase their cross-border investments. The main benefits of inward FDI for a host country are (Hill, 2011): the resource transfer effect; the employment effect; the balance of payments effect; effects on competition and economic growth. FDI is an important tool for technology transfer, contributing relatively more to growth than domestic investment.

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IMPROVING THE QUALITY OF THE INFORMATION PRESENTED IN FINANCIAL STATEMENTS BY USING INFORMATION TECHNOLOGY

VASILE DUMITRAȘ *

ABSTRACT: *Information technology can contribute significantly to business efficiency, including also enterprise governance, through appropriate and effective use. In most cases, it is difficult to determine which technologies are relevant to business needs and the use of appropriate options is not always clear. The development of information society, characterized by integration and automatization of processes and controls, by increased operational security of systems but also increasing dependence on them, and accompanied also by increased requirements of correct and operative information creates the need for new approaches of procedures and financial systems architectures.*

KEY WORDS: *information technology; financial accounting systems; application controls; estimating the risk; typical abnormalities in operating the computer system.*

JEL CLASSIFICATION: *M40; M42; M48.*

1. INTRODUCTION

The complexity of the information system is provided by a number of features relating to: *the volume of transactions, data validation procedures or data transfers between applications, automatic generation of transactions, communication with other applications or systems, complexity of calculation algorithms, use of information from external data sources.*

The increase in exchange of computerized data, the development of management facilities, the multiplication of electronic services, are issues that lead to the need of consumer confidence in information, as well as to the the need for systematic verification of the reality of information acquired. Production and communication of accounting information is a service which involves the concepts of *time and risk.*

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2. CHARACTERISTIC ASPECTS OF PROCESSING IN A COMPUTERIZED ENVIRONMENT

The smooth functioning of *financial accounting systems* must be ensured through specific IT procedures having the following specific aspects of processing in computerized environment:

- a) The complexity of processing flows can generate lack of intermediate forms through which the transaction evolves, yielding in most cases only one final form and sometimes only available in electronic format or only for a short period of time. In the absence of appropriate validation procedures, errors may be difficult to detect by manual procedures.
- b) Alteration of accounting information can be caused by the existence of systematic errors or anomalies in programs functioning that affect the processing of the entire amount of data and lead to erroneous results, difficult to correct by manual procedures, given the high volume of transactions and complexity of processing algorithms.
- c) Concentration of operating procedures with incompatible functionality at the level of the same individual, which, according to the laws or internal regulations concerning the segregation of duties, should be operated by different people, generates the execution of incompatible functions and the possibility of altering the information content depending on personal interests. An important requirement related to the operation of computer applications is distributing the application throughout the entity and allocating access rights in accordance with the requirements for segregation of duties imposed by the law.
- d) Due to human intervention, which is not always associated with strict protection regarding access authorization and intervention on data, in developing and maintaining the information system, there is a high potential for altering the data without explicit proof.
- e) Following the automatic management of large volumes of data without human intervention, there is a risk of no timely detection of errors due to design faults or update of software packages.
- f) In the case of procedures or transactions executed automatically, authorization by management may be implicit in the way the system was designed and developed for subsequent changes, which implies the absence of an authorization system similar to the manual system performed over procedures and transactions.
- g) The effectiveness of the manual control procedures is affected by the effectiveness of IT procedures when the manual procedures are based on documents and reports produced automatically by the computer system.
- h) The extension of the internal control structure with specialized procedures based on the use of information technology has effects on the entity's activity monitoring plan through the use of analytical tools provided by the information system.

- i) Performing tests on a large volume of data, by using computer assisted tools and techniques is facilitated by the existence of analysis and processing provided by the information system.
- j) Risk assessment during audit missions in a computerized environment must consider the likelihood of obtaining false information with significant impact on the audit as a result of deficiencies in the information system functioning. These deficiencies can be related both to the quality of hardware and/or software infrastructure hardware, to software applications development and maintenance, to system operating and information system security, to the quality of the personnel involved in the information system functioning, to the quality of technical documentation, as well as to unauthorized interventions to applications, databases or procedural requirements imposed in the system.

3. THE LEGAL FRAMEWORK RELATED TO THE CRITERIA AND MINIMUM REQUIREMENTS REGARDING MANAGEMENT AND ACCOUNTING INFORMATION SYSTEMS

Most companies use software products for management and accounting. As a result of accounting information requirements by its users, the software products must meet, in turn, a number of specific requirements. There are many developments of such products in Romania and they must report to a number of criteria and minimum requirements, governed primarily by methodological norms of the Ministry of Finance taken by the Corps of Chartered Certified Accountants (CECCAR). These concern mainly the following aspects:

Internal control:

- a) updates of the computer system in accordance with legislative changes;
- b) knowledge of computer operation system by users (operating personnel);
- c) access to data (privacy, use of passwords for access to data and system);
- d) options for choosing the type of magnetic media for backup;
- e) possibilities for detecting and resolving errors.

External control:

- a) possibilities of complete or sample verification of the processing procedures ;
- b) possibilities of complete or sample verification of the transactions recorded in accounting;
- c) possibilities of complete or sample verification of the the processing flow by tests of control.

Minimum criteria:

- a) compliance with the law;
- b) specification of the type of support which ensures safe processing of information;
- c) complete verification of each individual information recorded;

- d) compliance of lists with the chronological criterion and impossibility of further update of the the list;
- e) the automatic transferability of balances from the previous period as opening balances in the current period;
- f) data retention (archiving) under the Accounting Law 82/1991;
- g) the possibility of the restoration of archived data;
- h) the impossibility of updating data from previous reporting periods;
- i) to allow recording of essential information for identifying transactions: date, journal name, page number or registration number, document number;
- j) access protected by passwords ;
- k) identification in lists of the economic unity, the chronological pagination, document type, the reporting period, the date of listing and software version number;
- l) to allow printing synthetic documents needed by the company's management;
- m) to comply with the informational content for special forms;
- n) to ensure consistency between the general ledger of each account and journal record;
- o) to meet the requirements of database normalization in respect of the accounts and documents;
- p) to provide the possibility of updating accounts without affecting the business management;
- q) to have adequate technical documentation of software characteristics (mono / multi-post, single / multi company, file portability, network architecture, applications) in order to allow optimum utilization;
- r) to determine the type of organization for data collection (batches with subsequent control, real time with immediate control, combined);
- s) not to limit the amount of accounting information;
- t) to ensure data security and reliability;
- u) to provide updates of the procedures for processing financial and accounting information;
- v) to ensure continuity in the event of closure of the software development activity, including archiving and restoring data;
- w) to provide version management functionalities.

4. ANALYSIS OF THE RISKS INVOLVED IN THE USE OF ACCOUNTING INFORMATION SYSTEMS ON QUALITY OF INFORMATION PRESENTED IN FINANCIAL STATEMENTS

Auditing of accounting information when an information systems is used, is a process through which the following are aimed: to express an opinion on the correctness of financial statements, to determine the degree of honesty in reporting the financial statements, to identify fraud and errors. Also, the extension of audit missions,

both as scope as well as complexity, requires emphasizing the need of performing them by using computers in a computerized environment.

For a financial management and accounting software, the control system has the following levels:

- **Examining the financial statements** to determine whether the transactions accurately reflect the operations performed: correct recording in accounts of test transactions test, reflecting these transactions in accounting reports, respecting the formats required by law, etc.
- **Output controls** are designed to verify that the temporary files generated for printing (in spooler) before transmission to the printer can be altered without adequate protection, prior to being listed.
- **Processing controls** are implemented to verify the correct processing of exchange rates, fees, the application of overhead rates, the use of fares, etc.
- **Input controls** are designed to verify that the accounting documents refer to the relevant accounting period, that the chart of accounts is used correctly, that the application allows automated accounting equalities, etc.
- **Preventing unauthorized access to the system.**
- **Ensure that the correct accounting software version is installed on the computers** and not untested versions that may contain programming errors.
- **Controls on the operating system** provides verification that access to the financial management and accounting application is controlled and only authorized users operate it.
- **Controls on access to the network** ensure that unauthorized users can not access the systems within the network.
- **Auditing security system of applications and Internet connections** to verify the existence and functions of the security officer, as well as application level controls in order to identify risks and adopt measures to reduce them to acceptable levels.
- **Selection and training of personnel** provide assurance that selection and training procedures reduce the risk of human error.
- **Physical and environmental controls:** ensure physical protection of computer systems.
- **Management policies and standards** cover all categories of controls across all levels.

Application controls are specific procedures to control applications, providing assurance that all transactions are authorized and recorded, processed completely, accurately and timely. Application controls consist of manual procedures performed by users (user controls) and automatic procedures or controls performed by the application. Application controls are specific for one application and may have a direct impact on individual transaction processing. They generally refer to those application embedded procedures to ensure that only valid transactions are processed and recorded completely and correctly in the application's files, as well as to manual procedures which operate in conjunction with the application.

The most common application controls are:

- a) existence of procedures for automatic generation of output statements by the application;
- b) existence of functionality for export of reports in electronic form within the system;
- c) validity and consistency of data within the application's database;
- d) existence of discontinuities and duplications;
- e) existence of procedure for keeping data on storage support for minimum 10 years;
- f) ensure the possibility to reintegrate in the system the archived data;
- g) the restoration procedure used;
- h) the existence of periodic refresh procedure of archived data;
- i) the existence of the prohibition to update, insert or delete data in specified circumstances (for example, for a financial management and accounting application, the prohibition may be for deleting accounts from a closed period);
- j) the existence and completeness of the information product documentation;
- k) the contract with the software vendor in terms of information product maintenance and update clauses;
- l) the version management organization, changes and corrections of computer systems and software;
- m) reconciliations performed after data migration, as part of information system replacement or change in the data processing flow;
- n) other controls arising from the specific application.

A special category of IT controls relate to compliance of the information system with the requirements imposed by the legislative and regulatory framework. Legislative and regulatory requirements vary from country to country.

These include:

- Private data protection legislation and legislation on personal data protection;
- Law on misuse of computers within the meaning of cybercrime;
- Financial and banking regulations;
- Intellectual property laws.

Regarding controls over information input, output or stored in the database, the following are usual for checking the compliance with regulations of a financial management and accounting application:

- compliance of accounts with the chart of accounts;
- Romanian-language tags of the information contained in the input documents and output statements;
- ban the opening of two accounts with the same number;
- ban the account number change when data were recorded in that account;
- ban the removal of an account for the current or previous year if it contains records or balance;
- respect the legal format for documents and accounting statements generated by the application;

- synthetic balance accuracy resulting from analytical balance; generation for any calendar month;
- reflect the correct transactions in the database, in documents and output statements;
- existence and accuracy of statements required by law;
- other controls arising from the specific application.

Risk analysis in a computerized environment. Risks generated by operating a computer system, arise from analysis of factors that impact the activity of the audited entity, namely: dependence on the computer system, resources and knowledge in information technology, trust in the computer system, computer system changes, information technology outsourcing, information security, compliance with legal requirements. **Errors and people's negligence** are the most important sources of problems. To reduce the risks caused by them, the entity must implement controls and procedures to help reduce / eliminate the effects caused by ignoring the issues that determine how the employees use the system, their quality, their motivation at work, the staff turnover, management structure and volume work.

In most cases, the entity does not have an **integrated computer system**, this being composed of separate application implementations, dedicated to specific problems (financial and accounting software application, dedicated core business application, etc.). This type of architecture has disadvantages at user level, as well as a number of impediments such as those related to the difficulty or impossibility of applications interoperability or multiplication of information. Transactions are processed in distinct applications, information entered into the system are validated in a heterogeneous manner: automatic procedure combined with manual procedures to ensure detection and correction of input errors, and detection of data inconsistencies or redundancy. Lack of an integrated solution is also reflected in the existence of different databases, some residing on obsolete hardware/ software platforms, different and sometimes inadequate user interfaces, reduced communication facilities and security issues with associated risks.

The high degree of fragmentation of the computer system involves frequent user actions during the processing flow and influences in respecting the document flow, which greatly increases the risk of error. Depending on the implemented architectural solution and on the initial estimates regarding the size of the database and processing complexity, a system can "resist" or not to significant increases in the volume of transactions generated by changes in the entity. Estimating the risk that in the near future, the computer system can not support **increasing volumes of transactions** involves taking important decisions at management level, within the meaning of its redesign, and thus the allocation of an appropriate budget.

System configuration changes must be authorized, tested, documented and controlled.

1. Typical abnormalities in operating the computer system

The most common abnormalities in the operation are:

- (a) **applications are not running correctly** due to incorrect operation of the software or use of an incorrect version, incorrect configuration parameters

entered by the operating personnel (e.g., system clock and date set incorrectly can cause errors in calculating interest, penalties, wages, etc..).

- (b) *loss or alteration of financial applications or data files*** can result from misuse or unauthorized use of utility programs
- (c) *IT personnel does not know how to handle problems or reporting errors*** and the attempt to solve them by themselves can cause even greater losses;
- (d) *Delays and processing interruptions*** due to setting inappropriate priorities tasks scheduling;
- (e) *Lack of backup and planning of probable incidents*** increase the risk of inability to continue working after a disaster.
- (f) *Lack of system capacity (resources)***, the system being unable to process transactions due to overloading.
- (g) *The growing time of system unavailability until remedy the error.***
- (h) *unresolved user issues*** due to malfunctioning of Helpdesk application.

In a computerized environment, the magnitude of risks takes another dimension, their nature is influenced by a number of factors specific to information technology use:

- a) *The information density*** is much higher than conventional systems based on paper.
- b) *Lack of entry documents*** - data can be entered into the system without being based on evidence - is an example of on-line transactions systems.
- c) *Lack of visible "traces" of transactions*** - Though in the practice of manual processing, any transaction can be traced starting from the primary document, then the books and accounts - in automatic processing, the route of a transaction may exist for a limited period of time, in electronic format.
- d) *Lack of visible output*** - certain transactions or results, especially when these represent details, can be retrieved memorized only in the application files (not in printed form).
- e) *Transparency of documents*** related to the conduct of operations. Diskettes, optical disks and other modern media that are used to save large volume of information, amounting to tens of thousands of pages, can be discreetly subtilized generating fraud or at least affecting the confidentiality of such information.
- f) *Authorization of transactions***. In a computerized environment, the computer's ability to automatically initiate and execute some transactions can be included ; in other words, it is the design of applications that may have incorporated certain default authorization and automatic generation functions.
- g) *Uniform transaction processing***. A computer application processes uniformly similar transactions Thus, document inputting errors associated with manual processing are virtually eliminated. However, programming errors may lead to incorrect processing of transactions, so that auditors will focus on accuracy and consistency of output.
- h) *Unauthorized access to data and files*** can be performed with greater ease, which implies a great potential for fraud and error.

- i) Retention of data storage media*, can be a safe way that unauthorized stakeholder take possession of valuable information
- j) Data aggregation*. New automatic data processing systems, such as those assisting the decision making process, led to capitalizing of important information of the entity, generating forecasts and strategy in a given field. Thus, information gains more facets.

The evolution of information technology has witnessed an accelerated pace during the past years, but not the same can be said about the progress in data security. The deep integration of systems is a consequence of improving the means of communication and proliferating computer networks. E-commerce applications are just one example, but it can be said that they have opened even more the appetite of the "specialists" in the *informational fraud*.

Lack of trace of possible criminal attacks is another worrying element of the new working environment ; in effect, data updates, addition or deletion operations have become much easier to operate, but at the same time, difficult to detect. The objective of information risk analysis (IT risks) is to identify means through which data and, consequently, the information system that contains them, is exposed to risk.

5. CONCLUSIONS

Items listed lead to the idea that computerized environment poses new risks and any organization, to ensure effective protection of information, has to develop a complex process of risk analysis and study. The risk posed by information technology usage is manifested through its own components: threat, vulnerability and impact. Threats exploit vulnerabilities of a system and actually causing the impact, the combination of these three elements determine the size of risk. The risk level of an organization can not be eliminated, it will always exist, the company's management being responsible for reducing it to an acceptable level.

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THE DYNAMICS OF OVERSEAS BUSINESS ACTIVITIES BY MULTINATIONAL COMPANIES FROM JAPAN

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ABSTRACT: *At the beginning of the 21st century, the new economic order settled at international level is based on the intensification of the activities of multinational companies (MNC) on global markets. Japan – the third world economy in 2010 – registers outstanding economic results due to its strong connection to the current of the globalization of international affairs. The issue of understanding the key role of Japanese MNCs in international business received a great deal of attention in recent years. We found that Japanese firms expanded their overseas production from 3.1% in 1986 to 16.3% in 2005 and 17% in 2009. Although MNCs are a minority in terms of the number of firms, they nevertheless dominate the Japanese trade. In recent years, Japanese firms have become more active in developing overseas activities by establishing local subsidiaries and acquiring local companies. Therefore, cross-border Mergers & Acquisitions (M&A) appeared to be a very useful tool through which Japanese MNCs expanded their tentacles worldwide.*

Despite the devastating effects of the great East Japan Earthquake, statistical data released by UNCTAD show that Japan will again be, on the long run, a leading investor for outward FDI. Therefore, Japanese MNCs will continue to play a key role within international business environment.

KEY WORDS: *multinational companies; foreign direct investments (FDI); oversea operation or oversea production; cross-border mergers and acquisitions (M&A); the great East Japan Earthquake.*

JEL CLASSIFICATION: *F23.*

1. INTRODUCTION

At the beginning of the 21st century, the new economic order settled at international level is based on the intensification of the activities of multinational companies (MNC) on global markets. Emerged as true nuclei of formation and variation of capital flows, vectors of the cross-border capital movements, with a huge

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economic force that rivals that of nation states, these types of entities dominate today's global business world, being capable of imposing their own values in the social and economic environments in which they operate.

Today, it is unanimously recognized, in business mediums from all over the world as well as in research publications from the literature, the fact that MNCs have experienced spectacular development over the last decades, as they went from a few hundred entities in 1970 to no more than 82,000 in 2010, having 810,000 subsidiaries abroad and 68,000,000 employees. Multinational corporate entities carrying out activities around the world have generated in 2010 an added value of about \$ 16 trillion, accounting with more than a quarter to the creation of the gross domestic product (GDP). The foreign subsidiaries of these "giants" have gained more than one-tenth of the GDP and 1/3 of the world exports (UNCTAD, *World Investment Report – Global Investment Trends*, 2011).

2. THE DYNAMICS OF OVERSEAS BUSINESS ACTIVITIES IN JAPAN

Globalization - the international system which replaced the old system of international relations during the Cold War – based on the tendency of integration, on the high level of interconnection between markets, nation states and on economic entities, underlies two essential pillars: international organizations and multinational companies.

Japan – the third world economy in 2010 – registers outstanding economic results due to its strong connection to the current of the globalization of international affairs. The position occupied by Japanese MNCs within the top *The Global 2000. The World's Leading Companies*, conducted by the prestigious business magazine *Fortune*, for 2010, argues in favor of this ranking. Furthermore, 2 of the top 10 largest global corporations in the world come from Japan, according to top *Fortune. The Global 500*. It refers to Toyota Motor (5th in the world) operating on the international market of automobiles since 1957 and Japan Post Holdings (6th place), a group founded in 2007 on the economic structure of the old Japanese postal services, carrying out mostly domestic activities. About 14% and 71 companies out of a total of 500 companies listed by *Fortune* come from Japan (table 1).

Among specialists, there is increasing recognition that understanding the determinants of economic globalization requires looking first at foreign direct investment (FDI) by MNCs. Foreign Direct Investment is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (*direct investor*) in an enterprise (*direct investment enterprise*) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence (not necessarily control) on the management of the company (OECD, *FDI in figures*, 2011). Therefore, FDI is the key tool by which MNCs bridge cross-border economic activities which often proved to be highly efficient.

During the late 1980s and 1990s, Japanese firms' have expanded their overseas production activities abroad through the augmentation of outward FDI. According to

the “*White Paper of International Economy and Trade*” by Ministry of Economy, Trade and Industry (METI), Japanese firms expanded their overseas production ratio (on the basis of all domestic companies in the manufacturing industry) from 3.1% in 1986 to 16.3% in 2005 and 17% in 2009. In fiscal year 2009, the number of Japanese companies engaged in overseas operations exceeded 18,000 (figure 1) and statistics show that the majority of the recently established overseas affiliates are located in East Asia region, especially in China (Hijzen, et al., 2007).

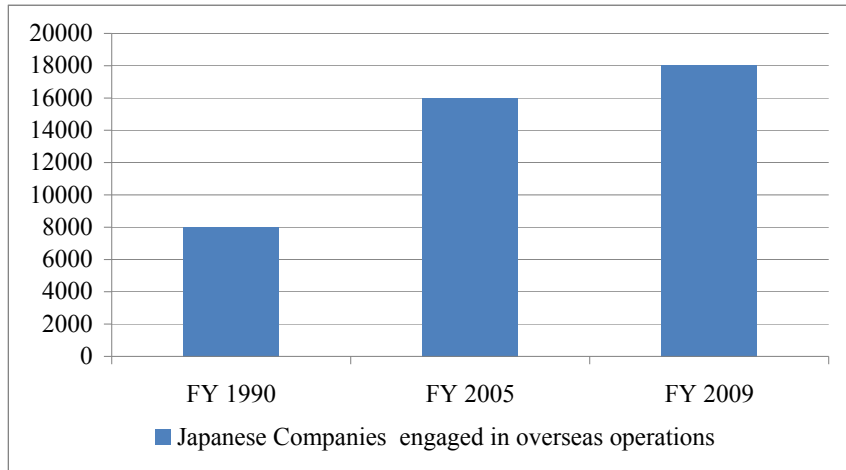
Table 1. The position of Japanese companies in Top 500 – World Largest Corporations

Country rank	Company	Global 500 rank	City	Employees	Revenues (\$ millions)
1	Toyota Motor	5	Tokyo	320,590	204,106
2	Japan Post Holding	6	Tokyo	229,134	202,196
3	Nippon Telegraph & Telephone	31	Tokyo	195,000	109,656
4	Hitachi	47	Tokyo	359,764	96,593
5	Honda Motor	51	Tokyo	176,815	92,400
6	Nissan Motor	61	Yokohama	169,298	80,963
7	Panasonic	65	Osaka	384,586	79,893
8	Sony	69	Tokyo	167,900	77,696
9	Nippon Life Insurance	75	Osaka	70,086	72,051
10	Toshiba	89	Tokyo	204,000	68,731
11	Dai-ichi Life Insurance	119	Tokyo	60,061	57,018
12	Seven & I Holdings	124	Tokyo	52,814	54,701
13	Mitsubishi UBJ Financial Group	126	Tokyo	84,266	54,285
14	AEON	127	Chiba	76,520	54,092
15	Tokyo Electric Power	128	Tokyo	52,452	54,026
16	JX Holdings	136	Tokyo	13,855	51,405
17	Fujitsu	138	Tokyo	172,438	50,399
18	Mitsubishi	146	Tokyo	58,583	48,913
19	Meiji Yasuda Life Insurance	158	Tokyo	40,388	45,262
20	Mitsui	164	Tokyo	41,454	44,120
...
70	Shimitzu	497	Tokyo	12,001	17,117
71	Dai Nippon Printing	500	Tokyo	39,643	17,053

Source: *World Leading Companies in the World, Fortune, Global 2000*

Furthermore, several studies in the specialized literature focus on issues that Japanese firms have to deal with in recent years, against the consequences of globalization: the long-standing problems of a maturing domestic market, the increasingly smaller number of firms dominating global markets and low profitability by restructuring their business, aggressively developing overseas markets and expanding their domestic market share in step with domestic industry consolidation

(Yoshikawa, 2009). As an attempt to overcome these obstacles and to achieve success on global markets, Japanese firms have become more active in developing overseas activities by establishing local subsidiaries and acquiring local companies. Therefore, cross-border Mergers & Acquisitions (M&A) appeared to be a very useful tool through Japanese MNCs expanded their tentacles worldwide.



Source: Ministry of Economy, Trade and Industry - White Paper on International Economy and Trade – Summary, 2011

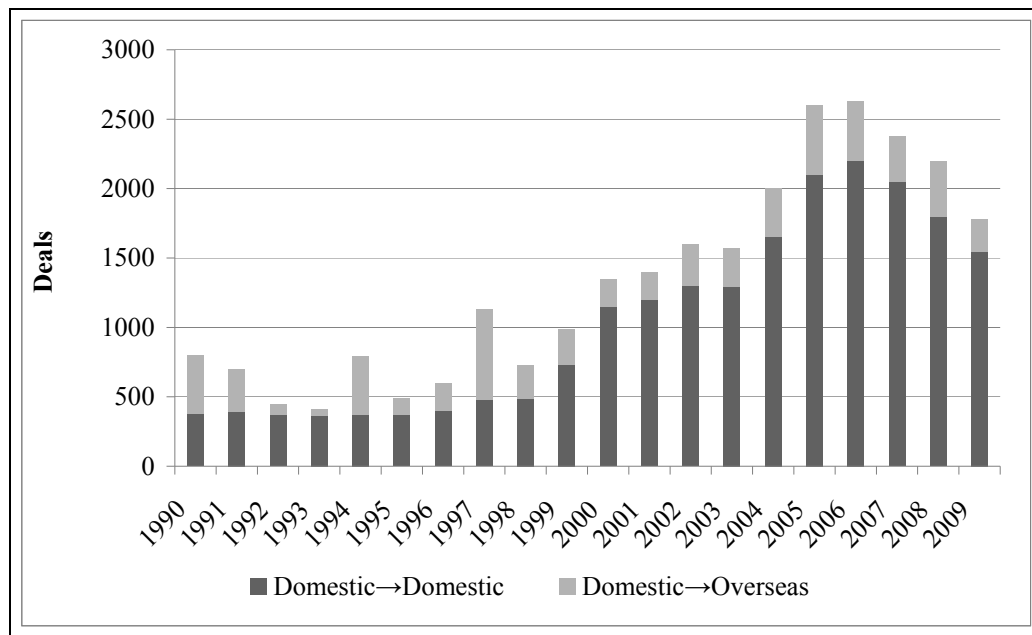
Figure 1. Number of Japanese Companies engaged in Overseas Operations

Cross-border M&A is defined as a merger, acquisition, or equity investment where the parent companies of the two sides involved are based in different countries. As figure 2 shows, acquisitions made by Japanese companies regardless their operation scope - domestic or foreign – raised by a factor of 2.2X over a ten-year period, from a level of 987 deals in 1999 to 2,201 deals in 2008, despite a moderate slump since 2007 (Yoshikawa, 2009).

In addition, mergers between Japanese firms are approached from the same point of view as cross-border M&A, because they aim to strengthen their overseas regional brands and also to achieve growth business. Therefore, cross-border M&A and deals between domestic companies have contributed to a Japanese noticeable overseas presence on international business arena and we estimate that mergers and acquisitions will have a great influence on whether Japanese firms succeed in expanding overseas in the future (Yoshikawa, 2009).

The issue of understanding the key role of Japanese MNCs in international trade received a great deal of attention in recent years. Thus, Kozo Kiyota and Shujiro Urata (2007) stated that multinational firms are a minority in terms of the number of firms, but they nevertheless rule the Japanese trade. In their paper “*The Role of Multinational Firms in International Trade: The Case of Japan*” (2007), the above mentioned authors analyzed firm – level datasets for Japanese firms between 1994 and 2000. For instance, in 2000, only 12.4 percent of Japanese firms were MNCs, but they

accounted for 93.6 and 81.2 percent of Japanese exports and imports, respectively. It was found that over time, multinational firms emerged from among exporters and importers. In other words, firms should not make the decision of either exporting or engaging in FDI, contrary to the findings of other studies well-known in Japan (Melitz, 2003; Helpman, Melitz & Yeaple, 2004). Rather, the large exporters on the global markets must make a decision on whether or not to undertake FDI (Kiyota & Urata, 2007).



Source: Nomura Institute of Markets Research

Figure 2. Number of deals involving Japanese firms

A special mention has to be made regarding the globalization phenomenon and MNCs activities abroad. Thereby, more often Japanese manufacturers relocate their production from areas in Japan to low-wage countries, especially those from East Asian region, such as China, Malaysia, Thailand and Singapore. These developments caused an ample increase in the volume of imports of manufacturing goods, which led to some concerns expressed by many Japanese policymakers over the so – called “hollowing-out effect”. This locution designates the closing down of productive Japanese plants, followed by their relocation elsewhere on the Globe. This fear is also supported by the media which describe foreign multinationals as outward FDI disseminators that cause the moving of domestic production activities from Japan to another country. Hence, job losses and productivity mitigation can occur in Japan, following the contraction of home activities and the consequential decreasing of plant-level scale effect (Barba Navareti & Venables, 2004).

This issue was approached by Tomohiko Inui, Richard Kneller, Toshiyuki Matsuura and Danny McGowan in their paper “Globalization, Productivity and Plant

Exit – Evidence from Japan” (2009). Their empirical research bears witness to the fact that, on real markets, there is no such thing like the “hollowing-out effect”. The findings confirmed that plants which are large, capital intensive and productive relative to the industry are, on average, less likely to exit the market. On the other hand, the plants that were shut down achieved below average productivity and the exit component contributes a very small fraction to productivity growth. In other words, the authors stated that plant exit phenomenon has not been the reason for Japan’s poor ratio of productivity growth.

3. POST – EARTHQUAKE TRENDS REGARDING FDI AND MNCs FROM JAPAN

The most devastating seism ever recorded in Japan, with a 9.0 magnitude, hit the coast of Miyagi prefecture in the Tohoku (Northeast) district, on March 11, 2011. A deadly tsunami followed, affecting an extensive region on the coast of the Tohoku and the northern Kanto territories. The 3/11 massive earthquake was at the bottom of more than 15,000 human lives lost and almost 5,000 people remain missing, in addition to severe damage to physical infrastructure (Fujita, M. & Nubuaki, H., 2011). This overwhelming cataclysm, accompanied by the nuclear accident from Fukushima plant, had a tremendous and instantaneous effect upon the evolution of Japan’s economy.

Myagi rural areas and its neighboring regions incorporate several industrial and manufacturing facilities with lots of chemical and petrochemical plants and electronic equipment and components factories (e.g. Renasas Electronics, which controls a 30 per cent share of the global market for microcontrollers). Before the seism occurrence, the Tohoku region represented only 8% of Japan’s GDP and just 1.0% of total exports in 2008; nevertheless the impact of the catastrophe was unpredictably immense. National GDP in the second quarter of 2011 plunged by 2.1% as compared to the same period in the previous year, while industrial production and exports slumped even more sharply, by 7.0% and 8.0%, respectively (Fujita, M. & Nubuaki, 2011).

The earthquake itself and the subsequent interruption of power supplies resulted in a severe disruption of supply-chain flows, not only within Japan, but worldwide. Despite the severity of the losses, by June 2011, most of the supply chains had been restored: for instance, production at Toyota got back to its pre-earthquake level (UNCTAD, *World Investment Report*, 2011). In fact, in order to picture the state of recovery endeavors as close to reality as we can, the situation presented in table 2 is extremely relevant with regard to the speed at which Japanese MNCs revive activities after the earthquake.

While Japanese MNCs have shown remarkable resilience, the major economic difficulties faced by Japanese manufacturers following the earthquake, urged them to reconsider their procurement strategies. In a recent survey of Japanese firms by METI (Japan Ministry of Economy, Trade and Industry, August 2011), 97% of the manufacturers answered that they have already started procurement from alternative suppliers.

In comparison with the April survey, the ratio of the companies that answered they were without any alternative supplier for procurement decreased from 12% to 0% in the materials business and from 48% to 18% in the processing business. Many respondents use alternative suppliers in Chugoku, Kinki and other districts in West Japan. The survey substantiated that *about two-thirds of the companies intended to maintain or increase their level of total investment in the aftermath of this natural disaster* (Results of an Emergency Survey on the Actual Status of Industries after the Great East Japan Earthquake (2), METI, 2011).

Table 2. Damage from the great East Japan Earthquake and Recovery

Company	Situation after the earthquake	Status of recovery
Nissan Motor Co., Ltd.	<ul style="list-style-type: none"> ■ Nissan Iwaki Factory in which more than 370,000 Nissan and Infiniti engines are produced annually was badly damaged. Windows on the plant's roof, ducts and pipes fell down and it was unsafe to go back inside; ■ For Nissan, more than 50 dealerships and part suppliers were damaged, and production across Japan shut down completely. 	At Iwaki Factory, it had been planned to resume full production in early June 2011, but it resumed on May 17, two weeks ahead of schedule.
Shin-Etsu Chemical Co, Ltd.	<ul style="list-style-type: none"> ■ The Shin-Etsu Group has approximately 30% of the global share of silicon wafers; ■ The main silicon wafer plant, the Shirakawa Plant, suffered from 1,000 gal shock of the earthquake, and its cleanrooms and some equipment were damaged. 	On April 20, 2011, partial operations were restarted. On July 1, the Shirakawa Plant's production capacity recovered to pre-earthquake levels.
Renesas Electronics Corporation	<ul style="list-style-type: none"> ■ Naka factory produces 20 percent of Renesas's microcontrollers and Systemon-a-chip solutions; ■ There was partial damage to the ceiling, walls, electric wiring and some equipment. 	The supply capacity of Naka factory returned to pre-earthquake levels at the end of September 2011, one month before the schedule.
Sumitomo Metal Industries, Ltd.	<ul style="list-style-type: none"> ■ Damage to Kashima steelworks was confirmed mainly at the port facilities and upstream manufacturing facilities; ■ There was also damage within the steelworks, such as damage to the coke gas holders and the auxiliary facilities of the blast furnace. 	Kashima steelworks was restored at high speed and it took only four days from the earthquake before its first shipment. On April 30, it resumed normal operation.
Mitsubishi Chemical Corporation	<ul style="list-style-type: none"> ■ Production of ethylene in Kashima plants accounts for 10% of that in Japan; ■ Since infrastructure around the plant area including the berths and roads were also damaged, delivery and shipment of cargo became impossible; ■ The ethylene plants were stopped after 	Kashima plants had been rapidly restored including infrastructure. The Kashima No 2 plant was restarted on May 20, 2011. Kashima No 1 plant was restarted on June 30.

	the earthquake.	
Toyota Motor Corporation	<ul style="list-style-type: none"> ■ Some factories suffered damage; ■ Damage to parts suppliers caused trouble in the global production network; ■ Toyota expected that production at normal level would be recovered later in the year 2011. 	Production was approximately 70% of the normal level in June 2011, on a global basis. Now, production in Japan has basically returned to pre-earthquake levels.
Hitachi Automotive Systems	<ul style="list-style-type: none"> ■ Sawa works (Auto-parts manufacturing factories) were damaged due to the earthquake; ■ The company has approximately 60 % of global share of air-flow sensors. 	Operation of Sawa works restarted on April 4, 2011. Now, production capacity has recovered to pre-earthquake levels.
Hitachi Vehicle Energy	The main factory in Hitachinaka - city which produces Lithium-ion batteries for vehicles suffered damage.	Since March 28, 2011, production of Lithium-ion batteries has resumed and shipment overseas restarted.
Hitachi Ltd.	Damage to buildings and facilities was confirmed at Hitachi's main production bases in Ibaraki Prefecture, including cracks in walls, fallen ceilings, roofs and walls.	Production partially resumed at the end of May 2011. Operation with full capacity resumed in mid-April 2011.
IHI Corporation	The facility of Soma Aero-Engine Works (Items produced: parts for aero engines, gas turbines and space development equipment) was shut down.	On March 29, partial operation at buildings where the effects were minor was restarted. Full operation was resumed mid-May 2011.

Source: Government of Japan, *Economic Impact of the Great East Japan Earthquake and Current Status of Recovery*, August, 2011

4. CONCLUSION

The rise of MNCs in the world economy represents one of the most distinguishing characteristics of globalization phenomenon. As multinationals play an increasingly important role within international business environment, understanding the triggers and the nature of oversea production has become an issue of great interest. Thus, especially in Japan but also in European countries, there is a substantial body of empirical work analyzing the internationalization of Japanese companies and the tools they use in order to achieve tremendous performances on the global markets.

The awesome research work conducted by Japanese specialists and practitioners, together with statistical datasets released by Japanese Ministry of Economy, Trade and Industry have led to the conclusion that the general impact of the natural disaster on outward FDI from Japan is likely to be limited, especially against the backdrop of outward FDI through M&A by Japanese firms. Looking to the future, there is a general recognition among specialists that over the long run, Japan will become again a leading investor for outward FDI and MNCs expansion.

5. ACKNOWLEDGEMENT

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ADVANTAGES BROUGHT ON BY IMPLEMENTING THE e-MANAGEMENT WITHIN S.M.E.s IN ROMANIA BY CREATING A DURABLE DEVELOPMENT ON THE TROUBLED BACKGROUND WITHIN THE BUSINESS ENVIRONMENT

CORNELIU GÂRJOABĂ *

ABSTRACT: *The informational systems management represents today an indispensable instrument of the modern management. Their continuous improvement doubled by the improvement of calculus techniques offer increased possibilities to take over larger segments of the decision making activity developed by the deciding human factor. In order to obtain economic advantages through capitalizing the benefits brought by the informational society and by the presence of internet, it is necessary to implement the e-Management that ensures an increased business management capacity.*

KEY WORDS: *SMEs; opportunities; informational society; knowledge society; e-Management; e-Business; Management; performance; durable development.*

JEL CLASSIFICATION: *O3*

1. PREMISES FOR IMPLEMENTING A NEW TYPE OF MANAGEMENT FOR ROMANIAN S.M.E.s, FOLLOWING THE BUSINESS ENVIRONMENT EVOLUTION

Our society is characterized as a society where communication and internet play the role of “key for success” in business, even more since at present the business environment is characterized as being a dynamic one, extremely unpredictable and changing, typical for the informational era.

The period between 2008-2010 is considered an extremely critical one for the economic development of countries all around the world, following the manifestation of the phenomenon called the world crisis that attracted changes of the business

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environment that were among the most difficult to anticipate and control especially by the entrepreneurs. It is the period that, based on the economic crisis, created a total chaos, most organizations, regardless of their size and development level were confronted with difficulties in maintaining their market position and revenues gathering.

The immediate consequence of these economic turbulences was the considerable decrease of various countries' prestige, notable economic losses being recorded because of the bankruptcy of a high number of S.M.E.'s at the end of 2008 and in the first half of 2009.

At the same time, alongside these changes, representatives of the developed countries have understood the need to invest in the fields of IT and communication that is based on the use of internet, unarguably the "greatest discovery of all times", as pointed out by the specialists of the time, and have allocated substantial funds in research that connected this field to the business environment.

The S.M.E.'s sector was the one that was given the greatest attention, due to the fact that, as statistics from almost every country show, it participates to the greatest extent to the economic development of a country, having significant quotas in obtaining the G.D.P. and supplying work places (employment).

The entrepreneurs have identified and capitalized the opportunities brought by the internet and have effectuated transactions faster than usual and have reached more efficient cost for these transactions. Every S.M.E. that decided to operate in the virtual environment managed to redress its activity, the software used in the management of e-business allowing that the choices made by the managers for the economic transactions be more precise, thus eliminating costs for "uncertain decisions" or errors.

Having these changes as a background, a re conceptualization of management and leadership has been achieved, according to the requirements of the knowledge society, by adopting the e-Management, the software developed for business management at this moment constitutes a viable solution for their durable development.

Due to these investments, the 2011 balance is a favourable one from the economic point of view, in the developed countries of the world.

In Romania, the S.M.E.s (Small and Medium Enterprises) sector is represented by companies that have registered most of the difficulties. From a number of 600.000 existing S.M.E.s at the beginning of 2009, over 100.000 S.M.E.s went bankrupt, most of the companies being confronted with a sale decrease between 21% and 50%, according to a study from June, realized by the National Fund for Credit Guaranteeing for S.M.E.s. A series of other studies (one study effectuated by Mednet Marketing Research Center in November 2010, one by the Perspective Groups in October 2010 and one by U.G.I.R.-1903 in May 2010, etc.) show that in January 2010, in Romania, another 30-40% of the S.M.E.s went bankrupt, although these S.M.E.s implemented measures to decrease the impact of the economic crisis, as follows: 36% have reduced their administrative expenses, 19% have reduced the number of their employees, and 9% have reduced their employees' incomes.

The surprise came from the S.M.E.s that have not been given chances for continuity, approximately 90% have managed not only to redress their situation but to number themselves among the few to start the year 2011 with a positive result of the financial exercise, this aspect being motivated by the efficiency of implementing a new management system based on capitalizing the opportunities offered by the use of internet. Following the example of the S.M.E.s from great countries of the world, the Romanian entrepreneurs have managed to make the transfer to „e-business” which, through the internet, has created for them the possibility to connect faster with the outside world contracting loyal and repetitive partners, their economic results proving that they succeeded to obtain maximum results with minimum costs.

These aspects would not be possible without adjusting the management system, the old management methods proving to be inefficient in managing the e-business and leading to the failure of the organization as consequence.

2. e-MANAGEMENT AS A SOLUTION TO OVERCOME THE CRITICAL PERIOD AND TO ENSURE A DURABLE DEVELOPMENT

Making an analysis of the S.M.E.s’ evolution in Romania, it can be noticed their passage through a series of stages, at first, based on efficient constitution, the creation of strategies with an impact on the European economy, the increase of the employment rate, the extension of products and services’ range, the increase of the turnover, the transfer, afterwards, to the necessity for technologies and an efficient management, and at present the research for innovation that helps maintaining their position on the market and the development of Romania’s economy under the conditions imposed by the integration to the European Union.

While trying to overcome the critical period presented above, over 50 % of the S.M.E.s in Romania have been preoccupied with the introduction of innovative elements, be it within the product / service’s structure, be it within the equipments and tools employed in the production process or within the company’s management. Nevertheless it has been noticed a lower preoccupation (under 1%) for the realization of an own informational system, for scientific research or for the application in practice of results never applied before. This reluctance is a general characteristic of the Romanian business environment that avoids launching in great expenses, opting for successive accumulations, but giving priority to the steady and continuous economic growth and afterwards becoming interested in the top performance. It also can be noticed a lack of mobility of the companies, meaning that there are fewer business transfers, little relocations or changes of the activity object.

Conservatism can be interpreted as a positive aspect from the constant and continuous economic growth’s chances point of view, but it has been proven damaging from the point of view of change management and fast adaptation to a new conjuncture.

With regards to computerization, almost all the companies own a computer (over 97%) and over 65% are connected to the internet. Nevertheless, 20 % of them, mainly micro enterprises from small cities, were not aware of the computer’s utility for

the daily activity of the enterprise. The computerized system was being used for access to information and very little for on line reporting, for payments or e-commerce.

A major objective for overcoming critical periods and for finding solutions for a durable development can be achieved, as shown above, only by ensuring and continuously improving the S.M.E.s' management, for this aspect being necessary the capitalization of the opportunities created by the internet.

The e-Management represents such a solution, following the positive response to the challenges of the 2011 business environment. The competition process will not begin according to the imposed deadlines, as it has already begun.

From the development and enterprises' dimension's point of view, we must signal a positive aspect, that is the Romanian S.M.E.s no longer represent negligible entities as few years ago, being now comparable from the turnover and patrimony value's point of view to the S.M.E.s from the European Union, having almost equal chances in the entrepreneurs' competition.

The competition process on the world market has already begun, ignoring the previously settled deadlines. By implementing these new e-management programs, more benefits can be obtained on several levels. Firstly, it can be obtained an increase of S.M.E.s efficiency, this leading implicitly to the economic development of the country and secondly, the implementation creates a trusting environment for the collaboration with S.M.E.s from Europe for which they supply resources and bring profit.

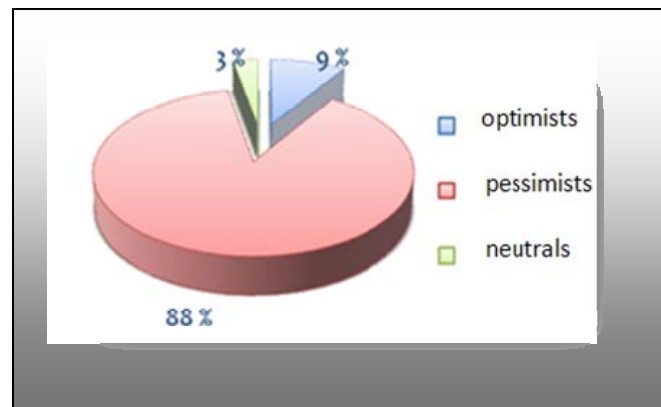
These premises together with the fact that this concept of S.M.E.s' e-Management is more often used in Romania show that the difference made in the past by opportunities, resources, quality, environment protection, is, at present, made by the only truly important element: detaining and practicing a performing management.

3. CASE STUDY REGARDING THE EFFICIENCY OF APPLYING THE e-MANAGEMENT WITHIN ROMANIAN S.M.E.s

3.1. General date about the company

The analyzed S.M.E. is a Romanian company with integral private capital, specialized in the multiplication and trade of seeds destined to field cultures, created in 1991; during the first five years of activity has placed among the top five companies of profile activating on the Romanian market, obtaining in 1996 the award for Quality and Management in Madrid (Spain).

The S.M.E. is the commercial representative of the Fundulea Institute for Agricultural Research and Development on the external market for: wheat, barley, oat, corn, soy, sun flower, fodder plants, as well as for technologies for seeds multiplication, culture technologies and technologies for plants protection against diseases and pests, and the only company in Romania with this specific activity profile that is a member of the International Seeds Federation (since 2009). The S.M.E. created in 1998 the Scientific Research Department, being the first Romanian commercial company with private capital that had as an activity object the research for plants' improvement.



Source: the economic-financial document at the company

Figure 1. The evolution of the company (2009-2010)

Approximately two years ago, the S.M.E.'s management decided to make substantial investments in assets that were to get into use at the beginning of 2010, a fact that would involve a triplication of the company's incomes, this aspect being possible due to the results of the company's economic and financial status analysis that showed favourable circumstances.

At the same time, the S.M.E. managed to contract business partners, leaders on the cereals market in U.S.A. with the most difficult to meet requirements. The beginning of the economic crisis phenomenon at a time of "big investments", practically leaving the company without liquidities, made it impossible for the company to develop its activities in profitable conditions; therefore, most of the economic agents, knowing its situation, were not optimistic with regard to the S.M.E.'s chances to redress in the immediately following period. The challenge for the S.M.E. is in finding redressing solutions and solutions for satisfying their American partners. Analyzing the research made by the S.M.E.'s personnel evidenced the fact that the S.M.E. is incapable pose a threat on the market, considering the fact that the competition is twice faster with regards to the relationship with clients and 10 times more profitable. In this context, the S.M.E. wants to find the fastest way to redress itself economically and to be able to honour the engagement towards its business partners, thus being able to get back to the leader position it held previously on the market.

Taking into consideration the present status of the company and the fact that it belong to a category of companies with a simple organizational structure that can be modelled fast to the new requirements of the business environment, the solution of development by using the virtual environment has been chosen, this involving the creation of a virtual company which implicitly attracts the adaptation of the company's management system to the new "virtual" reality and the transformation of the management science into what may be called e-Management.

Practically in this time of speed, on a dynamic and more and more "virtual" market, the S.M.E.'s managers must manoeuvre the digital universe in order to obtain a competitive advantage. The economic and technological arguments support the

necessity of re-evaluating the company's management and administration methods, taking into account a doubtless economic and social shift towards the virtual environment. The survival of the dynamic environment of the virtual company depends on the fast reply to the outside stimuli and on the adaptability to sudden status changes.

The implementation of e-Management has been achieved by contacting a specialized company in conceiving and implementing software that would help transforming the classic management into e-Management, including particular elements regarding the increase of the company's potential.

3.2. Efficient software for implementing the e-Management within the analyzed SME

For implementing the e-Management within the analyzed S.M.E. SSD type software has been applied which, once implemented, would realize a positive correction of its economic status and would increase its efficiency. SSD represents „those informational management systems that rely on using analytical patterns, specialized data bases, judgment and intuition of the decision maker, and a computerized modelling process, interactive and which supports semi structured and non structured decisions taking by the managers.”

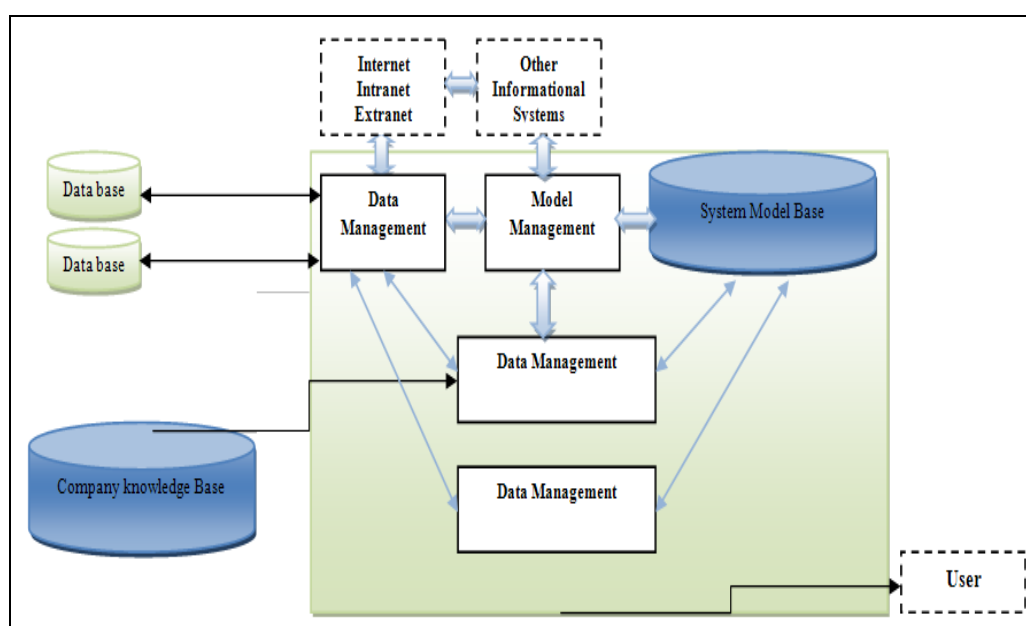
These systems offer „on spot” answers in an interactive session man – computer and are adapted to the personal work style of the manager. They manage to simulate “what if” questions that are present often lately within the organization.

The main and immediate objectives of the SSD are the improvement of the method for taking decisions, the realization of a preparatory study in view of taking the decision in case the totality of activities that must be developed for this purpose cannot be scheduled, or the effective elaboration of the decision. According to data and management patterns, the decision support systems are grouped in two distinctive types: one oriented towards the data that it processes for informing the decision makers, and one oriented towards the models that it operates with.

Choosing for implementation the spectre of the systems, reunited under the name of SSD, which is very broad and easy to realize, the S.M.E. will benefit from the advantages offered by the fundamental characteristics of this system that individualize this particular system from the other types of management information systems, as:

- SSD assists the decisions of the S.M.E.'s managers, especially for the semi structured and non structured situations, combining knowledge and human intuition with the computer's speed. Decision assistance can be achieved on all levels of management;
- *SSD can assist more inter dependent decisions and /or sequential ones;*
- *SSD supports all stages of the decisional process and can be easily adapted to the decisional styles within the analyzed S.M.E.;*
- *SSD is time adaptable.* The decision maker must have a reactive behaviour in using SSD, to notice the change of the conditions and to adapt the system accordingly.
- *An ad-hoc SSD can be easily defined by the user,* based on an environment that is friendly to development, a flexible one, with capacity, powerful

- graphics and an interface adapted for non professionals (1/3 in the case of the analyzed S.M.E.);
- SSD promotes learning and the accumulation of new knowledge, which leads to new requirements and refinement, going up to the changing of the organizational culture;
 - SSD is based on standard patterns or patterns defined by the user. The modelling capacities of the system favour experimentation, in the context of more configurations.
 - SSD includes various categories of analysis, from „what if” to the elaboration and selection of scenarios.



Source: Adapted according to the specifications generated by the IT Department

Figure 1. The SSD Components

The table below shows the SME’s evolution form the time of investing in assets till the results of the e-Management implementation.

Table 1. The financial evolution of the S.M.E. for the duration of the study

Indicator	Period		
	2009	March 2010	January 2011
Turnover	7 229 014	907 478	7 002 160
Profit	74 929	-225 741	80 712

Implementing the e-Management brought a spectacular improvement on the economic and financial situation of the SME at the beginning of 2011, following an

increase of sales especially due to honouring the on line orders from enterprises in U.S.A. and outside Europe.

3.3. Textile Company Case Study

This company produces textile sub-parts in outsourcing mode for its German partners. The company has 15 employees and 12 production machines. The production unit manufactures several types of products, and the average number of pieces manufactured monthly is around 30.000.

One of the main management's challenges is to keep track of all products, a compulsory requirement of the German partners, an ISO certified company. All defects must be tracked and an archive of 5 years of all production must be kept. In order to integrate with the partners' e-Management system, the company has to provide monthly reports in a fixed electronic format with all production records (around 15 items for each product).

The other major challenge was stock management, especially handling different wire coil colours. The same colour can have different shades which cannot be mixed for the same product; therefore a very precise management is required.

To keep up with those demands this company implemented a basic document tracking system, which afterwards was manually translated to electronically format, send and archived manually. This system introduced many errors and the final reports were not accurate which caused a lot of complaints from the German partners. The stock management was poor, using some basic worksheets and manual operations, causing frequent chaos and production delays.

The company management contacted a software development company to implement a custom e-management system, which had to overtake all manually work.

The main requirements were:

1. All production data to be centralized into a single electronic database, accessible from several production units and from management offices;
2. All data inputs to be automated into a user-friendly software tool, with very strong proof (most human operators didn't have any computer-usage knowledge). The manual human inputs should be minimized, so inputs from weighting machine and bar codes will be automated.
3. Stock will be handled automatically – the only inputs will be just simple data entries. Warnings will be issued when items are below thresholds and data collection with reporting features for the management will be available.
4. Several reports and data aggregation will be available to the management, which will provide manufacturing status and times per machine and per human operator, number of defects, wire colour usage, packed products and products ready to be shipped.
5. The data will be automatically exported to the format required by the German partners, and all information and reports will be automatically archived for future usage.

The system was developed and implemented in three months, with two weeks of trial period. Several month after the implementation, the management feedback

stated total control of stock with huge improvements in production times, a speed-up of the production and no delays or errors. Receiving the defect-orientated reports, the management could easily identify machines with high defect rates and replace the part in time to minimize losses. The German partners are also pleased with the accuracy of the data provided. The company made a step further and implemented a production calculation feature to enhance short-term planning and future company strategy. The e-Management system will be also the platform the ISO 9001 certification process.

Visual Effects Studio Case Study. This is a small company with 5 employees which provides visual effects and video animation services. The team works in the same time at multiple projects, and the challenge is to keep track of the time spend for each project, because there are many last-minute requests and changes from the customers.

The specificity of the activity requires a lot of customer reviews before the final delivery, so a team member must meet the customer and spend some time for reviewing and recording comments. This implies a lot of production time lost with meetings and travel. Customer communication was done by phone and by email, and after several communication sessions the track of customer requests is lost or misunderstood.

They contacted a company to develop an online e-Management system with the following requirements:

1. Every team member will use an online website interface (for mobility) to keep track of all actions performed on a specific project (time spend, modification of requests, comments, prices offered, etc.).
2. The team and the management will have access to visual reports for deadlines, the use of resources, total time spend for each project and other related information.
3. Customers will have a dedicated client area on the website, and they will be able to visualize their products online, with the ability to post comments. The team members will address those comments and will be able to respond, also online.

After the implementation of this e-Management system the company management was able to correctly issue an invoice for every client, according to the time spend for each project. The mobility and productivity of the team increased, since they didn't have to travel so much, and they could see from any location the status of the project and to receive customers' requests or comments.

3.4. Negative Case Studies

As previously stated, not all e-Management systems can be successful: The management of garage (service station) wanted to implement a form of system for keeping track of employees' time spend on each operation and to generate an invoice automatically. Because the garage management didn't contract a support service as well, the employees weren't able to handle the new system and it was soon abandoned because generated more delays than before.

Another SME from the logistics segment acquired an "off the shelf" system for an E-Management implementation. But the system didn't meet an important

requirement: accepting data input formats from partners, so without this key-feature it was soon abandoned.

4. CONCLUSIONS

Implementing an e-Management system within a Small and Medium Enterprise requires rigorous planning with regard to a series of factors and indexes. Otherwise the new system can become an obstacle for the development of The Small and Medium Enterprise, because of the high risk of generating within the enterprise true economic disasters.

The services offered by the e-Management help to improve the activity of the Small and Medium Enterprises, to organize, to facilitate communication on work fluxes thus giving the opportunity to take better informed decisions on management collection, on cost reduction, as well as on improving the entrepreneurs' experiences.

Applying an e-Management system within a relatively short period of time, without major costs and delays in production, is materialized in a true challenge for the Romanian Small and Medium Enterprises.

e-Management is not a very complex science and in the following years will become a requirement for any SME which aims for the European market and success. It will be something imposed both by the competition and by the customers. Any SME management just has to realize that it needs an e-Management system.

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THE EXPANSION OF FDI FLOWS – A MAJOR FACTOR OF GLOBALIZATION

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ABSTRACT: *Globalization is the process whereby geographical distance becomes a less important factor in establishing and developing cross-border economic, political and socio-cultural relations; therefore production networks and Foreign Direct Investment (FDI) flows represent the main factors that play a key role in the process of getting international and worldwide spreading. Globalization phenomenon involves a process of deepening and widening of interdependence relations between different economic entities and spheres and takes into account international trade relations, the cross-border movement of international production factors, but mostly the expansion of FDI flows, having significant positive effects on the welfare of nations or geographical areas. The impact of the global economic crisis on FDI flows is a heterogeneous one, as the effects of the depression came to light in many different ways, depending on the level of development, the geographical area or the economic field.*

The overall fall in global FDI flows during the crisis was accompanied by a significant shift in the traditional pattern of FDI: emerging countries well-endowed with natural resources were becoming a growing source of FDI for developed countries, due to internationalization strategies carried out by their multinational companies (MNCs). Based on recent forecasts, UNCTAD specialists estimate that global FDI will recover to its pre-crisis level in 2011, rising to \$1.4-1.6 trillion, approaching its 2007 peak in 2013. However, the business environment remains volatile and MNCs are cautious rather than optimistic regarding their investment plans.

KEY WORDS: *globalization; Foreign Direct Investments (FDI); multinational companies (MNCs); FDI flows; the global economic crisis; developed countries; emerging economies; developing and transition countries.*

JEL CLASSIFICATION: *F21; F23.*

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1. INTRODUCTION

Recent developments in the world economy lie under the sign of globalization, of interdependence between the economic actors and the national states, of multiple interactions. Practically, any economic activity carried out anywhere on the planet will have, sooner or later, certain effects on the world economy as a whole or on some levels of economy.

The phenomenon of globalization has *a number of determinants*:

- *economically* materialized through trade liberalization, through creating global production networks, free movement of capital;
- *technologically* through the export of technologies, intensification of research and development, the emergence of the information society;
- *socially* through the migration of population and labor force, the improvement of education or health systems, the substantiation of equitable wage policies etc.;
- *from cultural point of view* through the crystallization of cultural values based on the ideas of freedom, equity, equilibrium, tolerance, acceptance;
- *politically* through the processes of the multilateral global cooperation and the harmonization of the interests of States with those of multinational corporations (MNCs), regional or international institutions called to watch over global stability and security etc.

It is a paradox that as it becomes a more obvious and more widely accepted real contemporary issue, globalization is still a controversial concept in economic literature and international politics.

2. DISCUSSIONS REGARDING THE CONCEPT OF GLOBALIZATION WITHIN THE LITERATURE

According to Friedman, one of the most fervent supporters of the thesis of globalization, "*globalization is not a simple trend or a fantasy; it is rather an international system. It is the system which now took the place of the Cold War system and, by the way, globalization, has its own laws and logic, it is capable of influencing nowadays, directly or indirectly the environment policy, the geopolitics and the economy of each country in the world*". (Friedman, 2000).

In the narrow sense, globalization means a process of expansion of transactions between firms and people across national borders and a process of emphasizing interdependencies among "*global entities*" which could take the form of private enterprises, public institutions or Governments.

Within Romanian literature, one of the well-known definitions of the globalization concept is given by I. Popescu, A. Bondrea and M. Constantinescu who claim that "*globalization is the process whereby geographical distance becomes a less important factor in establishing and developing cross-border economic, political and socio-cultural relations; thus relation networks and interdependencies represent the*

main factor that has an absolute potential of getting international and worldwide spreading". (Popescu, et al., 2004).

Liviu Voinea, in his prestigious book "*Transnational Corporate Entities and the Global Capitalism*" published by Polirom in 2007, draws a synopsis of the concepts of globalization produced by specialized literature; it begins with understanding Glyn's and Sutcliffe's concept according to which globalization is "*an extension of production capitalist relations*", continuing with Berhman who considers that "*globalization is a new world order that transcends the traditional models of capitalism*" and ending with the *criticism of globalization* which draws the attention to its contribution in bringing about the economic crisis in Southeast Asia (1997-1998), Mexico (1994) and Argentina (2001), and to the trend of proliferation of protectionist policies in the United States and the European Union, in the very context of ample theoretical debates regarding the liberalization of world trade (Rodrik, 2002).

The extent of changes which accompany the process of globalization and its overwhelming spreading rate, produced in their turn, a new series of debates about the relation between globalization and the national States. Held and McGrew (2003) have systematized the opinions expressed in the specialized literature into three distinct "sides" (Voinea, 2007):

- *The skeptics*, who believe that the present circumstances of globalization are not new, and the world economy was at least as marked by the phenomenon of globalization during the Roman Empire or before World War II as it is now. Therefore, the experts in this category do not consider that the national States are threatened today by the danger of disappearance, but on the contrary, their role becomes more important as international relations are amplified;
- *Transformers*, saying that the phenomenon of globalization is accompanied by new economic, social, political, cultural and technological circumstances, leading inevitably to a transformation of the role of States in the world economy, based on the reconsideration of the coordinates of the environment in which they operate;
- *Hyper-globalists* who are partisans of a free global market, created against weakening the influences of nation States upon economic activities carried out in a given space.

By entering into the hyper-globalist trend, Robert Reich appreciated that "*... we live deep transformations that will rearrange the politics and the economy of the next century. There will no longer be national economies, when this process is completed. All that remains within the borders are the people who represent the Nations ...*". According to the same author, ***the standard of living of the people will depend in the end on the performance of large multinational companies and not on the success of each nation.*** (Reich, 1996).

This is why the object of the current paper is not the formulation of a universal definition for the concept of globalization nor is the development of macroeconomic policy directions that lead to the activation of this process; the interest of authors is directed instead towards understanding the mechanisms of globalization rapid spreading by the instrumentality of foreign direct investments (FDI).

3. THE DYNAMICS OF FDI FLOWS DURING THE CRISIS

Extremely complex, the phenomenon of globalization involves the process of strengthening and broadening relations of interdependence between different economic sectors and actors and it takes into consideration three important variables, namely international trade, international movement of production factors and last but not least foreign investment flows (Dumitrescu & Bal, 2002). Thus, foreign investments should be viewed not only as a flow of capital between the two entities; they must be analyzed depending on the method of investment which is chosen.

Therefore, the literature shows a number of pros and cons to choosing a certain method of foreign-investment - external credit, joint venture or foreign investment – concluding that the **external credit** is preferable if the initial investment leveraging is independent in terms of functionality from the host state; **the joint venture** is implemented when it contributes to the development of a public-private investment project, the association between a pre-existing entity, owned by the host State and the foreign investor; **the foreign investment** which develops in the form of *portfolio international investments* through the acquisition on the financial market of securities in the form of shares or bonds and **foreign direct investments** that allow the investor to purchase the control share package of a firm or to set up new companies.

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In this context, the economic importance of FDI starts from defining them as a long-term relationship reflecting a lasting interest and control of an entity resident in one economy (natural or legal person) upon an economic unit resident in another economy (Voinea, 2007). The expansion of foreign direct investments as a planetary-

scale phenomenon is linked to the important impact on the prosperity of a State or region. The most direct effect of this kind of investment is the economic growth and the creation of new jobs, the increase of production capacity, increase of tax levies specific to the development of economic activities and the stimulation of investments, foreign direct investments contributing to an infusion of technological innovations in the field, the adoption of modern industrial practices and the implementation of managerial strategies which result in an increase in the competitiveness of the sector.

Global economic growth has led to an increase in foreign direct investments in the period 2003-2007; the peak level was attained in 2007 when it reached a level of \$ 2063,4 billion according to UNCTAD statistics. Despite the most acute crisis of the post-war period that broke out in 2007, the increase in the volume of foreign direct investments in the first half of 2007 by 30% as compared to the year 2006 due to, in particular, the growth of reinvested profits and acquisitions and cross-border mergers, attenuates the decline of investments during the second half of the same year.

In 2008, the international financial crisis affected the growth cycle of international investments so that this year there was a sharp reduction by nearly 10% in the volume of investments. In fact, the impact of the international financial crisis upon the flows of FDI is heterogeneous, the strongest feature being that the effects of **the crisis have acted differently, depending on the level of development, on the region and sector of activity** (table 1 and table 2).

Table 1. FDI flows in 2007-2008

- \$ billion -

Country/Region	FDI flows		
	2007	2008	Growth (%)
Global	2063.4	1868.9	-9.4
Europe	1270.7	990.3	-22.1
United States	313.8	298.6	-4.8
Japan	73.5	127.4	73.2
Latin America	52.1	36.1	-30.7
Africa	5.3	-	-
Asia and Oceania	211.4	239.6	13.4
West Asia	44.8	-	-
East Asia, Southeast Asia and South Asia	166.5	185.2	11.2

Thus, as a result of the problems financial institutions were faced with, of the liquidity crisis or the reduction in the number of international mergers and acquisitions, foreign direct investment flows have decreased by approximately 33% *in most of the developed countries*. FDI flows attracted in 2008 registered low levels particularly in Finland, Hungary and Italy but also in the United Kingdom, France and the United States as compared with the levels achieved in the year 2007. As regards *the group of developing countries*, the rate of increase of FDI in 2007 was by 4% lower than in 2007 when the rate of growth exceeded 20%.

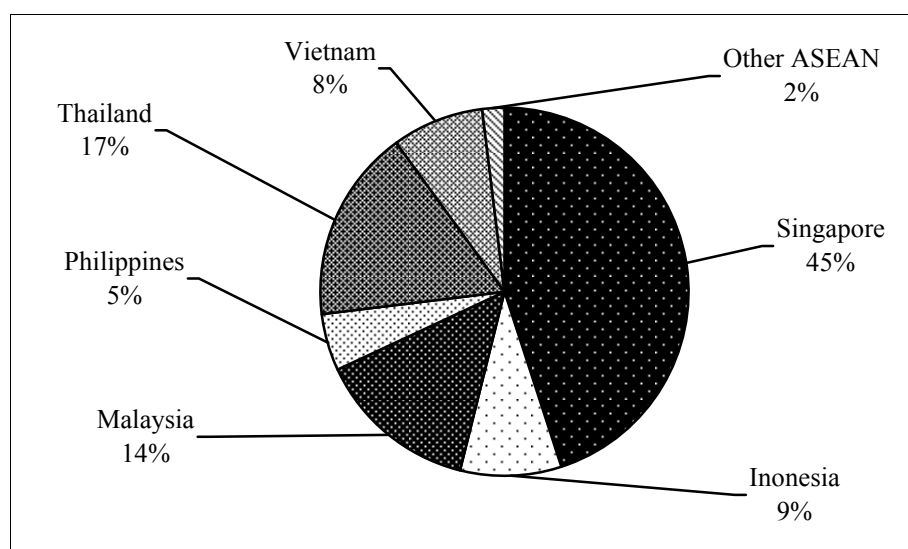
Table 2. FDI flow by sector/industry, 2007-2009

Sector/Industry	Value (\$ billion)			Number of cases		
	2007	2008	2009	2007	2008	2009
Primary	74	90	48	485	486	433
Agriculture, hunting, forestry and fishing	2	3	1	64	59	63
Mining, quarrying and petroleum	72	87	47	421	427	370
Manufacturing	337	326	76	1993	1976	1153
Food, beverages and tobacco	50	132	10	213	220	109
Chemicals and chemical products	117	74	33	325	316	225
Non-metallic mineral products	38	29	0	130	91	22
Metal and metal products	70	14	-3	218	199	95
Machinery and equipment	20	15	2	228	265	134
Electrical and electronic equipment	24	14	18	266	309	203
Motor vehicles and other transport equipment	3	12	9	86	95	74
Services	612	290	126	4539	3962	2653
Electricity, gas and water	103	49	62	135	159	130
Construction	13	2	10	149	114	96
Trade	41	17	4	588	590	324
Transport, storage and communications	66	34	16	436	343	211
Finance	249	74	10	712	563	458
Business services	102	101	17	1972	1681	1109
Total	1023	707	250	7018	6425	4239

Source: UNCTAD, *World Investment Report, Global Trend in FDI, 2010, Chapter I*

Unlike other regions of the world, **investment flows to the developing countries of Asia** continued to increase so that for the Group of countries in East Asia, Southeast Asia and South Asia the growth from 2007 to 2008 is of 11.2%, while for the rest of countries in Asia, including Oceania the increase by \$ 28.2 trillion represents 13,4%. By including Japan in the Asian assembly, with the largest increase in investment flows for a period of two consecutive years, i.e. 73.2% we can conclude that this region represents a pole of economic concentration.

A structural analysis of investment flows for countries in the Asian region is interesting and it shows a heterogeneous evolution of foreign investments relocation from China which in the past two years registered increases in the cost of labour and thereby production costs to countries such as Vietnam and Bangladesh with cheap labor or India and Taiwan which have earned the reputation of countries with qualified manpower in IT - figure 1.



Source: World Bank

Figure 1. Cumulative FDI inflows in ASEAN 1990-2009, distribution by country (share of total inflows to all ASEAN member states)

This trend is maintained in 2010-2011, even though the volume of FDI in East Asia, Southeast Asia and South Asia increased by 24%. The three sub-regions have recorded very different flows so that if inflows to ASEAN States have doubled, those towards East Asia increased by more than 15% while flows towards the Southeast Asia fell by almost 20%.

Unlike the Asian states, in other regions of the world investment flows recorded negative values in 2008 as compared to the year 2007, such as in Latin America, where the sharp decline is from \$ 52.1 billion to \$ 36.1 billion, namely more than 30%; Europe registers a decrease of 22.1% and the United States a decrease of \$ 15.2 billion.

A retrospective analysis of FDI in the world from sectorial point of view during the crisis, allows us to highlight the following features:

- the most affected segments were those based on services that have had an average decrease of \$ 243 bil./year, which has also affected the total volume of foreign direct investments, which fell by \$ 773 bil. Services held at the beginning of the crisis 59.82% of the total FDI, while in 2009 their share fell to 50.4% in favor of the primary sector that had a lower rate of decrease in comparison with other sectors - the share of FDI in this sector from the total of FDI increases from 7.23% in 2007 to 19.2% in 2009;
- the declining trend in the service sector continues for all the 6 segments, the most affected being the financial services with a drastic reduction from \$ 249 bil. to \$ 10 bil., an atypical development being registered in constructions where, after a sharp decline from \$ 13 bil. in 2007 to \$ 2 bil.

in 2007 it returns to a volume of investments of \$ 10 bil., that is to say a drop of 23% from the crisis break-out;

- the trend in manufacturing industry is down for 5 of the 7 segments, the most significant decrease being registered by metallurgy, over 70 times and non-metallic mineral products of 38 times and in terms of value, the chemical industry has decreased by \$ 84 bil. An interesting development for consumer behavior during the crisis was registered by food, beverages and tobacco industry and motor vehicles and other transport equipment industry, both recording increases in 2008 and decreases in 2009;
- in the case of the primary sector, agriculture, hunting, forestry and fishing and mining, quarrying and petroleum, the trend is similar in the sense that 2008 is the year of growth of the volume of FDI up to 50% and 20,83% respectively followed by a significant drop in both segments;
- 2009 is the maximum year of the crisis in many fields, such as finance, transport, communications and utilities - in particular in financial services, while in the case of industrial activities fluctuations were heterogeneous so that some industries such as the food industry and the automobile industry record significant rises and others such as the chemical industry, metallurgy and electrical equipment industry have exacerbated declines;
- the level of investments in the energy sector has fallen worldwide, due to the austere financing environment which have diminished the final demand and the available cash flows. The economic crisis results in the decrease of the global use of energy in 2009, a phenomenon which was registered for the first time since 1981. Nevertheless, the energy consumption is expected to resume its long term climbing trend, worldwide. In the oil and gas industries, most firms restricted capital expenditures, not only by drilling fewer wells, but also by postponing and even abandoning exploration projects (UNCTAD, 2010a).

The year 2008 put an end to the growth cycle investment that began in 2004 and we witnessed world FDI inflows climbing to the peak value of 1.9 \$ trillion in 2007. The slump in global FDI during 2008-2009 was caused by two major factors which influenced both domestic and international investments. First, firms' ability to invest has been dramatically shrunk by the fall in access to financial resources, brought about both by internal developments (the dramatic decrease in corporate profits) and by external unfavorable evolutions (low credit availability and high financing costs). Second, the propensity to invest has been negatively influenced by economic forecasts and this trend was more pronounced in developed countries, which were stricken by the most severe recession in the post-war period.

The synergistic impact of the two factors on the investment projects trend was strengthened in 2008 by a high level of risk perception from multinational companies (MNCs) which determined them to rationalize their costs and to cut off their investment plans in order to become more adaptive to any further worsening of the business environment (UNCTAD, 2009a).

As we have already seen, the impact of the crisis on FDI flows varies, depending on region and economic sector. Developed countries have been the most

affected, with a significant decline in FDI flows in 2008, while developing and transition economies have reached a positive growth rate of FDI inflows to developing countries of 7%, although this level was lower than in 2007. This development was entailed by even relatively high economic growth rates that remained dominant in several developing and transition economies including, among others, BRICs (Brazil, China, India and Russia) in 2008 (UNCTAD, 2009a).

The overall fall in global FDI flows during the crisis was accompanied by a significant shift in the traditional pattern of FDI. We have learned from the economic theory that capital should flow from advanced economies to developing or low-income countries. In practice, this has not been the case as emerging countries well-endowed with natural resources were becoming a growing source of FDI for developed countries, due to ambitious internationalization strategies carried out by their MNCs.

According to UNCTAD statistics, global FDI flows amounted moderately to \$1.24 trillion in 2010, but they were still 15% below their pre-crisis average level. Based on their forecasts, UNCTAD specialists estimate that global FDI will recover to its pre-crisis level in 2011, rising to \$1.4-1.6 trillion, approaching its 2007 peak in 2013. However, the business environment remains unstable and MNCs are cautious rather than optimistic regarding their investment programs. Figure 2 emphasizes baseline and pessimistic scenario for future FDI growth trend.

During the first quarter of 2011, FDI inflows run high compared to the same period of 2010. The recovery trend is likely to lean against the following positive developments which aim to create new investment opportunities for companies across the Globe: the significant increase in MNCs profits, the determination of taking up the running corporate and industrial restructuring anti-crisis measures, the rise of outward FDI from developing Asia, the implementation of Southern MNCs internationalization strategies, the quick deploy of strengthening investment policies etc.

4. CONCLUSION

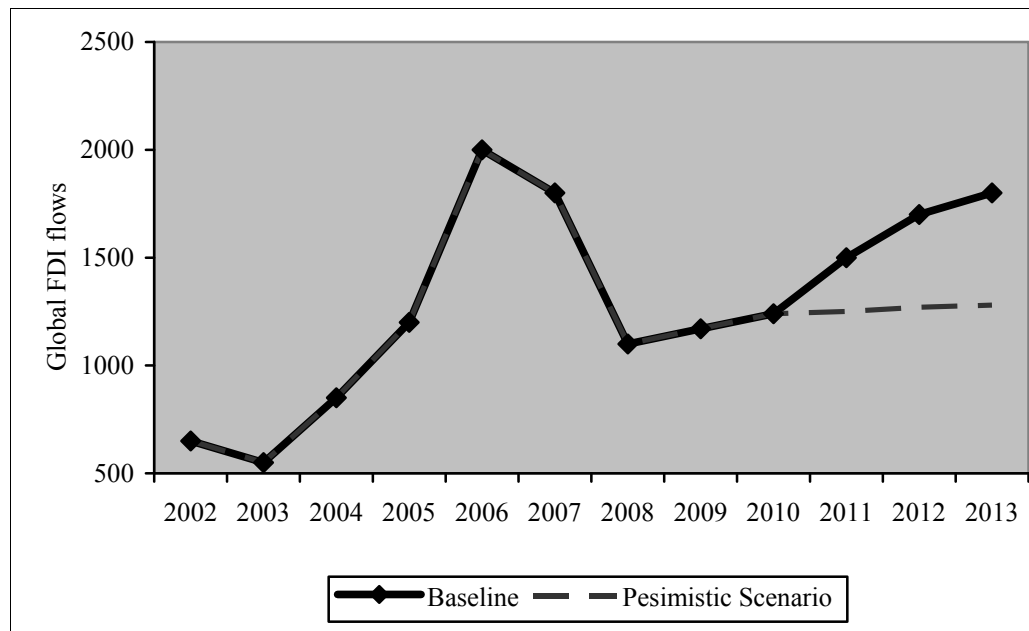
Against the grim background of the global economic crisis, FDI represent essential vehicles of globalization processes. The 2007-2010 period analyzed in the paper from FDI evolution point of view, does not mark the first time when the world economy goes over the recession, but it certainly represents a downturn after many years, namely after the Great Depression that began in 1929 and after Breton Woods System Fall in 1971.

Moreover, we must lay stress on the fact that was for the first time when a large magnitude crisis is located mainly at the level of developed countries and not only in emerging economies.

The FDI expansion in the world economy was indeed astonishing: in the last decades of the former century, international investment flows followed a spectacular growing trend. During 2003 and 2007, statistical data gave evidence of unprecedented expansion and increase in FDI flows. The global economic crisis which erupted at the end of 2008 has hit the overall world economy, including investment trends. We must highlight two main factors that bore upon FDI shrank: restricted access to financial resources which altered the firms' capacity to invest and the cautious behavior of

MNCs regarding their future investment plans, because of shadowy prospects for the economy, markets and risks.

However, we can assert FDI that remains an unequivocal vehicle of globalization, even in times of crisis. The issue of globalization is extremely complex and, at the same time, it generates debates in specialized national and international literature. Beyond the confrontation of ideas that are far from being concluded, it comes out the conclusion that globalization is an inevitable process and an irreversible one, if we place a sign of equality between the process of globalization and the intensification and multiplication of interaction processes, which are more obvious both at the level of individuals and at the level of relations among the main actors of the global economy – the nation States, MNCs and international organizations. Therefore, the path of global economic phenomena can no longer be controlled, and the new world economic order must be based on a new model of development that places welfare, dependency and interconnectivity in the limelight.



Source: UNCTAD, *Global Investment Trends*, New York and Geneva, 2011

Figure 2. Global FDI flows, 2002-2010, and projections for 2011-2013 (Billions of Dollars)

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ABOUT DIRECT SALES IN THE WORLD, EUROPE AND ROMANIA

CLAUDIA ISAC, ALIN ISAC *

ABSTRACT: *Direct sale represents a modern product distribution system directly to consumers, generally, directly to their homes, to their workplace or other places, beside retail shops. The best known type of direct sale, the Network Marketing or Multilevel Marketing implies the existence of a network of distributors which earn income from selling on commission, to which they add the trade markup. This paper is based upon the analysis of these types of sales starting with the study of specialized literature especially by foreign authors, mainly Americans, with the analysis of statistical data presented by several organizations such as SELDIA (The European Direct Selling Association), MLM International Romania, ACVD (Association of Direct Selling Companies in Romania), as well as the legal regulations within this field. In conclusion, the paper presents an interesting comparison of the sales and structure volume between the Europe and Romania.*

KEY WORDS: *direct sales; network marketing; sellers; franchise.*

JEL CLASSIFICATION: *M16; C15.*

1. INTRODUCTION

In the long run, the term franchise has been associated with different definitions according to the point of viewing and to the field of activity in which it was used. In a simple sense, franchise means a license allowing the designee to sell and market a company's products or services in a particular place, using the name or the trade mark of the company; it allows him to do business for himself but not through himself. From the marketing point of view, franchise represents a distribution system based on the partnership between two parties which are legally independent, between the franchisor (the proprietary owner, the owner of the trade mark of products and services) and the franchisee (Dura & Isac, 2006).

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Developing a franchise using a well-known trade mark, as well as the name of a company has enabled the development of a more complex distribution system, which is different from the classic marketing systems.

Thus, seen from the marketing point of view, there arose a new form of selling which presents the products directly to consumers without using the characteristics of the classic sales, meaning the existence of shops, of product stocks, of storehouses etc. Invented by the “Yankee vendors” who traveled across America to market their goods, direct sales have become reality, as proven by the development of companies which successfully implement this distribution method at the beginning of the third millennium (Dumitraş, 2003).

The European Direct Selling Association defines direct selling as a method of marketing and retailing goods and services directly to the consumers, in their homes or in any other location away from permanent retail premises.

It is usually conducted in a face-to-face manner – either where products are demonstrated to an individual, or to a group or where a catalogue is left with the consumer and where the direct seller call as later to collect orders.

Unlike direct marketing or mail order, direct selling is based principally on personal contact with the customer (<http://www.seldia.eu/direct-selling/about>).

The economic importance of direct sales has made a series of famous specialists, among which John Naisbitt, study this phenomenon and reveals four important stages in its evolution:

- ✓ *pioneer stage* (1945-1977) characterized by the successful development of US companies such as Amway or Nutrilite – as well as by the beginning of direct sales within Europe and Asia;
- ✓ *professional stage* (1977-1990) did not refer only to an accelerated increase of the sales volume, but also to the implementation of some modern strategies for setting up a network of distributors;
- ✓ *information stage* (1990-2000) enabled the use of information technologies to control the network of distributors on the one hand, while on the other hand it made use of modern methods of promoting and delivering the products to the customers’ doors;
- ✓ *globalization stage* (2000-present) is still in progress and it is characterized by an explosive increase of the volume of direct sales due to the fact that the range of products and services marketed through direct sales has been enlarged by the growing number of distributors that are highly motivated by the financial advantages offered by this type of sales; moreover, it is easier to penetrate the international market using the Internet.

2. DIRECT SELLING IN THE WORLD

In 2010, within 100 list direct selling company, the top 10 companies contributed 39\$ billion to the world economy.

As we can see in the next picture, the 2001-2010 retail sales show a stagnation, even the maximum has reached in 2006 (32.18 billion dollars) the 10 years average is around 28 billion dollars.

The structure of products category is quite the same in Europe like international one, which it means the first two places are taken by Cosmetics & Personal Care and Wellness, which claim more than 50% of sold products through direct sales.

The next places are taken by Clothing & Accessories with 16% and Household Good & Durables with 9% or Financial Services with 5% (http://www.wfdsa.org/about_wfdsa/?fa=globalStats).

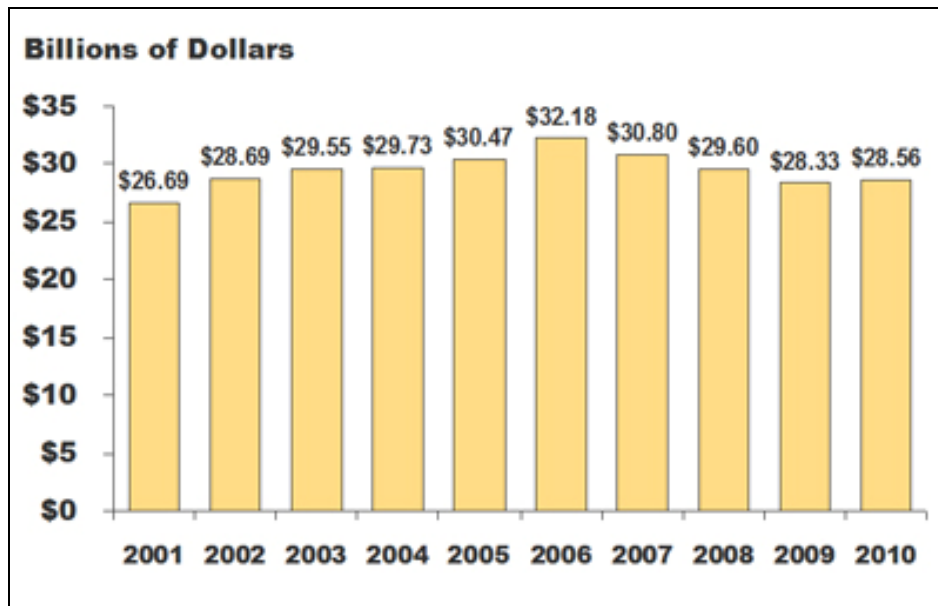


Figure 1. Retail sales in 2001-2010

3. DIRECT SELLING IN EUROPE

In Europe, the direct sales volume is near 20 billion dollars and the biggest sales are in Germany with 3761.9 million dollars, Italy 3361.2 million dollars, Russia 3062 million dollars and France 2413 million dollars.

The top countries after the number of selling people are Russia with almost 5 million sellers, followed by Ukraine, with more than 1436000, Italy, Germany and France. Sales volume are proportional with number of selling people in the most countries, which it means one seller has near 1600 dollars sales volume.

Another interesting conclusion is in Europe 82% of seller are women, in some countries this percentage are very high, by example in Czech Republic, Estonia and Lithuania with 95%. In every countries the women seller percentage is more than 50%, just very few of them like Switzerland has only 53% or Austria with 55%.

Direct selling is a large and growing sector within the non-store retail trade in Europe. Direct sales volume shows a constant growth over the last five years and over 6 million people are engaged in direct selling in European Union. Direct selling

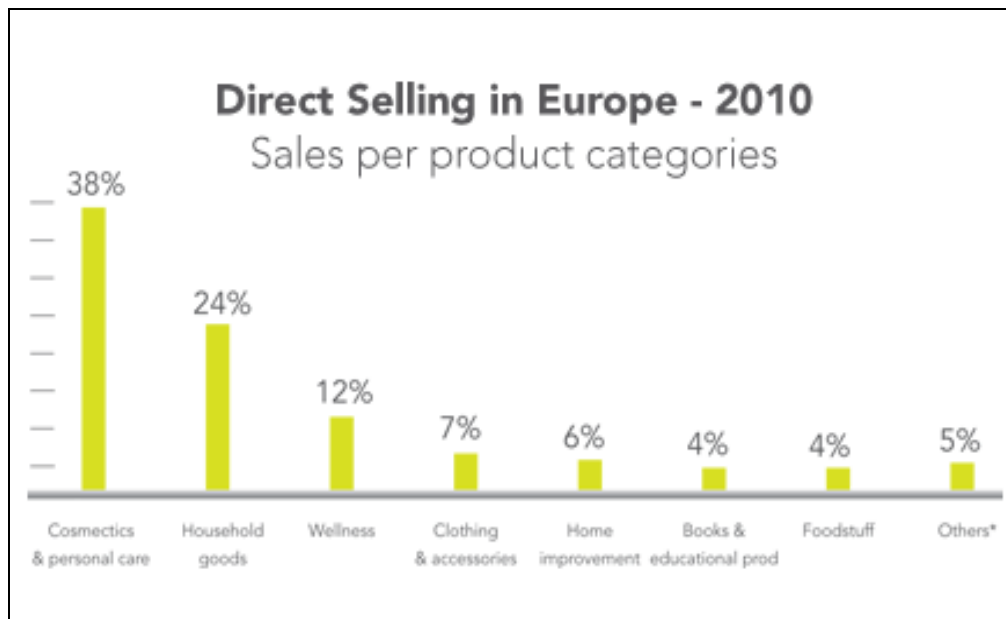
companies offer in Europe permanent employment to over 26,000 people and 76% of the products they sell are manufactured in Europe.

Table 1. Indicators concerning direct sales worldwide

Country	Estimated Retail Sales (bill. \$)	Number of Sellers	Salesforce Women %	Part time %
Austria	266.7	14000	55	75
Belgium	234.5	18122	67	65
Bulgaria	68.9	86446	87	54
Croatia	33.8	34820	63	96
Czech Republic	223.5	223673	95	85
Denmark	125.9	99500	70	95
Estonia	17.2	20960	95	-
Finland	202.8	80000	80	92
France	2413	265000	80	80
Germany	3761	460000	88	90
Greece	120.4	102016	-	-
Hungary	250.2	316448	76	90
Ireland	74.3	17758	71	82
Italy	3361.2	390995	79	99
Lithuania	41.1	31235	95	-
Luxemburg	13.9	600	-	-
Netherlands	131	36135	81	86
Norway	280.6	188800	85	90
Poland	698.7	869328	88	85
Portugal	95	12708	-	-
Romania	204.4	345560	84	31
Russia	3062	4995508	80	44
Slovakia	98.6	98000	-	-
Slovenia	36.1	35000	65	80
Spain	611.2	185000	88	96
Sweden	387.8	100000	75	95
Switzerland	383.8	10000	53	60
Turkey	441.7	612814	90	65
Ukraine	540.2	1436100	-	-
United Kingdom	1397.2	278000	85	87
Total	20217.4	12363486	82	70

Source: *Special Supplement to the Wall Street Journal by Direct Selling News – The Ultimate Social Business Model*

From the point of view of the categories of products, it is noted that over the past few years in cosmetics and personal care sales rankings are maintained, and in 2010 as their share of almost 38%. The total of household goods and wellness represent more than 36% followed by clothing and accessories with 7%, home improvement 6% and same shares of 4% foodstuff and books & educational products.



Source: <http://www.seldia.eu/direct-selling/companies-products>

Figure 2. Structure of product categories

4. DIRECT SALES IN ROMANIA

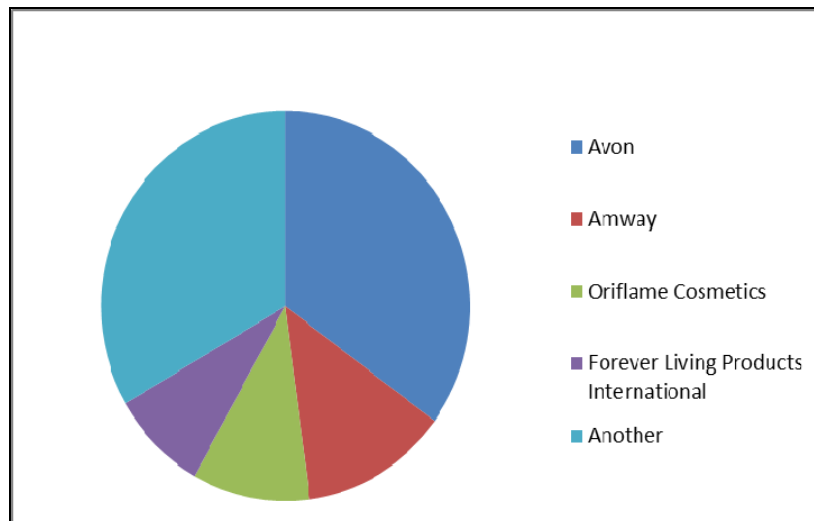
The beginning of MLM activities in Romania is related to the admission of some private Austrian life insurance agents on the market. Only after 1994 can we mention some MLM companies which were registered as legal entities and which obey the Romanian legislation. At present, according to the statistics made by the Association of Direct Selling Companies in Romania, there are at least 70 companies that promote direct sales and they comprise over 270.000 distributors.

An important factor for increasing the turnover generated by direct sale companies and multilevel marketing networks represents the wide range of products and services with a structure that is continuously changing. Thus, if between the years 1996 – 2002 prevailed the sales of cosmetics, body-care and nutritional products lately, this selling system has incorporated insurances, especially life insurances (11.5% in 2005), private pensions as well as real estate sales. As far as the insurance system is concerned, into the picture came insurance brokers who are authorized by the Insurance Surveillance Committee which distributes its products through direct sales and Multi Level Marketing (Safe Invest Romania, Salve-Club, Fin-Cop Broker, EPM Romania etc.) and which extended its services in this field due to the context of implementing the compulsory and optional private pension system in Romania starting with the year 2007 in the case of optional pensions and with the year 2008 in the case of compulsory pensions by signing adhesion contracts to a private pension system.

As far as the real estate sales are concerned, an important step is represented by the setting up of specialized banks such as the banks for houses which have interesting

offers for individuals who want to invest in real estates by signing Bauspar contracts according to the collective credit system and which function based on direct sale contracts. At present, in Romania there are two banks which offer loans for houses and they are Raiffeisen Bank for Houses SA and HVB Bank for Houses, founded in 2004 and 2005 respectively, with an increasing number of contracts. Therefore, the career system for the direct sales promoted by Raiffeisen Bank for Houses SA made it possible for the 3500 distributors to have signed contracts over EUR 700 mil for over 100.000 clients by January 1st, 2007.

Another important aspect of direct sales and multi level marketing is represented by human resources because marketing systems rely on the principle of multiplying the efforts of distributors within a structure and creating education and training programs. At present, in Romania, beside the 750 employees of direct sale and multi level marketing companies there are over 250.000 who earn extra incomes from the commissions resulted from this type of sales.



Source: <http://www.money.ro>

Figure 3. Direct Selling Company in Romania

In the present, the direct sales volume knows an easy growth to 282 million euro in 2011, after what in the 2010 was near 278 million euro and in 2009 around 280.4 million euro, conform to Euromonitor statistics. Personal care and beauty products represent 88% of the total Romanian direct sales volume which it means the most important category. This important ponder of cosmetics and personal care is demonstrated by the position of the companies in the Romanian market.

So, the Romanian direct sales leader is Avon with 35% followed by Amway with 12.9%, Oriflame Cosmetics with 10.3 and Forever Living Products International with 8.5%. All the other market players have 33.3% .

5. TRENDS IN DIRECT SELLING BUSINESS

Some of the trends have already been mentioned above:

- strong growth in international markets. Direct selling continues to perform strong during the global economic crisis;
- high participation of women. Women are beginning to realize that the Internet makes it possible for them to reinvent themselves and begin a business that requires little risk and low start-up cost;
- there are no age limit to develop the business;
- important market shares for cosmetics and household goods;

Besides these trends, the Internet has a positive influence on direct sales industry. Internet has had an impact in relations between direct seller and the company and between the direct seller and the consumer. The main levers through which the Internet helps the development of this industry are:

- The internet has allowed direct sellers and customers to maintain contact outside the face-to-face meetings;
- Direct sellers have started blogs and social media page;
- Direct sellers use electronic mailings and have online access to product and services brochures;
- Paying through Internet banking;
- Using Internet banking for paying;
- More and more people were extended his professional activities of direct selling through the use of the Internet and social networks.
- A direct selling activity can be run from home and does not require a high investment.;
- Some may even give follow-up orders by electronic means. However, despite this convergence of physical.

From the seller's point of view, the major attraction of direct selling is that it offers an equal and flexible income opportunity to men and women, across all ages, level of experience and social origins. In this context, the direct selling industry development trends will be direct influenced by maintaining these advantages for the distributors and by using and developing the communicating modern technologies.

6. CONCLUSIONS

The economic results and the dynamics of the goods and services distribution through direct sales and multi level marketing are determined by a set of economic, technologic and even social factors. The economic – financial analysis is sometimes considered by the specialized literature as being limited, and because of that we think it is necessary that the diagnostic analysis should be completed with the evaluation of the stability of the management system of companies specialized in this kind of sales.

In conclusion, sales through direct marketing and multilevel marketing are one of the most dynamic and fast distribution methods in the world; for Romanian salesmen it represents an opportunity for future development of businesses and for increasing living standards.

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LOGICAL DESIGN OF THE APPLICATION REGARDING FINANCIAL STATEMENTS SUBMISSION

CLAUDIA ISAC, ALIN ISAC, MIRCEA PETRINI *

ABSTRACT: *System outputs are the results of automatic processing, and they represent one of the main means of materialization of the objectives of any computing system. This means providing on-demand or periodic data needed by the real system. Thus, the contents of this paper present the main elements of the logical design of the application that submits eFinance annual financial statements, elements related to designing outputs, to designing inputs, selecting and designing the database, implementing secure transactions with PHP and MySQL.*

KEY WORDS: *e-Finance; secure transactions; elements designing outputs; elements designing inputs; financial statements.*

JEL CLASSIFICATION: *M 48, C81*

1. INTRODUCTION

In terms of the life cycle of an information technology product, the design is a step in the systematic, sequential approach, of software development and according to the phases of these cycles, we know the following models:

- *the waterfall model* in which each stage in the life cycle is evaluated so that it is possible to return to previous stages (an improved version of this model is the V- model, also improved by Hodgson in 1991 as the X model);
- *the incremental build model or the planned improvement of the product* allows a segmentation of the process that leads to the development of the system in a sequence of stages that result in the achievement of functional components;

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- *the spiral model* is the most realistic approach of application development; it evolves in successive stages and it is based on continuous refinement until the desired system is completed (Figure .1.)
- *the pyramid model* marks the transition from structured techniques used in software engineering applied to a project, to object-oriented structured techniques applied at company level;
- *other models characteristic to certain fields* (the basketball model, the pinball model, the fountain model).

2. e-FINANCE DESIGN METHODOLOGY FOR TRANSMITTING FINANCIAL STATEMENTS

2.1. Designing outputs

A financial statement is a report that must be submitted to the tax authorities, by those established by law and it contains, in principle, a statement of the financial position, of properties or income which result in financial obligations. In order to file a financial statement the taxpayer fills out a form provided freely by the tax and submits it to the registry by mail or electronically. Failure to submit financial statements gives the tax authority the right to determine tax liabilities by estimating the tax base, but not before the taxpayer has been notified that the deadline for filing financial reports has been exceeded.

The main requirements that must be met by system outputs are:

- ✗ Output compliance with the legal regulations in financial accounting field;
- ✗ providing necessary information requested by companies, on the one hand and institutions that accept statements submitted by them, on the other hand;
- ✗ the possibility of obtaining outputs corresponding to previous accounting periods in order to reconstruct some elements;
- ✗ providing output flexibility by: selecting facilities, data ordering and grouping, presenting visual data on the screen or in print; the possibility to define situations based on existing data.

The usefulness and viability of the application is determined by the type, the content and the efficiency with which outputs are obtained and result in:

- ✗ reports that have different forms and are highly complex;
- ✗ graphs of different forms;
- ✗ Web site;
- ✗ list of values, usually ordered by one or more criteria;
- ✗ point values which are obtained instantly (percentages, totals, indices)

In the case of e-Finance, the output data is represented, on the one hand by confirmations received by economic agents and on the other hand by the reports received by the portal administrator.

Economic agents receive a confirmation e-mail each time they submit online statements and after they have been verified and stored on the server.

The administrator has the opportunity to generate the following types of reports:

- the list of companies that have submitted financial statements, fiscal declarations on time;
- the list of companies that haven't submitted financial statements, fiscal declarations on time;

Company name	The situation of submitting financial statements and fiscal declarations
	YES/NO

- the list of companies that have registered profit and its value;

Company name	Companies that registered profit	The value of the profit
	x	

- the list of companies that have registered losses and its value;

Company name	Companies that registered losses	The value of the loss
	x	

- filtering all registered companies by the following criteria: status, registered for VAT, county, city and NACE codes.

Company name	VAT payer	Declaration 300 has/has not been submitted

2.2. Designing inputs

Software inputs are primary data needed to obtain the outputs of the system. Primary, internal or external company information reflects the state and the dynamics of economic phenomena and processes that are necessary for creating, updating the database and obtaining the output statements. The initial information goes through a sequence of stages from its generation and collection until its actual use within the applications, namely:

- recording data from input documents;
- centralization of data and their conversion into a form accepted by the system;
- syntactic and semantic checking of input data;
- erroneous data correction, etc..

In each software component, inputs are subject to outputs on two levels:

- *the logical level*, where every output is the result of applying one or more operators on a set of input data;
- *the technological level*, where the required output characteristics influence the required input characteristics.

In conclusion, the delimitation of input data requires an analysis based on output situations while determining the inputs of the system starting from its output can be possible using the output-input concordance technique (Figure nr.1). The implementation of this process has the disadvantage that not always one can forecast all kinds of output data and all the necessary input information can be determined.



Figure 1. The relation between input data and output reports

Another type of process is the one that determines the entries without knowing, in detail, the information output of the system and it has the disadvantage that some inputs may never be necessary or on the contrary, sufficient to obtain the output. These entries should reflect the real system object in order to be able to obtain any type of information output.

Defining inputs must include all the elements needed for further input documents and it must provide solutions for data acquisition with the computer system. After their determination in terms of content, the source of origin will be established for each input, the frequency, volume, etc. as well as the possibilities and methods of data collection, verification and storage will be agreed upon.

The design of the input aims to develop specifications needed both from the programmer's point of view and from the user's point of view. As a logical design phase, the design of the input includes: *emphasizing input documents, their content, data volume, the frequency of each document, the types of support, data validation criteria that are subject to processing*, etc. (Bătăgan, 2008).

In this case the input data consist of:

- financial statements, ie the balance sheet, the profit and loss account, informatory data;
- fiscal declarations, such as: the Declaration on payments to the state budget, code 14.13.01.99/bs; Declaration on payments to the social insurance budget and special funds, code 14.13.01.40; Income Tax Declaration, code 14.13.01.04, Value added tax return, code 14.13.01.02.

After the first stage of defining the results of automatic processing, and after the second step of dividing the outputs of the system it is required that the technical solution should be determined, ie designing the database.

2.3. Database Design

A properly designed database provides access to accurate, updated information. Since a correct design is essential, it is necessary that duplicate or redundant information be removed as they take up space and increase the likelihood of errors.

In order to create the e-Finance data base, financial statements are collected from companies. as two text files containing accounting information from the balance sheet, the profit and loss account, appendices to the balance sheet the attributes of which are coded and include character and numeric fields. Similarly, for tax returns there are also necessary two text files the structure of which is identical. The input data introduced in the system describes the economic agent, meaning it provides identification information.

Based on this information we developed the information system that contains all the data from the documents mentioned above, common and uncommon, taken only once.

2.4. File Design

The logical design aims at transposing the conceptual model into solutions that can be implemented. Thus, starting from the file, which is a set of data identified as a homogeneous total and from the basic structural unit of the file which represents the logical registration one can define the items as logic units for data processing. In this respect, the logical design involves three subtasks:

- the logical structure of data
- determining the logical characteristics of the data
- estimating the amount of data within the files

This phase aims to outline the solution proposed by the logic design from technical point of view. This is possible if we take into account the characteristics of equipment and the related technical support.

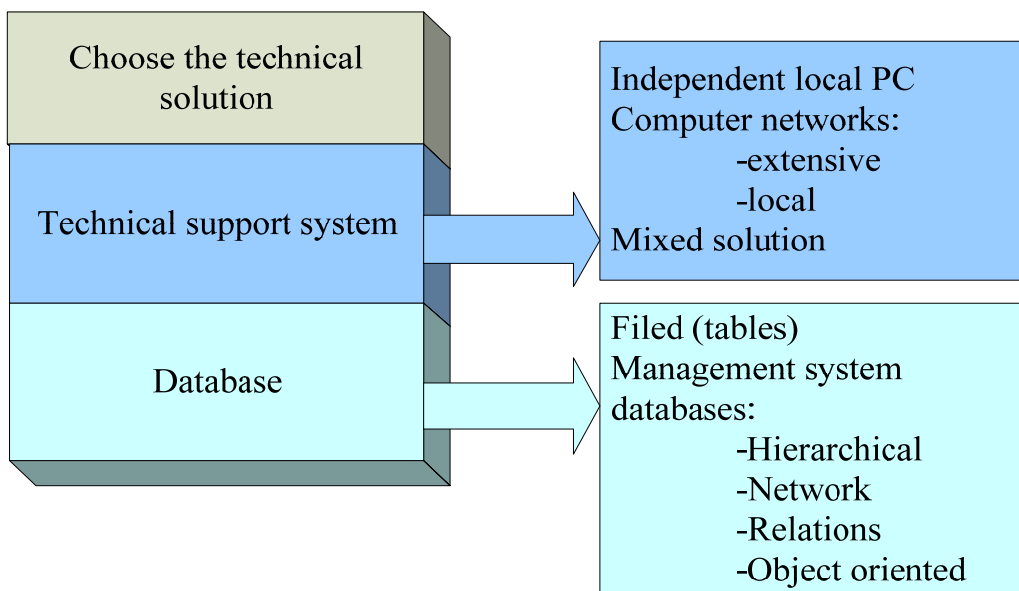


Figure 2. Technical solutions for creating an information processing system

As one can see in the previous figure, there must be a correlation between input data, the actual technical possibilities and information requirements. Due to this fact, the design implies three subtasks: designing models for collecting data, determining physical characteristics of files, determining the necessary technical support for files.

2.5. Interfaces Design

Interface design and implementation is a key element of computer system functionality. After identifying the outputs of the system, a major concern for designers is to create interface models which mean presenting recommendations for structuring and shaping the data entered, following feedback and designing online help systems (Oprea & Mesnita, 2003).

The interface allows users to access the internal components of the system in a relatively simple way; it represents the standard by which one can evaluate the system and the easier the access is, the better the interface can be.

The main components of an interface are:

- ✦ *Communication language* that allows interaction with the system in a variety of styles. For example, data communication can be done by switching on the monitor screen to another form, the transition from one field to another and so on.;
- ✦ *Presentation language* allows the presentation of data in a variety of formats (reports, tables, graphs, icons, etc.) necessary to transmit information and commands to the computer system.

An interface can be plotted either extended, in which case one uses the interface class symbol and it includes the list of all available operations or synthetic when it is attached to a class or component that supports it (Zaharie & Rosca, 2002).

In addition to this structure, there are the following types of interfaces:

- ✦ interfaces using natural language;
- ✦ question and answer interfaces;
- ✦ video input / output interfaces;
- ✦ command-line interfaces;
- ✦ interfaces that allow direct manipulation.

From the user's point of view, interfaces can be structured as follows:

- ✦ GUI (Graphical User Interface) that supports inputs from devices such as keyboard and mouse sites and it provides a detailed graphic output on the monitor;
- ✦ Web-based interfaces or advanced interfaces which accept inputs and provide outputs by generating web sites that are transmitted via the web and viewed by users through browsers.

In the application presented I combined both interfaces: the video input / output interface and web-based interfaces. Users will be able to choose the desired menu from the header or from the left side and its execution will be displayed in the center of the page. The interface used is shown in Figure 3 and it is executed by the launch module page.php.

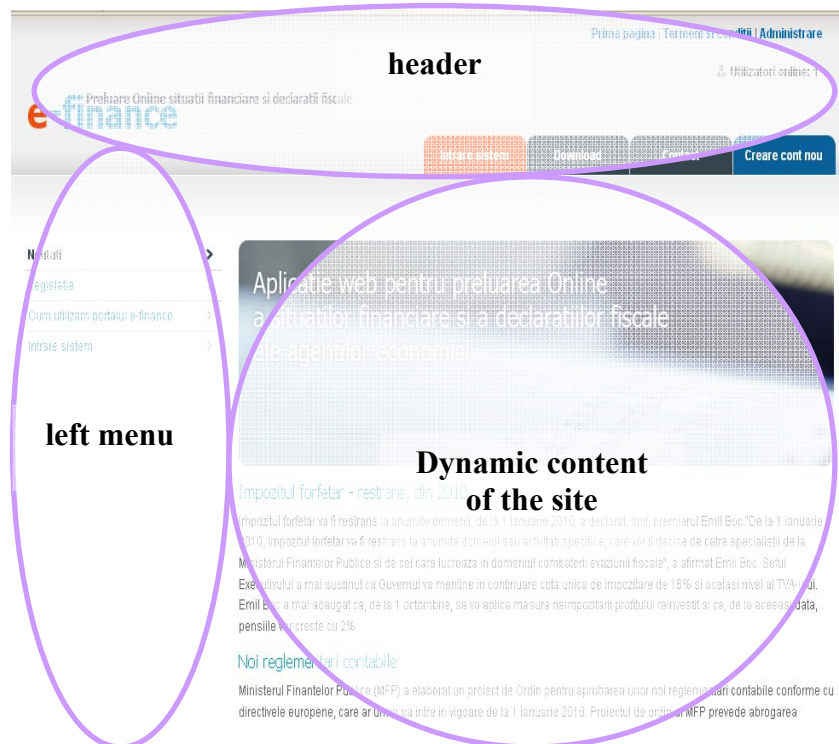


Figure 3. The general interface of the application

3. CONCLUSIONS

In conclusion, interface allows users to access the internal components of the system in a relatively simple way; it represents the standard by which one can evaluate the system and the easier the access is, the better the interface can be. When implementing the e-Finance application we used the SSL technology. The user's access is based on the tax identification code and the password chosen at the registration of the company in the database. It also uses protection against the introduction of source codes in the login fields.

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MARKETING MANAGEMENT AS A KEY ELEMENT FOR IMPLEMENTING CHANGE WITHIN ORGANIZATIONS

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ABSTRACT: *In the contemporary era, dominated by deep interests, an organization will only survive by being creative, based on professionalism, having the ability to decide. And as creativity, renewal and innovation are the pillars of customer satisfaction, this remains a problem, not enough conceptually defined and operationalised. This paper presents the state of knowledge regarding customer orientation as a marketing component, the level of influence of the main factors of change upon marketing management. The paper is based on several concepts from literature, on opinions of well known specialists but also on the reality of international crisis which shows an obvious lack of interest in studying and modelating customer orientation. The investigation is composed of two successive researches: a qualitative explorative research (interviews among specialists, focus-groups) and a quantitative descriptive research. We consider that the results of this research have an innovative character and could be the base for new theoretical and mostly practical study programs or workshops for marketing managers as well as employees. Also, organizations affected by profound changes should realize that only a real orientation towards the needs of clients will ensure their long term success.*

KEY WORDS: *change; customer orientation; marketing management; success, crisis.*

JEL CLASSIFICATION: *M20; M31*

1. GENERAL CONSIDERATIONS

Building on international business, strategic management, and marketing literature, this paper advances prior knowledge on change and business by analyzing different effects of globalization on firms. Change the process of increasing social,

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cultural, political, and economic interdependence has resulted in several transformations in business environment. Global market opportunities and threats are major effects of globalization. While the former refers to the increases in market potential, trade and investment potential, and resource accessibility, the latter refers to the increases in number and level of competition, and the level of uncertainty. Conceptual models are developed based on environment - organization literature, transaction cost economics, and market power perspective.

In this study, “change management” refers to the process of increasing social and cultural inter-connectedness, political interdependence, and economic, financial and market integrations that are driven by advances in comarketing managementunication and transportation technologies, and trade liberalization.

People around the globe are more connected to each other than ever before. Information and money flow more quickly than ever. Goods and services produced in one part of the world are increasingly available in all parts of the world. International travel is more frequent. International comarketing managementunication is comarketing managementonplace.

The importance of this study is considerably amplified by changes generated by the actual financial-economical crisis that develops deeply; process spread inevitably worldwide, becoming difficult to control and affecting all areas of business.

2. THE METHODOLOGY OF RESEARCH

By this research study we intend to underline some existing realities in Romanian organizations regarding marketing management and its' key role in change management.

Taking into account the set-up objectives, our investigation has been made up of two consecutive researches: *a qualitative research of an exploratory nature and a quantitative research of a descriptive nature.*

By using the qualitative research of an exploratory nature one had as aim *determining the set of hypothesis which were the object of the quantitative descriptive research that was to follow and setting up the following priorities for the research.*

The methods used in this preliminary research are the following: *the analysis of secondary data*, which requires the usage of the available data coming from different sources with focus on discovering shortcomings, ideas, solutions regarding costs and the prices policy; *interviews with specialists* with the aim of obtaining further pieces of information from those relevant in the fields of marketing management; *group reunions* or *focus groups* that allowed the debates regarding this subject.

The ojectives and hypothesis of the research are presented in table 1.

The descriptive quantitative research, the results of which are presented in the present paper, had as purpose to describe and evaluate the coordinates regarding the knowledge of marketing management by the firms.

Taking into consideration the location of development the research has been made *in the field*, and in what concerns the frequency of development, the research has been made *on occasion*.

Right after setting up the objectives we aimed to define the hypothesis of the selective scientific research presented in table 1, respectively to anticipate the answers to the matter under investigation.

Table 1. Objectives and hypothesis of the research

Q ₁	The actual state of knowledge regarding marketing management	I ₁ – Most managers agree to the importance of marketing management in change management and organizational objectives; I ₂ – Most managers consider that marketing management contributes decisively to the improvement of organizational performance in changing conditions;
Q ₂	The degree in which firms own a marketing management system.	I ₃ – Most firms don't have a marketing management system ; I ₄ – Most often marketing research is evaluated; I ₅ – The most used method SWOT analysis.
Q ₃	The degree in which firms are willing to form human resources in marketing management.	I ₇ – The level of expenses that firms undertake for professional forming is very low; I ₈ – The team involved in marketing management is performing.

One had into consideration when formulating the hypothesis *the pieces of information and conclusions taken from the previous exploratory research*.

In order to set the sample we used the method of *random sampling*, which was based on a *fixed sample with restrictions* (taking into consideration the organizational restrictions, we decided upon a sample of 1100 respondents). We can state that the sampling method consists of a combination between the *multi – stages sampling method* and that of the *non-proportional stratified random sampling*. Thus, for the purpose of our research the following *steps* have been taken:

- The basis for sampling has been defined and constituted using the data obtained from the National Office of the Registry of Comarketing managementerce, having included all the firms and autonomous authorities in Sibiu County. We observed that the main criteria which need to be taken into consideration in selecting the components of the sample are the one related to the category of the firm.
- From the sampling basis we have eliminated all the firms that are no longer active, which have had an interruption in their activity and those which had registered losses in exploitations more than two years consecutively. The remaining firms have been stratified according to the category of he firm.
- The remaining firms for each stratum have been randomly selected until the size of the sample has been reached. In completing the size of the sample we chose the non-proportional option, starting from the hypothesis that certain strata, especially those of the small, medium and large firms present a higher importance for the marketing management activity.

A limit of the research derives from the choice made in completing the size of the sample, namely our choice for the non-proportional version. Regarding this aspect, we would like to argue that, even if by using the non-proportional alternative the subjects of the sample do not correspond to the statistic realities in what regards their weight on the total of firms in Transilvania, we started from the hypothesis that certain strata, consequently that of the large, medium and small enterprises have a larger importance in the context of research, each of those having its own conceptions and perceptions. One must also specify that the basic objective of the selective scientific research has been to develop and test the instrument of research and not the precision of the estimates.

Considering the purpose of the completed selective scientific research, that of capturing the existing realities at the level of the firms in Transilvania regarding the marketing management, to determine the level of the differences from the point of view of needs, attitudes or opinions between different categories of firms and fields of activity, the distributed questionnaire was anonymous, the researchers assuring the respondents of the confidentiality of the information they have provided. The focus was not on a particular category of firms, as we tried to catch certain realities with the purpose of identifying the causes of the deficiencies declared at the level of the economic activity, as well as to formulate proposals in this field. From this point of view, the researchers based their opinions on the full confidence shown by the respondents who, thus, assured them of their full cooperation.

3. CONCLUSIONS AND PROPOSALS

3.1. The actual state of knowledge regarding marketing management

A first objective of our research was to obtain information that would give us an image of the actual state of knowledge regarding marketing management.

Within the frames of this objective we followed the opinions of managers regarding the importance of marketing management in change handling and reaching organizational objectives. Data processing leads to the conclusion that most of the respondents (42.7%) agree to the fact that marketing management is important and 38.2% express their total agreement towards our affirmation. This situation would make us point out the importance of this system in relation to business environment, in different analysis of activity and results, as well as in strategic planning. Neutral opinion have 14.5% of the respondents, while 14.5% expressed disagreement and only 1 respondent (0.9%) expressed total disagreement towards the upper affirmation.

The average of the obtained responses is 4.14 and is situated in the „agreement” zone, so that the hypothesis advanced before the research (I_1 – Most managers agree to the importance of marketing management in change management and organizational objectives) is confirmed. When a decision is being made, regardless of its type, managers need to know the risks that might appear. Any change generates risks that need to be managed in order to survive. Marketing management is the only one that can offer solid information, influencing the behaviour and decisions of the ones implementing it.

In the same time, within this objective, we followed the attitude of managers regarding the degree in which they consider that marketing management contributes to the improvement of the organizational performance in changing conditioned.

The information obtained revealed the conclusion that most respondents (50.0%) consider the fact that marketing management sustains performance in change, 19.1% appreciate as useful such a system, but not indispensable and many respondents, (over 30%), consider such a system not important. As a conclusion, the hypothesis (I_2 – Most managers consider that marketing management contributes decisively to the improvement of organizational performance in changing conditions) is confirmed.

Still, we consider that this conclusion cannot be generalized, because almost half of the respondents do not consider as indispensable the marketing management system. To be more detailed, we tried to establish the connection that exists between the managers' attitude regarding marketing management and the category of organizations they lead. We have observed the fact that as the dimension of the firm increases, the percent of managers that consider that marketing management sustains performance in conditions of change - 75% in large organizations and only 29.5% in micro and small organizations.

Only 8.3% of large organizations do not use marketing management methods while, in small organizations the percent is over 52%.

As a conclusion, the research proves that most of managers in large organizations consider that a marketing management system contributes to a better activity. Most of those leading small organizations do not use this system and most of those managers either don't use it at all, either considers it good but not indispensable.

In a competitive economy, characterized by permanent changes, the role of marketing management is to forestall permanently the future trends of the company. To plan, to predict the necessity of financing as well as the potential capital sources is essential for the life of an organization. Organizations in developed countries don't make any move economically, technically, financially or any other kind without elaborating a strategy, without establishing the risks that might appear, regardless of their meaning and impact. Many managers lead their business without having a unitary vision upon it. In their strive to survive, they forget a significant aspect – marketing. Have you ever proceeded in a journey without thinking what are you going to need on the way, how will you transport everything, what are the risks that might appear? Definitely, no, well, so is, or it should be in business. We consider that the initial role of marketing management in change is to be regarded as a „compass” that will help the organization to find its right way, to obtain the desired performances and to adapt to changes with efficiency.

3.2. The degree in which organizations have implemented a marketing management system

The second major objective of our research refers to certain realities in Romanian organizations regarding marketing management. In order to reach this objective, we have placed in our questionnaire three questions. For starters, we intended to identify the degree in which organizations have a marketing management system. The

information obtained has shocked us. Most of the organizations included in sample (70%) do not have implemented such a system, only 20% of them declare they have one, and 10% consider they cannot state whether they have or not such a system. The hypothesis is in this way confirmed. Based on the combined analysis "marketing management"/ "firm category" following statements could be concluded: the percent of the companies that have a marketing management system rises along with company's dimension. So, if over 80% of the large companies have a marketing management, most of the small companies don't have one. The general conclusion could be that most of the forms that have a marketing management system are large (over 58%), they being more willing to support the costs for implementation, in order to obtain benefits in the future.

Another aspect of the research is the typology or the function evaluated. Even though they are not able to evaluate every type of function is more important within their organizations, most of them consider the comarketing management on ones: financial, human resource.

Only 20% of the organizations evaluate comarketing managementercial function, 31.8% evaluate financial function, 10.9% evaluate production and 9.1% mention they evaluate human resource function. We have identified that over 50% of the organizations in research don't evaluate any function. As a consequence, the hypothesis we have formulated before our research (I_4 – Most often marketing research is evaluated) is not confirmed. We can see though that from those types of functions we have mentioned most organizations that do actually an evaluation, are really interested in marketing.

Another fundamental aspect of our research was to identify the methods the organizations use. Due to the restriction of space we only present a few of the methods that could be used in order to conduct marketing research: SWOT analysis, Internal diagnosis, interview, Customer Relationship Management. By data processing, we can conclude that in order to evaluate the markets, 5.5% of the organization use SWOT analysis, 21.8% use global diagnosis, 38.2% use other methods and 34.5 % don't use any methods at all. As a conclusion, we can state that most of the organizations use as main methods the internal diagnosis analysis and the hypothesis advanced at the beginning of research (I_5 – The most used method SWOT) is not confirmed.

We can also see the high percentage, taking into account the complexity of the method as well as the lack of interest in marketing management of those organizations that use global diagnosis. We negatively appreciate this lack of interest in managers for modern evaluation methods, fact that relates to the low preparation of those involved in marketing management.

As a general conclusion, we can state the fact that changes in business environment and competition generate different types of attitudes towards marketing management. Any decision regarding a new objective, developments, reengineering, generate a risk in obtaining results initially estimated due to the influence of changes in economical, financial social-political technical, internal and external environment. We simply don't know what future brings. What could be done is an analysis of the risky situations and their potential effects upon organizations.

The general conclusion of our scientific, selective research is that most of the questioned organizations don't have a marketing management system. The reasons

could be various but, most probably is resides in their incompetence to involve in deeper analysis. In this situation, we wonder: do Romanian organizations have such a „good” evolution? We don't think that an answer is needed, this being already presented in our upper paragraphs. A healthy marketing management process and its continuous improvement is the distinctive sign of international companies in a competitive environment.

Marketing management in XXIst century should be an integrant part of general management, promoting operational efficiency and not bureaucracy, permanently analyzing costs/benefits generated by their reaction to change.

3.3. The degree in which organizations are willing to improve and prepare the personnel involved in marketing

As we stated before, a major request of adaptation of human resources to the performances of marketing management, refers to training of professional that will be able to bring knowledge and abilities to the task of their positions. So, we have intended to follow the degree in which the organizations are willing to undertake the expenses of personnel training. By data processing, we noticed that most of the organizations (38.2%) are not willing to support those expenses, statement that actually doesn't wonder us considering the low percent of those organizations that have a marketing management system.

Only 15.5% of organizations offer access to training programs, also undertaking the expenses and only 5.5% are aware of the importance of life long learning and continuous training but taking over the costs in very low percent.

As a conclusion, the hypothesis advanced before the research is confirmed. Regarding the degree in which the organizations have a performing team, we could state that most of these (55.5%) appreciate that they have a performing team and 20% have very performing team. Only 2.7 % declare that they have unprofessional in their team.

Professional development of the personnel involved in marketing management is considered a insecure investment due to reasons such as confuse objectives of training, lack of strategy in human resource. On the other hand, we are aware of the fact that these courses are expensive, prices being ranged between 1000 and 3000 Euro. We consider though that the existence of detailed training programs, according to t requests of change characterize the organizations that are successful.

The imarketing managementinence and inescapability of change are well known. Thousands and thousands of possible combinations of human errors, changes, failures of technique or external influences are threats that lead to the appearance of failure. Within this context, we consider that the members of executive management should continuously reevaluate and consolidate management policies in order to approach complex danger they face nowadays. In spite of the continuous decline of this financial crisis that we are facing, it seems that few institutions actually plan to bring fundamental changes in their marketing structures.

We consider that, in order to face the importance of marketing management in handling change, mentality must be changed first. Such change could begin by introducing as compulsory in university curricula and not only a discipline regarding

marketing management. We could that try o develop comarketing managementunicational and analytic abilities, practice of marketing research and coexistence with this life characteristics, development of managerial abilities in order to correctly act towards change exposure, strategic and operational behavior, a integrated marketing management system within organization, adapting methods and techniques for marketing control in changing situations and their management.

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THE COSTS OF DEMOGRAPHIC AND ECONOMIC CRISES - CHALLENGES TO PENSION SYSTEMS REFORM

DANIEL NICOLAE MILITARU *

ABSTRACT: *As the economic and financial crisis accelerates worldwide, covering the expenses driven by an aging population is a challenge both now and in the future for the pension systems. Thus it is necessary to adopt sustainable reforms to cushion the expected impact of these crises on the budget. In general, the strongest pressure occurs on pay-as-you-go (PAYG) pension systems. It is also essential that the reforms on pension systems should be accompanied by anti-crisis policies concerning the financial sector, the labour market and public finances.*

KEY WORDS: *demographic crisis; reforming the pension system; pension costs; anti-crisis policy; private pension funds.*

JEL CLASSIFICATION: *E62; H55.*

The acceleration of the aging process is a major phenomenon worldwide. Europe and Japan face this situation in particular. It is estimated that Europe has already reached a critical stage, the European Union member states being forced to cope with these demographic challenges both short and long term.

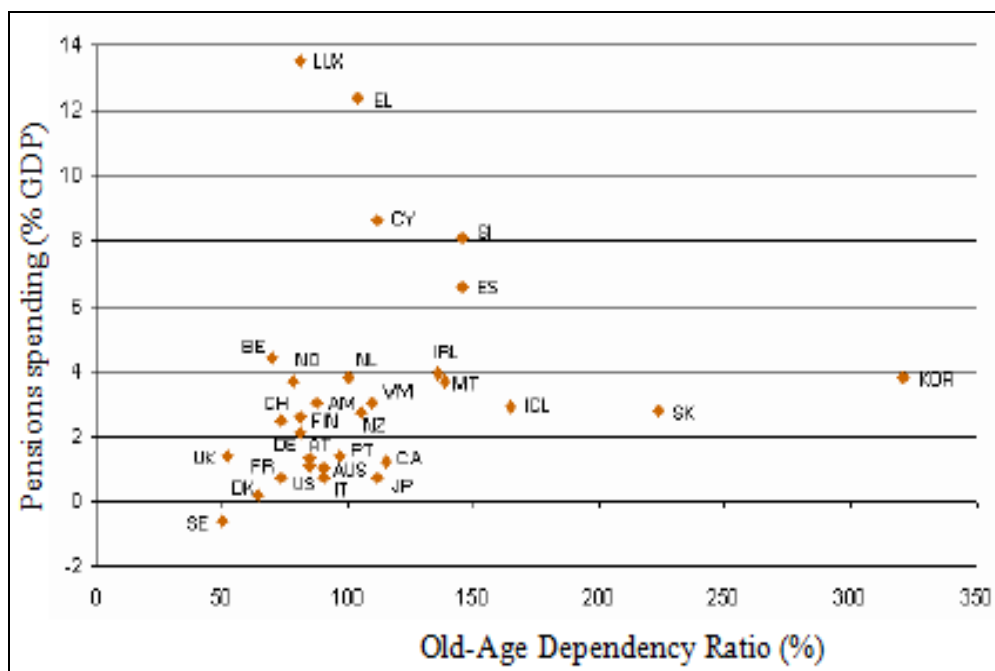
It has been anticipated that pensions, including disability pensions, early retirement or surviving relative will grow larger in the future rising on average by around 3% of GDP by 2050 in comparison to the present level. However, this average does not fully illustrate the large differences which are expected among countries.

The dynamics of capital accumulation and the sustainability of the pension system depend largely on the openness of the economy. The European economies are not isolated from each other nor of the world. Therefore, even slight differences in their pension schemes, coupled with a severe aging population will inevitably increase the financial flows between these countries and will bring modifications regarding the accumulation of the fixed capital. Thus the nature of the financial environment will

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play a crucial role for the European economies in the process of adapting to these phenomena and implementing their reforms (Chojnicki & Magnani, 2000, p.66).

The charts below show the correlation between pensions spending and old-age dependency ratios (the number of over 65s compared to the population aged 15-64) both in advanced sovereigns as in emerging sovereigns. Naturally, the higher the old-age dependency ratios get, the larger becomes the pensions spending. Anyway this is not a rule, because the expected increase in budgetary spending for pensions can be cushioned by implementing sustainable reforms (http://www2.standardandpoors.com/spf/pdf/mediaglobal_aging_100710.pdf).



Source: European Commission, International Monetary Fund, Standard & Poor's 2010

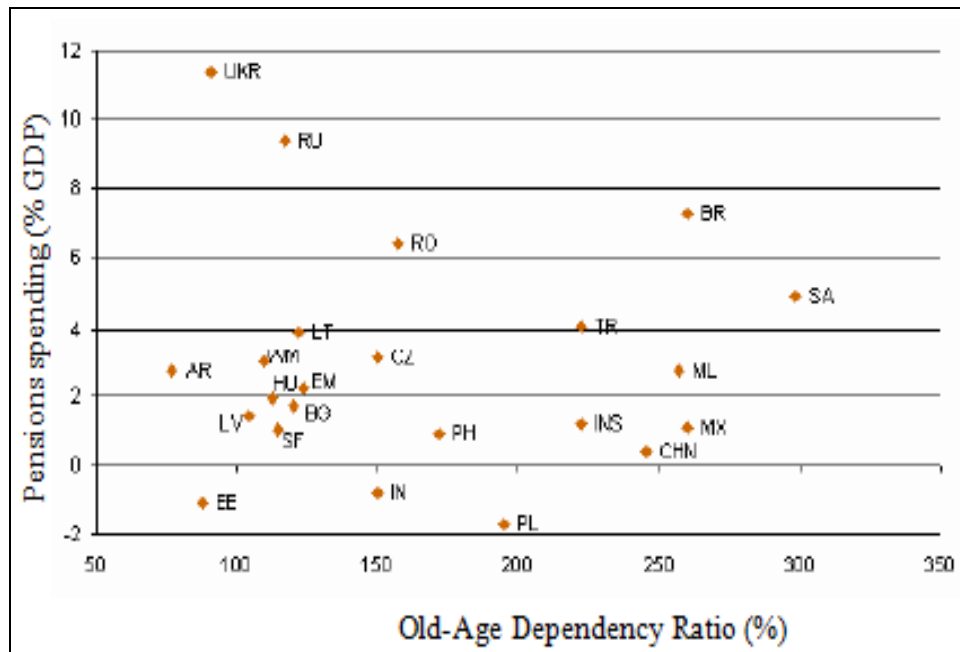
Figure 1. Advanced countries: Pensions spending and Old-Age Dependency Ratios (2010-2050)

Until 2050 the Old-Age Dependency Ratios are believed to double both in advanced states as in emerging states. Although, there are some sensitive responses in Europe, especially Eastern Europe, Latin America and Asia. The greatest pressure on budgetary spending relative to aging is noticeable in states where there are still reforms pending on pensions systems, mostly PAYG (pay-as-you-go) pension systems. In these conditions, in states such as Luxembourg, an increase of more than 13 % of GDP by 2050 is anticipated.

Under the rapid changes in their demographic structure, Spain and Slovenia are also implementing reforms to their PAYG, this involving changing the formula of pension indexation, increasing the legal retirement age and so on. Fortunately, in countries where the demographic structure seems to be very poor, past systemic

reforms have cushioned the expected increases in pensions, for example Slovakia and Korea.

The emerging states seem to hold, on average, a relative better position due to their present conditions of development and to a lower coverage of pension systems. Unlike the advanced economies where the median pension spending to GDP is at about 9.2% the emerging states, excepting few, present a lower percentage 6.4%.



Source: European Commission, International Monetary Fund, Standard & Poor's 2010

Figure 2. Emerging countries: Pensions spending and Old-Age Dependency Ratios (2010-2050)

Pension spending will face nevertheless many threats and uncertainties in the near future. Taking into consideration employment and old-age dependency ratios on long term, the projections for pensions in emerging countries apart from the ones in the European Union stand on constant coverage ratios of pensioners to the persons above 65 years. However, the advanced economies seem to suffer a faster deterioration of the old-age dependency ratio. We have to mention that these long-term projections stand on the supposition that there will be no change of the policy cover and adequacy.

There are also expected significant changes in their social structures as these states develop. During the last half of the 20th century, the government welfare spending has grown faster than GDP as a stage of this development process. Taking this into consideration these projections seem to be optimistic. This is the case of Poland, Estonia and India were expecting a fall in pension seems to be very optimistic and not politically sustainable if the replacement rates decrease significantly because

this situation will lead to an increase of poverty risk for the older. Hungary has taken a radical measure by nationalizing the Pillar II pension systems.

On the other hand, higher increases in pensions spending are expected in countries such as Romania, Russia and Brazil and Ukraine because of their pension systems which are not reformed. Romania, for example is facing this situation under the terms of the programs with IMF/EU.

On medium and long term, the risks associated to the increase of the expenditure related to the older population, in the context of an accelerated aging phenomenon while a decrease of the active population, can be significantly reduced implementing fiscal consolidation measures (http://ec.europa.eu/europe2020/pdf/nrp/cp_romania_ro.pdf).

The current economic and financial crisis has worsened and amplified the effects of severe demographic tendencies. According to the European Commission estimation, the impact of aging phenomenon on public finances in Europe, will make the effects of social and economic crisis seem very small compared to the costs associated with this phenomenon. In addition, the public pension systems in Europe seem to be more and more unsustainable as there is a dreasting need for adopting combined measures, for their swift reform, for improving public finances, fiscal consolidation and for the stabilization of the perspectives regarding the economic growth. The recovery from the economic crisis proves to be slow and the main challenge for the EU is the sustainability of its spending. We recall that reducing the public debt is one of the main lessons that should be learned from the economic crisis.

Unlike the current economic and financial crisis, the demographic crisis is a centenarian phenomenon whose effects will not disappear even after 2050. It is also necessary that the measures to reform the pension systems should be accompanied by anti-crisis policies regarding the financial sector, the labour market and thus public finances. During the last decade the demographic aging in Europe was much faster than the initial estimates of the European authorities and more and more countries have shown a greater concern for increasing the share of private pensions to supplement the income from public pension systems.

Thus, during the last decade, there have been consistent reforms in public pension systems that reduced the generosity of state pensions. The EU member states changed their approach and outlook on retirement and passed from individual pension systems (pay-as-you-go) to multi-systems, thus leading to the appearance (in Central and Eastern Europe) and development (in Western Europe) of private pension systems.

In order to cope with the increasing costs of these crises it is also necessary to reform the Stability and Growth Pact and to include in the analysis of European public finances, the costs of private pension systems, Pillar II type. The orientation of the pact towards objectives and criteria in the short term, has led some states to go back to some reforms of their pension system and to affect the development of private pension systems (Beetsma & Oksanen, 2007).

The effects of the financial crisis were strongly felt in the stability of public pension systems which encouraged the improvement of private pension schemes in Europe. The fact that many countries delay or postpone the reform of public pension systems and prefer to increase their public debt in order to maintain the current public

pension systems that prove to be unsustainable will lead to serious long-term repercussions in Europe. It is estimated that in the context of birth rate fall, aging and population reduction in EU there will be an increase in public spending on average 10.2% of GDP (in 2010) to 12.5% in 2060. Taking into consideration also the fact that until 2060 there will be a doubling of the old-age dependency ratio the survival of public pension systems under these conditions will become almost impossible.

In the public pension sector, the current financial and economic crisis led to an increase in cost/income ratio by percentages ranging on average between 5% and 15% and this ratio is expected to double by the doubling of the dependency ratio due to aging population. Despite their greater need, reforms in this area are difficult to implement.

Thus, increasing the retirement age, reducing state pension indexation as the development of private pension systems is a priority to modernize the European pensions. Given the increased role of private pension funds in the world, there is also a greater need for an increased regulation of financial markets to assure their transparency and sustainability. At the national level it is also necessary to ensure a fair and proportionate legislation of private pensions but by avoiding double regulation.

Taking into consideration the significant increase in spending on social protection during the recent years (pensions, unemployment benefits, minimum pension and social services), the Romanian government has committed to a substantial reform of the public pension system in order to improve its sustainability. So there has been considered increasing the number of contributors to pension system by adding new categories of taxpayers and integrating special schemes, raising the retirement age and restricting early retirement and disability pensions as limiting the benefits by a gradual transition to pensions indexation the with the inflation rate and establishing the pension exclusively according to the paid contributions.

The main measures provided for in Law no. 263/2010 on public pension reform in Romania aims to (Law no. 263/2010 of 16 December 2010 regarding the unitary system of public pensions):

- Introduce a new pension indexation formula since 2012
- By 2020, the pension point will annually increase by 100% of the inflation rate plus 50% of real growth of average gross salary in the previous year. If one of the indicators is negative, the positive one is used.
- Since 2021, the pension point will annually increase by 100% of the inflation rate plus 45% of the real growth of average gross salary in the previous year. The percentage of real growth of average gross salary is gradually decreasing by 5% per year;
- increase women's retirement age gradually to 63 by 2030;
- include certain categories of taxpayers who have not previously contributed (army, police, etc.);
- reduce early retirement and restrict the disability pensions;
- increase the contribution base by including new categories(liberal professions).

Thus, for Romania, the share of total expenditure on pensions in GDP is expected to increase to about 11% of GDP at the end of the forecast range. Pillar 2 will have a growing share of total expenditure on pensions since 2050, reaching a share of 1.7% of GDP in 2060 (Table 1).

Table 1. The long-term forecast of pension expenditure

					% in PIB
	2011	2030	2040	2050	2060
Social insurance(included retired farmers) of which:	9,0%	10,8%	11,3%	11,5%	10,8%
Pillar 1	8,8%	10%	11,3%	11,5%	10,8%
Pillar 2		0,1%	0,5%	1,5%	1,7%

Source: MFP

In conclusion, Europe's demographic decline is drastic and the process of population aging is accelerating even more. Moreover, the economic power of developed countries is declining. The aging population will trigger a decline in labour productivity, taking into consideration the fact that labour productivity decreases as you age. In addition, the volume of savings is decreasing and therefore there are fewer available funds for investment and consumption.

In these conditions, the developed countries are forced to allocate an increasing proportion of GDP for the older generation. I think it is impossible to achieve sustainable macroeconomic policies (regarding the costs, the budget revenues at national level the costs of banking market and the big retail market operators) without analyzing and acting on demographic variables. The impact of this demographic crisis on pensions will be devastating. The Member States will face enormous pressure to face the needs of an aging population.

The dynamics of capital accumulation and the sustainability of the pension system depend largely on the openness of the economy. The European economies are not isolated from each other nor of the world. Therefore, even slight differences in their pension schemes, coupled with a severe aging population will inevitably increase the financial flows between these countries and will bring modifications regarding the accumulation of the fixed capital. Thus the nature of the financial environment will play a crucial role for the European economies in the process of adapting to these phenomena and implementing their reforms. So, an increased regulation of the financial markets is also a necessity.

I consider that the aging population was one of the key factors in the origin of the economic and financial crisis. Until 2050 the Old-Age Dependency Ratios are believed to double both in advanced states as in emerging states. Although, there are some sensitive responses in Europe, especially Eastern Europe, Latin America and Asia. In the future, Europe will be dominated by a population of over 55 years and life expectancy continues to increase. Fertility will remain low in Europe and the dependency ratio will double by 2060. We must not forget that young people can not bear these costs for too much time. So it is necessary for the state to support the young

workforce in order to boost the economy. In addition to increasing the number of jobs we must primarily pursue an increase in work productivity.

I believe that to deal with this situation we should consider the changes in the consumption habits for all ages and to give more importance to cover the essential costs for a decent life. It seems that population decline is a greater danger to the world economy than the current recession. So it is necessary to develop and implement regulatory strategies to support pensions on long-term.

The greatest pressure on budgetary spending relative to aging is noticeable in states where there are still reforms pending on pensions systems, mostly PAYG (pay-as-you-go) pension systems. The main problems that we face in the private pension reform concern: the tax systems that can support them, raising the retirement age as well as regulations on occupational pensions. I think that in this context we need to give a special importance to the supervision and coordination of pension policies across Europe.

We have seen that under the debt crisis, the EU Member States had to substantially reduce expenses to balance budget deficits but avoided to reduce pensions. This is a challenge to the fiscal credibility of the European governments. Hungary has applied an additional nationalization of occupational pensions, Slovakia continues as before to finance its system, Poland has reduced the payments triggering a wave of criticism. In the Czech Republic the government is working on a reform of the pension system.

Romania aims to increase the number of contributors to the pension system, to rise the retirement age and to restrict early retirement and disability pensions and the integration of special regimes. But the cost of these reforms is surprisingly large. Moreover, the European Union has not undertaken a reform of the Stability and Growth Pact in order to adapt it to the reform of pension systems and countries with reformed systems face many difficulties to comply with its regulations.

Unlike the current economic and financial crisis, the demographic crisis is a centenarian phenomenon whose effects will not disappear even after 2050. However there are many other risks to be faced in the future.

Therefore it is also necessary to implement anti-crisis and economic measures for a sustainable growth in order to face the costs of the current demographic crisis and those of the financial and economic crisis. The fact that many countries delay or postpone the reform of public pension systems and prefer to increase their public debt in order to maintain the current public pension systems that prove to be unsustainable will lead to serious long-term repercussions in Europe.

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SOME ASPECTS REGARDING IMPLICATIONS OF IAS 2 "INVENTORY" IN ROMANIAN ACCOUNTING

ALIN MONEA *

ABSTRACT: *This paper presents some aspects regarding inventories. In many business inventories are the most important assets. The accounting for inventories is a major consideration for many entities because of its significance on both the income statement (cost of goods sold) and the statement of financial position. The complexity of accounting for inventories arises from several factors like: the high volume of activity, the various cost flow alternatives that are acceptable and the classification of inventories.*

KEY WORDS: *inventories; assets; realizable value; cost of purchase; cost of inventories*

JEL CLASSIFICATION: *M41; M48; H22; K34.*

1. INTRODUCTION

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories shall be measured at the lower of cost and net realizable value.

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed

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and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant.

Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

2. COSTS OF INVENTORIES

Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

- a) abnormal amounts of wasted materials, labor or other production costs;
- b) storage costs, unless those costs are necessary in the production process before a further production stage;
- c) administrative overheads that do not contribute to bringing inventories to their present location and condition;
- d) selling costs.

IAS 23 *Borrowing costs* identifies limited circumstances where borrowing costs are included in the cost of inventories.

An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase prices for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Cost of inventories of a service provider

To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred.

The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

In accordance with IAS 41 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of this standard.

3. TECHNIQUES FOR THE MEASUREMENT OF COST

Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

Specific identification of cost means that specific costs are attributed to identify items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such

circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.

The cost of inventories shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.

Inventories are usually written down to net realizable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Provisions may arise from firm

sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under IAS 37 *Provisions, contingent liabilities and contingent assets*.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory that is carried at net realizable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

4. RECOGNITION AS AN EXPENSE

When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

5. VALUATION OF INVENTORIES

According to IAS 2, the primary basis of accounting for inventories is cost. *Cost* is defined as the sum of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. This definition allows for significant interpretation of the costs to be included in inventory.

For raw materials and merchandise inventory that are purchased outright and not intended for further conversion, the identification of cost is relatively straightforward. The cost of these purchased inventories will include all expenditures incurred in bringing the goods to the point of sale and putting them in a salable condition. These costs include the purchase price, transportation costs, insurance, and

handling costs. Trade discounts, rebates, and other such items are to be deducted in determining inventory costs; failure to do so would result in carrying inventory at amounts in excess of true historical costs.

Conversion costs for manufactured goods should include all costs that are directly associated with the units produced, such as labor and overhead. The allocation of overhead costs, however, must be systematic and rational, and in the case of fixed overhead costs (i.e., those which do not vary directly with level of production) the allocation process should be based on normal production levels. In periods of unusually low levels of production, a portion of fixed overhead costs must accordingly be charged directly to operations, and not taken into inventory.

Costs other than material and conversion costs are inventoriable only to the extent they are necessary to bring the goods to their present condition and location. Examples might include certain design costs and other types of preproduction expenditures if intended to benefit specific classes of customers. On the other hand, all research costs and most development costs would typically *not* become part of inventory costs. Also generally excluded from inventory would be such costs as administrative and selling expenses, which must be treated as period costs; the cost of wasted materials, labor, or other production expenditures; and most storage costs. Included in overhead, and thus allocable to inventory, would be such categories as repairs, maintenance, utilities, rent, indirect labor, production supervisory wages, indirect materials and supplies, quality control and inspection, and the cost of small tools not capitalized.

6. ALTERNATIVE VALUATION METHODE

There are instances in which an accountant must estimate the value of inventories.

Whether for interim financial statements or as a check against perpetual records, the need for an inventory valuation without an actual physical count is required. Some of the methods used, which are discussed below, are the retail method and the gross profit method.

Retail method. IAS 2 notes that the retail method may be used by certain industry groups but does not provide details on how to employ this method, nor does it address the many variations of the technique. The conventional retail method is used by retailers as a method to estimate the cost of their ending inventory. The retailer can either take a physical inventory at retail prices or estimate ending retail inventory and then use the cost-to-retail ratio derived under this method to convert the ending inventory at retail to its estimated cost.

This eliminates the process of going back to original invoices or other documents to determine the original cost for each inventoriable item. The retail method can be used under either of the two cost flow assumptions discussed earlier: FIFO or average cost. As with ordinary FIFO or average cost, the lower of cost or net realizable value (LCNRV) rule can also be applied to the retail method when either one of these two cost assumptions is used.

The key to applying the retail method is determining the cost-to-retail ratio. The calculation of this number varies depending on the cost flow assumption selected. Essentially, the cost-to-retail ratio provides a relationship between the cost of goods available for sale and the retail price of these goods.

The retail method is an acceptable method of valuing inventories for tax purposes in some, but not all, jurisdictions. The foregoing examples are not meant to imply that the method would be usable in any given jurisdiction; readers should ascertain whether or not it can be used.

Gross profit method. The gross profit method can be used to estimate ending inventory when a physical count is not possible or feasible. It can also be used to evaluate the reasonableness of a given inventory amount. The cost of goods available for sale is compared with the estimated cost of goods sold.

The gross profit method, if used, should be limited to making interim reporting estimates, for analyses conducted by auditors, and for making estimates of inventory lost in fires or other catastrophes. The method is generally not acceptable for either tax or annual financial reporting purposes.

Fair value as an inventory costing method. In general, inventories are to be carried at cost, although, as has been explained in the preceding sections of this chapter, cost may be ascertained by a variety of methods under IAS 2, and when recoverable amounts do not equal cost there is the further need to write down inventory to reflect such impairment. However, under defined circumstances, inventories may be carried at fair value, in excess of the actual cost of production or acquisition. Currently, IAS 41 provides that agricultural products that are carried in inventory are to be reported at fair value, subject to certain limitations. Under the provisions of IAS 41, all biological assets are to be measured at fair value less expected point-of-sale costs at each date of the statement of financial position, unless fair value cannot be measured reliably. Agricultural produce is to be measured at fair value at the point of harvest less expected point-of-sale costs. Because harvested produce is a marketable commodity, there is no "measurable reliability" exception for produce.

Furthermore, the change in fair value of biological assets occurring during a reporting period is reported in net profit or loss, notwithstanding that these are "unrealized" as of the date of the statement of financial position. IAS 41, however, does provide an exception to this fair value model for biological assets for situations where there is no active market at time of recognition in the financial statements, and no other reliable measurement method exists. In such instances, it provides that the cost model is to be applied to the specific biological asset for which such conditions hold, only. These biological assets should be measured at depreciated cost less any accumulated impairment losses.

7. CONCLUSIONS

IAS 2 sets forth certain disclosure requirements relative to inventory accounting methods employed by the reporting entity. According to this standard, the following must be disclosed:

- the accounting policies adopted in measuring inventories, including the costing;

- methods employed;
- the total carrying amount of inventories and the carrying amount in classifications;
- appropriate to the entity;
- the carrying amount of inventories carried at fair value less costs to sell;
- the amount of inventories recognized as expense during the period;
- the amount of any write-down of inventories recognized as an expense in the period;
- the amount of any reversal of any previous write-down that is recognized in profit or loss for the period;
- the circumstances or events that led to the reversal of a write-down of inventories;
- to net realizable value.

The type of information to be provided concerning inventories held in different classifications is somewhat flexible, but traditional classifications, such as raw materials, work in progress, finished goods, and supplies, should normally be employed. In the case of service providers, inventories (which are really akin to unbilled receivables) can be described as work in progress.

In addition to the foregoing, the financial statements should disclose either the cost of inventories recognized as an expense during the period (i.e., reported as cost of sales or included in other expense categories), or the operating costs, applicable to revenues, recognized as an expense during the period, categorized by their respective natures.

Costs of inventories recognized as expense includes, in addition to the costs inventoried previously and attaching to goods sold currently, the excess overhead costs charged to expense for the period because, under the standard, they could not be deferred to future periods.

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FISCAL AND ACCOUNTING IMPLICATIONS OF INCOME TAX IN ROMANIA

ALIN MONEA *

ABSTRACT: *This paper presents some fiscal and accounting aspects of income tax like payers, applicability. It describe fiscal and accounting treatments of income tax and also IAS 12 treatment of tax income. Income taxes are an expense incurred in operating most businesses, and as such are to be reflected in the entity's operating results. However, accounting for income taxes is complicated by the fact that, in most jurisdictions, the amounts of revenues and expenses recognized in a given period for taxation purposes will not fully correspond to what is reported in the financial statements*

KEY WORDS: *income tax; tax base; amount; revenue; expense; benefits; tax lose.*

JEL CLASSIFICATION: *M41; M48; H2 ; K34.*

1. INTRODUCTION

The standards which prescribe accounting treatment for income tax are IAS 12.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of the future recovery of the carrying amount of assets that are recognised in an entity's balance sheet and transactions and other events of the current period that are recognised.

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

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Some items have a tax base but are not recognized as assets and liabilities in the balance sheet. For example, research costs are recognized as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this standard is based: that an entity shall, with certain limited exceptions, recognize a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences.

In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other, jurisdictions, the tax base are determined by reference to the tax returns of each entity in the group.

2. SOME FISCAL IMPLICATION OF TAX INCOME

Income tax expense will be comprised of two components: current tax expense and deferred tax expense.

Either of these can be a benefit, rather than an expense, depending on whether there is taxable profit or loss for the period. For convenience, the term “tax expense” will be used to denote either an expense or a benefit. Current tax expense is easily understood as the tax effect of the entity’s reported taxable income or loss for the period, as determined by relevant rules of the various taxing authorities to which it is subject.

Deferred tax expense, in general terms, arises as the tax effect of timing differences occurring during the reporting period.

Using the liability method, the reporting entity’s current period total income tax expense cannot be computed directly (except when there are no temporary differences). Rather, it must be calculated as the sum of the two components: current tax expense and deferred tax expense. This total will not, in general, equal the amount that would be derived by applying the current tax rate to pretax accounting profit. The reason is that deferred tax expense is defined as the change in the deferred tax asset and liability accounts occurring in the current period, and this change may encompass more than the mere effect of the current tax rate times the net temporary differences arising or being reversed in the present reporting period.

Under provisions of IAS 12, current period deferred tax expense incorporates the effects of changing tax rates on the as-yet-unreversed temporary differences that originated in prior periods. In other words, current period tax expense may include not

merely the tax effects of currently reported revenue and expense items, but also certain tax effects relating to items reported previously.

Although the primary objective of income tax accounting is no longer the proper matching of current period revenue and expenses, the once-critical matching principle retains some importance in financial reporting theory. Therefore, the tax effects of items excluded from the statement of income are also excluded from the statement of income.

The statement of financial position oriented measurement approach of IAS 12 necessitates the reevaluation of the deferred tax asset and liability balances at each year-end. Although IAS 12 does not directly address the question of changes to tax rates or other provisions of the tax law which may be enacted that will affect the realization of future deferred tax assets or liabilities, the effect of these changes should be reflected in the year-end deferred tax accounts in the period the changes are enacted. The offsetting adjustments should be made through the current period tax provision. When revised tax rates are enacted, they may affect not only the unreversed effects of items which were originally reported in the continuing operations section of the statement of income, but also the unreversed effects of items first presented as other comprehensive income. Although it might be conceptually superior to report the effects of tax law changes on such unreversed temporary differences in these same statement of comprehensive income captions, as a practical matter the complexities of identifying the diverse treatments of these originating transactions or events would make such an approach unworkable. Accordingly, remeasurements of the effects of tax law changes should generally be reported in the tax provision associated with continuing operations.

Changes in the tax status of the reporting entity should be reported in a manner that is entirely analogous to the reporting of enacted tax law changes. When the tax status change becomes effective, the consequent adjustments to deferred tax assets and liabilities are reported in current tax expense as part of the tax provision relating to continuing operations.

The most commonly encountered changes in status are those attendant to an election, where permitted, to be taxed as a partnership or other flow-through enterprise.

3. RECOGNITION OF CURRENT TAX LIABILITIES, CURRENT TAX ASSETS, DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS TAXABLE TEMPORARY DIFFERENCES

Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset.

The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognized as an asset.

When a tax loss is used to recover current tax of a previous period, an entity recognizes the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognized.

It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes.

This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this standard requires the recognition of all deferred tax liabilities except in certain circumstances described in paragraphs 15 and 39 from IAS 12.

Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences.

The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

- interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognized in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;
- depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit;
- development costs may be capitalized and amortized over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit.

Temporary differences also arise when:

- the cost of a business combination is allocated by recognizing the identifiable assets acquired and liabilities assumed at their fair values, but no equivalent adjustment is made for tax purposes;
- assets are revalued and no equivalent adjustment is made for tax purposes;
- goodwill arises in a business combination;
- the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets;

- the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest.

4. DEDUCTIBLE TEMPORARY DIFFERENCES

A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognized in accordance with paragraph 44 from IAS 12.

It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognized. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit.

5. UNUSED TAX LOSSES AND UNUSED TAX CREDITS

A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

- a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
- c) whether the unused tax losses result from identifiable causes which are unlikely to recur;
- d) whether tax planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

At each balance sheet date, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset.

6. INVESTMENTS IN SUBSIDIARIES, BRANCHES AND ASSOCIATES AND INTERESTS IN JOINT VENTURES

Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures;
- b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries;
- c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment. Furthermore, it would often be impracticable to determine the amount of income taxes

that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

The non-monetary assets and liabilities of an entity are measured in its functional currency. If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or asset. The resulting deferred tax is charged or credited to profit or loss.

An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

7. CONCLUSIONS

Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Current and deferred tax assets and liabilities are usually measured using the tax rates and tax laws that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at

the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

- a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability);
- b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

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ANALYSIS OF INCOMES, EXPENSES AND PROFITABILITY IN BANKS

MIRELA MONEA *

Abstract: *The paper is centered on presenting some aspects regarding incomes, expenses and results of commercial banks from Romanian banking system such as: income dynamics and structure, expenses dynamics and structure, a set of indicators which reflects the main banks performances. Discussion is focused on a comparative analysis between two commercial banks from Romanian banking system, taking into consideration date from a certain period of time. Profitability indicators are very usefully from banks management having an important informational value, the main discussion being focused on: return on assets, return on equity, net assets margin, rate of profit, equity multiplier, expenses to income ratio.*

KEY WORDS: *income; expenses; profitability; return on assets; return on equity.*

JEL CLASSIFICATION: *G21, G29, M21*

1. INTRODUCTION

Now-a-days, the place and aims of banking system within national economy depends on the feature of the main intermediaries between borrowers and lenders in the relation savings – investments, which is very important in order to achieve economic growth. Commercial banks are a key component and support business environment development through services and products offered, being the main lender in modern economy.

The main goal of a commercial bank is profitability or profit maximization in order to minimize risk exposure. Profitability express banks position on banking system highlighting banks management quality (Bătrâncea, 2010).

Banks financial performance is revealed through income statement where there are the incomes and expenses and also are explained the results. One of the statements of a complete set of banks financial statement is the statement of comprehensive income for the period, which is presented: one statement (single

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statement approach - a statement of comprehensive income), or two statements (a separate income statement and a statement beginning with profit or loss and presenting components of other comprehensive income) (KPMG – Illustrative Financial Statement: Banks).

Total income comprises: operating incomes (from ordinary, current activities of the bank excluding the influence of extraordinary factors) and extraordinary incomes (from activities and transaction that are unusual, infrequent).

Total incomes comprises: net interest income; net fee and commission income; net trading income and other revenues. Net interest income is the difference between interest income and interest expenses. Net fee and commission income is the difference between fee and commission income and fee and commission expenses. Total expenses comprises mainly: staff expenses, net impairment loss on financial assets, depreciation and amortization expenses and other operating expenses.

2. THE ANALYSIS OF INCOME AND EXPENSES

Dynamics analysis (horizontal analysis) of the incomes, expenses and results from profit and loss account is based on indexes which are expressed as percentage changes from the value of the same position of a base period considered equal to 100% or sequentially from the previous period. Structural analysis (vertical analysis) is based on weights, every income or expense being expressed through a percentage value from total income or total expenses. These types of analysis allow establishing the sources of the results, the quality of the performances and all the changes in income and expenses structure.

In table 1 is presented a comparative dynamics analysis of the main incomes, expenses and results of bank A and bank B from Romanian banking system based on income statements of those banks. (Data from financial statements of bank A and bank B are presented in appendix 1 and appendix 2).

Table 1. Evolution of incomes and expenses

	Indicator	Bank A		Bank B	
		2009	2010	2009	2010
1.	Total incomes	858.396	733.726	1.365.545	1.546.636
2.	The total incomes index	100%	85,47%	100%	113,26%
3.	Net interest income	683.658	579.711	754.329	996.297
4.	The net interest income index	100%	84,79%	100%	132,07%
5.	Net fee and commission income	95.473	92.410	370.805	382.666
6.	The net fee and commission index	100%	96,79%	100%	103,19%
7.	Total expenses	702.428	696.586	1.207.782	1.388.121
8.	The total expenses index	100%	99,16%	100%	114,93%
9.	Profit before tax	155.968	37.140	157.763	158.515
10.	The profit before tax index	100%	23,81%	100%	104,76
11.	Net profit	134.668	28.992	136.715	133.984
12.	The net profit index	100%	21,52%	100%	98,00%

Source: own calculations

Based on these data (table 1) we can analyze the evolution of the banks incomes, expenses and profit, comparing the data for the two periods taken into account (years 2009 and year 2010). It is observed different evolutions of incomes, expenses and results in case of those banks. In case of bank A (majority Greek shareholders) it is seen a decreasing trend of the main elements (incomes decreased with 14,53%, expenses decreased only with 0,84%, affecting profit – the net profit decreased with 78,48%). In case of bank B (majority Romanian shareholders) it is observed an increasing trend of income (with 13,26%), expenses (with 14,93%), and net profit decreased only with 2%.

Also, in order to analyze the structure of the elements of a bank profit and loss account there are few incomes structure ratios that we will consider in the following comparative analysis between two banks:

$$\text{Net Interest Income to Total Income}(\%) = \frac{\text{Interest Income} - \text{Interest Expenses}}{\text{Total Income}} \times 100 \quad (1)$$

$$\text{Net Fee and Commission Income to Total Income}(\%) = \frac{\text{Net Fee and Commission Income}}{\text{Total Income}} \times 100$$

$$\text{Dividend Income to Total Income}(\%) = \frac{\text{Dividend Income}}{\text{Total Income}} \times 100 \quad (3)$$

$$\text{Net Trading Income to Total Income}(\%) = \frac{\text{Net Trading Income}}{\text{Total Income}} \times 100 \quad (4)$$

$$\text{Other Operating Revenues to Total Income}(\%) = \frac{\text{Other Operating Revenues}}{\text{Total Income}} \times 100 \quad (5)$$

$$\text{Interest Income to Total Assets}(\%) = \frac{\text{Interest Income}}{\text{Total Assets}} \times 100 \quad (6)$$

$$\text{Fee and Commission Income to Total Assets}(\%) = \frac{\text{Fee and Commission Income}}{\text{Total Assets}} \times 100 \quad (7)$$

$$\text{Staff Expenses to Total Expenses}(\%) = \frac{\text{Staff Expenses}}{\text{Total Expenses}} \times 100 \quad (8)$$

$$\text{Net Impairment loss on financial assets ratio}(\%) = \frac{\text{Net impairment loss on financial assets}}{\text{Total Expenses}} \times 100$$

$$\text{Other Operating Expenses to Total Expenses}(\%) = \frac{\text{Other Operating Expenses}}{\text{Total Expenses}} \times 100 \quad (10)$$

$$\text{Coverage of Staff Expenses}(\%) = \frac{\text{Fee and Commission Income}}{\text{Staff Expenses}} \times 100 \quad (11)$$

$$\text{Fee and Commission Expenses to Total Assets (\%)} = \frac{\text{Fee and Commission Expenses}}{\text{Total Assets}} \times 100 \text{ (12)}$$

Table 2. Incomes and expenses structure ratios

	Indicator	Bank A		Bank B	
		2009	2010	2009	2010
1.	Net interest income to Total income (%)	79,64	79,00	55,29	64,41
2.	Net fee and commission income to Total income (%)	11,12	12,59	27,75	24,74
3.	Net trading income to Total income (%)	8,12	7,24	10,48	7,70
4.	Other operating revenues to Total income (%)	1,12	1,17	6,48	3,15
5.	Interest income to total assets (%)	5,70	6,37	10,75	8,71
6.	Fee and commission income to total assets (%)	0,50	0,61	2,12	1,97
7.	Staff Expenses to Total Expenses (%)	21,82	21,78	28,90	26,90
8.	Net impairment loss on financial assets ratio (%)	46,94	45,83	40,63	46,60
9.	Other operating expenses to Total Expenses (%)	27,62	28,60	24,83	22,10
10.	Coverage of staff expenses	68,78	67,88	119,5	115,0
11.	Fee and commission expenses to total assets (%)	0,05	0,06	0,24	0,21

Source: own calculations

The data from table 2 shows the structure of banks incomes and expenses and it is observed that the larger part of the bank's incomes from regular operation is found in the net interest incomes and net fee and commission incomes. In fact, total incomes of both two banks comprise operating incomes and are not affected by activities and transaction that are unusual, extraordinary.

The larger part of bank's expenses is found in net impairment loss on financial assets (level ratio is between 40,6% and 47,0% from total expenses for both banks in the analyzed period). Coverage of staff expenses illustrates the efficiency of the employee working time as a result of their activity, and is observed a better value of the ratio in case of bank A (67% - 68%), instead in the case of bank B staff expenses are not covered by fee and commission incomes (registered value is between 115% - 119,5%), and also the weight of staff expenses ratio is higher (27%-29%) than in case of bank A (21%-22%).

In the total expenses also an important weight is observed on other operating expenses, between 27% - 28% in case of bank A and lower in case of bank B (24,8% in 2009 and 22,10% in 2010).

3. PROFITABILITY ANALYSIS

Profit is the reason for the continued existence of every commercial organization. The rate of profitability and volume of profits are considered as

indicators of efficiency in the deployment of resources of banks. Profitability, also, indicates earning capacity of the banks. It highlights the managerial competency of the banks. Profitability is the most important and reliable indicator as it gives a broad indication of the ability of a bank to raise its income level. (Dasgupta, 2001)

Profitability indicators are also used in order to determine the global risk position of a commercial bank (Drigă, 2009). Profitability analysis in banks is based on a set of ratios: return on assets, return on equity, net assets margin, rate of profit, expenses to income ratio, equity multiplier. Profitability allow to a bank to increase capital, in order to support the growth of assets, to absorb loan losses and also to provide a return to investors.

Return on Assets (ROA) is a ratio between net profit and total assets. In American literature the ratio is known as Return on Total Assets or Return on Investment (Halpern, 1998) and measures the profitability of the invested capital in bank or the efficiency of the assets management.

$$ROA = \frac{Net\ profit}{Total\ Assets} \times 100 \quad (13)$$

ROA indicates how much net income is generated per monetary unit of assets. The higher is ratio, the more profitable is the bank. In case of a decreasing trend of the ratio we can say that the bank have some difficulties in obtaining incomes, and an increasing trend signify good results, but in conditions of excessive risk assumed by the bank.

Return on Equity (ROE) is a ratio between net profit and total equity measuring the profitability of the shareholders investments. This ratio depends on profit margin, financial leverage and speed assets (Bătrâncea, 2010).

$$ROE = \frac{Net\ profit}{Total\ Equity} \times 100 \quad (14)$$

Net Assets Margin in banking is a percentage of net interest income and total assets. Net interest income is calculated by subtracting interest expense from interest income.

$$AM = \frac{Net\ Interest\ Income}{Total\ Assets} \times 100 \quad (15)$$

Rate of profit is a ratio between profit before tax and total incomes.

$$R_{Pr} = \frac{Pr\ ofit\ before\ tax}{Total\ Income} \times 100 \quad (16)$$

Expenses to Income Ratio measures the income generated per monetary unit cost. That is how expensive it is for the bank to produce a unit of output. The lower the E/I ratio is, the better the performance of the bank (Kumbirai & Webb, 2010).

$$E/I = \frac{\text{Total Expenses}}{\text{Total Incomes}} \times 100 \quad (17)$$

Equity Multiplier is a ratio between total assets and equity revealing the degree of banks business development starting from a certain amount of equity, and how additional resources use generate an increase in return on equity.

$$EM = \frac{\text{Total Assets}}{\text{Equity}} \times 100 \quad (18)$$

Based on data from Appendix 1 and Appendix 2 we will calculate the profitability indicators for two banks in the period 2009-2010.

Table 3. Profitability indicators

	Indicator	Bank A		Bank B	
		2009	2010	2009	2010
1.	Return on Assets (ROA) (%)	0,62	0,17	0,69	0,61
2.	ROA index	100%	27,45%	100%	88,40%
3.	ROA – banking system (%)	0,25 – in 2009		- 0,16 – in 2010	
4.	Return on Equity (ROE) (%)	8,70	1,83	7,43	6,41
5.	ROE index	100%	21,03%	100%	86,27%
6.	ROE – banking system (%)	2,89 – in 2009		-1,73 – in 2010	
7.	Net Assets Margin (%)	3,18	3,43	3,85	4,58
8.	Net Assets Margin index	100%	107,8%	100%	118,9%
9.	Rate of profit (%)	18,16	5,06	11,55	10,25
10.	Rate of profit index	100	27,86%	100	88,74%
11.	Total Expenses to Incomes Ratio (%)	81,83	94,93	88,44	89,75
12.	Total Expenses to Incomes Ratio index	100	116%	100	101,5%
13.	Equity Multiplier (%)	1387,22	1068,88	1067,06	1039,74
14.	Equity Multiplier index	100%	77,05%	100%	97,43%

Source: own calculations

The value of the main profitability indicators in case of both banks shows a better situation in comparison with the average values from Romanian banking system with a plus in case of the bank B, if we consider the ROA and ROE. Return on assets is the best measure of bank efficiency. ROA value is usually between 0,5% to 1,6%, and in case of bank A the trend reveal that are problems with incomes. But the rate of profit decreased for both institutions, substantially in case of bank A, and also if we take in discussion the expense to income ratio we observes that is much expensive for banks to produce a unit of income, with a worst scenario for bank A.

4. CONCLUSIONS

To evaluate the quality of banking activity and their performances is particularly important to measure results, and their evolution depends on evolution of the incomes and expenses. The analysis of bank's performance is useful to

shareholders, creditors, customers, but also administrators, managers and employees of the bank.

In the paper we presented a comparative analysis of incomes, expenses and profitability for two banks taking into account two periods (year 2009 and year 2010). The study shows different trends of the analyzed elements from income statement with a better situation for bank B having a majority Romanian shareholders comparative with bank A having a majority Greek shareholders affected by Greek crisis and vulnerability, influencing customers confidence. There were fears that Greek banks present in our country will not be able to finance their subsidiaries, and these are seen in evolution of their activity.

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Appendix 1. Elements from Financial Statement of the bank A

Thousand lei

		Year	
		2009	2010
Income statement			
I.	Total incomes	858.396	733.726
1.	Interest income	1.224.651	1.074.341
2.	Interest expenses	(540.993)	(494.630)
3.	Net interest income (1-2)	683.658	579.711
4.	Fee and commission income	105.426	103.008
5.	Fee and commission expenses	(9.953)	(10.598)
6.	Net fee and commission income (4-5)	95.473	92.410

7.	Net trading income	69.723	53.159
8.	Other operating revenues	4.957	3.292
II.	<i>Total expenses</i>	702.428	696.586
1.	Net impairment loss on financial assets	329.750	319.248
2.	Staff expenses	153.279	151.752
3.	Depreciation and amortization expenses	25.342	26.426
4.	Other operating expenses	194.057	199.160
III.	<i>Profit before tax</i>	155.968	37.140
-	Income tax expense	21.300	8.148
IV.	<i>Net profit</i>	134.668	28.992
Elements from Balance Sheet			
1.	Total Assets	21.462.788	16.858.163
2.	Total Liabilities	19.915.617	15.280.955
3.	Equity	1.547.171	1.577.168
4.	Total liabilities and equity	21.462.788	16.858.163

Source: Financial statement of the bank A at the ended of years 2009 and 2010

Appendix 2. Elements from Financial Statement of the bank B

Thousand lei

		Year	
		2009	2010
Income statement			
I.	<i>Total incomes</i>	1.365.545	1.546.636
1.	Interest income	2.109.440	1.894.260
2.	Interest expenses	(1.355.111)	(897.973)
3.	<i>Net interest income (1-2)</i>	754.329	996.297
4.	Fee and commission income	417.098	429.401
5.	Fee and commission expenses	(46.293)	(46.735)
6.	<i>Net fee and commission income (4-5)</i>	370.805	382.666
7.	Net trading income	143.201	118.968
8.	Other operating revenues	48.316	43.963
II.	<i>Total expenses</i>	1.207.782	1.388.121
1.	Net impairment loss on financial assets	490.784	646.945
2.	Staff expenses	348.999	373.371
3.	Depreciation and amortization expenses	68.042	60.897
4.	Other operating expenses	299.957	306.888
III.	<i>Profit before tax</i>	157.763	158.515
-	Income tax expense	21.048	24.531
IV.	<i>Net profit</i>	136.715	133.984
Elements from Balance Sheet			
1.	Total Assets	19.613.030	21.730.252
2.	Total Liabilities	17.774.996	19.640.288
3.	Equity	1.838.034	2.089.964
4.	Total liabilities and equity	19.613.030	21.730.252

Source: Financial statement of the bank B at the ended of years 2009 and 2010

THE RELEVANCE OF THE PERFORMANCE INDICATORS IN ECONOMIC AND FINANCIAL DIAGNOSIS

MIRELA MONEA, ANCA JARMILA GUȚĂ *

ABSTRACT: *Each company must achieve the objectives to reach performance in order to survive on the market. The paper aims to present the concept of performance as is seen in economic literature, to discuss the relevance of the main performances indicators on economic and financial diagnosis, to answer the question what are the main indicators which reflect economic or financial performances: profit, profitability ratios, economic added value, investments return, liquidity, cash-flows, resources efficiency, productivity, others.*

KEY WORDS: *performance, efficiency, value added, profitability, competitiveness, relevance.*

JEL CLASSIFICATION: *M21, M10, M41*

1. ENTITY'S PERFORMANCE – CONCEPTUAL APPROACH

Performance is a major objective of each company because only achieving performances is possible to obtain growth and progress. Starting from the concept of performances from literature review we can say that the most important ways to measure any company's success are their performances. In economic and financial diagnosis there are indicators which reflect results of different activities being relevant in a way or another. We have to make a distinction between the concept of performance and the ways of measuring performances.

In the economic field are known a variety of definitions given to the concept of performance due to the fact that this concept is defined differently depending on the user of the information about performance. Thus the current and potential investors perceive their performance in terms of investment profitability, managers are oriented on the overall performance of the organization they lead, employee understand

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performance through profitability and stability of their job and creditors manifest interest towards organization's stability (Pintea & Achim, 2010).

Performance of a company is linked to competitiveness. Competitiveness means efficiency and future development, a necessary business purpose. It is a challenge for company management and financial analysts to find the best way to measure performance related to industry and company profile. (Robu, 2010).

An obstacle and also a challenge in evaluating the performance of a business from the outside are to interpret the results as expressed in financial statements (Helfert, 2001).

The relevance of the measures to the goals set, and the need to establish not only indicators of deviation from desired norms, but also to interpret these indicators so they can be used to reinforce value creation (Helfert, 2001).

The information about company's performance are necessary to evaluate the changes of the economic resources that the company will control in the future, to anticipate the company capacity to generate cash flows, and the efficiency to use the assets and resources.

An important position within the financial diagnosis and the main instruments for measuring performance are financial indicators. An indicator is "a measure which expresses numerically one aspect or a group of aspects which characterize a phenomenon, a process or an economic activity, defined in time, space or organizational structure" (Buglea, 2004).

Also, in financial diagnosis the performance of a company is associated to its capacity of obtaining profit, or generally is mostly associated to its profitability, so that profitability indicators are widely accepted to measure performances. Profitability indicators may be expressed through their absolute values under the form of results, or through their relative values under the form of a ratio.

The ratios and relationships used as measures are easy to derive, but their effective use depends on the skill of the analyst in interpreting trends and recognizing exceptions and changes due to management actions or accounting policies (Helfert, 2001).

In economic literature authors define the concept of entity's performance in different ways:

- "The issue of enterprise performance has been central in strategy research for decades and encompasses most other questions that have been raised in the field; enterprise performance depends on its ability to create value for its clients, depends how they behave, choose strategy and how are managed" (Porter, 1986, 1991);
- The word performance has three basic meanings: success, action, the result of the action, (Bourguignon, 1995 – cited by Pintea & Achim, 2010):
 - Performance means success: performance does not exist by itself, is in fact a dependent representation of the success of the different categories of users of accounting information;
 - Performance is action: in this sense, performance is a process and not a result that appears at a time; performance is not a state but a process and its content became almost secondary in relation to its own dynamics.

- Performance is the result of the action: performance measurement is understood as "ex post assessment the results".
- "Performance is a state of competitiveness of the economic entity, reached by a level of efficiency and productivity that assures a sustainable presence on the market" (Niculescu & Lavalette, 1999);
- There are authors who define performance in terms of profitability appreciating that like the ability of an economic activity to generate revenues higher than expenses involved. The profitability indicators are known as profitability ratio or accumulation margin (Ștefea, 2002);
- Performance of an entity could be define through other concepts: performance means to achieve the strategic objectives, and as an economic concept implies the creation of wealth and value in the enterprise (Albu, 2005);
- Performance is a function of two variables, efficiency and efficacy; efficacy reflects the achievement of external expectations, and efficiency is measured by the achievement of internal environment of a company (Siminică, 2008),
- The word performance is frequently used and express different terms such us: growth, return, profitability, productivity, competitiveness; also the author use the concept of "performativity" with these different financial approaches (Colasse, 2009);
- A common criterion for measuring performance since the 90's is to value creation. Starting from value creation, a series of economic indicators was developed for measurement: the economic value added, market value added, total shareholders return, cash-flow return on investment, return on capital employed, cost of capital (Robu, 2010).

2. RELEVANCE OF THE PERFORMANCE INDICATORS

To be relevant and useful performance indicators must to be understood having different meanings and some limitations for different individuals, interest groups, and users of various information, the most important being managers, investors, lenders and creditors. Performance assessment depends mainly of the following elements (Helfert, 2006): the viewpoint taken; the objectives of the analysis; the potential standards of comparison.

More and more the financial analysts use a new type of indicators, non-financial indicators, considering those to characterize better business performance.

Robu & Vasilescu presents a list of non-financial criteria used by investors to assess company performance related to Corporate Governance practice, related to: management quality (corporate strategy quality, leadership, managerial experience); corporate culture (employee skills, staff training programs quality, social policies, environmental policies, teamwork); effectiveness of executive management remuneration, communication quality with shareholders, leaders credibility.

Also, Achim & Borlea (2010) highlight the financial and nonfinancial performances. They refer especially to the financial performance highlighted by financial analysis, especially with reference to issues of profitability / return / growth and to the correlations that are interposed between these categories. Extra financial

analysis finally comes to complete supplement the main picture of the entity in terms of global performance by increasing the value for stakeholders.

But there are many critics related to these non-financial indicators mainly their lack of relevance, opacity, or lack of continuity from one year to another, so that financial indicators remain the most relevant for all interest groups.

Different financial indicators measure different dimensions of financial performances (such as profitability and liquidity), and all this information is needed to make an informed judgment about the financial health of an organization.

Most the ratio analysis represents a diagnostic tool in order to help the users to understand financial situation, to identify weaknesses and opportunities within a company.

The analysis of financial indicators reflects into a synthetically manner economic and financial situation of a company, reflects the correlation between all the company's functions and also allow to make comparisons in time, space, with standards, or optimal values.

Users of financial statement need to be familiar with the analytical tools and techniques used in performance measurement and the assumptions that underlie them. (Needles et al., 2007).

Anghel (2002) consider that the most representative indicators used in financial diagnosis are the financial ratios, and presented a synthetic set of ratios:

<i>Relevant financial ratios in financial diagnosis</i>	
<i>Return on investment</i>	$\frac{\text{Net Profit}}{\text{Total Assets}} ; \frac{\text{Net Profit}}{\text{Equity}}$
<i>Debt</i>	$\frac{\text{Liabilities}}{\text{Equity}} ; \frac{\text{Liabilities}}{\text{Assets}}$
<i>Assets efficiency</i>	$\frac{\text{Turnover}}{\text{Assets}}$
<i>Liquidity</i>	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
<i>Cash-flow</i>	$\frac{\text{Cash}}{\text{Assets}} ;$
<i>Inventory turnover</i>	$\frac{\text{Inventory}}{\text{Turnover}} ; \frac{\text{Cost of Sales}}{\text{Inventory}}$
<i>Receivable turnover</i>	$\frac{\text{Receivable}}{\text{Turnover}} ; \frac{\text{Sales}}{\text{Receivable}}$

Source: Anghel, 2002

Financial ratios are useful to indicate company's performance and financial situation. To be significant most of the financial ratios must to be compared to company's forecast, to historical values of the same company, to a value which is considered an optimum value for the company's activity sector, or ratios of similar companies. (Monea, 2009).

The principal financial performance areas of interest to management, owners, and creditors are shown below, along with the most common ratios and measures relevant to these areas (Helfert, 2006).

Managers	Operational analysis: - Gross margin; - Profit margin; - Operating expense analysis; - Contribution analysis; - Operating leverage; - Comparative analysis;	Resource management: - Asset turnover; - Working capital management; - Inventory turnover; - Accounts receivable patterns; - Accounts payable patterns; - Human resource effectiveness;	Profitability: - Return on assets (after taxes); - Return before interest and taxes; - Return on current value basis; - EVA and economic profit; - Cash flow return on investment; - Free cash flow;
Owners	Investment return: - Return on total net worth; - Return on common equity; - Earnings per share; - Cash flow per share; - Share price appreciation; - Total shareholder return;	Disposition of earnings: - Dividends per share; - Dividend yield; - Payout/retention of earnings; - Dividend coverage; - Dividends to assets;	Market Performance: - Price/earnings ratio; - Cash flow multiples; - Market to book value; - Relative price movements; - Value drivers; - Value of the firm;
Creditors	Liquidity: - Current ratio; - Acid test; - Quick sale value;	Financial Leverage: - Debt to assets; - Debt to capitalization; - Debt to equity;	Debt Service: - Interest coverage; - Burden coverage; - Fixed charges coverage; - Cash flow analysis;

Source: Helfert (2006), *Financial Analysis Tools and Techniques. A guide for Managers*, pp.113

The persons having a strong interest in measuring company's performance are mainly the managers who strive to achieve performance objectives, creditors, investors and customers who have agreements with the company.

All the strategic and operating plans that management formulates to achieve a company's goals must be stated in terms of financial objectives in order to increase the wealth of the company (Needles et al., 2007).

We are presented the main categories of performance indicators on which managers need to focus in order to achieve key business objectives, and also which have interest for investors or creditors. We consider that the most important economic and financial objectives for a company are:

- business growth;
- growth of revenues and costs control in order to improve profitability;
- growth in earnings per share;
- assets management;
- human resources effectiveness;
- liquidity;
- solvency;
- working capital management;
- cash flow adequacy;
- financial leverage;
- debt management;
- investment return;
- market strength.

Business growth refers to company's ability to increase its size and could be measured through *turnover*, *added value* or *total assets*.

Investors and creditors are interested in company's profitability that means its ability to earn a satisfactory income. With this aim important we consider relevant: *profit margin*, *gross margin*, *assets turnover*, *return on assets* and *return on equity*. *Profit margin* shows how much of a company's revenue remains after paying off all operating expenses. A low operating margin is a sign that a business might not have enough revenue to pay off debt and other non-operating costs. *Gross margin* shows how much revenue is left company pays all of the direct costs associated with generating that revenue. The higher this ratio is, the more revenue the company has to pay off other expenses. *Return on assets* show how company's assets are being used to generate profit, being useful to take into consideration the idea of trying to convert assets into profit. *Return on equity* show how well a company uses investments to generate earnings growth, measuring company's efficiency to generate profits from each monetary unit or net assets.

Liquidity measure the ability of a company to pay its short-term obligations and to meet unexpected needs for cash. The most common liquidity ratios are: *current ratio*, *quick ratio*, *working capital ratio* (liquidity ratio measure the balance between current assets and current liabilities), *cash flow ratios* (which is closely related to liquidity), and also *receivable turnover*, *inventory turnover*, *payables turnover*.

Solvency shows company's ability to survive over time, to face with medium and long term liabilities. Solvency measure financial security of a company relative to its creditors and financial institutions, and the aim of measuring solvency is to detect earlier signs of company's financial difficulties. To appreciate long-term solvency most relevant indicator we consider: *solvency ratio*, *debt to equity ratio* and *interest coverage ratio*.

Cash flows are closely related to liquidity and long term solvency, measuring company's ability to generate cash from their operations, the main ratios are: *cash flow yield* (ability to generate operating cash flows in relation to net income), *cash flow to sales* (ability of sales to generate cash), *cash flow to assets* (ability of assets to generate cash).

For a company market price is the price at which their stocks are bought and sold, but the information regarding market price of a company is not so relevant by itself; for owners and investors market price show the potential return and the risk, so to be more relevant this information must to be related to earnings through: *price to earnings ratio* (measures the confidence of the investors, and is useful if it is compared with earnings of different companies or by comparing the value of shares in relation with the values in the overall market) and *dividends yield* (measures current stock to an investor in terms of dividends).

In order to determine those indicators that facilitate the interpretation of different situations, the accounting information has to meet qualitative characteristics, most important being understandability and usefulness.

<i>Qualitative characteristics</i>		
<p>Understandability: - decision makers must be able to interpret accounting information</p>	<p style="text-align: center;">Usefulness: - accountants must provide information that is useful in making decisions</p>	
<p>ACCOUNTING CONVENTIONS:</p> <ul style="list-style-type: none"> • comparability; • consistency; • materiality; • conservatism; • full disclosure; • cost-benefit; 	<p>RELEVANCE:</p> <ul style="list-style-type: none"> • feedback value; • predictive value; • timeliness; 	<p>RELIABILITY:</p> <ul style="list-style-type: none"> • faithful representation; • verifiability; • neutrality;

Source: Needles et al., (2007), Financial and Managerial Accounting, pp.233

3. CONCLUSIONS

Relevance in accounting means a qualitative characteristic, mainly associated with information that is timely, useful, has predictive value and makes a difference to a decision maker.

A key business skill for any manager, owner or creditor is to understand the economic and financial indicators which reveal performance and illustrate the strengths and weaknesses of a business. Through their overtime analysis it is possible to observe the unusual fluctuations and to conclude if a business is performing over time.

It is important to choose from hundreds of indicators available those which could be apply to all type of business and those which are specific for a business in order to improve business performance.

The performance indicators based on information from financial reporting helps in establishing the strengths, weaknesses, opportunities and threats relative to a business, their main objectives are as follows:

- to provide useful information in investment and credit decisions;
- to provide useful information in assessing cash flow;
- to provide useful information about business resources management;

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DEDUCTIBILITY OF CONTRIBUTIONS TO VOLUNTARY PRIVATE PENSIONS

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ABSTRACT: *The present paper approaches the notion of public and private pension in Romania. Pension can be seen in terms of a replacement income to individuals whose age no longer affords to operate in the labour market. Pension reform in Romania has allowed besides the public pension system, called Pillar I, which is a distributive system based on solidarity between generations also a private pension system that records the contributions of participants in individual accounts, based on capitalization, investment and accumulation of these contributions.*

KEY WORDS: *public pension; private pension; pension system; distributive system.*

JEL CLASSIFICATION: *H55.*

1. GENERAL CONSIDERATIONS REGARDING PENSIONS

Pensions are the main and traditional form of social security care for people. Pensions represent monthly entitlements that are granted throughout the life from retirement, outgoing people to achieve a certain limit due to age or disability, survivors' children to a certain age and surviving spouse, to ensure them decent living conditions. So, pension can be seen in terms of a replacement income to individuals whose age no longer affords to operate in the labour market.

In the Romanian public system are granted the following categories of pension: old-age pension, early retirement pension, invalidity pension, survivor pension. Financial security at retirement can be supported through diversification of the pensions' sources, a pension system that is based on several components.

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Pension reform in Romania has allowed besides the public pension system, called Pillar I, which is a distributive system based on solidarity between generations (according to Law 19/2000 on public pension and other social insurance rights, with subsequent amendments) also a private pension system that records the contributions of participants in individual accounts, based on capitalization, investment and accumulation of these contributions (Isac, 2009).

Table 1. Characteristics of pensions types in Romania

Pension type	Contribution type	Type of fund management	Age of persons participating in the system
Public pension	Compulsory	Public	All employees aged over 45 years old, and optionally those aged between 35 and 45 years old
Mandatory private pension	Compulsory	Private	All employees aged under 35 years old and optional ones aged between 35 and 45 years old
Voluntary private pension	Voluntary	Private	Employees aged up to 60 years old

Private pension system is implemented in two forms:

Table 2. Private pension system in Romania

Private Pension type	Pillar	Law
Mandatory private pension	Pillar II	Law 411/2004 on privately managed pensions, as republished
Voluntary private pension	Pillar III	Law nr.204/2006 regulated by law on voluntary pensions.

2. PENSION SYSTEMS CLASSIFICATION

The individual may be required to ensure in the public pension system or to a private insurance company. Generally, private companies use the fund type system and state systems are mandatory pay-as-you-go (PAYG).

In the fund type system, the insured person contributes to a personal fund, whose accumulation is invested in stocks, bonds, investment funds, generally speaking in financial values. Gained profit can be entrusted with the ensured person and / or insurance company and the account value can be received in one sum or in annuities based on life expectancy of cohort (group) to which it belongs.

PAYG system is based on intergenerational solidarity, active people contributing to retired people.

This transfer can be represented by the formula:

$$SWL = PN \quad (1)$$

S - contribution rate to the PAYG system;
 W - average income;
 L - number of workers;
 P - average size of pension;
 N - number of pensioners.

In general, you can use the concept of trust between people and generations to explain why our pension system continues to exist.

First, the current young generation has confidence in the future young generation that will contribute to her pension, and on the other hand has a sense of solidarity oriented thru today's older generation by contributing to the PAYG system.

Pension systems classification as pension fund systems and PAYG systems can be superimposed with another type of classification, namely, defined contribution systems and defined benefit systems.

In defined contribution schemes, which are usually fund type, the policyholder knows only his contribution, because he can not evaluate the future retirement benefits, as they depend on interest rates and financial market developments.

Instead, he knows at any time the accumulated fund value. In defined benefit schemes, pension amount is calculated by a formula that includes the contribution period and salary amount.

Pension systems can be classified according to several criteria. If we consider the promised benefits and how the promises are financed, we can speak of two types of plans:

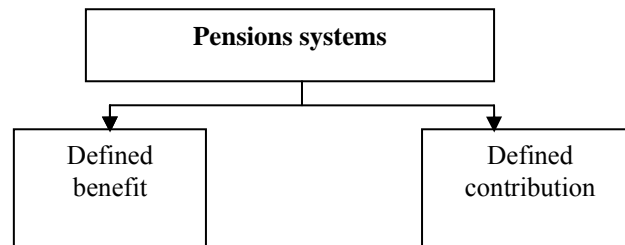


Figure 1. Classified of pension system

Sponsors innovate to get adequate retirement plans for employees which will provide some income and also, to share the investment risk between the sponsor \ pension fund and beneficiaries.

Today, DB plans are under pressure due to legislative changes, environmental background, past years levels of investment gains and awareness of their costs in an environment with low interest rate. As a result, the attention is moving more increasingly towards to type DC plans (Hughes & Stewart, 2004).

2.1. Defined Benefit (DB) Pension Plans

Summary of DB plans is that they involve a defined benefit, i.e. a predefined specified amount, expressed either as a sum of money in a particular currency or as a percentage of final salary or average salary of a number of years before retirement. Pension level can thus be expressed in absolute terms - as a fixed amount or in relative terms - as a percentage.

The DB pension plans involve participants and / or sponsors certain amount of contribution over the years. The percentage which shows the part of final salary or average monthly salary a number of years is the DB pension is called replacement rate.

Most often, participants in such plans do not know the benefits level to be achieved nor the calculation mode. It is found that the calculation is amended even at short intervals of time, creating major disparities between individuals. System administrators and financial experts know that there are budgetary constraints which link contributions, the benefits of a certain replacement rate (Ambachtsheer, 2007).

Traditionally, retirement plans established by the DB type companies define annuities based on the number of working years multiplied by a factor whose product is the replacement rate. Including in the formula the number of working years creates a nonlinear growth.

However, some theorists argue that DB exclusive plans expose the employees before retirement to a low wages risk, which obviously affects the future pension level.

2.2. Defined Contribution (DC) Pension Plans

The type DC plans require that the participants and / or sponsors contribute with certain sums, established in the pension plan - expressed in absolute amounts or as a percentage of salary.

These contributions may be partially or totally voluntary. Participants invest the contributions in various types of assets, with no guarantee of any investment return, so the investor must face the entire investment risk.

Therefore, the pension level is uncertain even before retirement, because it depends entirely on investment performance of accumulated contributions. It is likely that two people who have contributed the same amount, but chose different types of assets allotment may receive different amounts at retirement.

Similarly, two persons with an identical contributions history may receive different pensions in different times.

Contribution levels may change for reasons such as changes in tax laws for any mandatory or optional schemes or as the contributions investment return results in an inadequate or excessive replacement rate.

Therefore, there is a crucial distinction between two types of plans. The main feature of the DB plan is that retirement income is defined - a fixed replacement rate will be paid to participants, while a DC type plan involves variable and unsecured incomes during retirement, which may be higher or lower depending on contributions investment performance (Matei, 2007).

By multiplying the contribution rate with nominal wage we can obtain the nominal contribution. In type DC plans, investment performances are volatile.

If volatility is eliminated, either through an investment strategy or product backed by a present value of annuity during retirement, then earnings are based on wage growth. In other words, if the rate is guaranteed, the replacement rate - which is a salary percentage (average of years or last month), can be guaranteed, due to wage growth. This is the main feature of DB plans.

3. FINANCIAL POLICIES REGARDING TAX DEDUCTIONS IN THE PENSION SYSTEM

Under the applicable legal framework on voluntary pension scheme prospectus approval, the contribution to the Fund for each participant is deductible from his income, up to an amount equivalent in lei of 400 (four hundred) Euros in an year tax.

The employer contributions to the Fund in proportion to its share of participation is deductible in calculating taxable income, up to an amount for each participant equivalent in lei of 400 (four hundred) Euros, for a fiscal year.

If the tax treatment of contributions modifies during the Fund changes will take effect in accordance with applicable regulations.

Table 3. Calculation of tax deductibility of voluntary pension

Calculation of input tax deduction P3			
Gross income	500	1500	3000
CAS (9.5%)	47,5	142,5	285
Health (5.5%)	32,5	97,5	195
Unemployment (0.5%)	2,5	7,5	15
Net income (lines 1-2-3-4)	417,5	1252,5	2505
Personal deduction	250	190	0
Possible contributions	0	0	0
Employee contrib. pillar 3	60	60	60
Income base (lines 5-6-7-8)	107,5	1002,5	2445
Pay income tax (16%rd.9)	17,2	160,4	391,2
Difference after tax (lines 9 -10)	90,3	842,1	2053,8
Net amount for employed (lines 11+8+7+6) = (lines 1-2-3-4-10)	400,3	1092,1	2113,8
Withholding and payment of contributions on behalf of the Fund P3	60	60	60
Net "tangible" income / "CASH" (lines 12-13)	340,3	1032,1	2053,8

Calculation of income tax from wages influenced by the contributions to voluntary private pension fund is established by art. 57 of the Tax Code, as follows:

Table 4. Calculation of income tax

<p>Monthly tax = Income basis for calculation 16%</p> <p>Income basis for calculation = Net income - personal deduction - union contribution - its own contribution to the voluntary pension fund</p> <p>Net income = gross income - monthly mandatory contributions (CAS 9.5%, Health 5.5%, 0.5% unemployment).</p>
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CSSPP contributes to stimulating the employers' interest in providing voluntary private pensions and increasing its attractiveness to employers and employees.

Encouraging participation in voluntary pension system contributes to long-term savings stimulation through private pension and thus ensures an increase in life quality for future retirees, closer to the active period.

For employers, voluntary private pension can be an effective tool to motivate employees and human resource management but also an advantageous solution regarding tax policy - a tax deduction amount of 400 Euros per year per employee and 400 Euros / year for the employer.

Thus, there are some opportunities for employer:

- ✘ Lower tax base;
- ✘ Lower taxation for employer and employee;
- ✘ Tax advantages;
- ✘ The amount of voluntary pension fund contribution is deductible: for the participant (employee), the monthly gross income or other similar income thereof, up to 400 Euro per fiscal year; for employees, taxable income, up to 400 Euro per fiscal year.

Contributions to a voluntary pension fund will be monthly deducted from the salary (the employer is responsible), similar to other existing statutory deductions, but not more than 400 Euro (equivalent in lei) per year.

Exchange rate will be the central bank rate the last day of the month for which salary is paid. Any amount exceeding the limit of EUR 400 will not be deducted.

Table 5. Example - tax exemption for employer

Company pays bonuses for employee 100 Employees Annual bonus per employee - 700 RON (-200 EURO)		Company contributes for the employees to a voluntary pension fund 100 employees Annual employee bonus – 700 RON(-200 EURO)	
P&L		P&L	
Total Revenue	1000	Total Revenue	1000
Other expenses	500	Other expenses	500
Bonuses paid as wages	70	Contribution to voluntary pension fund	70
Tax on salary	21.21		
Bonus wage costs	91.21		
Total expenditure	591.21	Total expenditure	570
Profit before taxation	408.8	Profit before taxation	430
Corporation tax	65.4	Corporation tax	98.8
Profit after tax	343.4	Profit after tax	361.2

4. CONCLUSIONS

Without saying that Romanian pension system's problems can be solved relatively easily and quickly, we believe that specialists in the field need to impose their views over policy options and subjective and largely inefficient levers for the management of public money. In conclusion we can say the following aspects regarding the objectives of pension reform in Romania:

- ✘ relevant legislation must be clear and to apply effectively;
- ✘ ensure optimal operation of the private pension system, namely Pillar 2, and an increasing employees' contributions to these funds;
- ✘ stimulate and promote effective Pillar 3, the voluntary private pensions;
- ✘ frequent participants information regarding the pension funds not only on request;
- ✘ part of the employer's contribution to be paid to the funds of their employees and not only to supply the state social insurance budget.

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APPROACHING COMPETITIVENESS AT THE LEVEL OF MULTINATIONAL COMPANIES

DORINA NIȚĂ, CODRUȚA DURA *

ABSTRACT: *The competitiveness of multinational corporations is a particularly complex concept due to the fact that at present this type of company represents economic entities which continue to develop in the context of the process of internationalization and the transition to the use of global strategies. Competitiveness is a competition between corporations for new positions on the markets. With regard to the competitiveness of multinational corporations, the most accurate description was given by Gilbert Abraham Frois who believed these businesses must think globally, but act locally. In the competitive global market, emphasis is laid on plus – the value given by the competitiveness of the human element, taking into account the fact that the human resource doesn't run out, and its value doesn't decrease over time, but on the contrary, its value increases on condition that it is rigorously managed and developed.*

KEY WORDS: *economic efficiency; competitiveness; competences; multinational companies; economic environment; human resource.*

JEL CLASSIFICATION: *E29, F23.*

1. INTRODUCTION

Competitiveness is a complex and multidimensional concept; it became, in time, over the past decades, a constant concern of specialists and works in the economic field, due to the existence and manifestation of the global integrated and inter-relational markets.

The concept of competitiveness is considered synonymous with economic performance reflecting a certain stage of the economic activity, determined by a specific consumption of resources, in order to obtain an economic product. Competitiveness is valid for all activities involving the allocation and the use of

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resources in order to produce economic goods, as well as for their distribution in space and time.

The production of goods reflects the competitiveness on condition their costs are reduced, while distribution in the context of competitiveness should ensure a concordance between the volume, the structure and the quality of goods, on the one hand, and the needs of consumers, on the other hand.

Competitiveness can be regarded as the result of the rate, creativity solutions, reliability and price level with which a socio-economic actor is able to achieve its objective. Thus, the greater the speed of reaction, the more innovative the solutions are; the greater the reliability when starting the design of a new product/service and ending with the delivery of the good, the more competitive a company is on a global competitive market which is continually developing and more aggressively addressed to.

2. APPROACHES OF THE COMPETITIVENESS OF MULTINATIONAL COMPANIES

In the context of economic sciences, competitiveness refers to how the economic environment manages its competences in order to achieve prosperity, generating, proportionally, more welfare than competitors. A competitive rating system lays its foundations on production systems that generate competitive advantages and specific resources and structures capable of producing distinctive skills. As a result, the advantages and the distinctive performances of the economic actors will constitute decisive factors for the success of a company, regardless of its size (Cismaș & Stan).

At microeconomic level, competitiveness can be appreciated by the profitability of the firm, and at the level of the national economy, its appreciation is due to national labor productivity which is the main factor of intensive economic growth, according to the same source.

In the study of competitiveness, this is equivalent to a competitive advantage when national competitiveness is taken into account and it is synonymous with the term competition when the competitiveness of an enterprise is being analyzed on an international level.

Unlike competitiveness, corporate performance means determining the highest standards it may have, which invariably exceed the standard requirements or expectations of others; it must be analyzed in several areas simultaneously. The performance of the company involves “*achieving the aims which have been given in convergence with the guidelines of the company and the effect of the correlation between the structure of the market and the behavior of the enterprise*”. (Verboncu & Zalman, 2005).

For decades already, competitiveness is regarded as an indicator of performance – whether we are talking about countries, regions, industries or firms. But the various waves of globalization (viewed as a process that was contaminated and dramatically influenced by the development of economic entities regardless of their dimensions and of the level at which they can be found) have produced different approaches and meanings for the term competitiveness, as follows:

- During the first stages, companies have entered the global emerging markets, mainly because of the low levels of costs;
- Nowadays, their role has changed, they became key players in the development of national economies, anxious to build infrastructure and increase consumption;
- Tomorrow, global companies will have to compete with domestic companies and with brands that were born and raised in the context of these emerging economies.

Thus, the global economic balance of power is now in a permanent change, registering changes and at the level of economic performance and competitiveness in the sense that: there is an increase in the involvement and in the impact of global economies and of emerging countries, on the one hand (with regard to demands, markets and competitors), and of multinational companies from emerging countries, on the other hand (in terms of number, revenues and branches of activity). All these have resulted in redefining the coordinates of global competitiveness.

Many people who use the term competitiveness do it without thinking of anything else being aware of the fact that the analogy between a country's competitiveness and the competitiveness of a company is implicit. In fact, the attempt to define the competitiveness of a country raises problems much bigger than an attempt to define the same term in the case of a company, because:

- If a company is in a position of not being able to make payments to employees, suppliers and shareholders it will simply retire from business. Therefore, when you say that a company is uncompetitive it means that its position on the market is not very stable, and if it obviously fails to improve its performance, it will disappear from the market;
- Countries, on the other hand, can not go bankrupt. They may or may not be satisfied with their performance, but they do not have a limit point beyond which they can no longer record declines.

Michael Porter, an economist recognized worldwide due to the assessments regarding competitiveness, observed that while firms compete with each other in terms of market share and profitability, national economies compete in providing a framework which ensures higher revenues regarding the invested capital and higher wages. Porter also argued that the productivity of an economy is, ultimately given by the productivity of companies within the economy. A national economy cannot be considered competitive if firms that operate at this level are not competitive.

Kiperman defines it as *“the ability of the company to withstand the intervention of competitors on the market both in terms of meeting customer needs, as well as from the point of view of its efficiency.”*

UNCTAD, referring to the concepts of competition and multinational companies, considers this competition as the main engine of competitiveness, separating static competitiveness from the dynamic one (www.unctad.org).

Static competitiveness focuses on price competition, making firms compete on the basis of their facilities, such as low-cost labor and natural resources, thus maintaining the competitiveness depends on the increase or decrease of manufacturing costs. At the same time, dynamic competitiveness is associated with the changing

nature of competition, which not only emphasizes the relationship between costs and prices, but also the ability of the company to learn, to adapt quickly to new conditions on the market and to innovate.

Therefore, the lack of resources, insufficient technological capabilities and an inability to adapt through innovation, can make companies that are considered internally competitive lose the ability to meet the international requirements of the competition.

Other approaches define the term competitiveness through its characteristics (Ciochină & Voiculescu):

- **strategic skills**: long-term forecast, the ability to identify and anticipate market trends, the will and the capacity to gather, analyze and exploit technological and economic information;
- **organizational skills**: risk management, internal cooperation between various functional departments and external cooperation with customers and suppliers, with counseling and consultant companies, with government agencies, with all the companies under the process of change and investments.

This definition emphasizes in particular the managerial skills, production and marketing adaptability of multinational companies at the level of the host countries.

More careful definitions were formulated by Kirsty Hugues, who has in mind at least two approaches of competitiveness (Radu, L.):

- the first approach defines competitiveness as an issue of relative, static or dynamic efficiency. This can be measured on the basis of performance levels (the level of productivity, increase of competitiveness etc.);
- the second approach considers competitiveness a reflection of performance in the international trade (measured performance), either in the form of shares held on export markets, or in the form of import penetration degree.

The term competitiveness, associated with a multinational corporation, suggests efficiency, productivity, quality, adaptability, success, modern management, superior products and optimal costs. To consider a company competitive it is necessary to carry out a rigorous analysis, both of the company and of its business environment.

At the same time, competitiveness is a complex concept that can be defined as “*the company’s ability to face competition of other similar firms on one particular market.*” The competitiveness of a company is influenced to a large extent, by the ability to understand and to adapt to the surrounding environment.

3. ASSESSMENT OF THE LEVEL OF COMPETITIVENESS OF MULTINATIONAL COMPANIES

A multinational company is seen as being competitive on conditions that it can adapt its production offer and marketing to the local environment, which brings to the fore the trade and its competitive advantage. The main aspects of the assessment of the level of performance of a company which refer to the overall efficiency of economic activity are: economic efficiency, performance carried out or planned, the competitiveness of products or business excellence.

In conclusion, competitiveness is the quality of a trader, of a product or service, of an individual or activity to be exposed to competition with others. At the level of the company there can be identified the following categories of competitiveness: global, financial, commercial, managerial, technical, human, and organizational competitiveness.

The global competitiveness of a company represents its potential and involves making a diagnosis or an inventory of available capacity, i.e. of economic and financial forces available and taking advantage of all the components of the company, with particular reference to key factors of success involved by the competition. In other words, competitiveness depends on the good functioning of the assembly components.

A recent study of competitive companies reveals both some common characteristics, and the fact that their success was based on some special skills. The diagnosis or the audit of the firm may result in a list of factors or bases of competitiveness in general, composed of six positions, as shown in table 1. (Radu, L.)

Table 1. Factors of competitiveness at the level of the company

Comparison basis	Indicators
<i>Financial competitiveness</i>	<ul style="list-style-type: none"> - the magnitude of the profit; - self-financing capability, amount and maturity of loans; - financial performance potential: profitability of capital; - potential of solvency: the ability to deal with reimbursement.
<i>Commercial competitiveness</i>	<ul style="list-style-type: none"> - the market, the evolution of turnover, profitability, the position in the life cycle for each product; - commercial notoriety: brand image, customer loyalty, consistency in the product range, the level of advertising budget.
<i>Human competitiveness</i>	<ul style="list-style-type: none"> - skills, the rate of absenteeism, enrolment rate.
<i>Technical competitiveness</i>	<ul style="list-style-type: none"> - the nature of the equipment: length of operation, technical performance - technical development, the importance of research-development activities, the level of automation - supply, relations with suppliers, stock rotation
<i>Managerial competitiveness</i>	<ul style="list-style-type: none"> - managers' profiles: age, experience, education, training - the ability to lead: managerial skills, delegation, negotiation, the spirit of synthesis - the value of employees, degree of cohesion of the team
<i>Organizational competitiveness</i>	<ul style="list-style-type: none"> - the form of organizational structure, the number of hierarchical levels - the nature of decision delegations, the degree of decentralization, information circulation - the degree of integration of individuals and services into the company goals, the method of reaching objectives, the social climate.

Source: Vasile D., *Strategii și structuri industriale competitive*, Editura All Educațional, București, 1997

Of all the performance criteria that provide a high level of competitiveness, we should mention the following: labor productivity, labor cost, the level of satisfaction of the requirements of the beneficiaries, the quality of products and services etc. Therefore, it may be considered that economic competitiveness is the ability of an enterprise to deal with potential or actual competition.

Competitiveness can be defined depending on several factors, such as price, product quality, after-sale services, flexibility and elasticity of the offer, out of all these elements, the most important being the price of the products and their quality.

Transnational competitiveness is reached by transnational companies through complex management strategies, through mergers and strategic alliances and promoting foreign direct investment.

Transformations in the present global economy have been made very quickly. These changes occur at all levels of the organization, both at the macro, mezzo level and at microeconomic level.

Such a permanent change, often very fast, sometimes somewhat slower, of international economic environmental factors influences and engages to a large extent the evolution of economic enterprises. In this respect, there should be noted, especially in recent decades, the changes experienced by multinational corporate entities, in the perspective of evolving and adapting to the business environment within which they operate. Forming a succession of phases or stages in a row, these changes are involved in the whole process of resizing and reallocation of funds, in order to preserve their parameters imposed by international competitiveness (Radu, L.).

4. IMPROVING COMPETITIVENESS OF COMPANIES BASED ON HUMAN RESOURCES

During the operation process, any company is faced sooner or later with the problem of reducing control over certain sectors of activity, decreasing the spirit of initiative of employees and of the company implicitly, which influences the loyalty and the sense of belonging to the company, the image and the results of the economic activity, in general.

On conditions of tough competition, companies feel the need to establish and implement new measures, the purpose of which is to obtain additional competitive advantages. Recently, out of the multitude of these advantages, the main role is played by intellectual resources through which one can develop the most challenging strategies.

The key elements of this process include:

1. strategic intentions
2. strategic directions.

Strategic intentions mean reviewing the role of HR Manager from one that manages and registers to one that trains and develops the human potential of the company; his mission is focused on enhancing this potential on which depends the development and the implementation of the general strategy of the company. The HR Manager will have the key role in attracting partnerships between the human capital and the company's top management that will ensure not only the achievement of

strategic goals, but it will also develop advantageous and efficient solutions for the company's existence on the market. In order to achieve this key element the human resource manager will need to solve two strategic tasks:

- A. ***to create competitive advantages of the company by improving the standard of responsibility of employees.*** This strategic task can be ensured if the elements of organizational culture are developed and strengthened. A strong organizational culture allows attracting and keeping talented employees, and the result of their work is reinforces the high image of the company, attracting new customers and segments of clients and having high-performance staff. Permanent renewal and adaptation of the organizational culture to dynamic changes from the external environment can be achieved by improving working conditions, by providing a reverse link between the various existing hierarchical levels and employees, between hierarchical levels and customers. It is also important to involve employees in various decision-making processes, meetings, discussions, marketing activities, to stimulate creativity, initiative and professional self-assessment;
- B. ***to ensure the company's competitive advantages through the growth and development of competence and human potential.*** Even if the company has a strong organizational culture, without removing the discrepancy between the level of competence of human resources and the changing requirements of the market, it cannot permanently maintain a constant high level of competitiveness. This task can be achieved through the development of an efficient system for improving the professional skills of employees based on performance evaluation and identification of individual development needs, which are known as competency models, in the professional world. These models describe individual and professional qualities of the employee, his interpersonal communication skills that allow his development in two directions:
 1. adapting to the organizational culture;
 2. his capacity to assimilate the necessary knowledge and to make use of his created and developed skills.

Strategic directions, represent the component which outlines ways of achieving strategic organizational goals. However, before choosing the method, it is necessary to have a clear vision on the future of the company, which, unfortunately, is not always analyzed and taken into account in the elaboration process of the strategic directions and, implicitly, in their effective achievement. Among the possible strategic directions we can mention the following:

- A. *reviewing the functions of the human resource department*, through the assumption of some peculiarities of the marketing department;
- B. *updating the systems created through remuneration and motivation of employees* by investing the HR manager with greater power and more flexible possibilities of intervention;
- C. *reducing expenditures generated by inefficient use of human potential, and by an excess of human resources within the company.*

The foregoing is intended to highlight the double posture of human resource managers: initiator of changes at the level of human resources strategy, and also promoter. This will provide additional competitive advantages for the companies they represent.

4. CONCLUSIONS

A multinational company is a complex system in which there is a permanent contradiction between flexibility and activity coordination. This conflict originated in the tendency of the company to move abroad, in the permanent desire to expand its operations beyond the borders of the country of origin.

In this context, one cannot appreciate the level of competitiveness of a multinational corporation only from a static point of view, depending on the turnover, on the sales volume or on the number of employees, but also from the dynamic point of view, in correlation with the business environment in which the company operates.

A successful company represents an efficient system in which its strategy is very clearly defined, which corresponds to the situation on the market, namely to items such as: mission, general purpose, values that are consistent with the characteristic features of this system. For each company it is extremely important to understand “what it represents” and “why it exists”. Under these aspects the objectives, tasks and activities can be drawn up while ensuring a high level of competitiveness.

Competitiveness is a general indicator that shows the level of stability and resistance of the company to internal and external environment challenges, challenges that are becoming increasingly acute due to the manifestation of the globalization phenomenon and to the expansion of activities of many companies beyond the borders of their country.

On conditions of tough competition, it is necessary to use any additional competitive advantage that allows increasing the competitiveness of the company and one of them is the human resource through which the most challenging strategies can be realized.

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ANALYSIS OF MARKETING MIX ON COSMETICS PRODUCTS CASE STUDY: AVON COMPANY

ALEXANDRA PALADE *

ABSTRACT: *This paper contains an analysis of the marketing mix followed by a Swot analysis of company Avon. It continues with a market research conducted among women in Brasov highlighting the attitudes, opinions and behaviour of women in Brasov on the acquisition and use of cosmetics product. The present paper analyzes the cosmetics market, the company Avon position in Brasov's market, identifying the company's main competitors, population segmentation. After analyzing data from market research shows that most women acquires cosmetic products from Avon company, the representatives role being extremely important. Most women buy products through the catalogue, 77% of them using the products every day, often buying the personal care products.*

KEY WORDS: *marketing mix; personal sale; market research.*

JEL CLASSIFICATION: *M31; L10; D40.*

1. INTRODUCTION

This paper is making the analysis of the marketing mix of the company which is active on the cosmetics market. I have realized the case study about the company Avon Cosmetics Romania. I chose this company because it is one of the largest and well known cosmetics producers in the world, operating in direct sales system.

It is therefore, extremely important the role of the representatives, the way they act and persuade potential customers. Also the rapid growth and company's image on the market impressed me and made me tackle this topic.

In this paper I want to determine the position of the company in the Brasov market, to show the influence of the brand over the buying decision of the local women and to show the importance of the company's representatives. These are some of the objectives that I want to reach by realizing this scientific project.

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Avon Company is present in whole world, in over 143 countries and it has over 3.7 millions of representatives. The company respects the international standards for the environment, so that its activity is not harmful for the environment. It was the first company that eliminated from its product's composition the CFC gases (chlorofluorocarbons) – gases which are harmful for ozone blanket. Almost all packaging is recyclable.

The market target for Avon Company is situated in urban area and is represented by persons aged between 35 and 45 years old, with higher education, who are interested in cosmetics and who have medium and big incomes. They are strong, professional women, educated, independent, and interested in the way they look. These are persons who can appreciate better the products and are attentive to every detail. Another aim of this paper is to reveal the main competitors and to point out the clients' satisfaction degree regarding product range complexity and product distribution process.

2. THEORETICAL ASPECTS REGARDING MARKETING MIX

2.1. Marketing concept

Marketing concept was founded in 1957 by Jhon B. Mc. Kitterick (CEO General Electric): „marketing concept is the philosophy of consumer orientation, philosophy which implies integral and coordinated actions and reaching a certain goal (Lefter, et al., 2006, p. 25)”. The most basic concept underlying marketing is that of human needs.

Human needs are states of felt deprivation. Wants are the form human needs take as they are shaped by culture and individual personality. When wants are backed by buying power they become demands.

Marketing definition is based on the following concepts: needs, wants, demands, markets, change, transaction and relations, satisfaction and value, products, services and experiences (Kotler & Armstrong, 2004, p.8).

2.2. Marketing mix

Marketing is the art and science of selling. Ingredients for a good marketing (according to Philip Kotler) are the 4P's: product, price, promotion and placement. An effective marketing program combines harmoniously all elements of the marketing mix. Marketing mix is the main instrument of the company for obtaining strong positioning on the concerned markets.

Product policy. The authors of the paper: “Marketing. Explanatory Dictionary” (Florescu, et al., 2003, p.537) define product policy as a decision adopted by manufacturing or commercial companies regarding the size, structure and evolution of the range of goods and services (Lefter, et al., 2006, p.375, 405). Product policy is often compared with “the heart of marketing”. It has a direct connection with the other elements of the marketing mix.

Price policy. Price is a market instrument and an index of the economic and social reality (Lefter, et al., 2006, p.449). Price is the only marketing mix variable which leads to profits, the others are generating only expenses and investments. Price is a very flexible element of the mix and it can be changed rapidly, unlike the product characteristics and the placement activity.

Placement policy. Placement's role is to assure the necessary balance in the market primarily between demand and supply and between producers and consumers. Another role of the distribution is to streamline the buying – selling processes.

The advantages of custom sales are:

- ✘ it allows maintaining control over the entire marketing process;
- ✘ it reduces distribution expenses;
- ✘ direct contact of the manufacturer with the consumer, it facilitates market knowing;
- ✘ supporting the factory brand;
- ✘ controlling the price;
- ✘ guaranteeing the quality of the sold products;
- ✘ quality services.

The disadvantages of this type of sale are: usage of many financial resources for trainings, human resources.

Promotion policy. Promotion should be seen as a key tool of the marketing mix. The way how the company combines the various promotion components in order to achieve goals, rises the promotional mix.

Personal promotion is a form of communication. This is defined as being: “a form of communication from one person to another, in which the seller persuades the potential buyer to buy the products and services of the company” (Lefter, et al., 2006, p.562).

3. ABOUT AVON COSMETICS COMPANY

3.1. Presenting the company

Avon Cosmetics is one of the largest and well known companies producing cosmetics in the world and operating in direct sales system. The company was founded in America in 1886, by David McConnell, a book seller who was offering samples of perfume with his books.

Avon Cosmetics Romania SRL was founded in 1997 and then were registered the first 6 Avon representatives, who were the first sales directors in Romania.

Avon is the largest company of cosmetics, operating in direct sales system and its achievements in the world are:

- Over 3.7 million representatives in entire world
- Over 143 countries in which is operating

3.2 Avon Cosmetics – market

Avon Cosmetics is a company whose activity involves producing and selling cosmetic products. The company operates in direct sales system. Thus, the market in which consumers demand is expressed, in their capacity as individuals, is known as the consumer market.

Avon Cosmetics is a company that operates in direct sales system and it has attributions of a producing and commercial company.

Besides the importance of the supply structure, logistics and organization of storage areas, the company must pay attention to sales, particularly to train the representatives. They are very important for Avon Cosmetics Company because they are the ones through which the company sells its products through the work they perform, they assure the creation of a good image of the company, they present the products to actual and potential consumers, they offer new information about the company and its products and they are recruiting the new representatives.

From the point of view of economic- geographic space, Avon Cosmetics Romania is operating on the entire Romanian territory, but mostly in urban areas. The actual space where demand meets the supply is created and covered by the company representatives and the distance between producer and consumer is minimal in direct sales.

3.3. Avon Cosmetics Competition

In Romania, Avon Cosmetics is operating in a market economy. A basic characteristic of market economy is the competition, reason for which this is also known as competitive economy. In market economy, the success or failure of a company's actions is not determined only by strategies, methods and tools that the company owns, or by the professionalism with which they are handled, but also by the moves of the competitors. In decision making process regarding market actions, should be given importance to the activities of the other participants with which the company is in direct or indirect competition.

For Avon Cosmetics Romania, any cosmetic product existent on Romanian market represents a competitive product. Of course there are some criteria that differentiate the competitors. The most important competitors of the company are those who operate on the same target market and utilize the same strategy. The process of identifying the competitors is very important for the company. The main competitors of Avon Cosmetics Company are: Oriflame, Nivea, L'Oreal and Maybelline.

3.4. Avon Cosmetics' clients

Avon Cosmetics addresses its products to all Romanian women, but not exclusively, the assortment range offers cosmetic products designed for satisfying hygiene needs of men.

Avon Cosmetics Romania attempt to cover cosmetic satisfaction (which might have specific requirements for each age), so necessary cosmetics are offered for sale to

consumers who may be either children over 3 years old but also teenagers, young women, mature women or elderly women.

In addition to the consumer's differentiation based on age and sex, Avon Cosmetics Romania has in mind the criterion of financial resources that each consumer has for purchasing cosmetics. According to consumer's incomes, Avon Cosmetics addresses to the following categories: clients with low budget (budget), clients with medium incomes (mass), clients with high incomes (mass premium), and luxury clients (prestige). The main characteristics of various consumer categories are presented in table 1.

Table 1. Main characteristics of consumer categories

Clients with low budget	Clients with medium and high income	Luxury clients
-price is important in buying decision; -easy use; -less experienced consumers; -buying decision is taken according to volume and prices	-quality package; -values and aspirations; -image; -price is still important; -more sophisticated consumers	-image; -aspirations; -sophisticated packaging; -innovation.

4. MARKETING MIX OF AVON COSMETICS ROMANIA COMPANY

4.1. Avon Cosmetics Romania – product policy

Avon Cosmetics Company adopts the following strategies for product policy: size growth of product range, quality differentiation strategy and assortment renewal strategy.

For a permanent satisfaction of consumers needs, Avon Cosmetics has **to continue the horizontal assortment range diversification strategy**. Avon Cosmetics is a company which produces and sells a complex and modern range of cosmetic products, even for the most demanding tastes. That's why the company should adapt constantly to the market requirements regarding the product novelty, make-up colors diversification, packaging methods, product manufacturing technology.

The **quality differentiation strategy should be maintained**. It is very important to offer superior products that will satisfy all consumers' categories, from those who want to use qualitative products at affordable prices to those who would spend anything for purchasing a prestigious product that will satisfy the most demanding wishes.

The assortment renewal strategy is the most complex and dynamic strategy. The renewal assortment leads to the creation of new product lines within the existing range, for offering products that meet new demands of fashion and technology.

4.2. Price policy of Avon Cosmetics Company

The company Avon Cosmetics Romania approaches three aspects: the prices level, the degree of the prices diversification and the of prices mobility.

Based on each product category, their characteristics and targeted consumer category, the company may adopt a strategy of moderate prices. Thus, prices can vary depending on the criterion that was the basis for its establishment.

For price policy it is beneficial the maintaining of practices prices. From this point of view Avon is situated over the medium price of cosmetics manufactured and commercialized in Romania. This price level is justified by the quality of the products. Prices applied by the company for its products reflect the quality and the position on the market.

4.3. Placement policy of Avon Cosmetics Romania

The main criteria underlying the distribution strategies are: the dimensions of the distribution channel, the size of the distribution, the degree of company's participation, control degree, elasticity degree and the logistics of goods. Avon applies the following strategies: direct distribution, distribution through personal device and high level of control.

An advantage for Avon Company is the reduced time that passes since the order was placed by the representative until the ordered products are delivered to the representative's residence.

4.4. Promotion policy adopted by Avon Cosmetics Company



The suggestions regarding promotion policy of Avon Cosmetics are: promotion of the global image – image expansion strategy, conducting ongoing promotional activities, offensive promotional strategy, undifferentiated strategy, organizing promotional activities with the help of specialized institutions.

Image expansion strategy could be adopted by Avon because is not only the case of promoting the image of the company, consumers being already aware of its existence from the promotional activities carried out previously.

Undifferentiated strategy permits Avon to address to entire market, to all potential consumers.

Organizing promotional activities by appealing at specialized institutions is advantageous for the company because of the professionalism and high solutions which are guaranteed by these institutions.

A promotional mean used by Avon is the catalogue. On the cover of these catalogues is used an association of the company's image with various personalities.

For example, on the cover of Christmas edition catalogue we find Andreea Raicu. This type of associations is used also for products. For the launching of Eternal Magic Perfume, Andreea Raicu declares that: “Eternal Magic perfume speaks about the feminine delicacy, about the magic that every women bears in her”. Avon Company is involving in various programs and campaigns. The most known campaign realized By Avon is the one against breast cancer. This was founded in 2002. In every catalogue you can find products with the well known pink ribbon. The funds raised are donated for the purchase of medical equipment and for women education.

5. SWOT ANALYSIS OF AVON COMPANY

One of the highlighted **strengths** of the company is the fact that Avon is the most popular brand of beauty. This thing offers the necessary notoriety and confidence to the company. Also the expanded number of representatives is an important strength. Avon has over 3.7 million representatives in the entire world and over 100000 in Romania. With such a big number of representatives it is a certainty that the company reaches the ears of every woman. The intense promotion realized by the company can't pass unobserved. In the last year the TV advertising and the internet promotion increased considerably. Client's loyalty is achieved through a variety of successful promotional campaigns realized by Avon Cosmetics Company. Also a strength is the promptly response of the company to its orders and the reliability of the delivery in best conditions.

I consider that the **main weak point** is represented by the differences between the nuances of the products shown in catalogs and the product itself. Also Avon Cosmetics Romania doesn't update the brochures in the same time with those from outside the country. The possibility to return the products is a weakness because the procedure is very complicated. You have to wait an extended period of time, and instead of returning the money, they are deducted from the next order of the representative.

Among the **opportunities** of the company we mention: convenient quality – price ratio, all Avon products presenting the benefit of: “100% guarantee”. Also there is the chance to develop your own business and to earn extra incomes. An extremely important opportunity is to support various social campaigns: breast cancer, violence in family etc. Also the company can improve its knowledge in beauty domain and not only. Another opportunity is to launch on the market qualitative products with an advanced technology.

The threats of the company are firstly connected with the competition, with the increased number of suppliers. The technology used by the competitors may represent a threat, the company being in a continuous development.

6. MARKETING RESEARCH REGARDING THE USE OF AVON PRODUCTS

6.1. Research methodology

For this chapter I have realized a marketing research with the theme: attitudes, opinions and behaviors of Brasov women regarding the purchase and use of cosmetic products. The objectives of this research include:

1. Identifying the main behaviors of Brasov women regarding the purchase of cosmetic products
2. Identifying the attitudes of Brasov women regarding the used products
3. Identifying the opinions about used cosmetic products

In this research I used the random sampling method, according to which, all individuals that are part of the studied population have the same probability to be sampled. Because it is very difficult to obtain a list with the entire female population I chose to make a stratified sampling. The researched population for this marketing research is Brasov female population aged 18 and over. From the 15 districts of Brasov I randomly picked up 3. At this level I have created a list with all buildings and households. The research was realized on a sample of 100 persons and it has a maximum error of 9.8%. The questioner includes 26 questions from which 5 serve for identification.

6.2. Research results

Firstly I used a filter question to split up the sample in 2 groups and to focus on the researched segment. At the question "Do you use cosmetic products?" 100% of the respondents answered with yes.

For the next question "how often do you use cosmetic products?" 77% of respondents use cosmetic products daily, 12% weekly and the other 4% only few times per year. We can reach the conclusion that the majority of Brasov women use cosmetic products daily.

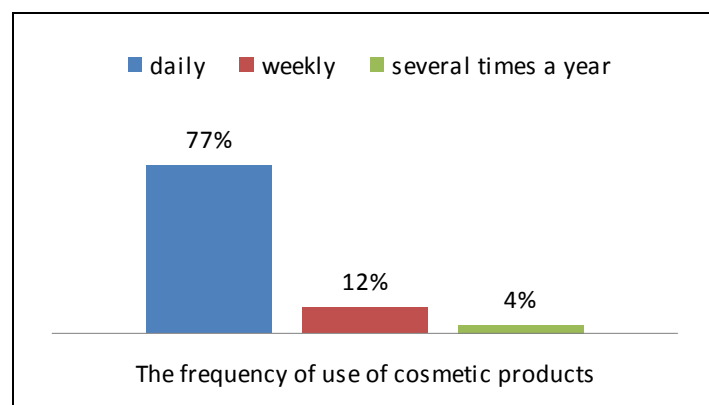


Figure 1. The frequency of use of cosmetic products

At the question “what range of products do you buy more often?” – 57% from the respondents purchase personal care products, 23% makeup, 17% perfumes and 3% accessories. It results that the respondents buy mostly personal care products and cosmetics. Perfumes and accessories can’t be neglected. This result was expected because personal care products are use daily, cosmetics are indispensable to any women and the accessories and perfumes have a extended usage.

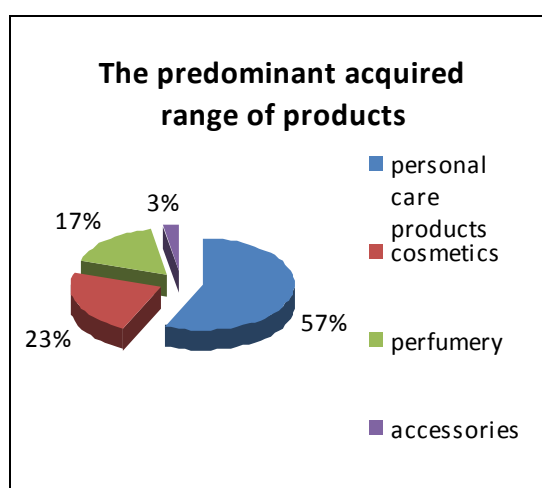


Figure 2. The predominant acquired range of products

After analyzing the answer of the question “classify the following 5 cosmetic brands in your preference order”, we noticed that on the first place in the consumer’s preferences is Avon Company followed by Nivea. Next on top are: L’Oreal, Oriflame, Maybelline. These brands were classified with a medium score. Is a well known fact that Avon is in direct competition with these companies. That’s why the differentiation on the market is very important. I consider that Avon has the advantages: the existence of the catalogs, direct sales which give confidence to the consumer and the most important characteristic is the quality of the offered products.

Brands classification according to preferes:

	N	Minimum	Maximum	Mean
AVON	100	1.00	5.00	2.4300
NIVEA	100	1.00	5.00	2.6000
L'OREAL	100	1.00	5.00	2.8200
ORIFLAME	100	1.00	5.00	3.2100
MAYBELLINE	100	1.00	5.00	3.9400

Figure 3. Brands classification according to preferences

It is important to know how Avon clients acquire the products. That's why we introduced the question: "how you purchase products from Avon?" 73% said that they buy the products with the help of the catalog, 10% online and 2 % from company office. As expected the majority of women purchase the products with the help of representatives after seeing a brochure. However, I consider that the existence of more purchasing modalities it would be a strong point for the company. I consider that soon the online order will increase in Romania due to the internet development. Anyway, the company representatives are and will remain the pillars of the company.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CATALOG	73	73.0	85.9	85.9
	ON-LINE	10	10.0	11.8	97.6
	OFFICE	2	2.0	2.4	100.0
	Total	85	85.0	100.0	
Missing	System	15	15.0		
Total		100	100.0		

Figure 4. Modalities of purchasing Avon products

Starting from the fact that more than half of women buy products with the help of representatives we considered that is extremely important to know the clients opinion regarding the role of the representatives. At this question have been 13 non answers and 87 valid answers. From these 45% consider that the role of the representatives is very important when buying a product and only 4% considered that he is unimportant.

For establishing the connection between the age and the most often purchased products we considered the following hypotheses:

H₀: There is no connection between the purchased product range of Avon Company and the age category in which respondent falls

H₁: There is connection between the purchased product range of Avon Company and the age category in which respondent falls

In figure 6 we can observe that 87% from answers were valid and 13% from the respondents didn't responded at this question. This thing happened because before this question it was a filter question that would let the company's clients to answer.

By applying the chi-square test and comparing calculated significance level 0.02 with the theoretical one of 0.05 we can observe that the first significance level is lower; so the hypotheses H₁ (according to which it is a connection between purchased range of products and the respondents age) is accepted. This thing is possible because products are intended for a certain age. So the personal care products are purchased by approximately all persons, but the perfumes and accessories are intended especially to young women.

For establishing if exists any connection between the purchase modality and the occupation of the respondents we considered the hypotheses:

- H_0 : Is no connection between the purchase modality and the respondent's occupation
- H_1 : There is connection between the purchase modality and the respondent's occupation

If we compare the calculated significance level (0.33) with the theoretical one (0.05) we observe that the calculated level is higher than the theoretical one; it results that we take into consideration hypothesis H_0 .

We can conclude that there is no connection between the modality of purchasing the products and the respondent's occupation. This is because any person, whether it is an employee with secondary or higher education, student or unemployed can order products from the representatives, from the company offices or from internet. The company is available to everybody and is not important the occupation of the clients.

7. CONCLUSIONS AND PROPOSALS

Company's position on the market must always be improved, Avon being currently considered a strong and modern company, concerned to improve itself. It must be maintained the quality differentiation strategy in order to offer superior products and to thank all consumers' categories.

The renewal assortment strategy is beneficial for Avon, which is a modern company and wishes to correspond to the new requirements of the fashion and technology. From the prices point of view, Avon is above the medium price of cosmetic products from Romania, but the level of price is justified by the quality of sold products.

From the marketing research we noticed that the majority of Brasov women purchase products from Avon Company. The frequency of use is important, 77% of the respondents use cosmetic products daily and 12% weekly. Another important element is the competition. After analyzing data about Avon Company and its competitors we observed that the first company in consumer preferences is Avon, followed by Nivea Company.

For seeing if it exist any connection between the purchasing modality and respondent occupation we used the Chi Square test. Following this test it was concluded that there is no link between these two variables. This is because Avon addresses its products to all women.

To establish the link between age category of the respondents and the range of products they buy most often, by using Chi-square test we determined that there is connection between the range of products bought from Avon and the age of respondents. It is known that perfumes and accessories specifically are addressed to young women.

As a suggestion for Avon Company I consider that it would be an advantage if the time between the moment when the order was launched and the moment when the product was delivered would be diminished. Also I consider that there should run more advertising spots on television channels at times with high ratings.

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IMPACT OF THE FINANCIAL CRISIS ON LIFE INSURANCE IN ROMANIA

ANA PREDA, MIRELA MONEA *

ABSTRACT: *Whereas both worldwide and locally financial problems aggravate, it is hard to believe that people would search protection in life insurance policy, although in these times people's need to be protected is much higher. Having in mind our possible future situation, when we might be in an economic impasse, the solution could be to contract a life insurance, which could basically provide protection, but on a long term, it might be a means of saving.*

KEY WORDS: *insurance; financial crisis; insurance; investment; protection; risk.*

JEL CLASSIFICATION: *G01, G11, G22*

1. INTRODUCTION

We come from times (before 1989) when “life insurance” meant that the state would provide everything, from workplace to lodging, therefore the Romanians are not yet accustomed to the capitalist concept of this form of protection, and this is clearly seen in the number of life insurances contracted in the first years of democracy. Fifteen years ago, few people knew what a life insurance meant, this would seem not a luxury, but a weird thing.

More and more people understand now what this is about; however, there are many skeptical people when it comes to the acquisition of such a product. Making a simple comparison between the number of CASCO insurances and life insurances, the numbers show that the Romanian value more their cars than their own life, their priorities being to accomplish certain urgent objectives, rather than the acquisition of a life insurance.

The uncertainties of tomorrow make them only think on the short term, therefore investing in medium and long term financial instruments is not of interest,

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and they do not save, thinking that their income is not sufficient for that. Their financial education is low, so the idea that “I do not need life insurance, nothing bad would happen to me” is deeply rooted in our mentality. In Bart Astor’s opinion, life insurance is a unique product, “unlike other insurance products, it is not for you, but for your survivors” (Astor, 1999).

The financial crisis could possibly make us more responsible regarding to our financial protection, increasing the awareness of the necessity and importance of personal actions, to secure our financial future, to change the perspective on saving, to make us understand that nobody will provide financial protection to our loved ones, or grant us a higher pension, but ourselves. We go through a financial crisis, it is neither the first, nor the last, but it is necessary for us to secure ourselves, and go in the direction desired, as far as possible.

This paper endeavors to point out the second valence of the life insurance, the long term saving, the first obviously being the protection of the individual. What is more important, a leasing for a new car or to provide for our retirement. Each will make his own choice.

2. LONG TERM EFFECTS OF THE CRISIS ON LIFE INSURANCE

Global insurance sector was on more powerful positions than the banking sector when the crisis started, and was less affected, due to the specific nature of the business model. Insurance companies manage long term obligations, coordinating them with investments over the same period, in “safe” instruments, while banks do not have the same concordance in time between assets and liabilities, thus being more exposed to liquidity risk and debt overload. Insurance plays a major role in world economy, providing millions of transactions and other economic and non-economic activities.”(Zevnik, 2004)

Insurance was not the source of this economic crisis, this period being well handled, playing in fact an “important part in the attenuation of the effects of the financial crisis by insurances of financial warrants and credits, assisting in restarting crediting, covering for the recorded losses of the banks.”(Ciurel, 2011). Insurance markets became more and more connected to capital markets and financial system in a large sense, insurers offering more and more products of saving and investments similar to banking products and investment funds.

On a long term, insurances will be affected by the prolonged crisis that will affect the consumers’ behavior. Financial education is still low in many countries, so is the understanding of new products, such as the unit-linked ones. Clients’ disappointment regarding policy diminution, as a result of stock exchange fall starting with the year 2008, generates uncertainty regarding products with investment component, which sell well in periods of economic growth, therefore they will experience decline in the following years. These products are profitable only if they are fiscally deductible or have an important insured sum, but in our country the premiums paid for life insurances are not deductible, although in other countries this fiscal advantage has long ago been applied.

The insurance companies that will sell guaranteed life insurance, that is policies where the investment risk is taken over by the insurer, and the profit obtained is shared with the client, will gain in the years to come. In times of crisis, life insurance with significant protection components are required, or else they are not worth being bought. Insurance specialists consider that one of the anti-crisis measures might be the application of deductibility for premiums paid for insurances. In crisis conditions, events such as falling ill are more frequent "if the person that fell ill had insurance, it would no longer be a burden for the state budget, since the expenses would be paid by the insurer. If savings by life insurance were stimulated by deductibility, this money would be transferred to consume."<http://www.zf.ro> The chances for life insurance to benefit from deductibility are rather poor, since a fiscal policy based on unique quota, as in Romania, does not allow such advantages.

The financial crisis will create big differences in the following years between the main life insurances and general insurances in one insurance company, but these differences will be greater in countries of emerging economies (Ciurel, 2011). In our country, consumers of the life insurance will be redirected towards the protection component of these, giving up, at least for a little while the investment component.

3. PRIVATE PENSION UNDER THE CRISIS – CASE STUDY

The most convincing reason why we would draw up such a policy would be to have experienced such a system, to have seen our parents, our grandparents having taken advantage of the benefits of an insurance or private pension, but this will only be valid for the next generations. In developed countries at the first job, people start saving for their retirement, this being the normal social responsibility of each person. How long will it last for us to take this road?

Our country's economic revival could be difficult and extend over many years; many people were forced to lower their standard of living. It is quite normal for many of us to fear to buy such a product, instead of building up a vision, a strategy, planning. Hard times make us cleverly manage our income and lay down an action plan, for those that decided to make this; this is what they might gain besides the pension from the state when retired.

We examine the case of a 32 year old person, who draws up an insurance contract with investment component, of private pension type for a 23 year period, with a net monthly premium of 156 RON, of which 100 RON the investment premium.

The insurance plan has two components: protection is represented by covering risk of death for the validness period of the contract and investment, by which the investments premiums are invested in various investment programs, chosen by the policy holder, transformed in unit.

Each investment program matches a certain level of risk, and the amount of risk the policy holder is willing to assume indicates the unit price. We are going to examine three investment programs of different risks, namely risk 2, risk 3, and risk 6 on a scale from 1 to 6.

The first program (risk 2 on the scale) intended to persons with low risk tolerance and short investment horizon, requiring a safe investment. The objective

aimed at is to increase capital on a long term and generate stable efficiency by investing 100% in instruments with fixed income.

The evolutions of some type of contracts, with main characteristics previously presented are shown in Table 1.

Table 1. The evolution of the contract taking into account low risk investment program

Year	Insurance premium allocated to investment program	Insurance premium allocated to death risk	Insured amount (for basis insurance)	Assumed account profitability	Account value	Death risk coverage	Surrender value	Inflation adjustment
1	1200	79	15000	7,4%	1225	16225	0	5%
2	2460	162	15702	7,3%	2345	18048	0	5%
3	3783	250	16416	7,3%	3713	20129	2839	5%
4	5172	341	17109	7,3%	5227	22336	4255	5%
5	6631	438	17812	7,3%	6900	24713	5825	5%
6	8162	539	18514	7,3%	8747	27261	7563	5%
7	9770	645	19214	7,3%	10770	29984	9474	5%
8	11459	736	19902	7,2%	12981	32883	11569	5%
9	13232	873	20588	7,1%	15391	35980	13859	5%
10	15093	996	21278	7,0%	17995	39273	16341	5%
11	17048	1125	21958	6,8%	20759	42718	18984	5%
12	19101	1260	22642	6,4%	23674	46316	21781	5%
13	21256	1402	23317	6,0%	26729	50046	23723	5%
14	23518	1551	23995	5,6%	29884	53879	27770	5%
15	25894	1708	24669	5,1%	33145	57814	30932	5%
16	28389	1872	25339	4,7%	36531	61870	34227	5%
17	31008	2045	26015	4,4%	40033	66048	37645	5%
18	33759	2226	26682	4,1%	43599	70281	41135	5%
19	36647	2417	27349	3,7%	47206	74554	44678	5%
20	39679	2617	28012	3,3%	50880	78892	48301	5%
21	42863	2826	28671	3,0%	54712	83383	52092	5%
22	46206	3047	29330	2,9%	58653	87983	55999	5%
23	49717	3278	29749	2,7%	62753	92726	62753	5%

Source: ING, investment program UL BOND

The second investment program (risk 3 on the scale) intended to persons with a little high risk tolerance who want to know their investment safe but seeking the opportunity to obtain a higher yield than investing in instruments with fixed income.

The main objective of this program is to obtain long term capital increase by investing in a diversify portfolio: 75% in instruments with fixed income and 25% in shares. The evolution of some type of contract is presented Table 2.

Table 2. The evolution of the contract taking into account a medium risk investment program

Year	Insurance premium allocated to investment program	Insurance premium allocated to death risk	Insured amount (for basis insurance)	Assumed account profitability	Account value	Death risk coverage	Surrender value	Inflation adjustment
1	1200	79	15000	8,5%	1235	16235	0	5%
2	2460	162	15702	8,4%	2376	18078	0	5%
3	3783	250	16416	8,4%	3778	20193	2884	5%
4	5172	341	17109	8,4%	5339	22447	4340	5%
5	6631	438	17812	8,4%	7078	24980	5967	5%
6	8162	539	18514	8,4%	9010	27524	7781	5%
7	9770	645	19214	8,4%	11143	30357	9790	5%
8	11459	736	19902	8,3%	13489	33391	12008	5%
9	13232	873	20588	8,2%	16064	36652	14449	5%
10	15093	996	21278	8,1%	18864	40142	17114	5%
11	17048	1125	21958	7,9%	21859	43817	19972	5%
12	19101	1260	22642	7,5%	25040	47682	23020	5%
13	21256	1402	23317	7,1%	28399	51715	26248	5%
14	23518	1551	23995	6,7%	31893	55888	29619	5%
15	25894	1708	24669	6,2%	35533	60202	33143	5%
16	28389	1872	25339	5,8%	39338	64677	36839	5%
17	31008	2045	26015	5,5%	43300	69315	40700	5%
18	33759	2226	26682	5,2%	47364	74046	44671	5%
19	36647	2417	27349	4,8%	51505	78854	48773	5%
20	39679	2617	28012	4,4%	55752	83764	52912	5%
21	42863	2826	28671	4,1%	60202	88873	57306	5%
22	46206	3047	29330	4,0%	64804	94134	61860	5%
23	49717	3278	29749	3,8%	69612	99586	69612	5%

Source: ING, investment program UL MIXT 25

Persons with a long investment horizon willing to accept a high risk, and want a high yield on long term will choose the third investment program (risk 6 on the scale). The objective of this program is a long term capital increase by investing 100% in shares.

The evolution of such an insurance contract is presented in Table 3.

Generally, life insurance policy is insure for a period between 5 and 25 years, and nobody can predict what is possible to happen in a so long period of time. However, the history shows us that after a share decreases it can recover and recover the loss. Those who are thinking to a short-time investment should not buy shares, not think to an equity investment. Insurance companies have a long term vision on

earnings. A commercial bank is expected on short-time profits, but an insurance company how much profit is obtained later, the better.

Table 3. The evolution of the contract taking into account a medium risk investment program

Year	Insurance premium allocated to investment program	Insurance premium allocated to death risk	Insured amount (for basis insurance)	Assumed account profitability	Account value	Death risk coverage	Surrender value	Inflation adjustment
1	1200	79	15000	11,9%	1266	16266	0	5%
2	2460	162	15702	11,8%	2468	18170	0	5%
3	3783	250	16416	11,8%	3972	20388	3020	5%
4	5172	341	17109	11,8%	5686	22795	4602	5%
5	6631	438	17812	11,8%	7636	25448	6410	5%
6	8162	539	18514	11,8%	9848	28362	8470	5%
7	9770	645	19214	11,8%	12340	31554	10800	5%
8	11459	736	19902	11,7%	15139	35041	13429	5%
9	13232	873	20588	11,6%	18237	38862	16383	5%
10	15093	996	21278	11,5%	21754	43032	19676	5%
11	17048	1125	21958	11,3%	25559	47518	23289	5%
12	19101	1260	22642	10,9%	29692	52334	27229	5%
13	21256	1402	23317	10,5%	34153	57470	31497	5%
14	23518	1551	23995	10,1%	38906	62901	36060	5%
15	25894	1708	24669	9,6%	43969	68638	40939	5%
16	28389	1872	25339	9,2%	49377	74716	46169	5%
17	31008	2045	26015	8,9%	55130	81146	51749	5%
18	33759	2226	26682	8,6%	61169	87851	57624	5%
19	36647	2417	27349	8,2%	67469	94818	63773	5%
20	39679	2617	28012	7,8%	74069	102082	70236	5%
21	42863	2826	28671	7,5%	81104	109775	77147	5%
22	46206	3047	29330	7,4%	88517	117847	84445	5%
23	49717	3278	29749	7,2%	96391	126365	96391	5%

Source: ING, investment program UL EQUITY

Both the account value at the end of the contract as well as the death risk coverage are more substantial for a contract with a high risk (by investing 100% in shares, but the risk is as this can be seen in figure No. 1. During a period of financial crisis it is recommended an investment program with low risk even if the yield is smaller, but is much safer achieved by investing in instruments with fixed income.

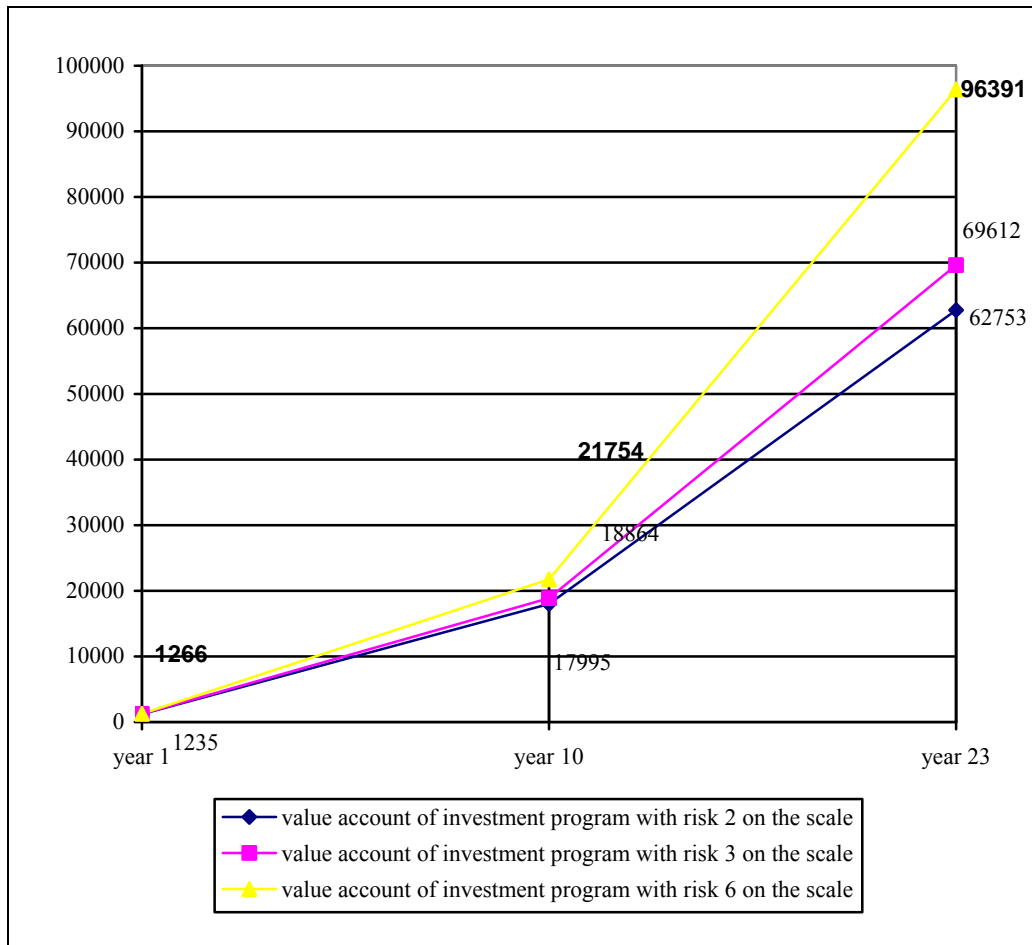


Figure 1. The evolution of the value account

Insurance contracts with investment component are products much more complexes but more risky than traditional life insurance and have much more flexibility in terms of choosing insurance premium, insured amount, type of investment, risk coverage and investment component, direct control on investment component, premium frequency (could be change in time), the possibility to pay anytime an additional premium, the possibility of the insured person to change their units from one investment program to another, the possibility of the insured person to withdraw money from the units account, equity of redemption, the possibility to change the initial contract into another with a reduce insured amount, and many other facilities.

So that, the insured person could choose another investment program, more risky that the initial one, if wants this, but in time of financial crisis it is recommended not to do that and to have a prudential behavior.

Also, if the insured person wants to surrender the initial insurance policy will lose much from the investment made, because the surrender value increase in time and it is appropriate by the value account only in the last 2-3 years of the contract, for any type of investment program. These could be observed in Figure 2.

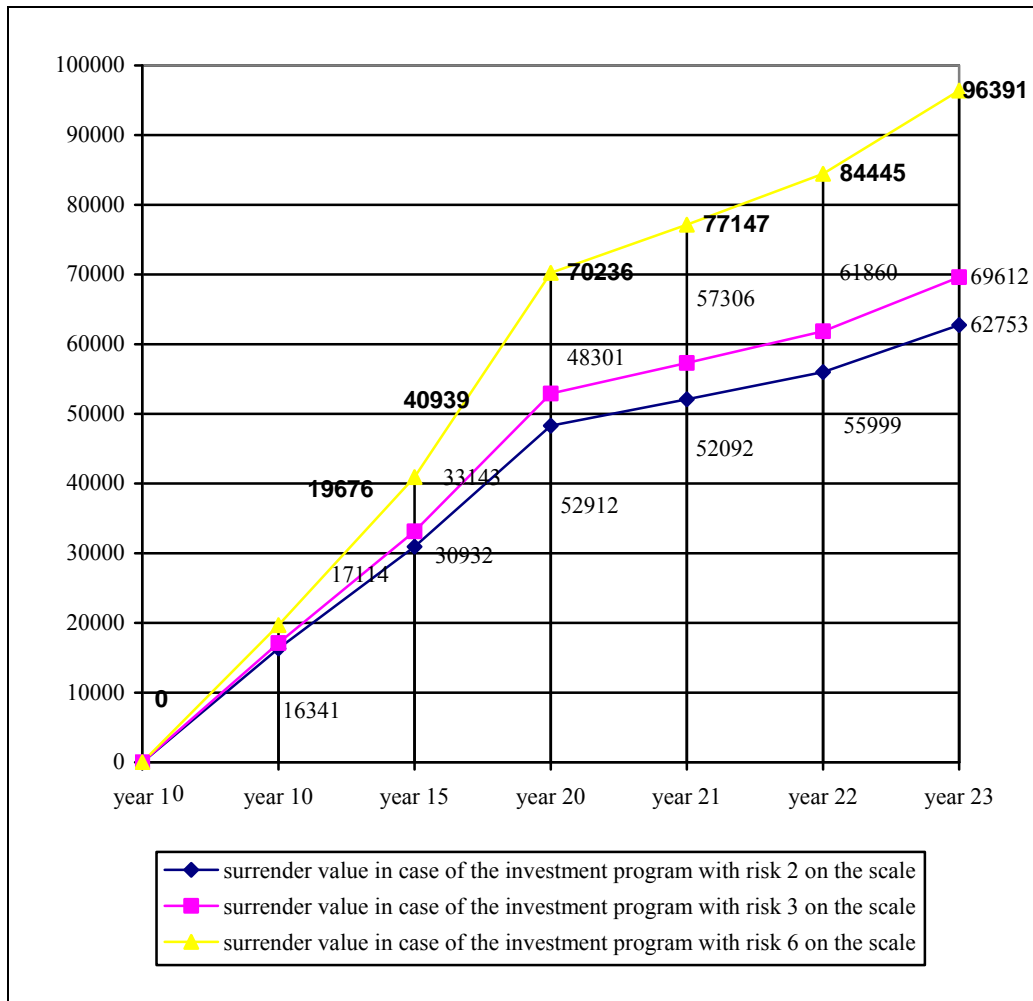


Figure 2. The evolution of the surrender value

4. CONCLUSIONS

Insurance are a key component of world economy based on the value of the collected premiums, the extent of the investments, and more importantly, on the social and economic role played by it, covering various personal and business risks. Life insurance sector felt the financial crisis most acutely, due to the increase of unemployment and decrease of income for insurance products buyers. One of the factors influencing this sector was psychological, in that the fear and incertitude

regarding financial security of consumers resulted in cancellations, and postponing the intention of buying life insurance policies.

The financial crisis might make us more responsible for the financial protection, being aware of the necessity and importance of personal actions in order to insure our financial future, changing our perspective on savings, making us understand that no one will insure financial protection to the loved ones or a greater pension than ourselves. We go through a financial crisis, not the first and possibly not the last, either, but we must ensure that, as far as possible, we go in the direction we want.

In this period of crisis, clients pay more attention to what they do with their income, choosing traditional life insurances, leaving insurances with investment components for periods when our country will experience substantial economic growth. This type of insurance will face a decline period.

It is very difficult for the insurance companies today to maintain their clients. In order to obtain the clients' loyalty, they should become more popular, should win the customers' trust, since this is essential especially in life insurance, where the duration of the policyholder - insurer relationship is longer. We believe that present client of an insurance company might attract or repel future clients, their previous experiences are very relevant for the expected level of quality, the insurance companies should offer a higher level of quality than the minimum expected by the client, which I believe is very difficult to achieve by insurers in times of financial crisis.

The field of insurance is characterized by dynamism, due to the diversity of insurance form, and resourcefulness of insurers to offer protection by launching new insurance products, more attractive in the present times of crisis, which involves a permanent study of this field.

Life insurance sector was more affected by the economic crisis than non-life insurance, the population being confronted with reduced living standard, higher unemployment rates, and last but not least with lower confidence in insurance products.

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THE BUDGETARY PROCESS – REASON FOR DISSATISFACTION

MARIANA RADU *

ABSTRACT: *The behavior of individuals within the organization does not always correspond with what is expected and what is defined by formal rules. The budget may be perceived as a source of oppression and can sometimes lead to the development of attitudes of resistance from employees. The success of the budget process and budget execution process is conditioned by how the leadership of the company, through its managerial policy, manages to contribute to the motivation of individuals. The budget must have the ability to mobilize members of the organization, must be built to be exciting. The purpose of this paper is to identify the causes of behavior problems from individuals in the budget process of the enterprise, and to propose measures to eliminate these causes.*

KEY WORDS: *budget; behavior; communication; management control; participation/contribution; budgetary process.*

JEL CLASSIFICATION: *M410, M540*

1. INTRODUCTION

The budget is an essential component of the control system. It can play different roles: coordination and communication tool, forecasting management tool and instrument of delegation and motivation.

Assuming that each budget should reflect the commitment of each responsible before the management of the company, it can be considered as a contract between executives of the management centers and the superior management through which officers are required to achieve budgeted results in exchange for power over the resources available to them. Budgets have been quickly associated with leadership by objectives and sanctions / reward system, which can be a source of motivation but also dissatisfaction.

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As Anthony pointed out (Anthony, et al., 1992) the budget, which is a financial plan covering, usually a period of one year is an important tool for short-term planning and a control tool throughout the organization. It is also a short-term action plan whose purpose is to organize an effective manner and to coordinate all human and material resources of the enterprise.

The company management must be concerned about the reactions of subordinates to the budget process. People often respond to unpredictable budgetary practices. Some people consciously comply with management provisions and controls, they prefer to be ruled by others and would be unhappy if they would seek the establishment of participatory and permissive practices. Others show understanding for management control practices and subordinate their personal interests to the requirements of the organization they work for, while others develop attitudes of hostility when they are imposed certain rules and are requested a particular behavior. Some try to protect themselves through voluntary underestimation of the objectives, while maintaining a margin of freedom and peace. In turn, management can refuse such a budget, considering it to be too timid in relation to overall objectives. Others, conversely, overestimate their forecasts to meet the expectations of the general direction, in such cases, the results will certainly not be achieved.

These few behaviors and handlings stress the problem of operational managers and business actors who prefer a short-term vision of results in the detriment of the long term one. Beyond these behaviors it is important to note their reasons for dissatisfaction expressed during the budget preparation and budgetary control performance.

2. CAUSES OF BEHAVIOR PROBLEMS

The first research on behavioral aspects of human and budgetary management has sought to demonstrate that the manner in which budgets are used can lead to tension and dysfunction.

A study conducted in 2000 by Jean-Luc Zécari, professor of management control at Groupe Ecole Supérieure de Commerce Marseille-Provence (Zécari, 2000, pp.1018-1031), on a sample of 42 companies took out to reveal the existence of the budgeting process has five major reasons for dissatisfaction related to: budgeting time, the tables required, procedure, program and processing. These five reasons are the result of responses expressed by the staff of enterprises.

The first complaint relates to the budget preparation period. The necessary time to build a budget is 1-2 months for 40% of enterprises and 3-4 months for 31% of them. This period is considered too long. Analysis of the budgetary targets with department managers is too long. Budget negotiations between the various departments drag on, decisions are delayed. The budget is sent from the general manager to the financial manager, who sends it with changes to departments involved, which in turn modify it. It has been noted that the more the turnover is increased, the longer the period for budget construction is, fact explained by all parameters that a company with a high turnover is required to consider when budgeting.

A second complaint related to the budget process refers to the large number of tables required by senior management, to their level of detail, to the existence of too many differences from one service to another within the structure of tables, considering that general management requires too much information without taking into account the actual usefulness of these tables later, these being sometimes disconnected from the realities on the ground.

The third reason for dissatisfaction is linked to the budgetary procedure. Typically performed by the management control service, it is often difficult, hard to use or modify. In many companies it does not exist. It has been found that companies which have a written budget procedure are those with high turnover. It has been noted the ambivalent nature of the budgetary procedure: some actors regret its existence because it is often binding, others complain of too much coordination. A balance seems elusive in this area.

The fourth complaint is related to the program. For most people respecting a program proves to be a constraint. Persons involved in the development of budgets spend too much time and waste too much energy to produce them. They believe that it is sometimes difficult to devote time to preparing the budget because, for a few months, this task is added in addition to their daily work.

Another reason for dissatisfaction is the difficulty of obtaining essential information and its processing mode. Often the transfer of information from one service to another is difficult. The development of budget remains dependent on the information system and its quality. Many companies do not yet have an integrated budget management system and still use spreadsheets to achieve budgets (Excel, Lotus).

In addition to the five causes that produce dissatisfaction when preparing budgets presented in the study of Jean-Luc Zécri, one can add other reasons that may cause, during the budget process, behavior problems among actors.

Marc Bollecker noted that cultural differences and power strategies of management controllers and of operational staff are likely to intensify tensions between them and affect the acceptance of the first by the latter (Bollecker, 2003).

Integration problems sometimes seem difficult to overcome due to cultural differences between these groups of actors. Officials (including management controllers) are generally better prepared, have a more theoretical orientation, using a language more technical than operational staff. They are often characterized by rigidity, introversion, through a quantitative thinking and above all through a lack of interest in interpersonal relations. Officials, surrounded by papers and documents, spend more time alone than the operational staff. Planning-control experts are more directed towards thinking and the operational staff to action. These cultural differences between the two categories of actors can lead to some mutual distrust and a lack of communication (Gervais, 2000) resulting in a misunderstanding and ignorance of the other's work.

Tensions between individuals increase because of power strategies, too. Like any individual seeking power, management controllers develop individual strategies that may affect their acceptance by operational managers. Controllers standardize work of the latter and this may influence their behavior. Indeed, the planning-control system

is characterized by rules that control and coordinate decision-making behavior permanently. This is intended to determine the operational managers to think in accordance with business objectives and not in accordance with their personal goals (Bollecker, 2003).

Standardization is not likely to create quality relationships between management controllers and those whose work they prescribe. Operational managers may feel under surveillance, dominated by management controllers. Given this standard, the staff of operational services tries to minimize the influence of controllers on their work by adopting defensive strategies (withdrawal, avoidance, or ritualism or rebellion).

The apparent incompatibility between the objectives of management controllers - the development of work standardization - and the operational staff - to overcome these constraints - is not conducive to the acceptance of the first by the latter or to the encouragement of further co-operation.

Considering personal goals more important than business objectives generates behavioral problems. Thus, the heads of departments may become excessively preoccupied with their promotion at the expense of achieving planned indicators, budget objectives of the enterprise coming into conflict with the objectives of employees.

The lack in budgeting process of some people who should be involved and consulted may also lead to dysfunctional behavior from employees. It is possible that they can not bring to the attention of managers information that could help deliver savings to the firm. In general, employees perceive the budgeting process more positively when given the opportunity to participate in it.

Considering that the achievement of budgetary provisions is a success and their unfulfilment is a failure is another issue that causes behavior problems. This could affect staff motivation and morale. Some employees are obsessed with the idea that the budget must be respected at any cost and forget that budgetary indicators are only estimates. Often budgets encourage managers to do stupid things especially when their payment is linked to complying with the budget. Monitoring results can lead to intentional negative behaviors such as distortion of data by individuals who, to simulate the required objectives, falsify information, especially when there is strong pressure to sanction or reward.

Individual behavior is influenced by the size indicators in the budget. In order to trigger performance, the effort required must be completed within a given time. In this regard, various studies have revealed that a budget set at a level of too high performance has no effect on staff motivation. Besides it discourages them and they could give up achieving it. Even if the targets are challenging but can be achieved at the cost of great effort, they are discouraging for the staff, whose effort will not be rewarded as deserved. Deviation from the budget may result in wage cuts if the employees' revenue is related to the achievement of budget.

On the other hand, a corresponding target level of performance is often too low to achieve, but rarely exceeded, staff adjusting effort according to the result that management requires. Even if it is recommended to establish objectives which can be met it is not indicated the planning of smaller objects than those that can realistically

be achieved. A relaxing budget is, for example, a budget that includes a greater number of workers than strictly necessary, aiming to cover periods in which some employees are missing motivated or unmotivated. If at the end of the budget period the amount budgeted is not fully spent, there is a tendency to spend it on anything, to avoid reducing the budget for the next period at the amount actually spent so far.

The manner in which resources are allocated may also give rise to conflicts because of different objectives compartments. Budgets can encourage departments to transfer work, so the costs to other departments in their quest to keep their costs within budgeted. Budgets should be designed to combat this phenomenon (Simionescu, et al., 2006).

In a budget process considered conflicting individuals can adopt negative behaviors like pathological responses or defensive strategies. Home pathological reaction that a social worker can have before the social game that arises during a budget management process is inhibition, i.e. a total psychological behavior blocking. It is a reaction that takes the relational problems more or less serious (Gervais, 1994). Some of these relational problems are frequent, but without major consequences for individual and group, others, on the contrary, are less common but more painful and affect the individual's personality. In front of the management controller, the individual does not know how to react. Much of the resentment can be attributed to employee frustration due to a self-critical and dominant management.

Any related issue does not necessarily lead to inhibition. The individual who has a negative opinion about the functioning budget system may implement a different strategy than the pathological response: the defense strategy. Whoever adopts this type of strategy can either choose to completely lose his interest in his life at work, or not to comply with legitimate rules that he will be able to break through fraud (falsifying results, hidden reserves to cover possible errors) and bad faith (removing the responsibility of trying to blame the failure on third person, uncontrollable factors; emphasizing qualitative factors ignored in the budget, etc.).

3. MEASURES TO IMPROVE BEHAVIORAL PROBLEMS IN THE BUDGET SYSTEM

To stop these dissatisfactions is needed a better management of the budget process performance, taking into account "all the links in the chain of events and all stages of this chain" (Lebas, 1995, pp.35-48).

They also require:

- integrating the better tools so that budgetary practices could be improved;
- reducing the time frame for the construction budget;
- taking into account human behavior.

Sociological dimension of management control has been dealt with more or less explicitly over several decades by many authors. Researches conducted over time have shown that human factors involved in the budgetary process can not be ignored. The results obtained concerning the behavioral aspects of budgeting have often been contradictory. But one thing is widely agreed upon, that a successful budget process depends on the involvement and cooperation of participants.

Participation of staff is one of the tools that can be used to streamline the budget process. Participation is the practice by which members of organizations participate in the management process and are involved in both setting objectives and translating them, effectively, into practice (Nicolescu, et al., 2000). Participation in budget reflects the possibility that managers have to take part in their budgets and to have an influence on the budgeted targets.

The degree of participation provided by companies to operational managers in the budget process is different. There have been identified three levels of participation:

- an extremely low level in which the overall direction sets budgets;
- a level of limited participation in which the general direction calls for ideas and suggestions, and requests alternatives from those in charge of operations;
- a third level where the general direction shares responsibility of budgets with the operational managers.

Participation involves two actions:

- involvement (supported by individual motivation);
- integration (assimilation and adaptation of the individual in the organization).

Many studies have suggested that when managers can participate in setting budgetary targets, they are more likely to accept them and are willing to make further efforts to achieve them. It has been highlighted the positive and significant relationship between participation in budgeting and developed attitudes towards work and towards the enterprise. It has also been noted a higher degree of satisfaction among managers who were consulted in preparing their budgets than those who were not consulted.

A successful budget control process is the result of cooperation between management controllers and operational staff. Cooperation is a form of social interaction and a group process, which requires joint actions of several individuals or groups to achieve a common goal, to obtain gratification for the benefit of all participants (Nedelcu, 2000).

Marc Bollecker enumerates some measures to promote development of cooperative relations between the individuals involved in the budgetary process (Bollecker, 2003):

1. The system of incentives and participation in defining goals, as a condition of acceptance of the control system by the operational managers. It has been shown that participation of operational managers in defining their objectives and, in general, in decision making, leads to a reduction of tensions between individuals, to better work relations, to confidence in the mechanism of control. To encourage management controllers to work with operational personnel, the general direction can determine that they be co-responsible for deviations from the budget.

2. Trust between individuals. A minimum of trust is a major condition for the success of the interplay between management controllers and operational managers. Since it facilitates exposure and confrontation of views, exchange of ideas, confidence is likely to foster cooperation among individuals.

3. Performance of management control systems. The performance of an enterprise or of its units is a message likely to create a climate of trust between individuals. In case of the information system, a decision maker will use the system

more, as he will get, a good performance. A poor performance will cause decision makers to abandon or modify the information sources.

Budgetary control system is more credible if managers observe a relationship between the operational control system and a better performance of the center they lead. This increased credibility is likely to improve relations between management controllers and system users.

4. Improved image of management controllers. A management controller's behavior is the key not only to the quality of relationships he has with the operational staff, but also to the success of the implementation of the control system. Controller intervention is not generally well accepted, such a picture undermines the cooperation between the operational and management controllers. Budgetary control has long been equated with the negative image of surveillance and repression. To establish a climate of trust is important to take into account the transmitted image, management controllers must show understanding, diplomacy, they must be present but not oppressive.

5. Support by senior management. Support given by senior management is responsible for ensuring adherence to operational control and to increase the quality of relations between officials and operational staff.

4. CONCLUSIONS

Type of reaction of staff vis-à-vis the budget process is different. The reaction desired by the general direction is that of understanding and obedience to provisions and controls. This does not often happen; the staff perceives the budget mostly as a bureaucratic burden. Budgetary procedure (such as budget preparation and process of its implementation) is almost always faced with a greater or lesser resistance from staff and subcontractors. Ignoring the complaints about the budget process can only lead to a systematic rejection or denial of this management tool.

The procedure is effective when it provides a coupling with the policy staff to determine the motivation of staff and adherence to the objectives pursued, otherwise the company may face behavior problems by employees. By participating, employees gain the impression that they have control over the budgetary provisions and greater involvement in the implementation of budgetary tasks. Employees' involvement encourages cooperation within departments and between departments and this leads to increased recognition of the importance of each department within the company's overall objectives.

For the success of the budget an important role is held by the way in which management controllers address the issue of communication with employees, employee participation in the budgeting process and how behavioral factors are analyzed. By better understanding the reasons of dissatisfaction will be possible to improve the budget process. Personal and constant support from the general direction allows avoiding the failure of implementation of the budget system. Also, the support from the overall direction is a guarantee of success in implementing new tools of budgetary control.

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FINANCIAL RISK MANAGEMENT, BASED ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

ILIE RĂSCOLEAN, CLAUDIA ISAC, ROBERT SZABO *

ABSTRACT: *Existing market economy in Romania currently is characterized by a series of reforms carried out in order to create a competitive economy within the EU but also globally. These reforms and dynamic environment where there is a range of factors that can create specific conditions of different types of event risk. Most important is the risk of insolvency. Analysis of these risks can be done through various methods such as: analysis of scores method, using the Connan – Holder model.*

KEY WORDS: *risk; cost analysis; break-even; solvency; insolvency; liquidity rates*

JEL CLASSIFICATION: *G32*

1. INTRODUCTION

The economic risk is the possibility of occurrence of adverse events that may generate losses. A decident can accept the probability of loss in terms of expected income to obtain additional gains wich will compensate for the risk taken. The literature distinguishes between risk and uncertainty. Risk is defined as a situation where not known with certainty the characteristics of an event, but is known alternatives such characteristics and possibilities of their occurrence. Approximate uncertainty implies knowledge of the characteristics pertaining to a particular event, but not the probability of them. Between bankruptcy risk and direct link exists in the sense that, as a draft action entails a higher risk of bankruptcy more likely, and reverse. Diagnosis bankruptcy risk is assessing the ability of the company to honor commitments to third parties.

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Our country's legislation defines insolvency as "the state of the debtor's assets are characterized by insufficient cash funds available to clear debt, liquid and payable: Insolvency is presumed to be manifest when the debtor, after 30 days due, is not paid the debt to one or more creditors, insolvency is imminent also when it is shown that the debtor can not pay the outstanding debt incurred maturity with available cash funds on the due date."

Thus, the creditor entitled to participate in the insolvency is that creditors who filed and who has been admitted wholly or in part, an application to register its claim against the debtor claims tables. Creditor is entitled:

- to participate and vote in the creditors, including a reorganization plan accepted by the syndic judge;
- to be appointed as a member of the committee of creditors;
- to participate in distributions of funds from the debtor's reorganization or liquidation of the debtor;
- to be informed or notified of the procedure and to participate in any other proceedings subject to this law.

The quality of the creditor entitled to participate in insolvency proceedings without personal statements of claim filed, the debtor's employees.

Method based on statistical techniques by which to analyze the financial characteristics discriminatory, or by using the method score rates. This method is one of the tests along with others such as breakeven analysis, analysis of direct expenses or other tests performed with different rates, such as analysis of liquidity risk through rates. Discriminated analysis has been used since the 1930s the first applications in biology and natural sciences. Later, after 1945, has been successfully applied in economic fields such as consumer credit assessment, classification of investments, and since 1960, and financial analysis.

The study is Walter (1959), who proposed a model to estimate the rate per share, the study Smith (1965) which presented an interesting model of calcsificare investments in standard categories using multiple discriminant analysis. Dignostic score is a method that is external risk measurement and interpretation that is subject to the investor, creditor company, but now the system in future work. He relies on the development of value judgments that combines linear group of financial rates vary significantly. All studies able to predict the bankruptcy of the firms are based on the original contribution of Beaver and Altman.

Beaver (1966) made the greatest contribution to the bankruptcy of the enterprise, Univariate analysis. Univariate analysis technique involves using a single financial rates a bankruptcy prediction model. Beaver looked at several separate financial rates and rate selected for each critical point so as to maximize prediction accuracy. Altman (1968) conducted a multivariate analysis of falimetului developing a analiza multiple discrimination, based on combined financial information rates in a single position of the author and his model of analysis popularized bankruptcy model score or Z-score.

Score determination requires the following stages of work: choosing a sample of companies with two groups, a group that includes companies in difficulty go bankrupt or a group of companies without financial problems, comparisons over a

period of time, two groups of companies, based on a set of indicators considered to be significant, progressive selection of indicators made the best discrimination, determining a ranking called indicator score (Z) form:

$$Z = a_1 \times R_1 + a_2 \times R_2 + a_3 \times R_3 + \dots + a_n \times R_n$$

where:

a_i weighting of each installment;

R_i is selected rates to the highest discriminating power.

The score is a linear function of several variables (rates) are characterized by average coefficients determined from observations made in a given period on a sample of firms, according to the values we can estimate the probability that the risk of bankruptcy for each firm.

Most classifications retain four categories of financial rates:

- rates of operational activity and principles assessing income streams generated by the business, liquidity levels, which measures the adequacy of available sources to short-term obligations due on the same period;
- rates on term debt and balance long, which characterizes the company capital structure in order to emphasize the ability to meet long term obligations and investment needs;
- rates of return, which measures the capacity of the income necessary to achieve both development and capital remuneration.

The selected rates are independent in relation to each score to eliminate duplication function of the same influence of the financial and economic phenomenon. Among the most popular models, based on scores method we can, remember: Altman, Springate, Koh, Conan-Holder, Center of the Central Bank of France balance sheets. The most representative models developed in Romania, are model Băiștenu and model Anghel.

E.I. Altman has developed one of the first feature score in 1968, using information obtained from studying a sample of U.S. companies. In this sample included both firms went bankrupt, and companies with good business. In his study included a sample of 66 companies including many 33 in each group and the period considered for analysis was from 1946 to 1965.

The author found a total of 22 potential variables grouped into five categories, the author selected five installments which he has considered to have the highest significance, with reference to: liquidity, profitability, leverage, solvency and activity. Springate model was developed in 1978 by Canadian Professor Gordon Springate, following the author's procedure Altman from 19 financial rates, the most commonly used in the literature.

Model Conan - Holder was developed by two authors which applied to firms with a number of 10-50 employees and has been developed based on research conducted on a sample of 95 small and medium-sized industrial profile, which we have studied during 1970 - 1975, 50% went bankrupt, resulting in a score function with five variables having the following form:

$$Z = 0.22 \times 0.24 \times R1 + R2 + R3 \times 0.16 - 0.87 \times R4 - 0.10 \times R5$$

where:

R1 = gross operating surplus / total debt

R2 = Equity / Total liabilities

R3 = Current Assets - Inventory / total assets

R4 = Financial expenses / turnover

R5 = personnel costs / value added.

Based on this model were set following margins score function:

- if $Z > 0.16$, the company has a very good situation, and bankruptcy risk is $< 10\%$;
- if $0.1 < Z < 0.16$, the company has a good situation and the risk of failure is between 10% and 30% ;
- if $0.04 < Z < 0.1$, the company has a state of alert, and bankruptcy risk is between 30% and 65% ;
- if $-0.05 < Z < 0.04$, the company has a situation of danger and risk of failure is between 65% and 90% ;
- if $Z < -0.05$, the company has a state of failure and bankruptcy risk is $> 90\%$.

Model B - Băileşteanu. From traditional studies (Altman, Argenti, Taffler, Conan and Holder) states that the author believes that the causes of bankruptcy are: the impossibility of paying current obligations, lack of financial resources for repayment of loans, collection of great products delivered late; record loss. Anghel model was developed based on the observation of a number of 20 economic-financial indicators, the sample was composed of 276 companies in 12 sectors of national econo.

2. PROBLEM FORMULATION

The question which arises is, how a company is able to face risk factors that appear on the market the way the company is able to cope with risks, but not least, and how it manages to adapt to market conditions .

The economic and financial analysis system, fitness business analysis to be solvent and defeat the risk of bankruptcy is central. Any failure on payment obligations generate damage and require urgent correction. However, financial stability is an absolute imperative, that can not be missed under any motivation. Undertaking capacity assessment to adjust obligations is assessed within shaded according to specific economic and financial conditions in which he operates. Even if sustainability is not compromised company image may degrade due to periodic disturbances. The permanence of difficulties to pay the obligation is an expression of economic and financial structural fragility.

3. SOLUTIONS / CASE STUDY

To answer the question that was made before we made a case study through which we wanted to highlight the situation of an enterprise / business. Company on

which the case study was conducted, was established in 2000 as state owned enterprise under the name S.C. ABC S.A. and is active in the production and trading of carbon, the execution of repairs. To achieve financial analysis s.c. ABC s.a., to make available summary documents - balance sheet in 2 consecutive years , 2008 and 2009, profit and loss for three consecutive years and for balance - , 2008, 2009.

Risk score calculation method is based on the linear function Z and to calculate the five installments ratios:

R1 = gross surplus of exploitation/ total liabilities = 22 871045 / 56445748 = 0, 40;

R2 - ratio of permanent capital and total assets = 43769387 / 129161219 = 0,33;

R3 - ratio of current assets less inventories and total assets = 25271225 / 129161219 = 0,19;

R4 - the ratio of financial costs and turnover = 2822735 / 105019718 = 0,02;

R5 - ratio of personnel costs and value added = 13610436 / 36776238 = 0,37.

Follows function:

$$Z = 0,24 * 0,40 + 0,22 * 0,33 + 0,16 * 0,19 - 0,87 * 0,02 - 0,10 * 0,37 = 0.14$$

This value signifies a risk of 0.14 obtained between 10 and 30%, as obtained from the value in calculations so this time Z is between 0.1 and 0.16. Same method was established risk score for 2009. Thus from this calculation was obtained for Z a value of 0.12 which means that the risk remains in the range of 10-30%, but we can speculate on the basis that the value obtained is less than the previous year which means that the company is on a good path to recovery.

Table nr.1. The balance sheet

<i>ASSETS</i>	<i>2008</i>	<i>2009</i>
SM-Stable means	56.583.694	77.942.005
Intangible assets on a gross	10.743	10.743
Tangible assets on a gross	56.203.486	77.590.847
Financial assets to gross	285.153	285.153
(+)Accrued expenses	84.312	55.262
OCA=Operating Current assets	71.970.285	55.118.704,58
Stocks gross	46.802.324	44.667.913
Mining claims	25.167.961	10.450.791,58
Customer	25.722.283	10.451.887
(-)Customer creditors	293.828	-176.394
Provisions reviews	-364.329	-1.202.140,42
Advances to employees	98.056	72.268
VAT recoverable	-	1.239.859
VAT not due	5.404	64.697
State Budget	375	615
CAOE = Current assets outside exploitation	103.264	488
Various debtors	103.264	488
TA = Cash Assets	503.976	93.807
Cash and bank accounts	503.976	93.807
TOTAL ASSETS	129.161.219	133.155.004

LIABILITIES	2008	2009
SR = Sustainable Reserves	72.255.476	88.157.186
Equity / Own funds	43.769.387	71.011.949
(+) Income in advance	756.786	588.838
(+) Depreciation and provisions	27.729.303	16.556.399
DS = debt service	36.549.287	22.025.089
Suppliers	34.237.310	19.907.064
(-) Care Providers	-9.999	-904
(+) debts to person. and social assurance	723.802	1.565.804
(+) Other debts and pub instit.	1.598.174	553.125
LOE = Liabilities outside exploitation	20.356.456	22972730
Settlements associations	1.878.000	-
(+) Diverse creditors	17.911.061	22.432.151
(+) Payable dividends	31.981	31.981
(+) Income Taxes	535.414	508.598
TOTAL LIABILITIES	129.161.219	133.155.004,58

One of the most important concepts that characterizes an enterprise is solvency. Solvency is the company's ability to honor maturing obligations resulting either from previous commitments entered into, either current operations or compulsory levies.

Solvency ratios used in financial analysis of risk are:

- *General liquidity ratio:*

$$\text{GLR} = \text{Current assets} / \text{liabilities from exploitation}$$

This ratio compares current assets associated with all potential liquidity, with total outstanding debt in one year. For normal work, general liquidity ratio must be over unit;

- *Partial liquidity rate:*

$$\text{PLR} = (\text{Current Assets} - \text{Stocks}) / \text{debt service.}$$

This rate expresses the company's ability to meet short-term debt on debt and cash. For a good work adequacy of this rate should be 0.8;

- *The rate of immediate liquidity*

$$\text{ILR} = \text{cash money} / \text{debt service}$$

This rate expresses the most liquid interface elements of the asset with short-term obligations. Liquidity ratios are of particular interest to those extending short term credit to the company (Monea, 2009).

Table 2. The profit and loss account

RON			
<i>No</i>	<i>Indicators</i>	<i>31.12.2008</i>	<i>31.12.2009</i>
1	Incomes:	101.891.476	141.136.188
	- Incomes from exploitation	100.346.031	137.632.505
	Production sold	97.739.453	142.903.600
	Merchandise sales	7.280.262	70.276
	Stocks variation	-6.034.191	-7.911.251
	Production imobilized	1.107.642	1.374.325
	Other incomes from exploitation	252.865	1.195.555
	- Financial incomes	1.545.445	3.503.683
2.	Expenses	100.922.713	139.365.043
	- Exploitation expenses	98.099.978	135.161.313
	Expenses with prime material and materials	49.603.746	82.026.437
	Expenses with energy and water	13.957.822	27.760.121
	Expenses with goods	7.256.137	744.047
	Employee expenses	13.610.436	13.511.907
	Other expense with exploitation	13.671.837	11.118.801
	- Financial expenses	2.822.735	4.203.730

Table 3. Table with Liquidity rates calculated

<i>Indicators</i>	<i>Values for 2008</i>	<i>Values for 2009</i>
GLR	1,4497	1,4171
PLR	0,5740	0,3719
ILR	0,0094	0,0022

4. CONCLUSIONS

General liquidity rate (GLR) was not favorable liquidity in a range between 2 and 2.5, indicating that the company encountered difficulties in debt repayment due in the short term through short-term assets. It may be noted, however, a slight increase of RLG in 2009 than in 2008 due to lower short-term debt of the company.

Low liquidity rate (LLR) was not at the recommended level of 0.8 which indicates that the company has experienced difficulties in paying payments due in the short term, but on account of assets readily convertible into cash. Small amounts of debt and cash assets are the main causes. Rates of immediate liquidity (ILR) is well below the optimal value of 0.2 representing a high risk undertaking with regard to cover immediate liabilities.

The final conclusion that can be drawn is that the company has a low risk, or in more technical terms, an acceptable degree of risk that is between 10% and 30%, the risk of problems being generated by the company to pay immediate debts, short-term debt, which causes a short-term credit to contract, these data were supported by values obtained by calculating the rate of liquidity and the conclusion is supported by Z score function values for health status is sustained company and threshold values obtained in

the calculation of liquidity or borrowing rate. The company is solvent - which shows company's ability to pay its monetary obligations as it is placed in a low risk, operations risk acceptable, in fact most companies are in this category.

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BUILDING HIGH PERFORMANCE STRATEGY OF MILITARY EXPENDITURES: THE UTILITY FUNCTION IN THE MIDDLE OF DEFENCE BUDGETING

MARITANA SEDYSHEVA *

ABSTRACT: *The present paper proposes tasks and methods which can be used in process of discovering the most expedient variants of the perspective and effective strategy development process of the defence spending in the Republic of Estonia. The author offers a part of strategy model named “Financial Perspective” as one of the improvement tools for the system of planning military expenditures and effective utilization of budgetary funds. The Balanced Scorecard application by using the “utility function” will allow the Estonian Defence Forces to overcome important barriers to strategy implementation by interrelation of military planning and budgeting processes. The Balanced Scorecard might be used as a very strong practical application. It will improve the calculations of long-term perspective plans and the development of the military budgetary policy by taking into account the features of national defence expenses.*

KEY WORDS: *balanced scorecard; budgeting; defence forces; the utility function; performance measurement; IT technology; Estonia.*

JEL CLASSIFICATION: *C61*

1. INTRODUCTION

The efficiency of the financial assets allocated for military purposes should be determined by national security requirements and should be provided by a certain level of military expenditures.

Although budgeting is an important control system for most organizations (Simons, 1995), many managers are dissatisfied with their current systems and are actively considering changes (Comshare, 2001; Neely et al., 1997, Hansen, 2011).

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In our case on the top of the problem lies a military expenditure planning method, which is used inefficiently in the Estonian Defence Forces. The application of the state budget may have incorrect targets and this may also have negative impact on the military task performance. The conceptual analysis approach and practical experience of budgetary funds planning prove that the topic is important and vital for the Defence Forces.

The Balanced Scorecard should encourage business units to link their financial objectives serve as the focus for the objectives and measures in all other scorecard perspectives. Every measure selected should be part of a link of cause/and/effect relationships that culminate in improving financial performance. The scorecard should tell the story of strategy, starting with the long-run financial objectives, and then linking them to the sequence of actions that must be taken with financial processes, customers, internal process, and finally employees and systems to deliver the desired long/run economic performance (Kaplan and Norton, 1996).

The research is based on *The Balanced Scorecard* (Kaplan and Norton, 1996) model, which is recognised as a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

In spite of our increasing understanding of performance measurements within the public sector, little is known about the adoption patterns of performance metrics in the military sector, in particular. First of all this study is addressed to the Estonian Defence Forces and it will allow to expand an extant knowledge about the majority of settings that enforce measurement systems performance; it will also establish a deeper immersing into the framework design in the governmental organizations.

This paper examines the Financial Perspective as a new alternative method of budgeting that focuses on the conceptual analysis change concerning military long-term goals and tasks.

Empirical evidence supporting this study was gathered from results, which are based on real financial figures received from the mathematical modeling. The author is inclined to believe that the „*utility function*” or usefulness can be used in the process of selecting an optimal annual financial plan of military expenditure and focused on strategic goals and tasks. For our analysis we will use of one of the powerful tools to solve multicriteria choice problems is the Edgeworth-Pareto principle, which is successfully applied since 19th century.

By taking into account all obtained results, the author is convinced that *The Balanced Scorecard* model will help to improve the system of budgeting and will optimize the state spendings on the whole. Management control systems appear important in building the targets of a new strategy to various constituents. As a rule, one of the main and most challenging tasks of building a balanced system of management and controlling of military resources is to choose right indicators from the vast number of options that reflect the key factors performance for each of the strategic areas of the development.

All proposed methods will be established as one consolidated system of strategic budgeting (Or Strategy Map) by reflecting the special features of the strategic management of military resources.

The analysis of reference material has revealed that in most cases we find mainly general concepts of budgeting and, furthermore, the topic of military budgeting is covered superficially.

The multicriteria problem of the final selection serves as a comparative assessment of options based on quantitative and qualitative indicators used in the calculation of production and economic activity. The utility function includes several factors (performances measures):

- Sum of Budget (total planning sum)
- Quality of planning processes (possibility of strategic goals and tasks execution)
- Cost and quality ratio
- Time spent on strategic goals and tasks execution

The proposed budgeting method through the use of utility assessment will help guide the concept of efficient budget spending on defense as well as take into account the usefulness of the strategic planning from a position of economic and financial evaluation.

2. LITERATURE REVIEW

Our study examines the deployment of the balanced scorecard, a performance measurement system that enables managerial decision making by aligning performance indicators with the goals and strategies of the organizations (Lipe and Salterio, 2000, pp. 284). The balanced scorecard has attracted considerable interest in the realms of practice and research for example, Silk (1998) reports that 60 percent of Fortune 1000 firms have experimented with the balanced scorecard. Further, Kald and Nilsson (2000) show that 27 percent of major Scandinavian companies have implemented this performance measurement framework. In a similar vein, Atkinson and Epstein (2000b, p. 2) echo the conclusions of a study by Walker Information which reports that 59 percent of Canadian executives claim familiarity with the terms “balanced scorecard” or “balanced measurement system” (Walker Information, 1998, pp. 4). Lastly, research interest in the balanced scorecard is reflected in the contention by Atkinson et al. (1997a, pp. 94) that investigation of such performance measurement frameworks constitutes one of the most significant developments in management control and, thus, deserves intense research attention (Carmona and Grönland, 2003).

Allowing direct or indirect measurement of the utility allows us to assign *cardinal utility* where one can express numerical values of fulfilment instead of relative better/less-than comparisons. This assignment is not without controversy – since opponents have denied the possibility of measurement of any benefit. Vilfredo Pareto, in a letter to Benedetto Croce, wrote "*I was worried about the pleasure and that pain which had to be measured, because in reality, nobody is capable of measuring pleasure. Who can say what pleasure is double another pleasure?*" However, no one

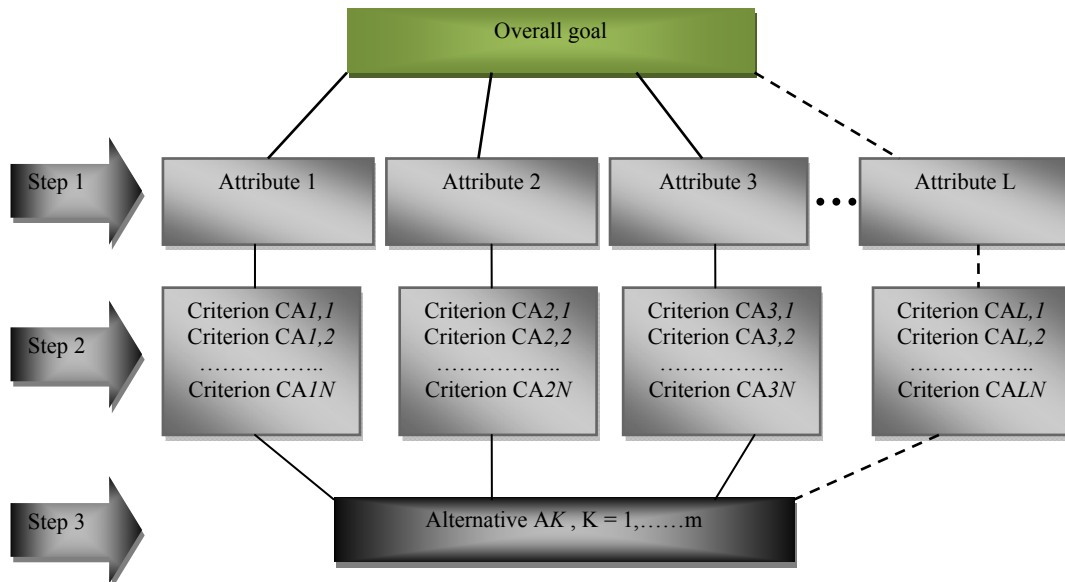
doubted the ability of people to compare the satisfaction, in other words - the ability of people to rank these sets in a single „*scale of preference*” (Schoemaker, 1982).

Various choice problems are studied within a framework of decision making analysis where using utility assessment allows one to realize choice efficiency and avoid inappropriate or self-referencing solutions (Noghin, 2005).

The multicriteria choice problem attempts to find a set of selected alternatives and elements such as an Edgeworth-Pareto principle and can be formulated as a statement that any set of selected alternatives is a subset of the Pareto set. In other words every chosen alternative must be Pareto-optimal. To prove this principle, it is necessary to restrict the class of multicriteria choice problems under consideration by imposing special requirements on the variables mentioned above (Noghin, 2005).

3. THEORETICAL BACKGROUND AND METHODS OF UTILITY FUNCTION

Choice is impossible without a concept of person who makes this choice in order to achieve his/her personal goals. This person (or team) who makes a choice and is responsible for all its consequences is said to be a decision maker (*further*, DM). The DM strives to reach a definite goal that can be expressed numerically in terms of maximization (or minimization) of a real-valued criterion function defined on space X . (Noghin, 2005). In simplistic terms, an objective goal is set with certain criteria and input variables that can be measured.



Source: by Haarstrick and Lazarevska, 2009

Figure 1. General scheme of the Analytic Hierarchy Process

Often multiple functions must be considered and weighted accordingly. This can occur, e.g., when the phenomenon, object, or a process is considered from different points of view with competing interests; and in order to formalize each criteria it is necessary to introduce unique functions. Studying different stages of a dynamic process, we form a special criterion for each stage; to estimate the whole multistage process we also need to take into account several criteria simultaneously (Noghin, 2005).

The analytic hierarchy process provides a comprehensive and rational framework for structuring a problem, for representing and quantifying its elements, for relating those elements to overall goals, and for evaluating alternative solutions (see Figure 1). Once the hierarchy is built, the DM systematically evaluate its various elements, comparing them to one another in pairs. In making the comparisons, the DM can use concrete data about elements relative meaning and importance. The analytic hierarchy process concert these evaluations to numerical values that can be processed and compared over entire problem (Haarstrick and Lazarevska, 2009).

In fact, the mathematical formulation of the problem could be presented in next way. Further details are elaborated in several sources: Noghin (2005), Belton and Stewart (2002), Intriligator (1975), Gorbunov and Kozin (2007).

Thus, we assume that there are M real-valued functions:

$f_1, f_2, \dots, f_m, M \geq 2$ defined on the set of alternatives X . These functions are said to be optimality criteria or goal functions (Noghin, 2005) which are real-valued functions that compose a *vector criterion*:

$$f = (f_1, f_2, \dots, f_m) \quad (1)$$

For every alternative $x \in X$, the m -dimensional vector (*outcome*)

$y = f(x) = (f_1(x), f_2(x), \dots, f_m(x)) \in \mathfrak{R}^m$ is an image of x , where \mathfrak{R}^m is the m -dimensional real vector space. This space is called a *criterion space* or a *space of outcomes* (Noghin, 2005). An image of the vector function f (i.e. a range) is denoted by $Y = \{y \in \mathfrak{R}^m \mid y = f(x) \text{ for some } x \in X\}$

This set is called a *set of vectors* (or *outcomes*)

Side by side with a set of selected alternatives, a *set of selected vectors* (*selected outcomes*) can be introduced as follows

$$\text{Sel}Y = f(\text{Sel}X) = \{y \in Y \mid y = f(x) \text{ for some } x \in \text{Sel}X\}$$

This set is a subset of the criterion space \mathfrak{R}^m . Assuming that there exists a one to- one correspondence between the sets $\text{Sel}X$ and $\text{Sel}Y$, we can always find one of them if we know the other.

Consider $f = (f_1, f_2, \dots, f_m)$ defined on X . Let us introduce the following set $Y = Y \times Y \times \dots \times Y_m$, where

$$Y_i = f_i(X), i = 1, 2, \dots, m. \text{ Obviously, } Y \subset Y^* \subset R^m.$$

Recall that \succsim Y is a preference relation defined on Y .

Dealing with the *quantitative* information on the relative importance of

criteria, we mean that all criteria f_1, f_2, \dots, f_m have numerical values. Thus $y_i = f_i(x) \in$

R for every $x \in X$ and all

$i = 1, 2, \dots, m$. This is sufficient to consider a multicriteria choice problem within a *mathematical* framework. However, for any *applied* multicriteria problem the numerical value of criterion is a result of measuring on a scale. For instance, if the criterion expresses cost of a project, profit, or expenses then its values are measured in euros, millions of euros, dollars, euro or other currency units.

By the Edgeworth-Pareto principle, the Pareto set includes all selected vectors or, equivalently, only Pareto-optimal vectors should be selected. If it is known that one criterion is more important than another then the Pareto set may be reduced without the loss of selected vectors. In other words we may remove some Pareto-optimal vectors from further consideration, since they should not be selected a fortiori. The reduction of the Pareto set may essentially facilitate the decision process.

The advantage of using quantitative performance criteria is to provide a relative measure of sourcing effectiveness that directly measures the financial effectiveness of a solution. It can be used for estimating and "what if" scenario planning – a very useful criteria in national defense planning.

The first stage of the research is devoted to constructing economic and mathematical models that encapsulate the essence of utility. In general, the goal function (*function 2*) has the form (Gorbunov and Kozin, 2007):

$$F = f(P; K; N; T, \dots) = w(P) + w(K) + w(N) + w(T) \quad (2)$$

Where, $f(P; K; N; T; \dots)$ is the set of the identified feasible indicators:

- F = the total assessment of the utility of element of decision making
- w - the coefficient of total value
- P - Total amount of budget (total planning sum)
- K - Quality of planning processes (possibility of strategic goals and tasks execution)
- N – Cost (total amount of budget) and quality ratio
- T - Time spent on strategic goals and tasks execution

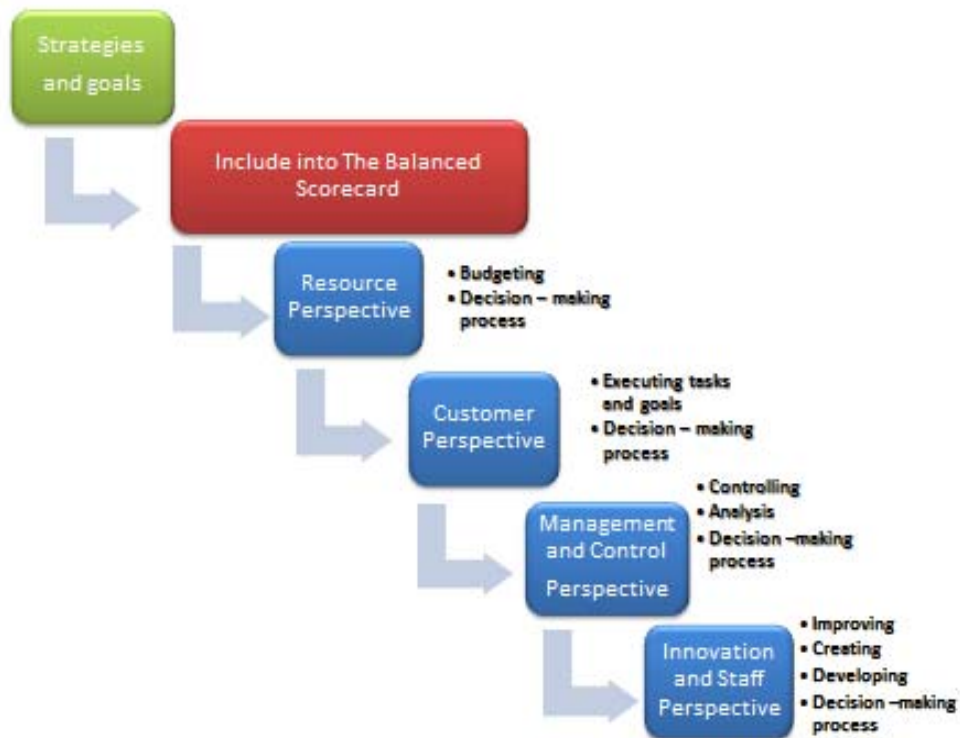
The second stage is presented as an information gathering process and applied analysis.

The third stage is dedicated to the criteria transformation mode into partial utility parameters such as decision making process (Intriligator, 2002).

4. THE BALANCED SCORECARD AS A MANAGEMENT SYSTEM OF MILITARY RESOURCES

It takes almost a year to plan the military budget of Estonia. This process covers the formation of various problems and carries out different analyses, and also builds up the uniform financial plan. Legislative and legal certificates and also various documents are used as a basis (the strategy of national safety, the plan for development, and the military instruction).

Further it is necessary to point that The Balanced Scorecard in the Estonian Defence Forces comprises four perspectives: Resources (Budgeting), Management and Control, Innovation and Staff, and Customer (Estonian Defence Forces) (Take in Figure 2).

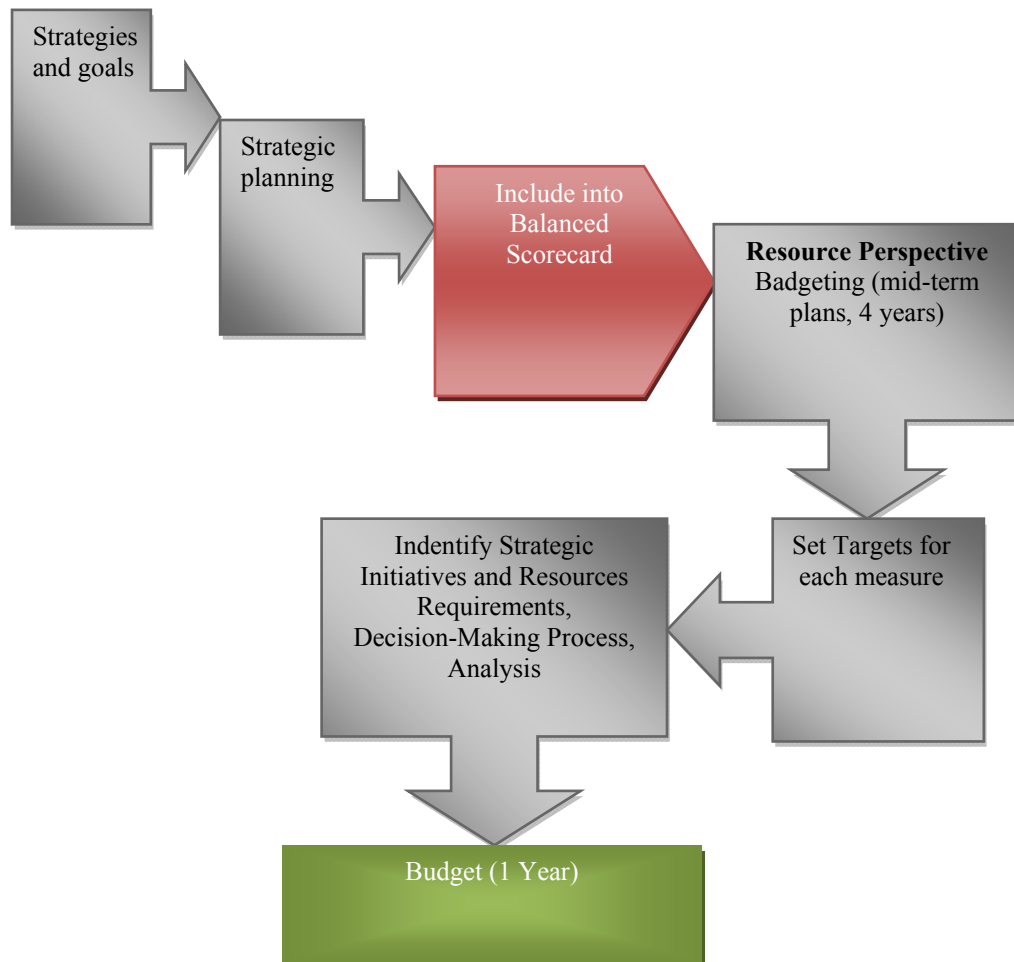


Source: by author

Figure 2. The Balanced Scorecard for the Estonian Defence Forces

The Financial Perspective will be used as an example and in our case - *Resources (Budgeting)*, which will allow us to consider statements and strategic tasks application. In other words, *Resource (Budgeting) Perspective*, which is posed on the top of the system and lying inside the budget planning process will be realised by using a mathematical model (utility function) in order to make a process itself more transparent and effective. This approach is particularly useful for forecasting prognoses.

For this reason, the analysis and proposed methods might develop a system of strategic controlling (Or Strategy Map) by taking into account the specifics of the strategic management of military resources (Take in Figure 3). Figure 3 shows a step-down procedure, which represents the transition from high-level strategy to budgeting for local operations.



Source: by author

Figure 3. The Strategic Map of Step-Down Procedure

Management control systems appear important in building the targets of a new strategy to various constituents. As a rule, one of the main and most challenging tasks of building a balanced system of management and controlling of military resources is to choose right indicators from the vast number of options that reflect key factors performance for each of the strategic areas of the development.

5. THE „UTILITY FUNCTION“ AS OPTIMIZATION TOOL OF THE MILITARY BUDGETING

The selection process of budgetary strategic elements will be examined on the basis of a second function (*function nr 2*) and by using several indicators. In accordance with our task the research will include different components that contain a specific set of attributes and elements. The utility-based performance measures towards to the strategic budgeting will present the maximum value of every component and the total sum of the utility assessment.

In order to understand how to use the proposed model, the author defines some required information:

- The target period – 4 years;
- The budget planning process begins from an analysis and review of all needed aspects and strategic tasks – 1 year;
- Strategic Goals and Tasks formation – initial stage, which determines the direction of the whole process;
- The purpose-oriented strategic programs will include a few different financial plans (Budgets);
- Finally, it is necessary to choose an optimal financial plan in accordance with received estimations and results (see Table 1 and 2).

In accordance with non-disclosure agreements: assume that we have three budgets (*Budget 1*, *Budget 2*, *Budget 3*), where the sum of each budget (total amount of budget) is:

- Strategic financial plan (Budget 1) - XXX €
- Strategic financial plan (Budget 2) - XXX €
- Strategic financial plan (Budget 3) - XXX €

5.1 Cost Estimation (total planning sum)

Calculation of the partial utility parameters concerning military expenditures is a two-step process. The first stage involves the calculation of coefficients - the best value of budget's sum ΔP is defined by the *function nr 3* (Gorbunov and Kozin, 2007):

$$\Delta P = (P - P_{\min}) / (P_{\max} - P_{\min}), \text{ where} \quad (3)$$

ΔP – the coefficient of optimal cost

- P – the current value of total amount of budget
 P min – the minimal value of all proposed total planning sums
 P max – the maximum value of all proposed total planning sums

At the second stage, the values of ΔP should be compared with estimated coefficients of partial utility of other factors. In order to make this calculation the author offers to use the transformation function (3) for the factor “Cost” through the values of ΔP , which will compute the coefficient of partial utility Qp (*function nr 4*, Gorbunov and Kozin, 2007).

$$Qp = (1 - \Delta P) / (1 + \Delta P)^2, \text{ where} \quad (4)$$

- Qp – the coefficient of partial utility of optimal cost
 ΔP – the coefficient of optimal cost

The maximum value of the partial utility of optimal total budgeting sum belongs to „Budget 1“ – *1,000*.

5.2 Quality Assessment of Planning Processes

Quality can be defined clearly in communication only when the parameters constituting quality are indentified and measured objectively. Most subjective measurements of quality are relative and the base used for measurement differs among people and changes unknowingly within an individual. These differences and changes cause uncertainty in the description of quality (Watada, 1973).

In our case the quality might be assessed by using subjective numerical values, which are presented in absolute or relative terms. Moreover, the coefficients of partial utility concerning the quality of planning process addressed to the military expenditure is assigned by every department and military personnel.

The quality of budgeting will be estimated by each component using the scale or so-called „The satisfaction scale“:

- 1 – Unsatisfactory;
- 2 – Partly satisfactory;
- 3 – Satisfactory;
- 4 – Average;
- 5 - Above average;
- 6 – Good;
- 7 – Excellent.

The coefficient of optimal quality (ΔK) is carried out using the *function nr 5* (Source: made by the author):

$$\Delta K = \sum_{i=1}^Z R / \sum_{i=1}^N \sum R_{in}, \text{ where} \quad (5)$$

- ΔK – the coefficient of optimal quality
 R_i – the current value

Z – the total sum of current value

N – the total value of participants

The parameters of quality (Q_k) is carried out using the conversion formula directed to the factor "Quality" and transformed into the partial utility (*function nr 6*, Gorbunov and Kozin, 2007):

$$Q_k = (1 - \Delta K) / (1 + \Delta K)^2, \text{ where} \quad (6)$$

Q_k – the coefficient of partial utility of optimal quality

ΔK – the coefficient of optimal quality

Table 1 shows that the most appreciated quality represents *Budget nr 2* – 6,2534

5.3 Cost Estimation (total planning sum) and quality ratio

The calculation of the partial utility concerning the correlation between "Cost / Quality" will be conducted using the results of "Cost" and "Quality". In accordance with it, indicators of „Cost" or its coefficients will be shared with indicators of "Quality" (coefficients). Optimization of the choice is based on coefficient of optimality ΔZ determined by the *function nr 7* (Gorbunov and Kozin, 2007):

$$\Delta Z = (Z - Z_{\min}) / (Z_{\max} - Z_{\min}), \text{ where} \quad (7)$$

ΔZ - the coefficient of optimal cost/quality ratio

Z – the current value of cost/quality

Z min – the minimal value of all proposed values

Z max – the maximal value of all proposed values

The obtained values were comparable to estimated coefficients of partial utility concerning other factors, which are necessary to calculate the coefficient of partial utility Q_z . For this manipulation the transformation *function nr 8* (Gorbunov and Kozin, 2007) (price / quality through the values of ΔZ) will be used.

$$Q_z = (1 - \Delta Z) / (1 + \Delta Z)^2, \text{ where} \quad (8)$$

Q_z – the coefficient of partial optimal evaluation of cost/quality

ΔZ – the coefficient of optimal evaluation of cost/quality

In order to compose the initial data table, it is necessary to use the coefficients of partial utility and actual values of the budget's sum. The given analysis has revealed that despite the high quality estimates and the most appreciated evaluation of cost/quality, which was established by *Budget nr 2*, the general indicators of the partial utility (coefficients) were owned by the *Budget nr 1*.

In this respect, such assessment might have a certain amount of influence on effective financial plan choice but only at the time when other factors are not a priority.

5.4 Time spent on strategic goals and tasks execution

The calculation of the partial utility concerning the time spent on strategic goals and tasks should be based on statistics reports. In our case we use next segment of time spent for these purposes, particularly – (*Budget execution: annual statistics for the last year*).

Further indicators (based on statistical data analysis) will give a full picture of the budgeting process.

Calculations will be conducted in accordance with **function nr 9** (Gorbunov and Kozin, 2007).

$$\Delta T = (T - T \text{ min}) / (T \text{ max} - T \text{ min}), \text{ where} \quad (9)$$

ΔT – the coefficient of optimal spending time

T – the current value of spending time

$T \text{ min}$ – the minimal value of total spending time

$T \text{ max}$ – the maximum value of total spending time

The partial utility values concerning the time spent on strategic goals and tasks will be established using the **function nr 10** (Gorbunov and Kozin, 2007).

$$Q_t = (1 - \Delta T) / (1 + \Delta T)^2, \text{ where} \quad (10)$$

Q_t – the coefficient of partial optimal evaluation of spending time

ΔT – the coefficient of optimal evaluation of spending time

The made calculations have shown that the highest optimal value belongs to a **Budget nr 1**.

Table 1. The partial utility coefficient matrix*

Coefficient of Utility	<i>Strategy nr 1</i>	<i>Strategy nr 2</i>	<i>Strategy nr 3</i>
	Budget 1	Budget 2	Budget 3
Total Planning Sum, €	XXX	XXX	XXX
The coefficient of optimal cost, ΔP	0,0000	1,0000	0,4234
The coefficient of partial utility of optimal cost, Q_p	1,0000	0,0000	0,2846
coefficient of partial utility of optimal quality, Q_k	6,2404	6,2534	6,2454
evaluation of cost/quality	11620869,5066	13996327,0572	12628821,4664
coefficient of optimal evaluation of price/quality, ΔZ	0,0000	1,0000	0,4243
coefficient of partial optimal evaluation of cost/quality, Q_z	1,0000	0,0000	0,2838
The coefficient of spending time, ΔT	0,0000	1,0000	0,8929
The coefficient of partial utility of spending, Q_t	1,0000	0,0000	0,0299

*Source: made by the author

In order to obtain an objective total estimation of utility concerning the selection of optimal financial plan, it is necessary to find average values of separate parameters. And all coefficients of the partial utility will lead to the one general denominator (*function nr 11*, Gorbunov and Kozin, 2007):

$$WQ_i = Q_i / \sum_{i=1}^N Q_i, \text{ where} \quad (11)$$

WQ_i – the coefficient of total value

Q_i – the coefficient of partial utility for each indicator

N - Number of strategies (budgets)

$\sum_{i=1}^N Q_i$ - total current value

After reduction of all studied criteria for a single equivalent of mathematical model, it is appropriate to express one integral form (*function nr 12*, Gorbunov and Kozin, 2007):

$$F_{total} = WQ_p + WQ_k + WQ_z + WQ_t, \text{ where} \quad (12)$$

F_{total} – the total assessment of the utility (set of elements which have influence to the decision making)

WQ_p – the total coefficient of partial utility of optimal total amount of budget (total planning sum)

WQ_k – the total coefficient of partial utility of optimal quality

WQ_z – the total coefficient of partial utility of optimal of cost/quality

WQ_t – the total coefficient of the time spent on strategic goals and tasks execution.

Table 2. The consolidation matrix of utility coefficients*

Coefficient of Utility	<i>Strategy nr 1</i>	<i>Strategy nr 2</i>	<i>Strategy nr 3</i>
	Budget 1	Budget 2	Budget 3
WQ_p	0,7784	0,0000	0,2216
WQ_k	0,3330	0,3337	0,3333
WQ_z	0,7789	0,0000	0,2211
WQ_t	0,9710	0,0000	0,0290
F_{total}	2,8614	0,3337	0,8049

*Source: made by the author

In accord with **Table 2** (see Table 2), the *Budget nr 1* has the maximum value of an indicator of utility.

6. CONCLUSION

In the process of the given investigation the author has pointed several important moments of the budget planning process, in particular, forecasting improvement through the decision-making process and its pathways; the The Financial Perspective integration into military strategic budgeting system, and has discovered that all these components have one common and unique element on the basis. This key element is the „utility function“, which might be used for the strategy development and for the whole budgeting system improvement.

One of the most obvious conclusions is that the present system of Estonian Defence Forces budget planning should be improved. The best solutions are offered by *The Balanced scorecard* model and its component *Financial Perspective*, which makes military expenditure planning more effective.

Moreover, the coefficient method as a component of financial perspective model has proved that budgetary funds can be planned and distributed according to goals and objectives. This technique can be very productive at the redistribution of means if military tasks undergo any changes.

By summarizing all the results, we have discovered that the balanced scorecard implementation into the Defence Forces managerial process is providing many insights into the overall process of deploying performance metrics in public sector organizations.

Further, the framework itself proved helpful for the Estonian Defence Forces in questions of budgeting, analysis and decision-making process. Accordingly, we deem that future research addressing performance measurement systems in centralized organizations may enhance understanding about the role of the balanced scorecard in rendering effective, efficient and “modern” public sector organizations (Carmona and Grönland, 2003).

The new technique will raise quality of resource management, and also will create an effective basis for the detailed analysis that is necessary condition of strategic resources planning. It's no surprise, that the application of these procedures is «built into» strategical system, and it is necessary to concern them more than tools of information support directed to decision-making.

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UNEMPLOYMENT – AN ECONOMIC AND SOCIAL CURRENT PROBLEM

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ABSTRACT: *The economic crisis had recoiled on enterprises, families and citizens in all over the European Union. In Europe there are over 20 million unemployed people, and the situation has no perspective to improve. European cohesion policy helps European national and regional authorities fight together against unemployment. Accordingly, the Strategy Europe 2020 proposes a vision for the social market economy of Europe in the next decade and it's based on three priority domains, which intersect and mutually stimulate: intelligent economic growth, development of an economy based on knowledge and innovation, durable economic growth, promotion of a competitive economy, with low carbon emissions and an efficient use of resources, also inclusive economic growth, promotion of an economy with a high level of labour force absorption which will generate social and territorial cohesion.*

KEY WORDS: *unemployment; economic crisis; economic factors; strategy; development, labour force absorption.*

JEL CLASSIFICATION: *E24*

The economic crisis has recoiled on the global economy, the national economies but also on businesses, families and citizens around the world. One of the effects of this crisis which raises the highest problems is unemployment. In Europe there are over 20 million unemployed people, and the situation is not showing any improvement.

Through this alarming extent, through the complex structures and mostly through the dynamics which are changing their rhythms and meanings, unemployment has become a macrosocial mission. Thus the economies of all the countries are confronting this negative phenomenon which is unemployment. The economical and social consequences of underemployment include increasing social costs, the burst of social pressure and the waste of the national and international working resources (Flauzat, 1992, p.107).

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Generally, the person who is able to work but can not find work and may be partially or wholly engaged only at certain moments of economical and social development and is in position to receive unemployment benefit is called unemployed. In a few words, unemployed is a person who is seeking paid employment and does not have it currently.

Most often, the contemporary phenomenon of unemployment is addressed and analyzed as a labour market imbalance at its national level: as a meeting and confrontation between global demand and global offer of labour. In this way, unemployment is, in fact, further analysis of demographic-economical issues on the one hand, and the economical-financial and investment issues on the other. But both labour resources and labour demand are filtered through the unique requirements and rules of remuneration and salary. Therefore, regardless the approach and treatment of unemployment it is a dysfunction of the national labour market.

This means that neither labour demand does not change as much with the nominal or real wage change, nor labour supply does always evolve in relation to price and cost. Some experts explain this feature in that supply and demand depend on many other factors than the economic ones. The inelastic nature of labour supply is the underlying the labour market specificities. Labour market does not function as a common market (free, as some authors say) and because of legislative restrictions, of the conditions imposed by the law within which it operates.

In Romania after a downward trend during 2002-2008, when unemployment fell from 11.4% to 3.9%, it is registered again at the beginning of the crisis, the rising of unemployment, in 2011 reaching to 7.4%. In the figure below it is shown the evolution of the national unemployment rate registered since 1991 to 2010.

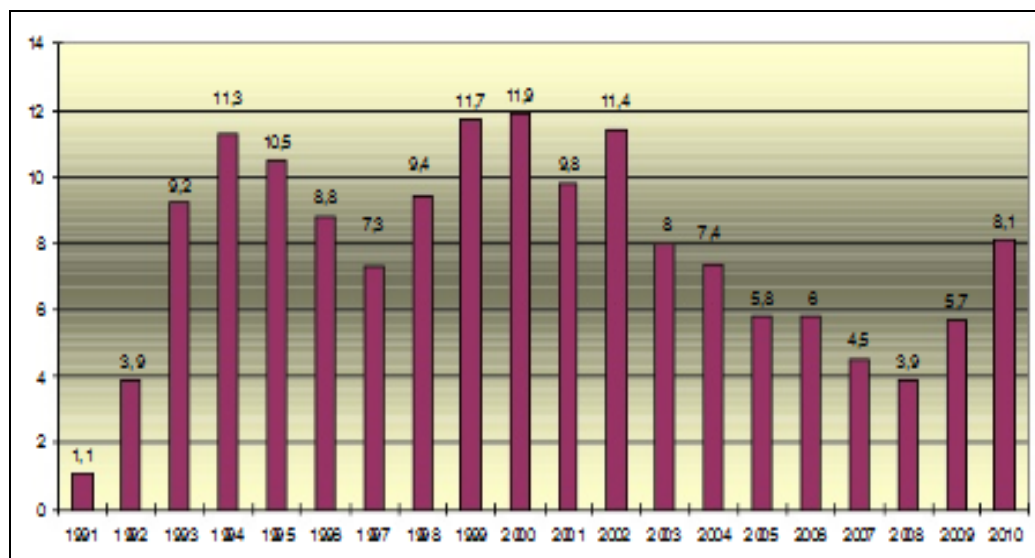


Figure 1. Evolution of unemployment in Romania

According to the Bureau of Statistics Report of the European Union, Romania has the 19th rate of unemployment among the Member States, being framed by Cyprus (7.2%) and Czech (7.5%).

In the European Union, the unemployment rate stagnated at 10% and in the euro area, 10% above the level in Romania, but Spain and the Baltic countries continue to face a record number of unemployed, 20% in Latvia, 19% in Estonia and in Lithuania 17.4%, the indicator approaching 20% in these states, according to Eurostat.

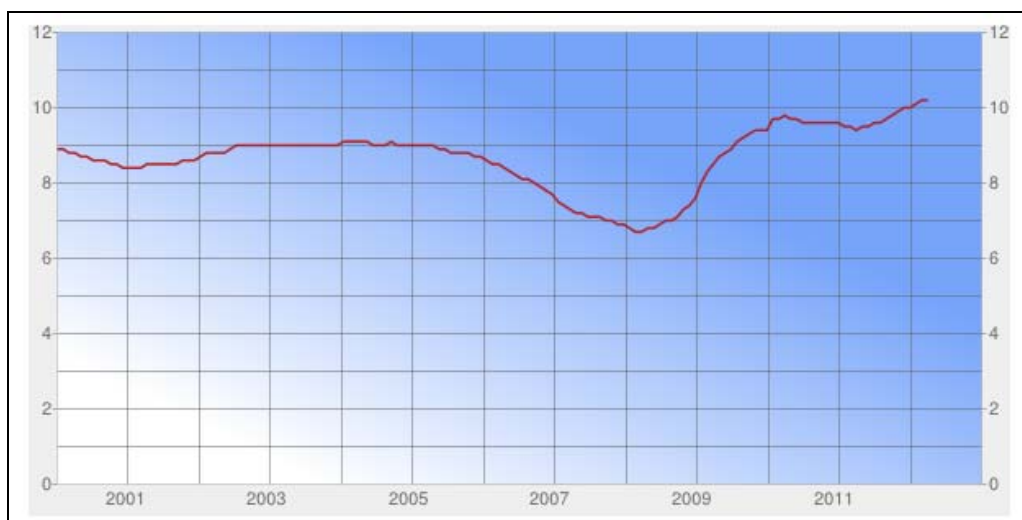


Figure 2. Unemployment Rate for European Union (27) between 2000-2011

Slovakia has an unemployment rate of 14.8%, Ireland 13.3%, Greece 11%, Hungary - 10.4% and Bulgaria 9.7%. Poland, although the only Member State which didn't enter the recession in the global crisis in recent years, has an unemployment rate above the European Union average of 9.8%. The lowest unemployment is found in Austria (4%), Netherlands (4.3%), Luxembourg (5.2%), Malta (6.7%), Denmark (6.8%) and Germany (7%).

Eurostat estimates that the number of unemployed in the European Union in May 2010 was 23,127,000 people, of which 15.789 million in the euro area. Compared with April 2010, the number of unemployed in the European Union fell by 37,000 people, but increased in the euro area with 35,000. Compared to May last year, the number of unemployed in the European Union increased by 1,801,000 and in the euro area rose by about 991,000.

Although, according to the literature, women are the most likely to be affected by unemployment, the young men are still the prevailing categories of the unemployed population. The highest recorded unemployment rate is among young people. In European Union, unemployment rate among young people aged 15-24 years is 22%, compared to only 8.8% among people aged over 24 years, according Eurostat. The highest unemployment rates among people aged less than 25 years were registered in

Spain 50.5%, and 50.4% in Greece, and the lowest rates were recorded in Germany 8.2 %, and Austria 8.3%.

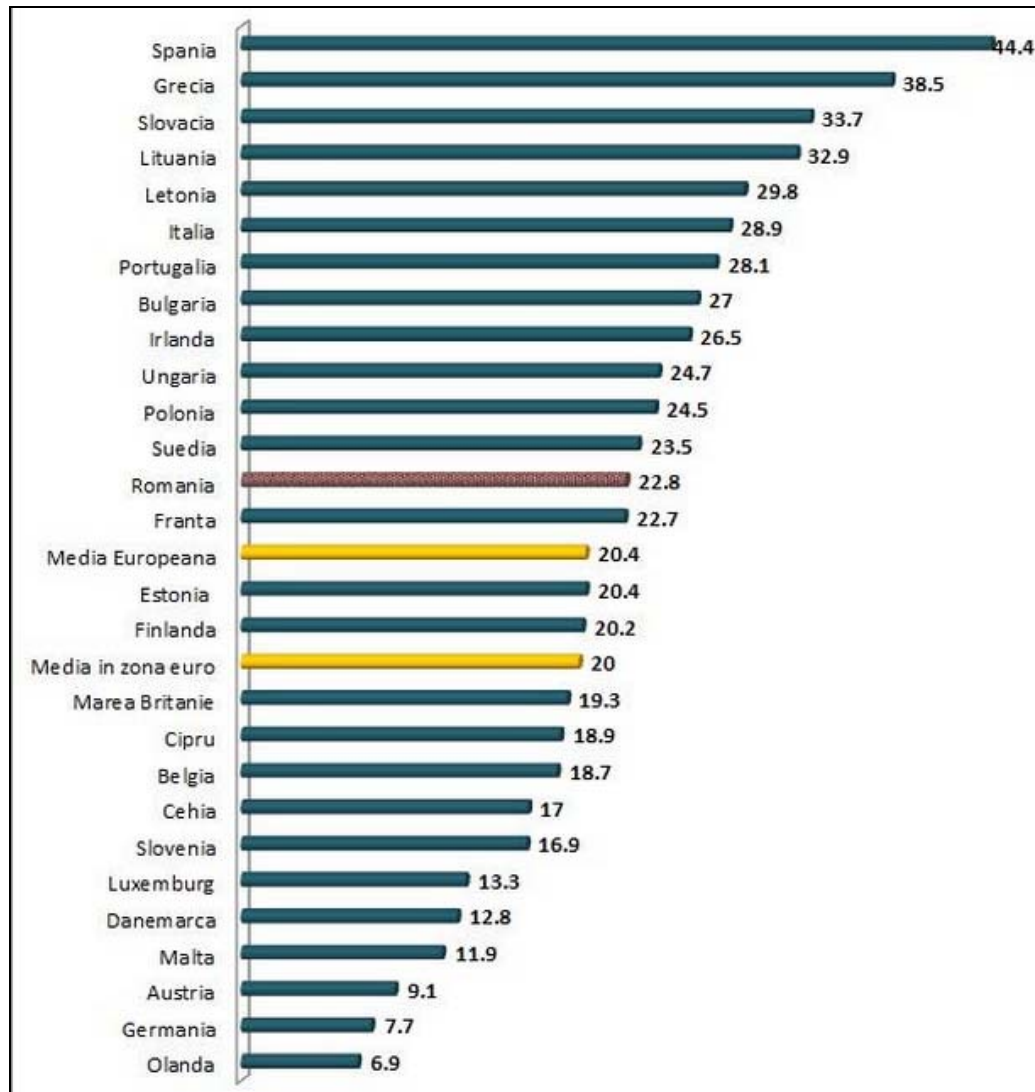


Figure 3. Unemployment rate for young people in European Union in 2011

According to a Eurobarometer survey, one in two Europeans believes that unemployment is the main problem his country is facing. The effects of unemployment, particularly long term unemployment, can be devastating, those affected sometimes feeling excluded from society. Therefore, combating unemployment is a priority of European Union. In this regard, numerous measures were introduced to help the unemployed to exploit their potential and create a more productive society, able to facilitate integration.

Because more and more people become unable to get a job, and, therefore, unable to acquire the goods and services of their and their families basic needs due to various causes, it is necessary that the state takes the appropriate measures of people's protection in time, giving them their basic needs and income for their families. European Union funds a number of projects to help the Romanian citizens face the financial crisis: training programs for students in high-tech, facilitation of rural development.

In Romania, the National Agency for Employment has increased the number of active measures which stimulate the unemployed to seek a job and the employers to create more jobs.

The main services and facilities provided by the National Agency for Employment to the unemployed, but also to employers are:

- *Professional information and counselling for the unemployed.*

This service is a set of services offered to people seeking work, for free. These are:

- providing labour market information and development occupations; self assessment and evaluation of their personality to guide professional development;
- ability and confidence development to people looking for a job for the decision regarding their career training;
- methods and techniques for finding a job;
- *Mediation of labour services.*

They are linking employers with people looking for a job in order to establish the employment or service relationship. Mediation services are to provide information on job vacancies and employment conditions of their publication, display and organize job fairs, electronic mediation, ie to put into correspondence requests and job offers through Internet

- *Consultancy and assistance in starting a business.*

This is offered, upon request, to people seeking employment, as legal services of marketing, financial, effective management methods and techniques and other consulting services.

- *Organizing training/ retraining courses for the unemployed.*

People looking for a job are given the opportunity of acquiring specific theoretical and practical knowledge of new jobs to increase employment opportunities. The structure of qualification / requalification begins with vocational courses up to improvement courses. They also organize courses for beginners on the basic terms of market economy and training for small business creation.

- *Stimulating labor mobility.*

People who find a job in a town which over 50 km away from home while receiving unemployment benefit an employment allowance which equals two minimum national salaries. Those who find a job in a different locality and thus change their address, get a first installation allowance, the equivalent of seven minimum salaries;

- *Encouraging employers to employ staff aged over 45 years and graduates of vocational school, high school or college.*

Employers who employ, for an indefinite time, unemployed aged over 45 or unemployed workers who support the family by themselves, receive from the ANOFM

for 12 months an amount representing a national minimum wage, having the obligation of maintaining the job for two years.

The employers who fall under 100 employees and employ people with disabilities enjoy the same facilities. Employers are encouraged so that the graduates of all the educational institutions are hired. For each graduate employed, the employer receives, for 12 months, an amount representing a gross national minimum wage, and for each disabled graduate, an amount representing 1.5 minimum national salaries, for a period of 18 months. Employers who hire graduates are required to maintain relations of their employment or service at least 3 years from the date of the contract. During those three years, graduates can pursue a form of training organized by employers and training necessary expenses will be incurred, at the request of the employees, on the unemployment insurance;

- *Loans with subsidized interest.*

They are extended to small and medium enterprises, cooperative units, family associations and authorized individuals and to unemployed who set up companies which create new jobs, of which 50% are for the unemployed. For the counties where there is an average annual unemployment rate exceeding the annual average national unemployment loans are granted at a rate of 50% of the reference rate of National Bank of Romania. For with an annual average rate of unemployment higher than the national average credit will be awarded with low interest;

- *Before deprivation services.*

In case of restructuring that can lead to substantial changes in the number and structure of staff, employers must notify employment agencies to adopt measures to combat unemployment and prevent social events. To assist people affected by restructuring, employers are required to notify employment agencies at least 30 days before granting notices required by law.

Keynes argued that "any successful macroeconomic policy must necessarily include measures and state tools, to use manpower as well as possible. This is because savings itself no longer guarantee, under spontaneous mechanisms of self adjustment, the full employment of manpower."

The European cohesion policy helps European, national and regional fight together against unemployment. In the last three years, the European Union allocated 93 billion Euros for projects that have helped millions of Europeans and hundreds of thousands of companies. Much of this amount was used to support the unemployed who were seeking employment and to invest in research and development, allowing the European Union countries to position themselves as world leaders in science and technology. To create quality jobs for European citizens, the focus is now on areas such as green energy and electronic commerce.

Therefore, the Europe 2020 Strategy sets out a vision for Europe's social market economy in the next decade and it is based on priority areas which interrelate and mutually reinforcing each other: smart economical growth, developing an economy based on knowledge and innovation, sustainable growth, promoting a competitive economy with low carbon exhausts and efficient use of resources, but also inclusive economical growth, promoting a highly labour employment, generating social and territorial cohesion.

The progress towards these goals will be measured on five European Union representative benchmarks, which the member states will be asked to translate into the national benchmarks that reflect the following starting points:

- 75% of the population aged 20 -64 years to be employed.
- 3% of European Union GDP must be invested in research and development.
- the climate and energy objectives "20/20/20" must be met.
- the share of early school leavers should be below 10%, and at least 40% of the younger generation should have higher education.
- the risk of poverty to be reduced by 20 million people.

The implementation of these initiatives is a shared priority, which requires action at all levels: the organizations in the European Union, the Member States, the local and regional authorities. To achieve these objectives, the Commission proposes a Europe 2020 agenda consisting of a series of pilot initiatives.

- ❖ An innovation union - refocusing research and development and innovation policy towards major challenges, while reducing the gap between science and marketing, so that inventions are transformed into products. -Youth in motion - improving the international quality and attractiveness of the European higher education system by promoting mobility of students and young professionals. As a concrete action, the vacancies in all the Member States should be available across Europe, and professional qualifications and experience to be recognized properly.
- ❖ A Digital Agenda for Europe - delivering sustainable economic and social benefits through a digital single market based on ultra fast internet
- ❖ A Europe that uses its resources effectively - supporting the shift towards an economy that uses its resource efficiently, with low-carbon emissions. Europe must hold to its 2020 targets in terms of production and consumption of energy and energetical efficiency. This would fall by 60 billion euro the oil and gas imports by 2020.
- ❖ An industrial policy for economical green growth - supporting the competitiveness of the European Union industrial base in the post-crisis world, promoting entrepreneurship and developing new skills.
- ❖ An agenda for new skills and jobs - creating conditions for modernizing the labour markets to increase employment and ensuring the sustainability of our social models, in terms of retirement of baby-boomers.
- ❖ A European platform against poverty - ensuring economic, social and territorial cohesion by helping the poor and socially excluded and enabling them to play an active role in society.

The ambitious goals of Europe 2020 strategy means switching to a new level of management and responsibility. The implementation methods will be strengthened to ensure that commitments are translated into action.

The economic crisis has disrupted the world of work, emphasizing the signals from the worldwide globalization that a more flexible work organization is needed, essentially to change itself. Unemployment is considered by some experts (Martin & Schumann, 1999, pp.13) one of the risks of globalization because "20% of the working population in the next century would be sufficient to ensure the world economy boom.

(...) A fifth of those seeking work will be enough to produce all the goods and to provide high quality services that the global society can afford. But what about the other 80% of those who want to work but will be jobless? (...) The problem of the future is "to have lunch or to be lunch"- to have food or be eaten.

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ANALYSIS OF PUBLIC EXPENDITURE IN ROMANIA DURING 1995-2009

ANA-PETRINA STANCIU *

ABSTRACT: *The objective of this paper is to analyze the evolution of Romania's public expenditure during the period 1995-2009. Expenditure analysis involves tracking their evolution in absolute and relative size, determining the share of public expenditure within the GDP, as well as determining the level of total public expenditure and of each category of expenditure per capita. At the same time there are several econometric models used in optimizing public expenditure for the various economic sectors by means of econometric modelling software Eviews.*

KEY WORDS: *public expenditure; gross domestic product; analysis; share; Eviews.*

JEL CLASSIFICATION: *H50.*

1. INTRODUCTION

The dynamics of the world economy and of Romanian economy implicitly, has led to a significant reduction of the time available to Governments to respond more adequately to problems that arise, especially in regards to the public money. Effectiveness of the measures taken depends, mainly, on a detailed analysis of events within the Romanian economy and particularly on public expenditure. Public expenditure constitutes a large part of GDP and, therefore, it has a significant impact on the productivity of the entire economy. Starting from the works of the authors Minea A. (2008)., Colibașanu O.A. (2009), Obreja Brașoveanu I. (2010), Măcriș M.(2009), I dwelled upon this issue for Romania in the period 1995-2009, regarding the evolution of public expenditure in our country.

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2. EVOLUTION OF PUBLIC EXPENDITURE IN OUR COUNTRY DURING THE PERIOD 1995-2009

The analysis of public expenditure in Romania during 1995-2009 will be characterized in two ways: according to the quantitative and qualitative aspect. The quantitative aspect will monitor the evolution of the absolute and relative level of public expenditure and the quality aspect will keep track of their structure.

A first assessment of the degree of involvement of the State in the economic and social life will be made through the progress of the overall volume of public expenditure. For a proper understanding we shall take account of the fact that, as expressed in value, the absolute level of public expenditure is influenced by the evolution of prices, depreciation of the currency, which has become a generalized phenomenon in our country's economy.

In order to analyze the share of the public sector within the total social and economic activities we must determine the share of the total public expenditure in the GDP.

Table 1 shows the evolution of the volume of public expenditure in nominal value when they are expressed in current prices; in real value when they are expressed in constant prices; the evolution of the gross domestic product as well as the weight of public expenditure in GDP.

Table 1. The volume of public expenditure, GDP, and the weight of public expenditure in GDP in Romania during 1995-2009

-thousands lei-				
Year	Nominal value	Real value	GDP	Weight of public expenditure in GDP (g)
1995	2 610.5	2 610.5	7 648.9	34.1
1996	3 777.0	2 537.7	11 384.2	33.2
1997	8 833.9	2 646.7	25 529.8	34.6
1998	13 257.7	2 736.6	37 055.1	35.8
1999	21 637.4	2 998.7	55 191.4	39.2
2000	31 225.6	2 949.2	80 984.6	38.6
2001	42 710.7	2 769.8	117 945.8	36.2
2002	53 221.1	2 677.9	152 017.0	35.0
2003	66 046.7	2 558.8	197 427.6	33.5
2004	83 003.0	2 566.5	247 368.0	33.6
2005	97 069.1	2 569.5	288 954.6	33.6
2006	122 500.0	2 718.7	344 650.6	35.5
2007	151 136.5	2 778.9	416 006.8	36.3
2008	197 150.9	2 929.8	514 700.0	38.3
2009	202 124.2	3 104.4	498 007.5	40.6

Source: Personal processing using Eurostat data

Based on the data analyzed, it is observed that the volume of public expenditure has been continuously growing as a result of State interference in the

economy and in social life; in 2008 it was 250 times higher than in 1995, thus we may conclude that the national economy itself had an increasing trend. Note also that public expenditure in the year 2009 was almost equal to that of 2008 which means that the economy experienced stagnation in development during this period.

Considering the actual amount of expenditure we may find that the years 2003, 2004 and 2005 were the years the lowest real effort from the State. This information is not sufficient, however, to give us an insight of the tax policies adopted by the Governments of those years; a further review of the evolution of expenditure was required.

GDP has also had an increasing trend over the period considered in the analysis with the exception of 2009 when it was recorded a decrease as compared to the previous year (2008) because of the effects of the crisis that led to a fall in consumption, investments and exports. Instead costs kept an increasing trend.

Based on the data analyzed, it is observed that the weights of public expenditure in GDP range from 33.2 % in 1996 to 40.6% in 2009. During the period 1999-2003, public expenditure showed a relatively decreasing trend from 39.2% to 33.5% of GDP, which means a certain disengagement of the State in the economy. Since 2004 public expenditure had been increasing relatively so that in 2009, 40.6% of the GDP would be redistributed to the population in the form of public expenditure; it is also recorded as the year with the largest share of expenditure in the GDP over this period.

The phenomenon of increasing the weight of public expenditure in the P.I.B. denotes a more intense involvement of the State in the use of financial resources of the society for different purposes (Table 2).

As regards the share of each category of public expenditure during the period considered, it is observed that the smallest variations, as a percentage of GDP, were registered by the expenditure on environmental protection, culture and other expenses, and the greatest changes were recorded by the payments for public services. However, analyzing the variations in different categories of public expenditure, as the relation between the maximum and minimum values, we may note an increase by more than 19 times of the expenditure on environmental protection in 2009 as compared with 1998. This increase was emphasized in 2007, the most important factor being the integration of Romania into the European Union and, as a result of the recommendations of the EU, increasing investments in environmental protection. Using the same reporting criterion we can observe that the slightest variation was registered by the expenditure on education and social protection. (Măcriș, 2009)

Particularly effective is the analysis of trends in public expenditure in relation to the evolution of the demographic factor. The calculation of the average payments per capita (table 3.) reveals the value of social needs satisfied on average, per capita.

It is worth noting that the public expenditure per capita are increasing at a faster rate than the GDP per capita. During the period under analysis we may find an increase in the level of public expenditure per capita, while in 2009 the value of social needs, on average, per capita amounted to 9409.7 lei/person.

For this indicator to be more eloquent, the average public expenditure per capita, it is analyzed in dynamics and by type of expenditure according to table 4.

Table 2. The size of each category of eligible public expenditure in the GDP in Romania during 1995-2009

-percentage-

Year	General public services	Defense	Public order and national security	Education	Healthcare	Culture, entertainment and religion	Social security	Environment protection	Economic activities	Other expenditure
1995	3.64	2.39	1.34	3.34	2.38	0.62	10.54	0.18	8.19	1.49
1996	3.77	2.37	1.58	3.63	2.31	0.77	10.29	0.13	6.80	1.52
1997	6.77	2.52	0.73	3.17	1.96	1.10	11.05	0.25	5.62	1.44
1998	7.33	0.79	0.54	4.05	2.63	1.42	12.13	0.03	5.51	1.35
1999	10.31	1.84	1.63	3.14	3.77	0.56	12.05	0.03	4.51	1.34
2000	7.90	2.16	2.25	3.18	4.18	0.73	10.90	0.22	5.60	1.44
2001	6.45	1.89	1.58	3.86	4.09	0.58	11.14	0.27	4.89	1.44
2002	5.36	2.22	1.99	4.01	4.12	0.63	10.12	0.24	4.39	1.93
2003	4.15	2.53	1.85	3.55	3.45	0.72	10.05	0.20	4.91	2.05
2004	3.91	2.20	1.83	3.62	3.21	0.68	10.30	0.12	5.62	2.07
2005	3.27	2.98	2.11	3.60	3.37	0.67	10.40	0.32	5.27	1.61
2006	3.29	2.31	2.39	4.12	3.28	1.01	10.41	0.35	6.92	1.47
2007	4.23	1.76	2.40	3.90	3.69	1.08	10.59	0.41	6.73	1.54
2008	4.57	1.53	2.29	4.47	3.85	1.16	11.83	0.48	6.80	1.33
2009	4.36	1.51	2.19	4.10	4.36	1.08	14.23	0.59	6.77	1.40

Source: Personal processing using Eurostat data

Table 3. The amount of public expenditure on average per capita in Romania during 1995-2009

-lei-

Year	Level of average public expenditure per capita	Year	Level of average public expenditure per capita
1995	115.1	2003	3 037.7
1996	167.0	2004	3 827.7
1997	391.7	2005	4 486.8
1998	589.0	2006	5 674.5
1999	962.9	2007	7 014.3
2000	1 391.3	2008	9 164.0
2001	1 929.8	2009	9 409.7
2002	2 441.0	---	---

Source: Personal processing using Eurostat data

Table 4. The amount of each category of expenses accruing on average per capita in Romania during 1995-2009

-lei-

Year	General public services	Defense	Public order and national security	Education	Healthcare	Culture, entertainment and religion	Social security	Environment protection	Economic activities	Other expenditure
1995	12.29	8.06	4.52	11.27	8.04	2.10	35.55	0.60	27.62	5.02
1996	18.99	11.91	7.98	18.27	11.64	3.88	51.81	0.65	34.21	7.65
1997	76.65	28.50	8.24	35.87	22.16	12.46	125.05	2.82	63.67	16.26
1998	120.68	13.08	8.89	66.64	43.27	23.32	199.67	0.53	90.68	22.27
1999	253.32	45.28	40.12	77.08	92.70	13.87	295.89	0.74	110.83	33.03
2000	285.14	77.94	81.11	114.81	150.88	26.39	393.17	8.04	201.91	51.95
2001	343.90	100.89	84.45	205.91	217.99	31.03	593.84	14.20	260.67	76.93
2002	373.56	155.00	138.78	279.68	287.25	43.98	705.44	16.50	305.94	134.87
2003	376.83	230.00	168.19	322.00	313.57	65.00	912.47	17.98	445.48	186.22
2004	445.49	250.49	208.88	412.49	366.17	77.67	1175.33	14.02	640.99	236.17
2005	437.12	397.58	281.67	480.25	449.64	89.05	1388.93	42.59	704.31	215.65
2006	524.49	368.06	382.31	657.72	523.04	161.42	1662.73	56.20	1104.13	234.43
2007	817.60	339.49	462.87	752.83	712.34	208.29	2045.33	78.97	1299.04	297.54
2008	1094.35	364.89	547.79	1068.76	920.21	278.07	2830.39	115.61	1626.17	317.76
2009	1010.33	349.37	508.26	951.41	1011.36	249.80	3298.10	135.95	1570.23	324.88

Source: Personal processing using Eurostat data

3. ANALYSIS OF EXPENDITURE ON GENERAL PUBLIC SERVICES AND EDUCATION USING EViews

In order to emphasize the conclusions and the results, this paragraph dwells upon studies carried out on various econometric models used in optimizing budgetary expenses for various economic sectors by means of econometric modelling software EViews.

First, using the least squares approach, an econometric analysis of expenditures on general public services reported on time has been developed.

The linear regression model has the following form:

$$y = f(x) \quad (1)$$

where

$$f(x) = c_1 + c_2x \quad (2)$$

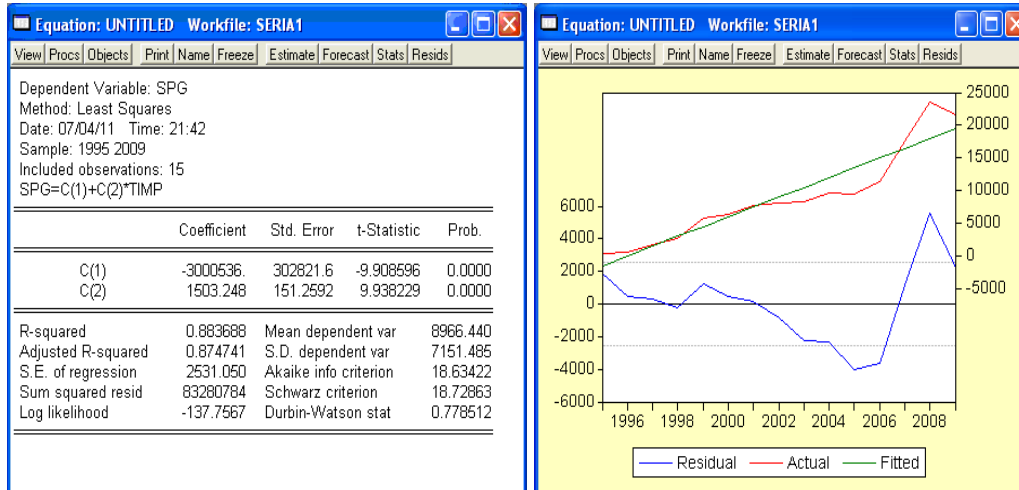
with c_1 and c_2 the parameters of the linear regression model.

The variables used in this model are:

x - the period of time undergoing analysis;

y - general public services.

The analysis was carried out for a period of 15 years between 1995 and 2009 in Romania, and the results obtained as well as the graphical representation of general public services with respect to time shall be submitted in the two figures below:



Thus, in the expression on the left we have the values of the two parameters within the linear regression model c_1 and c_2 as well as the values of statistical indicators and statistical tests used in the analysis.

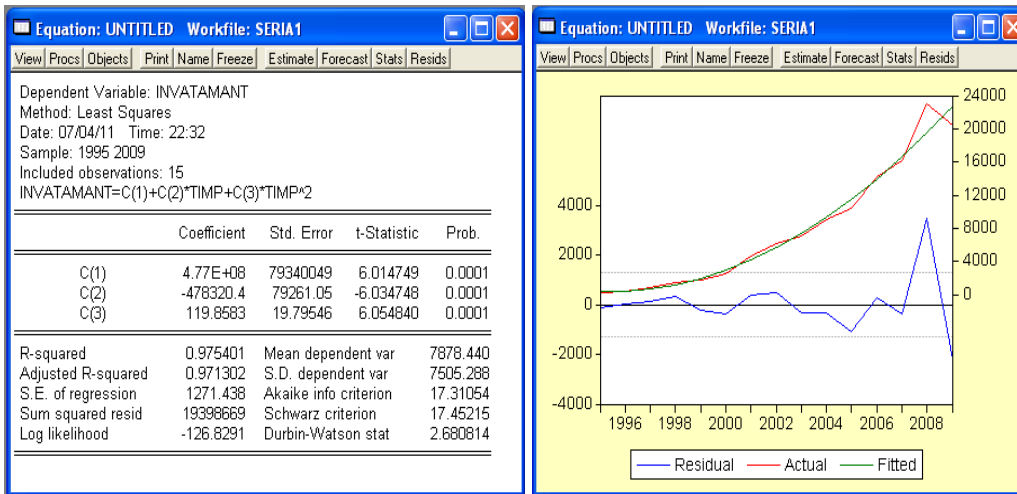
$$SPG = -3000536 + 1503248 \cdot TIMP \quad (3)$$

It is noticeable that between the two variables analyzed, there is a direct linear dependence because the slope/gradient of the regression line has a positive value, the link being a strong one.

The second econometric model developed refers to the analysis of expenditure on education in relation to time, for the same period of 15 years, 1995-2009.

Unlike the previous model, the figures below show that the model is a non-linear one of parabolic type, the approximate function in this case has the following form:

$$f(x) = c_1 + c_2x + c_3x^2 \quad (4)$$



In this case, the dependent variable $x = TIMP$ is the time and the output variable is $y = \hat{INV\check{A}T\check{A}M\check{A}NT}$. Thus, the values of the parameters of the non-linear regression model are:

$$\hat{INV\check{A}T\check{A}M\check{A}NT} = 4,774783204TIMP + 1198583TIMP^2 \tag{5}$$

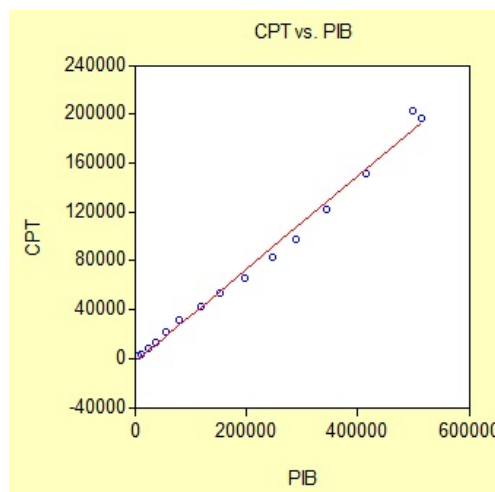
It is observed in the expression on the left that between those two variables there is a strong dependence, this being justified by the value of the correlation coefficient of 0.95.

Another econometric model subject to analysis is related to total public expenditure as share of the GDP for the same period, 1995-2009. The variables that are involved in the analysis of this model are the variable $x = PIB$ and the output variable $y = CPT$.

Dependent Variable: CPT
 Method: Least Squares
 Date: 07/06/11 Time: 20:43
 Sample: 1995 2009
 Included observations: 15
 CPT = C(1) + C(2)*PIB

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-3077.791	2609.488	-1.179462	0.2593
C(2)	0.381476	0.009923	38.44262	0.0000

R-squared	0.991280	Mean dependent var	73086.95
Adjusted R-squared	0.990609	S.D. dependent var	67873.03
S.E. of regression	6577.283	Akaike info criterion	20.54420
Sum squared resid	5.62E+08	Schwarz criterion	20.63860
Log likelihood	-152.0815	Durbin-Watson stat	0.464736



The values of the coefficients of the linear regression model are:

$$CPT = -3077,798 + 0.381476 \cdot PIB \quad (6)$$

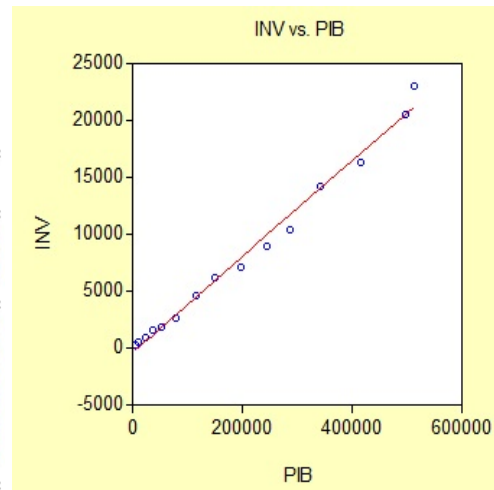
We may note that between the two variables there is a direct linear dependence, a very strong one. Moreover, this result shows that for a percentage of the GDP, the total public expenditure will change in the same direction by 0.38%.

Furthermore, an econometric model between education expenditure and GDP is presented.

The variables used within the linear regression model are the input variable $x = PIB$ and the output variable $y = \hat{INV}$.

Dependent Variable: INV
Method: Least Squares
Date: 07/06/11 Time: 19:35
Sample: 1995 2009
Included observations: 15
INV = C(1) + C(2)*PIB

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-540.4652	311.0733	-1.737421	0.1059
C(2)	0.042150	0.001183	35.63159	0.0000
R-squared	0.989864	Mean dependent var	7875.107	
Adjusted R-squared	0.989085	S.D. dependent var	7504.767	
S.E. of regression	784.0684	Akaike info criterion	16.29044	
Sum squared resid	7991922.	Schwarz criterion	16.38484	
Log likelihood	-120.1783	Durbin-Watson stat	1.891593	



The values of the parameters involved in the model are:

$$\hat{INV} = -540,4652 + 0.04215 \cdot PIB \quad (7)$$

It is worth noting that between the two variables there is a direct linear dependence, a very strong one. Moreover, this result shows that when the GDP changes by one percentage the total public expenditure will change in the same direction by 0,042%.

The last model subject to analysis refers to the general public services and GDP. Therefore, the variables used in the linear regression model are the input variable $x = PIB$ and the output variable $y = SGP$.

In the expression below, the values of the parameters that are involved in the model are:

$$SPG = 1166,302 + 0.039 \cdot PIB \quad (8)$$

It is noticeable that between the two variables there is a direct linear dependence, a very strong one. Moreover, this result shows that when the GDP changes by one percentage the expenditure on general public services will change in the same direction by 0,039%.

Dependent Variable: SPG

Method: Least Squares

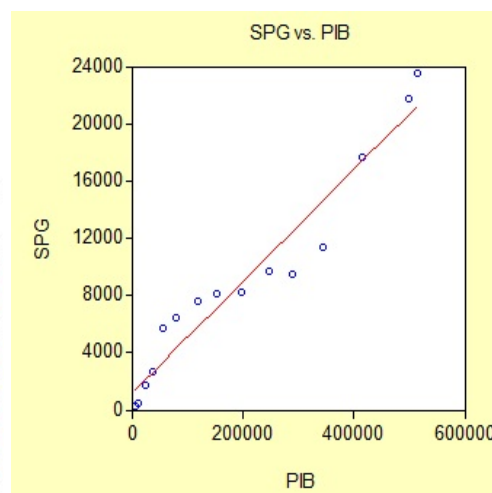
Date: 07/06/11 Time: 19:38

Sample: 1995 2009

Included observations: 15

SPG = C(1) + C(2)*PIB

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	1166.302	742.1254	1.571569	0.1401
C(2)	0.039067	0.002822	13.84329	0.0000
R-squared	0.936473	Mean dependent var	8966.440	
Adjusted R-squared	0.931586	S.D. dependent var	7151.485	
S.E. of regression	1870.547	Akaike info criterion	18.02941	
Sum squared resid	45486288	Schwarz criterion	18.12382	
Log likelihood	-133.2206	Durbin-Watson stat	0.690757	



Considering the results of the analysis above it can be concluded that in Romania the expenditure on education have increased by 0,042% as a percentage of GDP, and expenditure on general public services increased by 0.039%.

4. CONCLUSIONS

In our country, under the conditions of market economy there have been changes in terms of content and structure of public expenditure. In the period under review the general trend of public expenditure is to increase from one year to the other. A dynamic analysis reveals that public expenditure is increasing rapidly in size.

In the years 2003, 2004 and 2006, the weight of public expenditure within the GDP has decreased as compared to previous years, and in the years 2007, 2008 and 2009 the weight of public expenditure within the GDP has increased. The value of the social needs that are met on average per capita increased from one year to another.

The State is directing its funds to finance social, economic actions and actions of the administration of the State. Most of the State's financial resources is used for payment of goods and services purchased by central and local bodies of the State administration and by institutions governed by public law as well as for the payment of salaries, pensions and other entitlements for public officials, for granting subventions for different categories of economic agents.

The year 2008 was the first year when the education sector was allocated 6% of the GDP, while higher education got 40% of the total funds allocated. Even if the level of funds allocated to higher education was continuously growing, financially, Romania was placed below the European average, the values allocated per student being of about € 1.692,22 while the average in other European State is €6.451,41.

Expenditure in the health sector in Romania was traditionally low in comparison with the European average. One of the explanations is related to the health sector being regarded as unproductive and therefore with a low priority in the budgetary allocations. Despite an increase in the weight of total health expenditure within the GDP, the level of financing the Romanian financing system remains low in the European context, especially if we consider the long period of sub-financing and the lack of investments in healthcare.

Currently the Romanian budget faces difficulties in covering expenditure.

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ISSUES CONCERNING THE USE OF UML DIAGRAMS TO DEFINE THE UNDERLYING PROCESS MODEL SIMULATION

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ADRIAN GHENCEA***

ABSTRACT: *Diagrams are a graphical representation of the information contained in a UML model, and are an essential feature of UML modelling. Each UML diagram is designed to let you view a software system from a different perspective and to varying levels of abstraction.*

KEY WORDS: *unified modelling language; model; process of simulation; diagrams; static model; dynamic model; functional model; structure; behaviour; system's cycle of life; analysis; design; implementation.*

JEL CLASSIFICATION: *D83, O32*

1. GENERAL CONSIDERATIONS

Unified Modelling Language (UML) succeeds an important wave of object oriented methods of analysis and design, used in the late 80's and early 90's. It is a unified modelling language, the result of a process of introducing standardization in object oriented design. It is the starting point in the future development of graphic languages.

Essential contributions in this field were brought by Grady Booch, Jim Rumbaugh and Ivar Jacobson. Based on their studies, on November 17, 1997, Object Management Group (OMG) announced the adoption of UML as a standard modelling language.

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2. ADVANTAGES AND DISADVANTAGES OF UML UTILIZATION

Advantages of UML are:

- it is a frame for object oriented analysis, providing:
 - different but complementary views of the system which guide the use of object concepts;
 - Several levels of abstraction, that allows the control of the system's complexity through object solutions.
- it is a communication pylon
 - graphic notation allows visual expression of an object solution
 - formal aspect/appearance of its notation limits ambiguity
 - visual features facilitate comparison and evaluation of solutions
- it is a formal and standardized language, which:
 - gains precision/accuracy
 - gains stability
 - encourages the use of CASE tools
- ensures independence towards the implementation language and the domain of application

Disadvantages of UML are:

- the practice of UML language requires specialized training
- it allows the design of models, but it doesn't specify the process of the model's design. It is an iterative and incremental approach guided by the requirements/needs of the system's users.
 - it doesn't show/ not describe how the soft is developed/to develop the soft, but it can be used with any process.

The adoption of UML as a standard modeling language brings significant contributions in achieving complete, concise and intelligible models for real systems. Models contain abstractions representing the real world as a collection of entities (objects, instances) and of different connections between them. We can define constrains, by describing static, dynamic or temporal features of the entities.

The models are tested by the simulation process, viewed as a process of conducted experimentation in order to establish the level of adequacy in relation to the initial system.

Some of the shortcomings of the simulation process are:

- the support model of the simulation is a simplified one, following a single purpose. The solution offered is a punctual one, which does not always have a correspondent in the real system;
 - the results can't be transferred to other problems because they are based on unique factors specific to particular problems.
 - the results are difficult to interpret due to the fact that they are dependent of random factors. No matter how powerful the computer is, the optimal solution is difficult to obtain on a model which has many equations and a significant number of parameters.

These shortcomings have led to the use of simulation only when the interactions between components are complex, when random factors have a significant

influence and a great number of observations regarding data behavior is necessary, when the problem cannot be solved by using an algorithm or direct experiments. If we cannot apply direct optimization methods, the optimal solution is enabled by alternative experiments. We test the values of the different decision variables and highlight the consequences of some decisions regarding the values of the resulting variables.

The advantages of the simulation process:

- the model on which simulation is based provides a functional form of expression of the relationship between the phenomena studied. We can therefore test for unexpressed actions within the model;
- ensures a better structuring of the analyzed problem, allows exploration of the information flow and of operating procedures without interfering in the real system;
- uses the cybernetic control system which represents the basis of the decision-making process in practice;
- there are many software packages for the process of simulation;
- data used in the design of the model can be real observations (numerical values) or knowledge. These are translated into algorithms implemented by a computer system.

These have caused the consideration of simulation as one of the most powerful tools in the decision-making process. With the recognition of UML as a standard language for modelling, the process of simulation becomes a technique for coordinating computer-aided experiments and UML diagrams become universal visual tools for modelling elements. Each type of diagram shows a certain aspect of the modelled system: static structure, interactions between objects, physics components of an application, interactions between users and the system. Together they design a real world model, viewed from different perspectives and in different ways.

3. ROLE OF UML DIAGRAMS IN BUILDING MODELS UNDERLYING THE SIMULATION PROCESS

We present below how the UML diagrams participate in the design of models which represent the basis of the process of simulation.

3.1 Highlighting the role of UML diagrams in system structure and behaviour

The structure of the system is shown in the diagram of classes and the diagram of objects. They contain classes and relationships between them or objects and relationships between them, when the behaviour of individual objects require structural changes. In this case, the structure is further evidenced by collaboration diagrams.

For a class, **behaviour simulation** means to evidence the possible state and the events leading to transition from one state to another. This is done by using the state diagram, which can include the possible constraints emerging during the chaining state-event-state.

In most cases, state changes are determined by events occurring outside the object but to which it reacts. In case changes have an internal determination, caused by finishing a proper action of a state, to show the behaviour on define activities diagrams.

If the changes have an internal determination, resulting from the performing or ending a state's own actions, in order to represent the behaviour one needs to further define activity diagrams.

In the simulation process, UML can provide information about the collaboration between structure and behaviour, including in the same diagram activities and objects (fig.1)

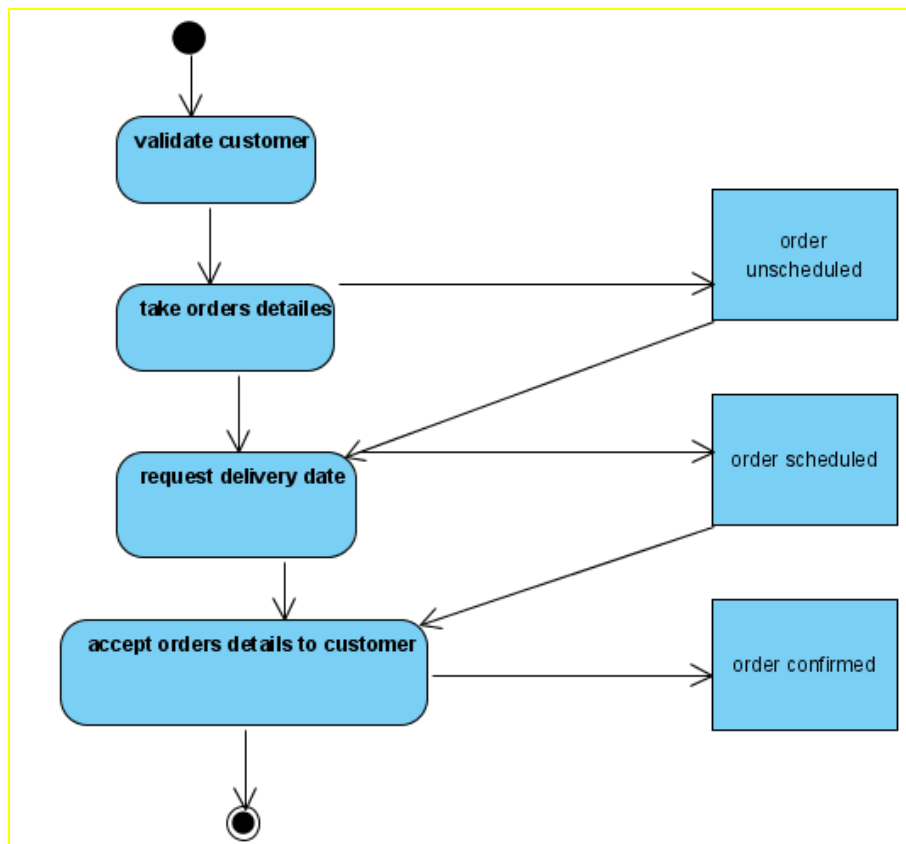


Figure 1.

For the system, the **simulation of behaviour** means showing the interactions between classes and objects. This can be realized using three types of diagrams: collaboration, sequences and activities diagrams.

In the collaboration diagram new links can occur between classes. In the sequences diagram, for every message, we have to have a correspondent operation in the destination class, as an appropriate response to the received message. While the activities diagram describes a case of usage, sequences and collaboration diagrams are

thought for scenarios of a case of usage, they show classes and their interactions during a scenario.

For classes with significant dynamic behaviour, the state diagram completes the case of usage.

3.2. Role of UML diagrams in highlighting system functionality and user requirements

The specification of the functional requirements of the system is expressed in cases of usage, which correspond to actions performed by a particular entity (actor) for a group of users. By showing cases of usage one can delimit the studied field and establish cooperation between users and the system's analysts. The entire functionality of the system is given by the set of usage cases, grouped in a usage case diagram.

The usage case diagram, which represents the interaction between actors and usage cases performed by them, represents a functional description of requirements, structured in relation to one or more actors. At this stage, there are no objects. Switching to an object structure is done by highlighting the objects which collaborate to obtain the functionality described by different cases of usage. In this respect, one follows different, possible scenarios, seen as instances of usage cases. One obtains in this way objects and sequences diagrams. If the algorithms are complex, one defines the state diagrams or activities diagrams.

Addressing how the system's functionality is performed using UML diagrams, many authors consider that there are two important diagrams: usage case diagram and classes' diagram. Usage case diagram expresses the requirements of the users. The system's functionality expressed by these requirements is transformed by the system's analysts into a model with classes and relations between them. The other diagrams are subordinated to the classes' diagram and use elements and tools of oriented object methodology to complete the classes' diagram:

- State and activities diagrams bring more details regarding the behaviour of objects within classes;
- Collaboration and sequences diagrams detail the interactions between classes;
- Activities diagrams bring elements necessary for the implementation of classes.

3.3 Role of UML diagrams in modelling static, dynamic and functional of the real system

Usage case diagrams ensure the correspondence between the user's requirements and their representation using abstracts defined and evidenced in different diagrams. These other diagrams show together a model of the real system, including static, dynamic and functional views. Grouped under this aspect, diagrams can be at a given moment a static, dynamic or functional model.

Between models there is a close connection:

- the dynamic model shows the order in which operations defined in the static model classes are made. Actions from the functional model

correspond to the operations from the static model, actors and usage cases become objects linked by functions from the static model.

- the actors are explicit objects from the objects model, which presents their structure. Data which flows from or towards the actors corresponds to operations for objects. For an actor object, the dynamic model shows when it functions. The dynamic model for these objects is necessary in order to determine the order of operation.
- the functional model reveals the meaning of the operations and of constrains from the object model and the significance of actions and activities from the dynamic model.

In all of the three models we have constrains, showing either relationships between two objects at the same moment in time, or relations between values of the same object at different moments in time. The constraints can regard objects, situation in which they shows partial or total dependence among objects, or they can regard the states from the dynamic model, or can even highlight restrictions upon operations from the functional model.

The static dimension regards the system's structure, its components and the relationships between them. It is shown with the help of classes and objects diagrams. These diagrams are modified across the system's cycle of life, leading finally to a model of the real system, completely implementable by using object oriented languages (Java, C++, Visual Basic).

The evidence of components and the relationship between them is not enough for understanding the system. In order to reveal the dynamic aspects, which depend of time, we need to define new diagrams: collaboration, state and sequences diagrams. The collaborative objects show what the object's states are and how they change and the events that cause transition in time from one state to another. Moreover, they highlight the sequences of operations which emerge as an answer to extern stimuli, without taking into account what the operation does and how it is implemented.

The dynamic dimension of the system is presented using events recognized by the system. Construction or destruction of objects, the change of the object's proprieties, updating the integrity constrains or the change occurred among the relations between objects are only a few changes generated in time by the appearance of some events.

The functional aspect refers to data flows that occur among different actors from the system. It describes what happens in the system and it is represented by the use case diagram and by activities and components diagrams.

In the situations when different department from the real system have to be emphasized in the functional model, we can allocate activities from the activity diagram in department.

For example, an activity diagram showing the process of obtaining payment (fig.2) can be used to denote some business area where activities take place (fig.3).

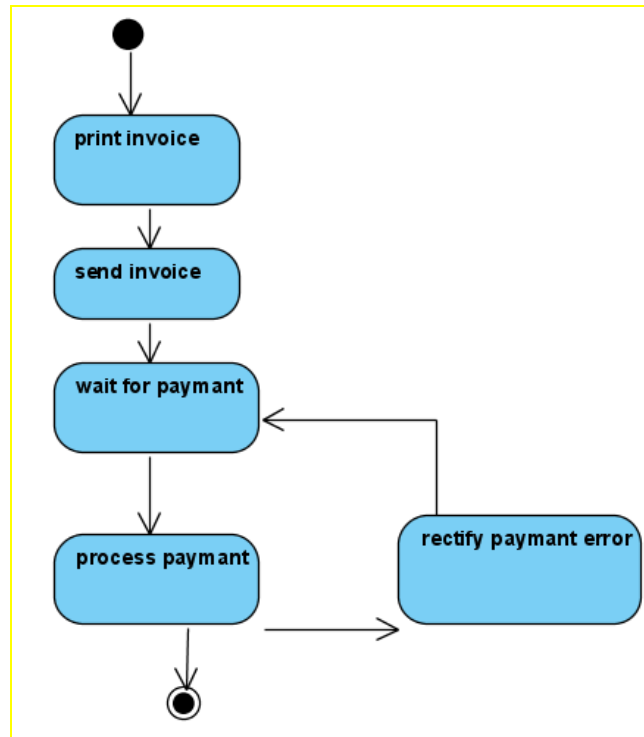


Figure 2.

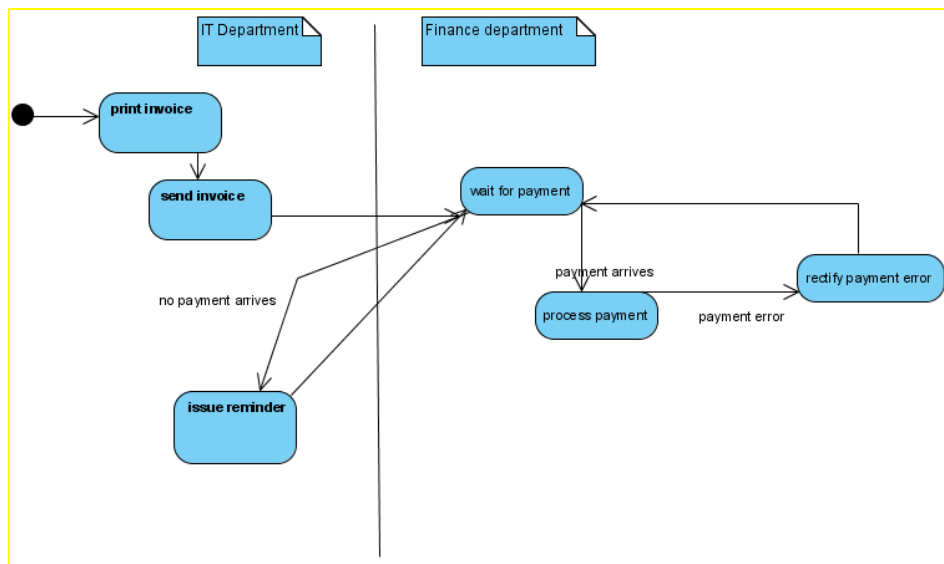


Figure 3.

In addition, highlighting the functional aspect involves the identification of input and output data, the definition of data processing procedures, the identification of constraints and the specification of the optimization criteria.

4. CONCLUSIONS

The design of an informatics system involves going through several stages. Every time, we find out the result into a correspondent model. The relationship between models remains, because we start from the elements of the domain from the real system and include details necessary for implementation during the design stage; the same elements are represented, but from different points of view.

Following the system's cycle of life means to revue, detail and complete the existing models at a moment in time. This confirms that object oriented models are developed in spiral.

Defined for new systems, or for allowing the development of existing systems, usage case diagrams are a common frame during analysis, design and implementation stage. They are the initial point in establishing the requirements of the design and they offer the basis for testing and verifying the obtained system.

The models obtained during different stages are represented by different types of diagrams, which are linked by momentary relations determined by the context. In successive stages, each model brings a different view on the system, adds new elements to the previous model, until, finally, we have a general view regarding the system.

Defining models is not a linear activity, since diagrams defined in one stage can be modified in another stage. Chaining and interaction of the models takes place throughout the definition of the system.

- functional requirements of the system with the help of the usage case diagram;
- the outcomes of the analysis stage lead to the creation of an object model and different scenarios which lead to behaviour diagrams (sequences and activities);

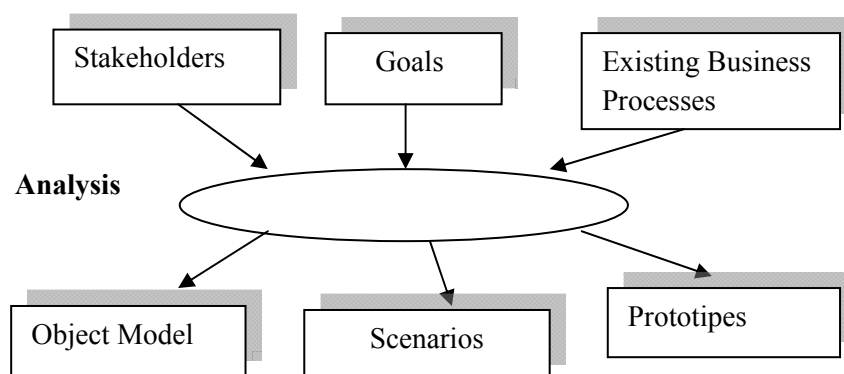


Figure 4.

During the design stage one defines new classes, eliminates the classes without relevance, or emphasizes new relations among the classes. Classes specific for different usage cases are integrated into a unique structure. One defines state diagrams, adds details necessary for the implementation into the model of classes (fig.5).

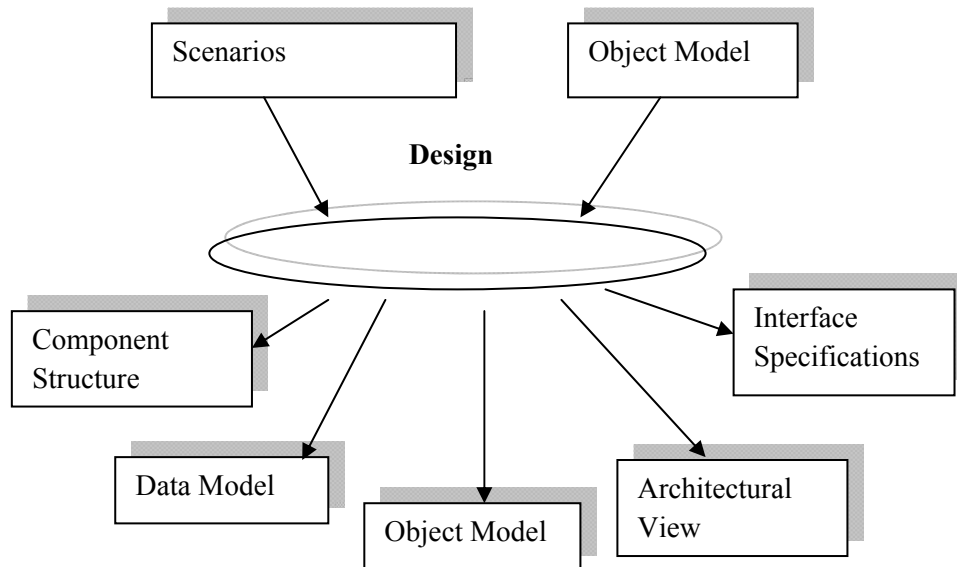


Figure 5.

Moreover, the same diagram is used with different purposes during the cycle of life:

- the activities diagram is attached to a usage case in the analysis stage and serves in the implementation stage to the detailed description of algorithms. Its components are translated into SQL phrases or in program instructions, and contribute to the defining of the structure of classes.
- object diagrams are used in the analysis stage for the abstraction of the model and in the design stage for adding details necessary for the implementation.

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